

**Patrimonio en Fideicomiso D.S. N°093-2002-EF-InRetail
Consumer and Supermercados Peruanos S.A. and Subsidiaries
and Eckerd Perú S.A. and Subsidiaries**

Interim combined financial statements as of March 31, 2017
(unaudited) and December 31, 2016 (audited) and for the three-month
periods ended March 31, 2017 and 2016

Patrimonio en Fideicomiso N°093-2002-EF-InRetail Consumer and Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of financial position
As of March 31, 2017 and December 31, 2016

| | <u>Note</u> | <u>2017</u> | <u>2016</u> | | <u>Note</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|------------------|------------------|---|-------------|------------------|------------------|
| | | S/(000) | S/(000) | | | S/(000) | S/(000) |
| Assets | | | | Liabilities and equity | | | |
| Current assets | | | | Current liabilities | | | |
| Cash and short-term deposits | 4 | 86,481 | 192,091 | Trade payables | 13 | 1,363,500 | 1,565,202 |
| Investment at fair value through profit or loss | | 65,352 | 68,299 | Other payables | | 223,782 | 184,424 |
| Trade receivables, net | 5 | 35,823 | 65,999 | Accounts payable to related parties | 20(b) | 94,921 | 31,410 |
| Other receivables, net | | 42,006 | 50,056 | Interest-bearing loans and borrowings | 14 | 193,459 | 144,222 |
| Accounts receivables from related parties | 20(b) | 19,677 | 19,823 | Current income tax | 15(b) | 3,479 | 8,709 |
| Inventories, net | 6 | 946,502 | 978,829 | Deferred revenue | | 3,370 | 3,737 |
| Available-for-sale investment | 7 | 47,530 | 49,908 | Total current liabilities | | 1,882,511 | 1,937,704 |
| Prepayments | 8 | 25,335 | 17,844 | | | | |
| Total current assets | | 1,268,706 | 1,442,849 | Accounts payable to related parties | 20(b) | 57,080 | 48,867 |
| | | | | Interest-bearing loans and borrowings | 14 | 1,205,402 | 1,257,860 |
| Non-current assets | | | | Deferred revenue | | 23,866 | 24,734 |
| Other receivables, net | | 14,926 | 15,245 | Deferred income tax liabilities | 15 | 179,575 | 177,380 |
| Prepayments | - | 29,594 | 28,209 | Total non-current liabilities | | 1,465,923 | 1,508,841 |
| Derivative financial instruments | 8 | 28,105 | 31,736 | Total liabilities | | 3,348,434 | 3,446,545 |
| Property, furniture and equipment, net | 9 | 2,147,227 | 2,140,443 | Equity | | | |
| Investment properties | 10 | 153,696 | 99,684 | Capital stock | 16 | 369,607 | 369,607 |
| Intangible assets, net | 11 | 1,189,509 | 1,189,935 | Capital premium | | 181,603 | 181,603 |
| Deferred income tax assets | | 12,942 | 12,193 | Additional paid in capital | | 706,427 | 706,427 |
| Total non-current assets | | 3,575,999 | 3,517,445 | Advanced performance | | (79,894) | (10,287) |
| | | | | Unrealized results on financial instruments | | 2,392 | (9,804) |
| | | | | Unrealized results on available-for-sale-investment | | 7,680 | 9,669 |
| | | | | Other equity reserves | | 27,481 | 20,405 |
| | | | | Retained earnings | | 280,975 | 246,129 |
| | | | | Total equity | | 1,496,271 | 1,513,749 |
| Total assets | | 4,844,705 | 4,960,294 | Total liabilities and equity | | 4,844,705 | 4,960,294 |

The accompanying notes are an integral part of these combined statements.

Patrimonio en Fideicomiso D.S. N°093-2002-EF- InRetail Consumer and Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined income statements
For the three-month periods ended March 31, 2017 and 2016

| | Note | 2017 S/(000) | 2016 S/(000) |
|---------------------------------|------|------------------|------------------|
| Net sales of goods | | 1,786,245 | 1,646,593 |
| Rental income | | 12,922 | 11,236 |
| Rendering of services | | 11,524 | 7,092 |
| Revenue | | 1,810,691 | 1,664,921 |
| Cost of sales | 18 | (1,306,640) | (1,200,581) |
| Gross profit | | 504,051 | 464,340 |
| Selling expenses | 18 | (382,217) | (350,045) |
| Administrative expenses | 18 | (44,661) | (41,572) |
| Income from joint venture | | 5,435 | 4,699 |
| Other operating income | | 407 | 8,315 |
| Other operating expenses | | (1,869) | (6,142) |
| Operating profit | | 81,146 | 79,595 |
| Finance income | 19 | 2,109 | 1,392 |
| Finance costs | 19 | (25,703) | (26,799) |
| Net exchange difference | | 10,159 | 9,721 |
| Profit before income tax | | 67,711 | 63,909 |
| Income tax expense | 15 | (25,789) | (23,167) |
| Net Profit | | 41,922 | 40,742 |

The accompanying notes are an integral part of these combined statements.

