

**InRetail Real Estate Corp. And Subsidiaries**

Interim consolidated financial statements as of December 31, 2016 (unaudited) and December 31, 2015 (audited) and for the twelve-month periods ended as of December 31, 2016 and 2015.

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Interim consolidated financial statements as of December 31, 2016 and December 31, 2015 and for the twelve-month periods ended December 31, 2016 and 2015.

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## InRetail Real Estate Corp. and Subsidiaries

### Interim consolidated statements of financial position

As of December 31, 2016 (unaudited) and December 31, 2015 (audited)

	<u>Note</u>	<u>2016</u>	<u>2015</u>		<u>Note</u>	<u>2016</u>	<u>2015</u>
		S/(000)	S/(000)			S/(000)	S/(000)
<b>Assets</b>				<b>Liabilities and equity</b>			
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and cash equivalents	4	49,914	46,044	Trade payables	14	27,964	30,772
Available for-sale-investments	5	57,470	47,222	Other liabilities	15	68,788	57,320
Investments at fair value through profit or loss	6	90,334	34,896	Accounts payable to related parties	25	5,043	4,151
Trade receivables, net	7	30,034	34,213	Current portion financial obligations	16	44,457	43,342
Other receivables	8	17,634	19,368	<b>Total current liabilities</b>		<b>146,252</b>	<b>135,585</b>
Accounts receivables from related parties	25	45,922	42,290				
Prepaid expenses	9	2,374	456	Other long-term liabilities	15	30,577	29,430
Recoverable taxes	10	19,275	21,774	Income tax related to especial pourpose entity	24(e)	166,501	113,342
<b>Total current assets</b>		<b>312,957</b>	<b>246,263</b>	Long-term financial obligations	16	1,212,180	1,204,206
				Deferred income tax liabilities, net	17	19,052	17,717
<b>Non-current assets</b>				<b>Total non-current liabilities</b>		<b>1,428,310</b>	<b>1,364,695</b>
Deferred income tax liability	17	1,106	798	<b>Total liabilities</b>		<b>1,574,562</b>	<b>1,500,280</b>
Recoverable taxes	10	50,346	77,609				
Facilities, furniture and equipment, net	11	10,576	11,041	<b>Equity</b>			
Investment properties	12	3,073,771	2,925,501	Capital stock	19	1,475,706	1,475,706
Investment in associates		31,690	-	Unrealized results on financial instruments		(11,678)	(32,171)
Intangible assets		2,357	1,629	Retained earnings		500,578	375,467
Derivative financial instrument	13	55,908	62,498	<b>Equity attributable to owners of the parent</b>		<b>1,964,606</b>	<b>1,819,002</b>
Other assets		457	362	Non-controlling interests		-	6,419
<b>Total non-current assets</b>		<b>3,226,211</b>	<b>3,079,438</b>	<b>Total equity</b>		<b>1,964,606</b>	<b>1,825,421</b>
<b>Total assets</b>		<b>3,539,168</b>	<b>3,325,701</b>	<b>Total liabilities and equity</b>		<b>3,539,168</b>	<b>3,325,701</b>

The accompanying notes are an integral part of these interim consolidated statements.

## InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of income and other comprehensive income (unaudited)

For the twelve-month periods ended as of December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Rental income	20	317,150	295,935
Cost of rental income	21	(34,001)	(28,023)
<b>Net rental income</b>		<b>283,149</b>	<b>267,912</b>
Income from management services	20	140,728	139,196
Cost related to income from management services	21	(109,053)	(106,528)
<b>Net management service</b>		<b>31,675</b>	<b>32,668</b>
<b>Gross profit</b>		<b>314,824</b>	<b>300,580</b>
Fair value adjustment for investment properties	12(b)	11,056	37,569
Administrative expenses	22	(26,355)	(25,158)
Selling expenses	22	(6,254)	(7,857)
Other operating income (expenses)		454	(3,789)
<b>Operating profit</b>		<b>293,725</b>	<b>301,345</b>
Financial income	23	6,251	4,352
Financial expenses	23	(119,780)	(107,868)
Net exchange difference	26 (a)(ii)	3,878	(80,968)
<b>Profit before income tax</b>		<b>184,074</b>	<b>116,861</b>
Income tax	17(a)	(56,149)	(7,221)
<b>Net profit</b>		<b>127,925</b>	<b>109,640</b>
<b>Attributable to:</b>			
InRetail Real Estate Shareholders		127,925	109,057
Non-controlling interests		-	583
<b>Net profit</b>		<b>127,925</b>	<b>109,640</b>
<b>Earnings per share:</b>	19(b)		
Basic and diluted profit for the period attributable to ordinary equity holders of the parent		0.2251	0.1919

The accompanying notes are an integral part of these interim consolidated statements.

**InRetail Real Estate Corp. and Subsidiaries**

Interim consolidated statements of other comprehensive income (unaudited)

For the twelve-month periods ended as of December 31, 2016 and 2015

	<b>Note</b>	<b>2016</b>	<b>2015</b>
		S/(000)	S/(000)
<b>Profit for the period</b>		127,925	109,640
<b>Other comprehensive income</b>			
Unrealized gain on available-for-sale investments		8,285	(2,616)
Transfer of the realized gain on available-for-sale investments		-	(330)
Income tax effect		(2,485)	783
<b>Total other comprehensive income of available for sale investments</b>		<b>5,800</b>	<b>(2,163)</b>
Gain on hedging derivative financial instrument		12,716	(29,112)
Income tax effect		1,977	(1,226)
<b>Total other comprehensive income of financial instrument</b>		<b>14,693</b>	<b>(30,338)</b>
<b>Other comprehensive income for the period, net of income tax effects</b>		<b>20,493</b>	<b>(32,501)</b>
<b>Total comprehensive income for the period</b>		<b>148,418</b>	<b>77,139</b>
<b>Attributable to:</b>			
InRetail Real Estate Shareholders		148,418	76,556
Non-controlling interests		-	583
<b>Total comprehensive income for the period</b>		<b>148,418</b>	<b>77,139</b>

The accompanying notes are an integral part of these interim consolidated statements.

## InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of changes in equity (unaudited)

For the twelve-month periods ended as of December 31, 2016 and 2015

	Attributable to owners of InRetail Real Estate Corp.				Non-controlling interest	Total equity
	Capital stock	Unrealized results on financial instruments	Retained earnings	Total		
	S/(000)	S/(000)	S/(000)	S/(000)		
<b>Balance as of January 1, 2015</b>	<b>1,475,706</b>	<b>330</b>	<b>266,410</b>	<b>1,742,446</b>	<b>6,043</b>	<b>1,748,489</b>
Net profit	-	-	109,057	109,057	583	109,640
Other comprehensive income	-	(32,501)	-	(32,501)	-	(32,501)
<b>Total comprehensive income</b>	<b>-</b>	<b>(32,501)</b>	<b>109,057</b>	<b>76,556</b>	<b>583</b>	<b>77,139</b>
Advancement of minority returns to participants	-	-	-	-	(207)	(207)
<b>Balance as of December 31, 2015</b>	<b>1,475,706</b>	<b>(32,171)</b>	<b>375,467</b>	<b>1,819,002</b>	<b>6,419</b>	<b>1,825,421</b>
<b>Balance as of January 1, 2016</b>	<b>1,475,706</b>	<b>(32,171)</b>	<b>375,467</b>	<b>1,819,002</b>	<b>6,419</b>	<b>1,825,421</b>
Profit for the period	-	-	127,925	127,925	-	127,925
Other comprehensive income	-	20,493	-	20,493	-	20,493
	-	<b>20,493</b>	<b>127,925</b>	<b>148,418</b>	-	<b>148,418</b>
Purchase of share non-controlling interest	-	-	(2,621)	(2,621)	(6,419)	(9,040)
Others	-	-	(193)	(193)	-	(193)
<b>Balance as of December 31, 2016</b>	<b>1,475,706</b>	<b>(11,678)</b>	<b>500,578</b>	<b>1,964,606</b>	<b>-</b>	<b>1,964,606</b>

The accompanying notes are an integral part of these interim consolidated statements.

## InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of cash flows (unaudited)

For the twelve-month periods ended as of December 31, 2016 and 2015

	2016 S/(000)	2015 S/(000)
<b>Operating activities</b>		
Revenue	461,919	383,113
Payments of goods and services to suppliers	(143,607)	(117,710)
Payments of salaries and social benefits to employees	(23,039)	(31,985)
Taxes paid	(6,572)	(13,434)
Recovery of taxes	56,029	59,527
Other payments	1,819	(4,373)
<b>Net cash flows from operating activities</b>	<b>346,549</b>	<b>275,138</b>
<b>Investing activities</b>		
Collection of loans granted	47,734	-
Purchase of investments at fair value through profit or loss	(360,426)	(34,873)
Sales of investments at fair value through profit or loss	304,988	17,530
Purchase of certificates of participation in associated companies	(31,690)	-
Purchase of available for sale investments	(30,773)	(49,488)
Loan collected (granted to) from related parties	(45,819)	37,315
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(1,106)	(5,173)
Purchase and development of intangible assets	(972)	(1,268)
Purchase of investment properties, net of acquisitions through leasing contracts	(111,666)	(161,381)
Purchase of share non-controlling interest	(9,039)	-
Sales of shares	-	3,159
Sales of investment properties	2,751	-
Value Added tax payment related to investment properties	(26,267)	(8,199)
<b>Net cash flows used in investing activities</b>	<b>(262,285)</b>	<b>(202,378)</b>
<b>Financing activities</b>		
Proceeds from interest-bearing loans and borrowings	-	(47,515)
Payment of interest-bearing loans and borrowings	(44,826)	(9,721)
Sale of third-party bonds	55,000	-
Interests paid	(90,568)	(80,042)
Dividends paid	-	(207)
<b>Net cash flows used in financing activities</b>	<b>(80,394)</b>	<b>(137,485)</b>
Net (decrease) increase of cash and short-term deposits	3,870	(64,725)
<b>Cash and short-term deposits at the beginning of the period</b>	<b>46,044</b>	<b>110,769</b>
<b>Cash and short-term deposits at the end of the period</b>	<b>49,914</b>	<b>46,044</b>
<b>Non-cash transactions</b>		
Fixed assets purchased through leasing and other financial obligations	1,794	701
Investment properties purchased through leasing	28,318	11,356

The accompanying notes are an integral part of these interim consolidated statements.

## **InRetail Real Estate Corp. and Subsidiaries**

### **Notes to the interim consolidated financial statements (unaudited)**

Interim unaudited consolidated financial statements as of December 31, 2016 and December 31, 2015 and for the twelve-month periods ended as of December 31, 2016 and 2015.

#### **1. Business activity**

InRetail Real Estate Corp. (hereinafter “the Company”) is a holding entity incorporated in April 2012 in the Republic of Panama, subsidiary of InRetail Perú Corp. The latter is subsidiary of Intercorp Retail Inc., which in turn is a subsidiary of Intercorp Peru Ltd. (a holding company incorporated in The Bahamas, hereinafter “Intercorp Perú”), which is the ultimate holding Company of “Intercorp Peru Group” or the “Group”, which refers to Intercorp Perú and its subsidiaries.

As of December 31, 2016 and December 31, 2015 Intercorp Perú holds directly and indirectly 71.46 percent of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

The Company’s legal address is 50 Street and 74 Street, floor 16 “PH” Building, San Francisco, Republic of Panama. However, its management and administrative offices are located at Av. Carlos Villarán N° 140, Urb. Santa Catalina, La Victoria, Lima, Perú.

The Company and its Subsidiaries, Patrimonio en Fideicomiso – D.S.N° 093-2002-EF-Inretail Shopping Malls, Patrimonio en Fideicomiso – D.S.N° 093-2002-EF-Interproperties Holding, Patrimonio en Fideicomiso –D.S.N° 093-2002-EF-Interproperties Holding II and Real Plaza S.R.L. (hereinafter and together, “InRetail Real Estate”), are dedicated to the operation of shopping malls as well as real estate development. InRetail Real Estate operations are concentrated in Perú.

In September 2015, the Company sold its 100 percent stake in InRetail Management S.R.L. to InRetail Perú Corp., a related company.

In March 2016, the Company, through its subsidiary Interproperties Holding II, acquired the minority interest of Inmobiliaria Puerta del Sol.

The consolidated financial statements as of December 31, 2016, were approved by the Board of Directors on February 15, 2017.

#### **2. Subsidiaries activities**

Following is the description of the Company’s main Subsidiaries’ activities:

- (a) Patrimonio en Fideicomiso – D.S.N°093-2002-EF-InRetail Shopping Malls is a special purpose entity (SPE) formed on July 2014, for the purpose of holding certificates of participation of Patrimonio en Fideicomiso – D.S.N°093-2002-EF-Interproperties Holding and Patrimonio en Fideicomiso – D.S.N°093—2002-EF-Interproperties Holding II and 100 percent of capital stock of Real Plaza S.R.L.



## Notes to the interim consolidated financial statements (continued)

- (b) Patrimonio en Fideicomiso –D.S. N°093-2002-EF-Interproperties Holding and Patrimonio en Fideicomiso-D.S. N°093-2002-EF-Interproperties Holding II (hereinafter “Interproperties Holding” and “Interproperties Holding II”, respectively).

Interproperties Holding and Interproperties Holding II are two special purpose entities (SPEs) formed for the purpose of holding the certificates of participation of Patrimonio en Fideicomiso –D.S. N° 093-2002-EF-Interproperties Perú (hereinafter “Interproperties Peru”), which is a trust fund formed with the purpose of holding the real estate assets of InRetail Real Estate to obtain the necessary funding for developing investment plans.

Additionally, Interproperties Holding II owns 100 percent (95 percent as of December 31, 2015) of participation in the assets of Patrimonio Fideicometido – D.S. N° 093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own and handle Real Plaza Cusco “San Antonio” Shopping Mall.

- (c) Real Plaza S.R.L. (hereinafter “Real Plaza”)  
An entity focused on operating the shopping malls (20 as of December 31, 2016 and December 31, 2015) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of “Real Plaza Shopping Mall”.

As of December 31, 2016, Real Plaza manages shopping malls in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca, Pucallpa and Lima.

### 3. Summary of significant accounting policies

#### 3.1 Basis of preparation and presentation

The interim consolidated financial statements of InRetail Real Estate have been prepared in accordance with the International Accounting Standard 34 “Interim financial reporting”. Also, the accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the InRetail Real Estate’s annual consolidated financial statements for the year ended December 31, 2015 which were audited. Therefore, these interim consolidated financial statements should be read in conjunction with such audited consolidated financial statements.

The interim consolidated financial statements have been prepared on a historical cost basis, except for investment properties, which have been measured at fair value. The interim consolidated financial statements are presented in Soles and all values are rounded to the nearest thousands of Soles (S/ (000)), except were otherwise indicated.

The interim consolidated financial statements do not include all information and disclosures required for annual consolidated financial statements and should be read together with consolidated financial statements as of December 31, 2015.

The consolidated financial statements include the financial statements of the Company and its subsidiaries, see note 2.

## Notes to the interim consolidated financial statements (continued)

Subsidiaries are fully consolidated from the acquisition date, being the date on which InRetail Real Estate obtains control, and are consolidated until the date when such control ceases. The financial statements of the Subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, transactions and unrealized gains and losses resulting from intra group transactions have been eliminated in full.

The non-controlling interest has been determined in proportion to the participation of minority shareholders in the net equity and the results of the subsidiaries in which they hold shares, and they are presented separately in the consolidated statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income.