Patrimonio en Fideicomiso D.S. N°093-2002-EF- InRetail Consumer and Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of comprehensive income
For the three-month periods ended March 31, 2017 and 2016

| | Note | 2017 S/(000) | 2016 S/(000) |
|---|------|-----------------|-----------------|
| Net profit | | 41,922 | 40,742 |
| Other comprehensive income | | | |
| Unrealized gain on available-for-sale investments | | (2,116) | 2,895 |
| Income tax effect | | 127 | (184) |
| | | (1,989) | 2,711 |
| | | | |
| Gain in derivative financial instrument | | 12,196 | 10,314 |
| Income tax effect | | - | - |
| | | 12,196 | 10,314 |
| | | | |
| Other comprehensive income for the period, net of income tax effects | | 10,207 | 13,025 |
| Total comprehensive income for the period | | 52,129 | 53,767 |

The accompanying notes are an integral part of these combined statements.

Patrimonio en Fideicomiso D.S. N°093-2002-EF-InRetail Consumer and Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of changes in equity
For the three-month periods ended March 31, 2017 and 2016

| | <u>Capital stock</u> S/(000) | <u>Additional paid in capital</u> S/(000) | <u>Capital premium</u> S/(000) | <u>Unrealized results on financial instruments</u> S/(000) | <u>Unrealized results on available for sale investments</u> S/(000) | <u>Legal reserve</u> S/(000) | <u>Retained earnings</u> S/(000) | <u>Total</u> S/(000) |
|--------------------------------------|---------------------------------|--|-----------------------------------|---|--|---------------------------------|---|-------------------------|
| Balance as of January 1, 2016 | 369,607 | 706,427 | 181,603 | (13,582) | 768 | 17,689 | 91,120 | 1,353,632 |
| Profit for the period | - | - | - | - | - | - | 40,742 | 40,742 |
| Other comprehensive income | - | - | - | 10,314 | 2,711 | - | - | 13,025 |
| Total comprehensive income | - | - | - | 10,314 | 2,711 | - | 40,742 | 53,767 |
| Capital contribution | - | - | - | - | - | - | - | - |
| Advance performance | - | - | - | - | - | - | (1,747) | (1,747) |
| Transfer to legal reserve | - | - | - | - | - | 2,716 | (2,716) | - |
| Balance as of March 31, 2016 | 369,607 | 706,427 | 181,603 | (3,268) | 3,479 | 20,405 | 127,399 | 1,405,652 |
| Balance as of January 1, 2017 | 369,607 | 706,427 | 181,603 | (9,804) | 9,669 | 20,405 | 235,842 | 1,513,749 |
| Profit for the period | - | - | - | - | - | - | 41,922 | 41,922 |
| Other comprehensive income | - | - | - | 12,196 | (1,989) | - | - | 10,207 |
| | - | - | - | 12,196 | (1,989) | - | 41,922 | 52,129 |
| Advance performance | - | - | - | - | - | - | (69,607) | (69,607) |
| Transfer to legal reserve | - | - | - | - | - | 7,076 | (7,076) | - |
| Balance as of March 31, 2017 | 369,607 | 706,427 | 181,603 | 2,392 | 7,680 | 27,481 | 201,081 | 1,496,271 |

The accompanying notes are an integral part of these combined statements.

Patrimonio en Fideicomiso D.S. N°093-2002-EF-InRetail Consumer and Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of cash flows
For the three-month periods ended March 31, 2017 and 2016

| | 2017 S/(000) | 2016 S/(000) |
|--|-----------------|-----------------|
| Operating activities | | |
| Revenue | 1,858,261 | 1,718,065 |
| Payments to suppliers of goods and services | (1,678,308) | (1,541,779) |
| Payments to employees for salaries and social benefits | (161,284) | (153,915) |
| Taxes paid | (38,080) | (23,310) |
| Other payments, net | 658 | 30 |
| Net cash flows from operating activities | (18,753) | (909) |
| Investing activities | | |
| Sales of investment at fair value through profit or loss, net | 1,947 | 2,884 |
| Purchase of available for sale investment | - | (15,492) |
| Purchase of property, furniture and equipment, net of acquisitions through leasing | (80,703) | (53,944) |
| Purchase and development of intangible assets | (3,154) | (3,572) |
| Purchase of investment properties, net of acquisitions through leasing | (15,593) | - |
| Net cash flows used in investing activities | (97,503) | (70,124) |
| Financing activities | | |
| Proceeds from interest-bearing loans and borrowings | 70,000 | 47,014 |
| Payment of interest-bearing loans and borrowings | (53,600) | (34,744) |
| Interest payment | (4,698) | (9,628) |
| Advance performance | (1,056) | (1,747) |
| Net cash flows used in financing activities | 10,646 | 895 |
| Net decrease of cash and short-term deposits | (105,610) | (70,138) |
| Cash and short-term deposits at the beginning of the period | 192,091 | 188,235 |
| Cash and short-term deposits at the end of the period | 86,481 | 118,097 |
| Non-cash transactions | | |
| Fixed assets purchased through leasing and others financial obligation | 3,344 | 7,416 |

The accompanying notes are an integral part of these combined statements.

Notes to the combined financial statements

Patrimonio en Fideicomiso D.S. N°093-2002-EF-InRetail Consumer and Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Notes to the interim combined financial statements

As of March 31, 2017 (unaudited) and December 31, 2016 (audited)

1. Identification and business activities and reorganization and issuance process

(a) Identification.-

Patrimonio en Fideicomiso D.S. N°093-2002-EF-InRetail Consumer (a Special Purpose Entity-SPE, hereinafter "InRetail Consumer"), was incorporated in August 2014 by InRetail Perú Corp. only for the purpose of issuing debt in the local market and abroad. As of March 31, 2017 and December 31, 2016, the representative shares of capital stock of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Peru S.A. and Subsidiaries are maintained in trust in this entity.

Supermercados Peruanos S.A. and Eckerd Perú S.A. were incorporated in June 1979 and August 1996, respectively, in Lima, Peru. As of March 31, 2017 and December 31, 2016, those companies are subsidiaries of InRetail Perú Corp., which is part of Intercorp Perú Corp., InRetail Perú Corp. owns directly and indirectly the following percentages of ownership in these companies:

- 99.98% of Supermercados Peruanos S.A.
- 100% of Eckerd Perú S.A.

(b) Business activities –

The following is a description of the Companies activities:

- Supermercados Peruanos S.A. is dedicated to retail. As of March 31, 2017 and December 31, 2016, has a chain of stores operating under "Plaza Veá", "Plaza Veá Super", "Vivanda" and "Mass" brands, which are located in Lima and provinces, such as Trujillo, Chimbote, Piura, Cusco, Arequipa Huancayo, among others. Supermercados Peruanos S.A. holds 100 percent of: (i) Desarrolladora de Strip Centers S.A.C. (former Peruana de Tiquetes S.A.C.), and (ii) Plaza Veá Sur S.A.C.
- Eckerd Perú S.A. is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements related to health protection and recovery through its "InkaFarma" pharmacy chain. As of March 31, 2017 and December 31, 2016 it mainly operates in Lima and provinces, such as Lambayeque, La Libertad, Piura, Arequipa, Loreto, San Martín, Ucayali, Madre de Dios, among others. Eckerd Perú S.A. holds 100 percent of: (i) Eckerd Amazonía S.A.C. and (ii) Boticas del Oriente S.A.C.

Notes to the combined financial statements

The following is a summary of the main data of the financial statements of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries as of March 31, 2017 and December 31, 2016, and for the three-month periods ended March 31, 2017 and 2016:

| | Supermercados Peruanos S.A. and Subsidiaries | | Eckerd Perú S.A. and Subsidiaries | |
|--|---|---|---|---|
| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
| Consolidated statements of financial position | | | | |
| Total assets | 2,884,136 | 2,910,219 | 828,892 | 897,434 |
| Total liabilities | 1,863,770 | 1,911,278 | 675,877 | 736,674 |
| Equity | 1,020,366 | 998,941 | 153,015 | 160,760 |
| | Balance as of March 31, 2017 S/(000) | Balance as of March 31, 2016 S/(000) | Balance as of March 31, 2017 S/(000) | Balance as of March 31, 2016 S/(000) |
| Consolidated income statements | | | | |
| Operating profit | 40,925 | 34,725 | 40,824 | 45,680 |
| Net profit | 21,425 | 18,242 | 27,974 | 31,932 |

The combined financial statements as of March 31, 2017 were approved by management of InRetail Perú Corp. on May 9, 2017

2. Summary of significant accounting policies

The significant accounting policies used in the preparation and presentation of the Companies combined financial statements are described below:

(a) Basis of preparation and presentation –

The interim condensed combined financial statements of the Companies have been prepared and presented solely to comply with certain obligations as a result of the issuance made by InRetail Consumer. Likewise, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective as of March 31, 2017 and December 31, 2016.

The interim condensed combined financial statements have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale investments and other financial assets that have been measured at fair value. The interim condensed combined financial statements and other financial assets are presented in Soles and all values are rounded to the nearest thousand (S/(000)), except when otherwise indicated.

The interim condensed combined financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Companies annual combined financial statements as of December 31, 2016.