Losses in a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

### **3.2 New standards and interpretations adopted by InRetail Real Estate-**

Several standards and amendments have come into effect from January 1, 2016; however, in the opinion of InRetail Real Estate's Management, they have no impact on the accompanying unaudited consolidated financial statements as of December 31, 2016.

#### **IFRS 9 early implementation**

The Company uses derivative instruments to manage its exposure to exchange rates. In order to manage these risks, the Company applies hedge accounting for transactions which meet specific criteria for this. At the beginning of the hedging relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge.

The accounting treatment is established according to the nature of the hedged item and the fulfillment of the criteria for coverage. The effective portion of these hedges are recorded in other comprehensive income and then transferred to the hedged item when they affect results. The ineffective portion and the time value of the options is amortized linearly over the life of the option and are recognized as interest expense.

In order for the time value of the options to be amortized linearly over the life of the option and avoid high volatility, the Company decided to adopt IFRS 9 in advance.

### **3.3 Significant estimations and assumptions**

InRetail Real Estate's Management has used certain estimates and assumptions for the preparation of the interim consolidated financial statements, such as the method of depreciation, useful lives and residual values of facilities, furniture and equipment, fair value of investment properties, impairment of non-financial assets and taxes estimation; therefore, the final results could differ from the amounts recorded by the InRetail Real Estate.

Notes to the interim consolidated financial statements (continued)

**4. Cash and cash equivalent**

(a) The composition of this caption is presented below:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Cash	32	34
Current accounts (b )	8,935	24,411
Time deposits (c )	38,538	12,579
Management and security trust current accounts (e)	1,604	7,927
Restricted funds	805	1,093
<b>Total</b>	<b>49,914</b>	<b>46,044</b>

(b) The current accounts comprise accounts in Soles and US dollars, in local financial institutions, free of liens, unrestricted and do not bear interests.

(c) As of December 31, 2016, time deposits are unrestricted, maintained in Soles in local financial institutions, have maturities of up to one month since its inception and bear annual interests of 4.00 percent. (between 0.20 and 4.00 percent as of December 31, 2015 for US Dollars and Soles, respectively).

(d) As of December 31, 2016 and December 31, 2015, corresponds to the bank accounts, which serve as means of payment of the guaranteed obligations with regard to the leasing granted by Banco de Crédito del Perú in favor of Interproperties Holding II, see note 16 (d), in compliance with the contract of management and security trust.

**5. Available for-sale investments**

As of December 31, 2016, corresponds to bonds issued by Intercorp Ltd., of US\$6,431,000 equivalent to S/21,608,000 (US\$13,856,000 equivalent to S/47,222,000 as of December 31, 2015), which mature in 2025, and accrue effective annual interests at a rate of 5.785 percent. The valuation results, amounted to S/3,196,000 as of December 31, 2016 (S/1,833,000 as of December 31, 2015) and are presented, net of deferred income tax, in the "Unrealized results" caption of the consolidated statements of changes in equity.

The fair value is determined by price quotations published in an active market.

Additionally, as of December 31, 2016, the Company has other investments available for sale for an amount of US\$10,673,000 equivalent to S/35,862,000.

Notes to the interim consolidated financial statements (continued)

**6. Investments at fair value through profit or loss**

(a) The composition of this caption is presented below:

<b>Entity</b>	<b>As of December 31, 2016 S/(000)</b>	<b>As of December 31, 2015 S/(000)</b>
Mutual funds managed by Sura SAF S.A.C.	69,383	17,886
Mutual funds managed by Interfondo S.A. SAF	20,951	17,010
<b>Total</b>	<b>90,334</b>	<b>34,896</b>

As of December 31, 2016 and December 31, 2015, these mutual funds were comprised by a portfolio of financial instruments issued by renowned financial institutions on the local market. The results from this valuation are presented in the "Financial Income" caption of the consolidated statement of income.

**7. Trade receivables**

(a) The composition of this caption is presented below:

	<b>As of December 31, 2016 S/(000)</b>	<b>As of December 31, 2015 S/(000)</b>
Rents receivable (b)	17,161	26,223
Unbilled services (c)	16,562	13,482
Documents receivable	1,478	-
<b>Total trade receivables</b>	<b>35,201</b>	<b>39,705</b>
Allowance for doubtful accounts	(5,167)	(5,492)
<b>Total trade receivables, net</b>	<b>30,034</b>	<b>34,213</b>

(b) As of December 31, 2016 and December 31, 2015, trade accounts receivable are denominated in Soles and US Dollars, have current maturities and do not accrue interests.

(c) As of December 31, 2016 and December 31, 2015, mainly corresponds to unbilled lease services for variable and fixed rents, which are billed during the following month.

Notes to the interim consolidated financial statements (continued)

(d) As of December 31, 2016 and December 31, 2015 the analysis of trade receivables is as follows:

	<b>Balance as of December 31, 2016</b>		
	<b>Non-impaired</b>	<b>Impaired</b>	<b>Total</b>
	S/(000)	S/(000)	S/(000)
<b>Unbilled services</b>	16,562	-	16,562
<b>Past-due</b>			
From 1 to 90 days	11,971	-	11,971
From 91 to 120 days	336	116	452
From 121 to 180 days	176	274	450
From 181 to 270 days	32	328	360
More than 271 days	957	4,449	5,406
<b>Total</b>	<b>30,034</b>	<b>5,167</b>	<b>35,201</b>

  

	<b>Balance as of December 31, 2015</b>		
	<b>Non-impaired</b>	<b>Impaired</b>	<b>Total</b>
	S/(000)	S/(000)	S/(000)
<b>Unbilled services</b>	13,482	-	13,482
<b>Past-due</b>			
From 1 to 90 days	13,604	-	13,604
From 91 to 120 days	2,113	143	2,256
From 121 to 180 days	1,993	346	2,339
From 181 to 270 days	825	413	1,238
More than 271 days	2,196	4,590	6,786
<b>Total</b>	<b>34,213</b>	<b>5,492</b>	<b>39,705</b>

Past-due trade accounts receivable mainly correspond to tenants, who hold current contracts at the date of this report and operate in the shopping malls. Likewise, the past-due accounts which have a payment agreement are considered as not impaired; therefore they do not represent risk of uncollectibility.

(e) The movement of the provision for impairment as of December 31, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
	S/(000)	S/(000)
<b>Balance at the beginning of the year</b>	5,492	3,863
Provision recognized as period expense, note 22(b)	830	1,619
Write offs and recovery's, note 22(b)	(1,201)	-
Exchange difference	46	10
<b>Balance at the end of the period</b>	<b>5,167</b>	<b>5,492</b>

In the opinion of InRetail Real Estate Management, the provision for impairment appropriately covers the credit risk as of December 31, 2016 and December 31, 2015.

Notes to the interim consolidated financial statements (continued)

**8. Other receivables**

(a) The composition of this caption is presented below:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>By type:</b>		
Outstanding advances (b)	2,976	1,742
Fund retained - SUNAT (c)	12,329	17,094
Others	2,329	532
	<hr/>	<hr/>
<b>Total</b>	<b>17,634</b>	<b>19,368</b>
	<hr/>	<hr/>

(b) As of December 31, 2016 and December 31, 2015, corresponds to advances realized to suppliers related to the Company activities, related to the projects in the investments properties.

(c) In Accordance with Superintendence Resolution N°183-2004/SUNAT, funds held in Banco de la Nación must be used exclusively for the payments of tax debts, or is possible to request a cash reimbursement. In the case of the Company and its Subsidiaries, these funds have been used entirely for tax payments.

(d) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of December 31, 2016 and December 31, 2015, as no credit risk has been identified.

**9. Prepaid expenses**

(a) The composition of this caption is presented below:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Insurances paid in advance (b)	1,903	240
Others	471	216
	<hr/>	<hr/>
<b>Total</b>	<b>2,374</b>	<b>456</b>
	<hr/>	<hr/>

(b) As of December 31, 2016, corresponds mainly to insurance payments on properties of the Company.