Notes to the combined financial statements

(b) Basis of combination –

The interim condensed combined financial statements comprise the consolidated financial statements of the Companies and their Subsidiaries, which have been prepared under IFRS; see Note 1. For purposes of these consolidated financial statements, subsidiaries are fully consolidated from the date of acquisition; being the date on which Supermercados Peruanos S.A. or Eckerd Perú S.A. obtained control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The combined financial statements result from the addition of the balances of all the accounts of the Companies consolidated financial statements; however, there is not any relationship as a parent and subsidiaries. The significant transaction among the Companies balances and profit and losses have been eliminated. The combined financial statements are prepared using uniform accounting policies for similar transactions and events, which are described in the following notes to the combined financial statements.

Additionally, the combined financial statements include some assets, liabilities and results as a consequence of transactions made by InRetail Perú Corp. that are directly related to the Companies. The main combined adjustments and intercompany eliminations are explained below:

- (i) Intercompany eliminations of balances and transactions, that mainly correspond to commercial transactions between the Companies (rental and/or rights of use of property, sale of merchandise vouchers, key money, etc.)
- (ii) The “InkaFarma” commercial brand and goodwill recorded in the consolidated financial statement of InRetail Perú Corp. and Subsidiaries as a consequence of the acquisition of Eckerd Perú S.A. and Subsidiaries in January 2011 for approximately S/373,054,000 and S/709,472,000, respectively; see Note 12(b). Likewise, the deferred tax liability related to this commercial brand amounts to approximately S/111,916,000.

(c) New standards, interpretations and amendments –

The accounting policies adopted in the preparation of the interim condensed combined financial statements are consistent with those followed in the preparation of the Companies annual combined financial statements for the year ended December 31, 2016, except for the adoption of the new standards and interpretations as of January 1, 2017.

Notes to the combined financial statements

Standard adopted early

The Company uses derivative instruments to manage its variation in 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 are amortized linearly over the life of the option and are recognized as interest expense.

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

Standards not adopted early

The Companies decided not to early adopt the following standards and interpretations that have been issued by the IASB, but which are not effective as of January 01, 2017:

- IFRS 15 "Revenue from Contracts with Customers" –
IFRS 15 was issued in May 2014 and established a five-step model that will apply to income arising from contracts with customers. Under IFRS 15, income is recognized for an amount that reflects the contractual consideration agreed with the customer. The principles in IFRS 15 provide a more structured approach to measure and recognize revenues.

The new standard on revenue is applicable to all entities and replaces all revenue recognition requirements under IFRS. Complete or modified retrospective application for annual periods beginning on 1 January 2017 is required and early adoption is permitted. The Companies are currently assessing the impact of IFRS 15 and plans to adopt it when is effective.

- IFRS 16 "Leases"
IFRS 16 deals with the identification of leases, as well as its accounting treatment for tenants and landlords. Under this IFRS operating leases entered into the statement of financial position, recognizing all leases on the balance sheet as an asset more and more passive, as if they were financed purchases.

Earlier application is permitted provided that it also applies IFRS 15 "Revenue from contracts with customers", is effective for fiscal years beginning on January 1, 2019.

As of the date of this report, the Companies are assessing the possible impact of the application of these standards on its consolidated financial statements.

Notes to the combined financial statements

3. Transactions in foreign currency

Transactions in foreign currency are carried out using exchange rates prevailing in the market as published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of March 31, 2017, the exchange rates in the market for transactions in US Dollars were S/3.246 per US\$1 bid and S/3.249 per US\$1 ask (S/3.352 and S/3.360 per US\$1 bid and ask as of December 31, 2016).

As of March 31, 2017 and December 31, 2016, the companies held the following foreign currency assets and liabilities:

| | As of March 31, 2017 US\$(000) | As of December 31, 2016 US\$(000) |
|---|--------------------------------------|---|
| Assets | | |
| Cash and short-term deposits | 1,925 | 2,771 |
| Available-for-sale investment | 14,629 | 14,853 |
| Investment at fair value through profit or loss | 20,114 | 3,503 |
| Trade receivables, net | 45 | 174 |
| Other receivables, net | 3,370 | 4,028 |
| Accounts receivable from related parties | 1,066 | 804 |
| Total assets | 41,149 | 26,133 |
| Liability | | |
| Trade payables | (12,872) | (15,539) |
| Other payables | (16,774) | (17,437) |
| Accounts payable to related parties | (24,195) | (2,441) |
| Interest - bearing loans and borrowings | (221,011) | (220,998) |
| Total liabilities | (274,852) | (256,415) |
| Call Spread | 130,000 | 130,000 |
| Net liability position | (103,703) | (100,282) |

As of March 31, 2017 and December 31, 2016, InRetail Consumer and its Subsidiaries, decided to reduce its exchange rate risk by entering into hedging operations through two Call Spreads written over its "Senior Notes Unsecured", which are considered effective hedging instruments. The Call Spreads are written over a nominal amount of US\$130,000,000 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 an exchange operation (Soles exchanged for US Dollars) with notional amount of approximately US\$130,000,000. See further detail in Note 9.