Notes to the interim consolidated financial statements (continued)

**10. Recoverable taxes**

(a) The composition of this caption is presented below:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>By type:</b>		
Tax credit for value-added-tax (b)	66,866	93,981
Income tax payment	2,755	5,402
	<hr/>	<hr/>
<b>Total</b>	<b>69,621</b>	<b>99,383</b>
	<hr/>	<hr/>
<b>By term:</b>		
Current	19,275	21,774
Non-current	50,346	77,609
	<hr/>	<hr/>
<b>Total</b>	<b>69,621</b>	<b>99,383</b>
	<hr/>	<hr/>

(b) Corresponds to the tax credit for value-added-tax originated mainly from the development and construction of the shopping malls of Lima and provinces, as well as from other payments related to the operations of Interproperties Holding and Interproperties Holding II (SPE's). In the opinion of InRetail Real Estate's Management, this tax credit will be recovered off-setting it against the balances payable of said tax generated mainly by the rental income from InRetail Real Estate's properties.

Notes to the interim consolidated financial statements (continued)

**11. Facilities, furniture and equipment, net**

(a) The movement of cost and accumulated depreciation is presented below:

	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	Equipment miscellaneous S/(000)	Work in progress S/(000)	Total S/(000)
<b>Cost</b>						
<b>Balance as of January 1, 2016</b>	5,424	4,258	443	6,151	63	16,339
Additions	136	62	112	2,437	153	2,900
Disposals	0	-	(63)	(163)	(38)	(264)
<b>Balance as of December 31, 2016</b>	<u>5,560</u>	<u>4,320</u>	<u>492</u>	<u>8,425</u>	<u>178</u>	<u>18,975</u>
<b>Accumulated depreciation</b>						
<b>Balance as of January 1, 2016</b>	900	1,597	149	2,652	-	5,298
Depreciation of the period	1,086	688	88	1,465	-	3,327
Disposals	-	-	(63)	(163)	-	(226)
<b>Balance as of December 31, 2016</b>	<u>1,986</u>	<u>2,285</u>	<u>174</u>	<u>3,954</u>	<u>-</u>	<u>8,399</u>
<b>Net cost as of December 31, 2016</b>	<u>3,574</u>	<u>2,035</u>	<u>318</u>	<u>4,471</u>	<u>178</u>	<u>10,576</u>
<b>Net cost as of December 31, 2015</b>	<u>4,524</u>	<u>2,661</u>	<u>294</u>	<u>3,499</u>	<u>63</u>	<u>11,041</u>

(b) As of December 31, 2016 and December 31, 2015, there are no pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.

(c) As of December 31, 2016 and 2015, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on said assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.



## Notes to the interim consolidated financial statements (continued)

### 12. Investment properties

(a) The composition of this caption is presented below:

	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Real Plaza Salaverry shopping mall(i)	428,338	407,754
Real Plaza Chiclayo shopping mall	255,084	250,444
Real Plaza Cuzco shopping mall (i)	247,614	243,706
Real Plaza Centro Civico shopping mall (i)	231,510	233,572
Real Plaza Primavera shopping mall	208,377	208,429
Real Plaza Piura shopping mall	220,966	203,971
Real Plaza Trujillo shopping mall	181,977	164,109
Real Plaza Huancayo shopping mall (i)	163,393	162,179
Real Plaza Puruchuco project	137,298	125,666
Real Plaza Huánuco shopping mall (i)	117,551	119,301
Real Plaza Cajamarca shopping mall	112,670	112,589
Real Plaza Santa Clara - Altamirano shopping mall	108,051	106,890
Real Plaza Arequipa shopping mall (i)	103,607	90,069
Real Plaza Pro shopping mall	97,957	92,633
Real Plaza Juliaca shopping mall (i)	95,631	90,411
Real Plaza Chorrillos shopping mall	71,884	67,566
Real Plaza Nuevo Chimbote shopping mall	24,866	23,616
Jr. de la Unión stores	20,646	21,713
Others	246,351	200,883
<b>Total</b>	<b>3,073,771</b>	<b>2,925,501</b>

(i) For the construction of these shopping malls and properties, surface rights contracts were subscribed with the Arzobispado de Cuzco (on land in Cusco “San Antonio”), Municipalidad provincial de Huánuco (on land of “Real Plaza Huánuco” shopping mall), Oficina de Normalización Provisional – ONP (Centro Cívico), Inmobiliaria Pazos S.A.C. (La Curva), Gobierno Regional de Moquegua (Moquegua), Ferrovías Central Andina S.A. (Huancayo); the Association denominated “Religiosas del Sagrado Corazón de Jesús” (Arequipa), Ferrocarril Trasandino S.A. (Juliaca), and the Marina de Guerra del Perú (Salaverry). These contracts have terms for periods between 20 to 70 years.

(ii) Correspond to lands on which real estate projects will be developed, mainly shopping malls branded “Real Plaza”. In the opinion of InRetail Real Estate’s Management the book values of these investment properties do not differ significantly from their fair values as of December 31, 2016 and as of December 31, 2015 since Management has been managing the related licenses for their development.

“Real Plaza” shopping malls comprise of a hypermarket, department store, commercial premises, a cinema complex and entertainment zone for which there have been subscribed contracts that include minimum monthly fixed rental payments based on the retail sales of the tenants.

Notes to the interim consolidated financial statements (continued)

(b) The movement of this caption for the twelve-month period ended as of December 31, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
	S/(000)	S/(000)
<b>Balance at the beginning of the year</b>	2,925,501	2,719,800
Additions	139,984	172,737
Disposal	(2,770)	(4,605)
Fair value adjustment	11,056	37,569
<b>Balance at the end of the period</b>	<b>3,073,771</b>	<b>2,925,501</b>

The fair value of the investment properties has been determined by InRetail Real Estate's Management on the basis of the discounted cash flows method and/or by the value assigned by an independent appraiser in the case of the land of investments properties under construction and for those held to operate in the future. The valuation is prepared on an aggregated and deleveraged basis. In order to estimate the fair value of investment properties, Management has used its market knowledge and professional judgment.

**13. Derivative financial instrument**

As of December 31, 2016 and December 31, 2015, this item comprises of a principal Call Spread contract designated to hedge cash flows and recorded at its fair value. The detail of this operation is as follows:

<b>Counterparty</b>	<b>Nominal value</b>	<b>Due</b>	<b>Pay fix at</b>	<b>Book value of</b>	<b>Fair value</b>	<b>Fair value</b>
	US\$(000)		%	<b>the hedged</b>	<b>2016</b>	<b>2015</b>
				<b>item</b>	S/(000)	S/(000)
J.P. Morgan	200,000	jul-21	1.84	672,000	55,908	62,498
<b>Total</b>					<b>55,908</b>	<b>62,498</b>

The financial instrument covers 57 percent of the exposure to foreign currency risk arising from the international bond issue of July 2014, see note 16 (b). This Call Spread covers variations in the exchange rate between S/3.225 and S/3.750 per US\$1.00 and the price of the premium was funded in installments, generating a liability for the same. See note 16.

Notes to the interim consolidated financial statements (continued)

**14. Trade payables**

(a) The composition of this caption is presented below:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Bills payable to third parties (b)	19,668	13,550
Provision of services unbilled (c)	8,296	17,222
<b>Total</b>	<b><u>27,964</u></b>	<b><u>30,772</u></b>

(b) As of December 31, 2016 and December 31, 2015, trade payables mainly comprise the liabilities with contractors for the construction works and/or refurbishing of shopping malls. Bills payable are denominated in Soles and US Dollars, do not accrue interests and their maturities don't exceed the current period.

(c) Correspond to provisions for services received but unbilled by suppliers, mainly from services provided by construction companies in the last quarter of the period. In the opinion of InRetail Real Estate's Management, provisions are enough to fulfill the liabilities once they are billed.

**15. Other liabilities**

(a) The composition of this caption is presented below:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>By type:</b>		
Deferred income (b )	30,577	34,895
Interests payable (c )	38,393	36,750
Deposits from third parties (d )	2,750	2,817
Vacations	235	686
Workers' profit sharing	2,744	2,997
Others payable	24,666	8,605
<b>Total</b>	<b><u>99,365</u></b>	<b><u>86,750</u></b>
<b>By term:</b>		
Current	68,788	57,320
Non-current	30,577	29,430
<b>Total</b>	<b><u>99,365</u></b>	<b><u>86,750</u></b>

Notes to the interim consolidated financial statements (continued)

(b) The composition of the deferred income caption is presented below:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Key money (b.1)	18,293	21,032
Advanced rents (b.2)	2,906	8,870
Others	9,378	4,993
<b>Total</b>	<b>30,577</b>	<b>34,895</b>

- (b.1) As of December 31, 2016 and December 31, 2015, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.
- (b.2) As of December 31, 2016 and December 31, 2015, corresponds mainly to advanced rents by Cineplex S.A. (a related entity) and Ripley (third-party entity) for the premises it operates in the shopping malls Real Plaza Pro and Real Plaza Salaverry, respectively.
- (c) As of December 31, 2016 and December 31, 2015, corresponds mainly to interests payable originated from the private offering of "Senior Notes Unsecured ", maturing in 2021. Interest on the notes will accrue at a rate of 6.50% percent annual and will be paid semi-annually on January and July of each year.
- (d) As of December 31, 2016 and December 31, 2015 it mainly corresponds to deposits from the tenants of the Real Plaza shopping malls Arequipa, Primavera, Pro, Santa Clara, Huancayo, Huánuco, Trujillo, Cajamarca, Juliaca, Salaverry, Centro Cívico and Nuevo Chimbote.

These deposits do not accrue interests and will be refunded in the original currency at the end of the lease contract.

Notes to the interim consolidated financial statements (continued)

**16. Financial obligations**

(a) The composition of this caption is presented below:

Type of Obligation	Original		Maturity final	Original Amount		Total		Current		Non-current	
	Currency	Interest Rate %		US\$ (000)		December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
				S/(000)	S/(000)	2016	31, 2015	2016	31, 2015	2016	2015
<b>Bonds issuance (b)</b>											
Foreign currency bonds issuance	USD	6.500	2021	350,000	-	936,147	938,518	-	-	936,147	938,518
Local currency bonds issuance	PEN	7.875	2034	-	141,000	135,324	80,365	-	-	135,324	80,365
				<b>350,000</b>	<b>141,000</b>	<b>1,071,471</b>	<b>1,018,883</b>	<b>-</b>	<b>-</b>	<b>1,071,471</b>	<b>1,018,883</b>
<b>Leasings</b>											
<b>Related entities</b>											
Banco Internacional del Perú-Interbank (c)	PEN	8.900	2026	-	108,300	-	928	-	77	-	851
Banco Internacional del Perú-Interbank	USD	Entre 5.250 y 5.400	2017 - 2019	129	-	124	184	56	124	68	60
<b>Non-related entities</b>											
Banco de Crédito del Perú (d)	PEN	9.02	2019	-	54,748	13,314	17,357	4,371	4,046	8,943	13,311
Banco de Crédito del Perú (e)	PEN	9.02	2023	-	12,426	26,055	28,876	3,053	2,819	23,002	26,057
Banco de Crédito del Perú (f)	PEN	9.02	2024	-	20,727	16,809	18,412	1,737	1,602	15,072	16,810
Hewlett Packard S.A.	USD	Between 2.750 and 6.202	2017 - 2020	1,131	-	1,998	1,326	852	723	1,146	603
IBM Perú SAC	USD	Between 1.919 and 2.584	2017 - 2018	172	-	194	387	147	186	47	201
				<b>1,635</b>	<b>196,201</b>	<b>58,494</b>	<b>67,470</b>	<b>10,216</b>	<b>9,577</b>	<b>48,278</b>	<b>57,893</b>
<b>Promissory notes and loans</b>											
<b>Non-related entities</b>											
JP. Morgan	USD	1.840	2021	18,111	-	51,940	61,816	9,307	9,046	42,633	52,770
Scotiabank Perú S.A.A. (g)	PEN	6.700	2019	-	100,000	74,539	99,200	24,822	24,640	49,717	74,560
CSI Renting	USD	Between 4.635 and 5.132	2018 - 2019	99	-	193	179	112	79	81	100
				<b>18,210</b>	<b>100,408</b>	<b>126,672</b>	<b>161,195</b>	<b>34,241</b>	<b>33,765</b>	<b>92,431</b>	<b>127,430</b>
<b>Total</b>				<b>369,845</b>	<b>437,609</b>	<b>1,256,637</b>	<b>1,247,548</b>	<b>44,457</b>	<b>43,342</b>	<b>1,212,180</b>	<b>1,204,206</b>

## Notes to the interim consolidated financial statements (continued)

- (b) As of July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for US\$350,000,000 equivalent to approximately S/1,176,000,000 as of December 31, 2016 (equivalent to approximately S/1,194,550,000 as of December 31, 2015), due in July 2021, at a 6.50 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.783 percent, after considering the respective up-front fees that amounted to US\$20,571,000 equivalent to approximately S/69,118,000 as of December 31, 2016 (US\$24,203,000 equivalent to approximately S/ 82,604,000 as of December 31, 2015). Additionally, as of December 31, 2016 the balance is presented net of US\$50,814,000 equivalent to S/170,735,000 (US\$50,814,000 equivalent to S/173,428,000 as of December 31 2015), corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2016 and December 31, 2015 the balance of this loan is S/936,147,000 and S/938,518,000, respectively.

Also, in July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for S/141,000,000, due in July 2034, at a 7.875 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 8.012 percent, after considering the respective up-front fees that amounted to S/1,676,000 as of December 31, 2016 ( S/ 1,635,000 as of December 31, 2015). Additionally, as of December 31, 2016, the balance is presented net of S/4,000,000 (S/59,000,000 as of December 31, 2015) corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2016 and December 31, 2015 the balance of this loan is S/135,324,000 and S/80,365,000, respectively.

The proceeds of these financings were used for the purchase of property, investments in new real estate projects, debt restructuring and payment of fees and expenses related to such issuance.

As a result of these issues, InRetail Shopping Malls must comply, until their maturity and full payment, with the following financial ratios:

Local currency debt:

- The Parent and its restricted subsidiaries will maintain at all times unencumbered assets of not less than 150 percent of the aggregate principal amount of the consolidated unsecured indebtedness.
- Leverage Test: The aggregate principal amount of all outstanding indebtedness is not greater than 60 percent of the sum of total assets.
- Secured Debt Test: the aggregate principal amount of all outstanding secured indebtedness is not greater than 40 percent of the sum of total assets.
- Debt Service Test: The ratio of consolidated adjusted EBITDA to consolidated Interest Expense for the period consisting of the four consecutive fiscal quarters ending with the Latest Completed Quarter should be greater than 1.5.

## Notes to the interim consolidated financial statements (continued)

### Foreign currency debt:

- The Parent and its restricted subsidiaries will maintain at all times unencumbered assets of not less than 150 percent of the aggregate principal amount of the consolidated unsecured indebtedness.
- Leverage Test: The aggregate principal amount of all outstanding indebtedness is not greater than 60 percent of the sum of total assets.
- Secured Debt Test: the aggregate principal amount of all outstanding secured indebtedness is not greater than 30 percent of the sum of total assets.
- Debt Service Test: The ratio of consolidated adjusted EBITDA to consolidated Interest Expense for the period consisting of the four consecutive fiscal quarters ending with the Latest Completed Quarter should be greater than 2.0.