Notes to the combined financial statements

4. Cash and short-term deposits

(a) The table below presents the components of this account:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|----------------------|------------------------------------|---------------------------------------|
| Cash | 15,402 | 20,240 |
| Current accounts (b) | 49,352 | 80,571 |
| Time deposits (c) | 86 | 79,316 |
| Other | 21,641 | 11,964 |
| Total | 86,481 | 192,091 |

(b) The Companies maintain current accounts in local banks in Soles and US Dollars that do not accrue interest and are freely available.

(c) As of December 31, 2016, time deposits are freely available and are kept in Soles and US Dollars, in local banks, have maturities up to a month since inception and bear annual interest of 4.20 and 0.20 percent annual, respectively.

5. Trade receivables, net

(a) The table below presents the components of this caption:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|-------------------------------------|------------------------------------|---------------------------------------|
| Trade accounts receivable (c) | 19,258 | 28,467 |
| Credit card operations (d) | 10,423 | 35,563 |
| Rent receivable (e) | 3,955 | 2,058 |
| Others | 9,891 | 7,614 |
| Total | 43,527 | 73,702 |
| Provision for doubtful accounts (f) | (7,704) | (7,703) |
| Total | 35,823 | 65,999 |

(b) Trade receivables are denominated in Soles and US Dollars, have current maturities and do not bear interest.

(c) Corresponds mainly to trade receivables from sale of inventories and from the sale of merchandise vouchers to various companies and public institutions. At the date of this report, these balances are mostly collected.

(d) Corresponds mainly to pending deposits in favor of Supermercados Peruanos and Eckerd Group for the last day of the month, respectively, held by credit card operators and originated from the sales of goods with credit cards in the different stores of Supermercados Peruanos and Eckerd.

Notes to the combined financial statements

- (e) Corresponds to accounts receivable for the lease of commercial premises to concession holders inside the stores of Supermercados Peruanos S.A.
- (f) The movements in the provision for doubtful accounts receivable for the three-month periods ended March 31, 2017 and 2016, were as follows:

| | 2017 | 2016 |
|---|--------------|--------------|
| | S/(000) | S/(000) |
| Balance at the beginning of the year | 7,703 | 5,490 |
| Provision recognized as year expense, Note 18 (a) | 1 | 177 |
| Write offs and recoveries | - | (3) |
| Balance at the end of the period | 7,704 | 5,664 |

As of March 31, 2017 and December 31, 2016, the amount of trade receivables past due but not impaired amounted to approximately S/12,812,000 and S/30,826,000, respectively.

The overdue items which have a payment agreement by the customer, are not considered impaired.

In the opinion of Management, the provision for doubtful accounts receivable as of March 31, 2017 and December 31, 2016 appropriately covers the credit risk of this item at those dates.

6. Inventories, net

- (a) The composition of this item is presented below:

| | As of March 31, 2017 | As of December 31, 2016 |
|--|---------------------------------|------------------------------------|
| | S/(000) | S/(000) |
| Goods | 914,336 | 962,870 |
| In transit inventories (b) | 12,250 | 12,258 |
| Miscellaneous supplies | 24,799 | 12,661 |
| Total | 951,385 | 987,789 |
| Minus | | |
| Provision for impairment of inventories (c) | (4,883) | (8,960) |
| Total | 946,502 | 978,829 |

- (b) Corresponds to goods and miscellaneous supplies imported by the Companies.

Notes to the combined financial statements

- (c) The changes in the provision for inventory impairment for the three-month periods ended as of March 31, 2017 and 2016 were as follows:

| | 2017 S/(000) | 2016 S/(000) |
|---|-----------------|-----------------|
| Balance at the beginning of the year | 8,960 | 9,597 |
| Provision of the period, Note 18(a) | 3,844 | 2,418 |
| Write-off/recovery | (7,921) | (7,386) |
| Balance at the end of the period | 4,883 | 4,629 |

The provision for inventory impairment is determined based on stock turnover, discounts granted for the liquidation of the merchandise and other characteristics based on periodic evaluations performed by the Management.

7. Available-for-sale investment

As of March 31, 2017 and December 31, 2016, available for sale investments correspond to notes issued by a related company of Intercorp Group of approximately US\$2,517,000 equivalent to S/8,177,000 (US\$2,513,000 equivalent to S/8,445,000 as of December 31, 2016).