In the opinion of InRetail Real Estate's Management, these obligations have been complied satisfactorily and are within the agreed limits as of December 31, 2016 and December 31, 2015.

- (c) Inmobiliaria Puerta del Sol S.A. (IPS) entered into a leaseback agreement with Banco Internacional del Perú S.A.A. – Interbank to build the building where the Real Plaza San Antonio shopping mall operate. Which accrued a interest rate of 8.90 percent. This leaseback was agreed for a former amount of S/ 108,300,000, with a term of 144 months and a grace period of 6 months. On September 2014 the Company made a prepayment of S/ 107,300,000 and the debt balance of S/1,000,000 was fully paid in September 2016.

In order to secure the payment of this funding, IPS subscribed a cash flow trust contract with La Fiduciaria S.A., through which the former binds to channel all the future cash flows from the credit rights derived, generated or caused, as consequence of each and every asset comprised in the Real Plaza San Antonio project to the escrow accounts so that these assets serve as security for the guaranteed obligations.

- (d) Corresponds to a leasing agreement with Banco de Crédito del Perú (hereinafter BCP), for an approximate amount of S/54,748,000, over a term of 120 months, for the properties Interseguro sold through a landlord lease contract. This loan was used mainly for the acquisition of the property where Real Plaza Chiclayo shopping mall is located. BCP put the leased buildings in favor of Interproperties Peru, since it made the payment of an initial installment amounting to S/ 18,748,000 on October 28, 2009, in accordance to the leasing contract.

This obligation is associated solely with the Real Plaza Chiclayo shopping mall project and is provided with a guarantee and management trust through la Fiduciaria S.A., which securitize the future cash flows of the collection rights on the contracts of lease, sublease, usufruct and any other type of contract that the tenants of Real Plaza Chiclayo shopping mall must pay for: (a) rent (fixed and/or variable), use, penalties, indemnifications, key right and/or any type of consideration for the use or enjoyment of said premises; (b) commissions on events and sponsorships or the leases of spaces for advertisement; and, (c) in a general way, any type of collection related to the activity of Real Plaza Chiclayo shopping mall, which constitute the assets in trust that have been transferred to the trust managed by La Fiduciaria S.A.

## Notes to the interim consolidated financial statements (continued)

In the opinion of InRetail Real Estate's Management, these obligations have been complied satisfactorily and are within the agreed limits.

- (e) During 2012, Interproperties Holding II (SPE), decided to enlarge Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2A"), for which on December 26, 2012, signed an addendum to the Framework Contract with BCP, which committed to finance the project up to US\$12,500,000. As of December 31, 2016 and 2015, it is already operating; therefore, Interproperties Holding II has recorded the corresponding liabilities at such dates.
- (f) During 2013, Interproperties Holding II (SPE) continued the enlargement of Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2B"), for which it signed an addendum to the leasing agreement with BCP, which committed to finance the project for up to US\$7,500,000. As of December 31, 2016 and December 31, 2015, the expansion of Section 2B is under construction; however, Interproperties Holding II (SPE) has recorded the corresponding liabilities at such dates.
- (g) Corresponds to a loan agreement with the Scotiabank Perú S.A.A. by amount of S/ 100,000,000, for a period of four years, payable in quarterly installments. This loan was used to repay debt and other corporate purposes.

This obligation was recorded in the consolidated financial statement as amortized cost at effective annual interest rate of 7.002 percent per annum after considering the respective initial charge of approximately S/461,000 in December 31, 2016 (S/800,000 in December 31,2015).

As of December 31, 2016, InRetail Real Estate amortized the debt Scotiabank Peru S.A.A. the value of S/25,000,000.

- (h) Financial obligations are payable as follows:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
2016	-	43,342
2017	44,457	44,275
2018	44,539	45,095
2019	45,583	45,203
2020 onwards	1,122,058	1,069,633
<b>Total</b>	<b>1,256,637</b>	<b>1,247,548</b>



Notes to the interim consolidated financial statements (continued)

**17. Income tax**

- (a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as of December 31, 2016 and December 31, 2015 is detailed as follows:

<b>Statements of financial position</b>	<b>Deferred liability, net</b>	
	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Deferred income tax asset	1,106	798
Deferred income tax liability	<u>(19,052)</u>	<u>(17,717)</u>
<b>Deferred income tax liability, net</b>	<b><u>(17,946)</u></b>	<b><u>(16,919)</u></b>

  

<b>Statements of comprehensive income</b>	<b>Income tax for the twelve-month periods ended December 31, 2016 and 2015</b>	
	<b>2016</b>	<b>2015</b>
	S/(000)	S/(000)
Current	(55,122)	(3,665)
Deferred	<u>(1,027)</u>	<u>(3,556)</u>
<b>Income tax expense</b>	<b><u>(56,149)</u></b>	<b><u>(7,221)</u></b>

**18. Commitments**

As of December 31, 2016, corresponds to guarantee letters in favor of third parties for approximately S/10,635,000 and US\$3,391,000 (S/21,447,000 as of December 31, 2015), which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

**19. Equity**

- (a) Capital stock –

As of December 31, 2016 and December 31, 2015, the capital stock of InRetail Real Estate Corp. amounts to S/1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US\$ 1.00 each.

- (b) Earnings per share –

Earnings per share are calculated by dividing the income of the period attributable to the common shareholders of InRetail Real Estate Corp. by the weighted average number of shares outstanding during the year. Because outstanding instruments with dilutive effect are not held, basic and diluted earnings per share are the same.

Notes to the interim consolidated financial statements (continued)

The calculation of basic and diluted earnings per share is presented as follows:

	<b>Ordinary shares</b>		
	<b>Outstanding shares</b>	<b>Effective days until period-end</b>	<b>Weighted average of shares</b>
Number as of January 01, 2015	<u>568,201,039</u>	365	<u>568,201,039</u>
Number as of December 31, 2015	<b><u>568,201,039</u></b>		<b><u>568,201,039</u></b>
Number as of January 01, 2016	<u>568,201,039</u>	365	<u>568,201,039</u>
Number as of december 31, 2016	<b><u>568,201,039</u></b>		<b><u>568,201,039</u></b>
<b>For the twelve-month-periods ended December 31, 2016</b>			
	<b>Net income (numerator) S/</b>	<b>Shares (denominator)</b>	<b>Earnings per share S/</b>
Basic and diluted earnings per share	<u>127,925,000</u>	<u>568,201,039</u>	<u>0.2251</u>
<b>For the twelve-month-periods ended December 31, 2015</b>			
	<b>Net income (numerator) S/</b>	<b>Shares (denominator)</b>	<b>Earnings per share S/</b>
Basic and diluted earnings per share	<u>109,057,000</u>	<u>568,201,039</u>	<u>0.1919</u>

Notes to the interim consolidated financial statements (continued)

**20. Income from real estate service**

(a) The composition of the balance for the twelve-month period ended as of December 31, 2016 and 2015 is presented below:

	<b>2016</b> S/(000)	<b>2015</b> S/(000)
<b>Rental income</b>		
Rental income (b)	295,783	275,756
Rent of space for publicity	11,960	12,738
Rendering of services	9,407	7,441
	<hr/>	<hr/>
<b>Total</b>	<b>317,150</b>	<b>295,935</b>
	<hr/>	<hr/>
<b>Income from management services</b>		
Common expenses (c)	62,191	59,493
Electricity and water (d)	49,662	46,435
Promotion and advertisement (e)	16,493	15,869
Advisory and supervision	-	44
Parking	8,541	5,208
Management services	1,029	1,628
Negotiations of land and buildings	-	7,857
Others	2,812	2,662
	<hr/>	<hr/>
<b>Total</b>	<b>140,728</b>	<b>139,196</b>
	<hr/>	<hr/>

(b) As of December 31, 2016 and 2015, corresponds to rental income from the economic exploitation of the "Real Plaza" Shopping Malls.