Additionally, as of March 31, 2017, the Company has other investments available for sale for an amount US\$12,112,000 equivalent to S/39,353,000 (US\$12,340,000 equivalent to S/.41,463,000 as of December 31, 2016)

8. Prepayments

- (a) The table below presents the composition of this caption:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|--------------|------------------------------------|---------------------------------------|
| Key money | 29,594 | 13,239 |
| Prepaid rent | 9,108 | 24,813 |
| Insurance | 1,049 | 2,492 |
| Others | 15,178 | 5,509 |
| Total | 54,929 | 46,053 |
| Current | 25,335 | 17,844 |
| Non current | 29,594 | 28,209 |
| Total | 54,929 | 46,053 |

Notes to the combined financial statements

9. Derivative financial instruments

As of March 31, 2017 and December 31, 2016, this item comprises of two principal Call Spread contracts designated to hedge cash flows from exchange rate variations and recorded at its fair value. The details of these operations are as follows:

| Counterparty | Nominal value US\$(000) | Due | Pay fix at % | Book value of | Fair value | Fair value |
|--------------------|----------------------------|--------------|-----------------|-------------------------------|-----------------|-----------------|
| | | | | the hedged item S/(000) | 2017 S/(000) | 2016 S/(000) |
| Deutsche Bank A.G. | 100,000 | October 2021 | 1.56 | 324,900 | 22,420 | 25,404 |
| Bank of Tokyo | 30,000 | October 2021 | 1.20 | 97,470 | 5,685 | 6,332 |
| Total | | | | | 28,105 | 31,736 |

These financial instruments cover 43 percent of the exposure to foreign currency risk arising from international bond issue of October 2014, see note 14 (c). These Call Spreads cover variations in the exchange rate from S/.3.220 to S/.3.750 and from S/.3.379 to S/.3.750, respectively, per US\$1.00 and the price of the premiums were funded in installments, generating liabilities. See Note 14.

10. Property, furniture and equipment, net

(a) The table below presents the changes and composition of this caption:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|--|------------------------------------|---------------------------------------|
| Cost | | |
| Initial balance | 2,984,015 | 2,747,642 |
| Additions (b) | 84,047 | 286,573 |
| Disposals and/or sales (c) | (6,923) | (50,200) |
| Transfer to investment properties, Note 11 (a) | (39,519) | - |
| Final balance | 3,021,620 | 2,984,015 |
| Accumulated depreciation | | |
| Initial balance | 843,572 | 733,589 |
| Additions, Note 18 (a) | 36,801 | 143,475 |
| Disposals and/or sales | (4,880) | (33,492) |
| Transfer to investment properties, Note 11 (a) | (1,100) | - |
| Final balance | 874,393 | 843,572 |
| Net book value | 2,147,227 | 2,140,443 |

(b) Additions for the periods ended March 31, 2017 and December 31, 2016 correspond mainly to the construction and equipment for the new premises of Supermercados Peruanos S.A. and the Eckerd Group.

(c) Corresponds mainly to assets sold and to the disposal of unusable assets as a result of the process of changing formats in some premises. The resulting income or expense has been included in the "Other operating income" or "Other operating expenses" caption of the combined income statement, respectively.

Notes to the combined financial statements

- (d) As of March 31, 2017, the cost and corresponding accumulated depreciation of assets acquired through finance leases was approximately S/575,210,000 and S/192,460,000 respectively (S/569,556,000 and S/175,788,000 respectively, as of December 31, 2016).
- (e) The Companies maintain insurance policies on their main assets in accordance with policies established by Management.

11. Investment properties

- (a) The table below presents the composition of this caption

| | As of March 31, 2017 S/. (000) | As of December 31, 2016 S/. (000) |
|---|--------------------------------------|---|
| Balance at the beginning of the year | 99,684 | 17,224 |
| Additions | 15,593 | 82,460 |
| Fixed assets transfer, Note 10 (a) | 38,419 | - |
| Total | 153,696 | 99,684 |

- (b) As of March 31, 2017, investment properties include five properties located in Lima, Moquegua, Tacna and Puno (5 investment properties as of December 31, 2016) held to earn income.
- (c) As of March 31, 2017 and December 31, 2016, Management of the Companies performed an evaluation of their investment properties, and has not found any indication of impairment.

12. Intangible assets, net

- (a) The table below presents the changes and composition of this caption:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|---------------------------------|------------------------------------|---------------------------------------|
| Cost | | |
| Initial balance | 1,266,632 | 1,248,027 |
| Additions | 3,154 | 21,299 |
| Disposal and/or sales | (95) | (2,694) |
| Final balance | 1,269,691 | 1,266,632 |
| Accumulated amortization | | |
| Initial balance | 76,697 | 63,946 |
| Additions, Note 18 (a) | 3,500 | 13,357 |
| Disposals and/or sales | (15) | (606) |
| Final balance | 80,182 | 76,697 |
| Net, book value | 1,189,509 | 1,189,935 |

- (b) As of March 31, 2017 and December 31, 2016, this caption mainly includes approximately S/373,054,000 and S/709,472,000 corresponding to the brand "InkaFarma" and goodwill respectively, resulting from applying the purchase method at the moment of the acquisition of

Notes to the combined financial statements

Eckerd Perú S.A. in 2011. Both assets have been assigned to the cash generating unit “Drugstores”, which is an operating segment reportable for the impairment tests.

Management of the Companies estimated the fair value of the brand by applying the “saving from-royalty” method. The principle behind “saving from-royalty” method is that a brand-holding company owns the brand, avoiding payments of royalties for the use of the brand, to another hypothetical owner, therefore, the economic value of the brand is represented by the avoided royalties.

13. Trade payables

(a) The table below presents the composition of this caption:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|---------------------------------------|------------------------------------|---------------------------------------|
| Bills payable for purchase of goods | 1,181,200 | 1,354,097 |
| Bills payable for commercial services | 182,300 | 211,105 |
| Total | 1,363,500 | 1,565,202 |

(b) This caption mainly includes obligations to non-related local and foreign suppliers, denominated in local currency and US Dollars, with current maturities and do not bear any interest. There have been no liens granted on these obligations.

The Companies offer their suppliers access to an accounts payable service arrangement provided by third-party financial institutions. This service allows the suppliers to sell their receivables to the financial institutions in an arrangement separately negotiated by the supplier and the financial institution, enabling suppliers to better manage their cash flow and reduce payment processing costs. The Companies have no direct financial interest in these transactions. All of the Companies obligations, including amounts due, remain due to its suppliers as stated in the supplier agreements.

Notes to the combined financial statements

14. Interest-bearing loans and borrowings

(a) The table below presents the composition of interest-bearing loans and borrowings:

| Type of obligation | Original currency | Interes rate % | Final maturity | Original amount | | Total | | Current | | Non-current | |
|---|-------------------|-------------------------|----------------|-----------------|----------------|------------------|------------------|----------------|----------------|------------------|------------------|
| | | | | US\$ (000) | S/(000) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | | | | | | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) |
| Notes Senior Unsecured (e) | | | | | | | | | | | |
| Notes Senior Unsecured (c) | USD | 5.250 | 2021 | 300,000 | - | 557,140 | 575,535 | - | - | 557,140 | 575,535 |
| Notes Senior Unsecured (d) | PEN | 6.813 | 2021 | - | 250,000 | 249,343 | 249,314 | - | - | 249,343 | 249,314 |
| | | | | 300,000 | 250,000 | 806,483 | 824,849 | - | - | 806,483 | 824,849 |
| Leasing (b) | | | | | | | | | | | |
| Related entities | | | | | | | | | | | |
| Banco Internacional del Perú-Interbank | PEN | 7.850 | 2019 | - | 27,412 | 14,295 | 15,627 | 6,086 | 5,485 | 8,209 | 10,142 |
| Banco Internacional del Perú-Interbank | PEN | Between 6.850 and 8.480 | 2020 | - | 132,181 | 38,891 | 45,921 | 21,913 | 24,865 | 16,978 | 21,056 |
| Non-related entities | | | | | | | | | | | |
| Hewlett Packard S.A. | USD | 2.930 | 2020 | 11,075 | - | 20,086 | 20,794 | 7,870 | 8,560 | 12,216 | 12,234 |
| IBM Perú SAC | USD | 2.170 | 2019 | 335 | - | 160 | 185 | 77 | 74 | 83 | 111 |
| Banco de Crédito del Perú | PEN | Between 6.590 and 7.850 | 2020 | - | 81,335 | 45,575 | 49,583 | 16,694 | 16,409 | 28,881 | 33,174 |
| BBVA Banco Continental | PEN | Between 5.960 and 8.000 | 2020 | - | 44,123 | 5,482 | 6,807 | 4,272 | 4,611 | 1,210 | 2,196 |
| BBVA Banco Continental | PEN | 8.000 | 2017 | - | 1,028 | 99 | 144 | 99 | 144 | - | - |
| Banco Scotiabank | PEN | Between 6.590 and 7.760 | 2018 | - | 57,972 | 29,813 | 32,574 | 11,511 | 11,318 | 18,302 | 21,256 |
| | | | | 11,410 | 344,051 | 154,401 | 171,635 | 68,522 | 71,466 | 85,879 | 100,169 |
| Loans (b) | | | | | | | | | | | |
| Related entities | | | | | | | | | | | |
| Banco Internacional del Perú-Interbank | PEN | 6.350 | 2020 | - | 60,000 | 43,476 | 46,234 | 11,592 | 11,415 | 31,884 | 34,819 |
| Non-related entities | | | | | | | | | | | |
| Banco de Crédito del Perú | PEN | 6.350 | 2020 | - | 40,293 | 41,637 | 31,079 | 20,876 | 8,335 | 20,761 | 22,744 |
| Banco Scotiabank (f) | PEN | Between 6.350 and 6.950 | 2022 | - | 240,000 | 212,209 | 182,389 | 81,143 | 41,143 | 131,066 | 141,246 |
| Bank of Tokyo (g) | USD | Between 2.540 and 2.640 | 2019 | 30,000 | - | 96,824 | 100,048 | - | - | 96,824 | 100,048 |
| | | | | 30,000 | 380,293 | 394,146 | 359,750 | 113,611 | 60,893 | 280,535 | 298,857 |
| Foreign loans | | | | | | | | | | | |
| Deutsche Bank | USD | 1.560 | 2021 | 9,366 | - | 23,874 | 24,690 | 4,492 | 5,091 | 19,382 | 19,599 |
| Bank of Tokyo (g) | USD | 1.200 | 2021 | 1,953 | - | 5,749 | 5,945 | 1,118 | 1,163 | 4,631 | 4,782 |
| | | | | 11,319 | - | 29,623 | 30,635 | 5,610 | 6,254 | 24,013 | 24,381 |
| Other obligations to third parties (h) | | | | | | | | | | | |
| Hewlett Packard S.A. | USD | Between 1.450 and 5.640 | 2021 | 15,886 | - | 14,208 | 15,213 | 5,716 | 5,609 | 8,492 | 9,604 |
| | | | | 15,886 | - | 14,208 | 15,213 | 5,716 | 5,609 | 8,492 | 9,604 |
| Total | | | | 368,615 | 974,344 | 1,398,861 | 1,402,082 | 193,459 | 144,222 | 1,205,402 | 1,257,860 |