The composition of the rental income is presented below:

	<b>2016</b> S/(000)	<b>2015</b> S/(000)
Fixed rental income	254,446	238,447
Variable rental income	41,337	37,309
	<hr/>	<hr/>
<b>Total</b>	<b>295,783</b>	<b>275,756</b>
	<hr/>	<hr/>

(c) Corresponds to income from common expenses including expenses of maintenance, safety management and supervision of shopping malls, which are billed to each tenant according to the terms established in the lease contract.

(d) Corresponds to income from electricity and water that are assumed by the Company and are then billed to every tenant of shopping malls.

(e) Corresponds to income from advertising and promotional activities of Shopping malls, which are billed to every tenant of the shopping malls according to the terms established in the lease contract.

Notes to the interim consolidated financial statements (continued)

**21. Operating costs**

(a) The composition of this caption for the twelve-month period ended as of December 31, 2016 and 2015 is presented below:

	<b>2016</b> S/(000)	<b>2015</b> S/(000)
<b>Cost of rental income</b>		
Property tax and duties	12,342	11,307
Landlord leases (b)	16,324	12,024
Property insurance costs	3,909	3,773
Others	1,425	919
<b>Total</b>	<b>34,001</b>	<b>28,023</b>
<b>Cost related to income from management services</b>		
Electricity and water	-	-
Personnel expenses	47,325	44,970
Safety services	9,812	14,977
Cleaning	6,746	6,774
Advertising and marketing	9,053	8,615
Maintenance and administration of parking lot	18,430	17,205
Leases, professional fees and communications	14,802	11,313
Other costs	1,635	-
<b>Total</b>	<b>107,802</b>	<b>103,854</b>

(b) Correspond to the leases of land over which Interproperties Holding and Interproperties Holding II have built or have a shopping mall under construction.

**22. Selling and administrative expenses**

(a) The composition of this caption for the twelve-month period ended as of December 31, 2016 and 2015 is presented below:

	<b>2016</b> S/.(000)	<b>2015</b> S/.(000)
Administrative expenses	26,355	25,158
Selling expenses	6,254	7,857
<b>Total</b>	<b>32,609</b>	<b>33,015</b>

Notes to the interim consolidated financial statements (continued)

- (b) The components of operating expenses included in the selling and administrative expenses captions are presented below:

	<b>2016</b>		
	<b>Selling</b>	<b>Administrative</b>	<b>Total</b>
	<b>expenses</b>	<b>expenses</b>	
	S/(000)	S/(000)	S/(000)
Personnel expenses	5,560	9,268	14,828
Depreciation	-	3,328	3,328
Amortization	-	244	244
Key money amortization	869	8,228	9,097
Services provided by third parties, Note 7(e)	(1,201)	-	(1,201)
Allowance for doubtful accounts, Note 7(e)	830	-	830
Other charges	196	5,287	5,483
<b>Total</b>	<b>6,254</b>	<b>26,355</b>	<b>32,609</b>

	<b>2015</b>		
	<b>Selling</b>	<b>Administrative</b>	<b>Total</b>
	<b>expenses</b>	<b>expenses</b>	
	S/(000)	S/(000)	S/(000)
Personnel expenses	5,532	12,910	18,442
Depreciation	-	2,775	2,775
Amortization	-	147	147
Services provided by third parties	-	1,991	1,991
Allowance for doubtful accounts, net	1,619	-	1,619
Other charges	706	7,335	8,041
<b>Total</b>	<b>7,857</b>	<b>25,158</b>	<b>33,015</b>

## Notes to the interim consolidated financial statements (continued)

### 23. Financial income and expenses

The composition of this caption for the twelve-month period ended as of December 31, 2016 and 2015 is presented below:

	<b>2016</b>	<b>2015</b>
	S/(000)	S/(000)
<b>Income</b>		
Gain from valuation of financial instruments	1,459	2,530
Interest on deposits	638	402
Interest from granted loans	1,275	1,053
Others	<u>2,879</u>	<u>367</u>
<b>Total</b>	<b><u>6,251</u></b>	<b><u>4,352</u></b>
	<b>2016</b>	<b>2015</b>
	S/(000)	S/(000)
<b>Expenses</b>		
Bond interest expenses	76,674	74,861
Derivative financial instruments expenses	8,705	5,939
Debt structuring expenses	12,673	10,302
Interest from long-term loans	5,976	279
Interest from leasing	8,819	5,525
Others	<u>6,933</u>	<u>10,962</u>
<b>Total</b>	<b><u>119,780</u></b>	<b><u>107,868</u></b>

### 24. Tax situation

(a) InRetail Real Estate Corp. is incorporated in Panama; therefore, it is not subject to any Income Tax.

Entities and individuals not domiciled in Peru are subject to retention of an additional tax on dividends received. In this regard, attention to Legislative Decree N° 1261, published on December 10, 2016 and effective from January 1, 2017, the additional tax on dividend income generated is as follows:

- 4.1 percent of the profits generated until December 31, 2014
- For the profits generated in the years 2015 and 2016, shall be 6.8 percent.
- 5.0 percent for the profits generated since January 1, 2017.

(b) Real Plaza is domiciled in Perú and is subject to the Peruvian tax system and, in compliance with current Peruvian legislation calculate their income tax on the basis of their separate financial statements. As of December 31, 2016 and December 31, 2015, the statutory income tax rate was 28 percent on tax payable income, after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.

## Notes to the interim consolidated financial statements (continued)

According to Legislative Decree N°1261 the tax rate applicable on taxable income, after deducting the of workers profit sharing will be 29.5 percent from 2017.

- (c) According to the text of the Law on Income Tax, as amended by Law 29663 and 29757, since year 2012, among the transactions subject to capital duty, are those obtained by the indirect sale of shares of Peruvian companies. For these purposes, an indirect transfer is set when two instances occur together:
- (i) In first place, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months and,
  - (ii) In second place, 10 percent or more of the shares of non-resident must be sold in any twelve month period;
- (d) Transactions entered into between related parties and/or with tax heaven residents fall into the scope of the Peruvian Transfer Pricing rules. Such rules are based on the application of the arm's length principle, as understood by the OECD. It is important to mention that Transfer Pricing rules are only applicable for Income Tax purposes, and adjustments are allowed under certain conditions only. Based on the analysis of operations of InRetail, its Management and legal advisors believe that the implementation of these standards does not generate any significant contingencies for InRetail Real Estate as of December 31, 2016 and 2015.
- (e) The Peruvian Tax Authority is legally entitled to perform tax audit procedures on local taxpayers for up to four years subsequent to the year of the presentation of the tax return. The Tax Authority is entitled to challenge the Income Tax calculation performed by such taxpayers. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Real estate Corp. incorporated in Perú:

	<b>Income Tax</b>	<b>Value added tax</b>
Real Plaza S.R.L.	From 2015 to 2016	From 2013 to 2016

In accordance with Peruvian law, InRetail Shopping Malls, Interproperties Holding and Interproperties Holding II, Special Purpose Entities, are not considered to be taxpayers due to their conditions as trusts but they attribute their obtained income, net losses and tax credits on their foreign source income to the holders of their certificates of participation. Therefore, to reflect this obligation, the Company has provisioned 30 percent of long term income tax over the profits earned to date. As of December 31, 2016 and December 31, 2015, the accrued income tax amounted to S /166,501,000 and S / 113,342,000, respectively.

Due to the possible interpretations that the Tax Auditory may give to the legal regulations currently in force, it is not possible to determine, to date, whether the examinations performed will or will not result in liabilities for InRetail Real Estate and its Subsidiaries. Thus, any higher tax or charges that could result from eventual tax examinations would be applied to the results of the period in which such tax or surcharge are determined.

In the opinion of the Management of InRetail Real Estate and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of December 31, 2016 and December 31, 2015.

Notes to the interim consolidated financial statements (continued)

**25. Transactions with related companies**

(a) As a result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of December 31, 2016 and December 31, 2015:

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>Receivables</b>		
Intercorp Perú Ltd	476	2,652
Tiendas Peruanas S.A.	21,757	8,085
Home Centers Peruanos S.A.	3,432	3,160
Cineplex S.A.	3,979	4,360
Bembos	3,669	3,209
Supermercados Peruanos S.A.	1,181	6,788
Eckerd Perú S.A.	573	240
Banco Internacional del Perú S.A.A.- Interbank (c)	658	954
InRetail Management S.R.L.	22	1,915
Others	10,175	10,927
<b>Total</b>	<b>45,922</b>	<b>42,290</b>

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>Payables</b>		
Intercorp Perú Ltd	-	-
InRetail Management S.R.L.	-	-
Supermercados Peruanos S.A.	72	1,606
Tiendas Peruanas S.A.	3,609	1,900
Interseguro Compañía de Seguros S.A.	10	-
Home Centers Peruanos S.A.	47	-
Others	1,305	645
	<u>5,043</u>	<u>4,151</u>
<b>Financial Obligations</b>		
Leasing		
Banco Internacional del Perú - Interbank	124	988

InRetail Real Estate's policy with related parties is to establish transactions on similar terms and conditions to those made with third parties.

(b) As of December 31, 2016 and December 31, 2015, InRetail Real Estate holds balances with its related entity Banco Internacional del Perú S.A.A. – Interbank in the cash and cash equivalent caption for an amount of S/22,052,000 and S/29,087,000, respectively.



## Notes to the interim consolidated financial statements (continued)

- (c) Transactions with related companies have been performed under normal market conditions. The taxes that these transactions generated, as well as the calculation bases for their determination, are the usual ones in the industry and they are settled in accordance with the current tax regulations.

### 26. Financial risks management

The activities of InRetail Real Estate expose it to a variety of financial risks, which include the effects of the changes in the exchange rates, interest rate, credit and liquidity. The program of risk management of InRetail Real Estate tries to minimize the potential adverse effects in its financial performance.

InRetail Real Estate's Board of Directors is responsible for the overall risk management approach and for the approval of the policies and strategies currently in place. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The most important aspects for the management of these risks are:

#### (a) Market risk –

Is the risk that the fair values of the future cash flows of a financial instrument fluctuate due to changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and investments in shares risk. In the case of InRetail Real Estate, the financial instruments affected by market risks include loans, which are exposed to currency risk and interest rate risk.

The sensitivity analysis shown in the following section relates to the position as of December 31, 2016 and December 31, 2015. The sensitivity analysis has been prepared considering that the total amount of the net debt and the proportion of financial instruments in foreign currency is constant.

#### (i) Interest rate risk –

It is the risk that the fair values or future cash flows of a financial instrument fluctuate due to changes in market interest rates. InRetail Real Estate manages its interest rate risk through the obtaining of debt with fixed interest rate. As of December 31, 2016 and December 31, 2015, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.

#### (ii) Exchange rate risk –

It is the risk that the fair values of future cash flows of a financial instrument fluctuate due to changes in exchange rates. The exposure of InRetail Real Estate to exchange rate risk is related mainly to the operating activities of InRetail Real Estate related to rental income in foreign currency and financial obligations.

## Notes to the interim consolidated financial statements (continued)

As of December 31, 2016 and December 31, 2015, assets and liabilities by currency were the following (expressed in Thousands US Dollars):

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	US\$(000)	US\$(000)
<b>Assets</b>		
Cash and cash equivalents	4,225	2,362
Investment at fair value through profit or loss	12,644	767
Available-for-sale investments	17,104	17,571
Trade receivables, net	726	1,053
Other receivables, net	816	1,267
Accounts receivable from related parties	2,432	2,848
<b>Total assets</b>	<b>37,947</b>	<b>25,868</b>
<b>Liability</b>		
Trade payables	2,450	337
Other liabilities	10,501	9,974
Accounts payable to related parties	61	452
Financial obligations	294,820	283,559
<b>Total liabilities</b>	<b>307,832</b>	<b>294,322</b>
Call Spread	200,000	200,000
<b>Net liability position</b>	<b>(69,885)</b>	<b>(68,454)</b>

As of December 31, 2016 and December 31, 2015, InRetail Real Estate and its Subsidiaries have decided to reduce its exchange rate risk by entering into a hedging operation through a Call Spread written over its "Senior Notes Unsecured", which is considered an effective hedging instrument. The Call Spread is written over a nominal amount of US\$200,000,000, protects it from exchange rate fluctuations between S/3.225 and S/3.750 and will be effective until maturity of the "Senior Notes Unsecured". The net position in the derivatives related to the currency Call Spread agreement corresponds to exchange rate operations (Soles exchanged for US Dollars) with notional of US\$200,000,000. See further detail in Note 13 y 16.

Transactions in foreign currency are performed at free market exchange rates. As of December 31, 2016, the market weighted average exchange rate for transactions in US dollars was S/3.352 per US\$1.00 bid and S/3.360 per US\$1.00 ask (S/3.408 per US\$1.00 bid and S/3.413 per US\$1.00 ask as of December 31, 2015).

For the twelve-month period ended as of December 31, 2016, InRetail Real Estate incurred into a net gain for exchange difference of approximately S/3,878,000 (loss of S/80,968,000 as of December 31, 2015), which is presented in the caption "Exchange difference, net" the consolidated statements of income and other comprehensive income.

## Notes to the interim consolidated financial statements (continued)

### (b) Credit risk –

It is the risk that a counterparty cannot comply with its obligations regarding a financial instrument or sales contract, thus generating a financial loss. InRetail Real Estate is exposed to credit risk for its operating activities (mainly accounts receivable and loans) and for its financing activities, including bank deposits.

#### Credit risk related to accounts receivable –

The credit risk of clients is managed by Management, and it is subject to policies, procedures and controls properly established. The pending balances on accounts receivable are reviewed periodically to assure their recovery. The maximum exposure to credit risk at the date of the consolidated statement of financial position is the book value of each class of financial asset.

#### Credit risk related to financial instruments and bank deposits –

The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of December 31, 2016 and December 31, 2015, is the book value of the balances of cash and cash equivalent.

### (c) Liquidity risk –

Liquidity is controlled through the matching of the maturities of assets and liabilities, the obtaining of credit lines and/or maintaining of liquidity surpluses, which allows InRetail Real Estate to develop its activities in a normal way.

Managing liquidity risk implies maintaining sufficient cash and financing availability, through a suitable amount of committed credit sources and the ability to settle transactions, mainly of indebtedness. In this matter, Management directs its efforts to maintain financing sources through the availability of credit lines.

It is the possibility of losses due to the changes or the volatility of the market prices of market of properties.

## 27. Fair value of financial instruments –

Fair value is defined as the amount at which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction, assuming an on-going enterprise.

When a financial instrument is traded on an active and liquid market, its quoted market price in an actual transaction provides the best evidence of its fair value. When a quoted market price is not available, or may not be indicative of the fair value of the financial instrument to determine such fair value it is possible to use the current fair value of another financial instrument that is substantially similar, discounted cash flow analysis or other techniques applicable thereto, all of which are significantly affected by the assumptions applied. Although Management uses its best judgment in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable value of settlement value of the financial instrument.

## Notes to the interim consolidated financial statements (continued)

The following methods and assumptions were used to estimate the fair values of the financial instruments:

- (a) Financial instruments whose fair value is similar to their book value-  
For financial assets and liabilities that are liquid or have short-term maturities (less than three-months), such as cash and cash equivalents, trade receivables, accounts receivable to related parties and other receivables, trade accounts payable and other current liabilities, it is deemed that their book values are similar to their fair values.
  
- (b) Financial instruments at fixed rate –  
The fair value of the financial assets and liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. The estimated fair value of financial obligations that accrue interests is determined through discounted cash flows by using the currently available rates for debts with similar conditions, credit risk and maturities.