Notes to the combined financial statements

- (b) Promissory notes and bank loans are used to fund working capital and do not have any specific guarantee. Leasing operations are guaranteed by the assets related to them; see Note 10(d). Such obligations do not have any special conditions that must be complied with covenants or restrictions affecting the operations of the Companies.
- (c) On October 2014, the Company issued through InRetail Consumer, an offering in the local market and abroad of "Senior Notes Unsecured" for US\$300,000,000 equivalent to approximately S/974,700,000 as of March 31, 2017 (S/1,008,000,000 approximately as of December 31, 2016), due in 2021 at an 5.25 percent nominal interest rate. This borrowing was recorded in the consolidated financial statements at their amortized cost at a 5.5869 percent effective interest rate, after considering the respective up-front fees for approximately US\$3,994,000, equivalent to a total amount of approximately S/12,976,000 as of March 31, 2017 (US\$4,184,000 equivalent to approximately S/14,058,000 as of December 31, 2016). Additionally, as of March 31, 2017, the balance is presented net of US\$124,526,000 equivalent to a total amount of approximately S/404,584,000 as of March 31, 2017 (US\$124,526,000 equivalent to a total amount of approximately S/418,407,000 as of December 31, 2016) corresponding to notes of these issuance acquired by the Company itself. As of March 31, 2017 and December 31, 2016 the balance of this loan is S/557,140,000 and S/575,535,000, respectively.
- (d) Also, in October 2014 the Company issued through InRetail Consumer, an offering in the local market and abroad of "Senior Notes Unsecured" for S/250,000,000, due in 2021 at an 6.8125 percent nominal interest rate. This borrowing was recorded in the consolidated financial statements at their amortized cost at a 6.8805 percent effective interest rate, after considering the respective up-front fees for approximately S/657,000, as of March 31, 2017 (S/686,000, as of December 31, 2016). As of March 31, 2017 and December 31, 2016 the balance of this loan is S/249,343,000 and S/249,314,000, respectively.
- (e) The funding was mainly used to:
- Purchase of "Senior Secured Notes" issued and placed in 2011 by InterCorp Retail Inc. through InterCorp Retail Trust, acquiring a total of 277,277,000, of such notes, and payment of the premiums for the repurchase of the bonds.

It should be noted that the 277,277,000 "Senior Secured Notes" were offset or settled as follows:

- (i) 130,000,000 were offset with the promissory note held by the Company with InterCorp Retail Trust.
- (ii) 117,277,000 were settled in cash, so that during 2014 the Company received US \$ 117,277,000
- (iii) 30,000,000 were purchased on behalf of InterCorp Retail Inc.

Notes to the combined financial statements

- Restructuring of their liabilities, purchases properties and investments in new projects for the Company's subsidiaries.

Likewise, 100 percent of the "Senior Unsecured Notes" is guaranteed by the Supermercados Peruanos S.A. and Eckerd Perú S.A.'s shares.

As a result of these issuances certain obligations and restrictive clauses must be complied until their maturity of cancellation.

The financial ratio required to the issuer and to the subsidiaries that guarantee these borrowings is "Financial debt, net of cash / EBITDA," which presents the followings limits:

- No greater than 3.75 times until September 2016
- No greater than 3.25 times between October 2016 and September 2017; and,
- No greater than 2.75 times after October 2017

In Management's opinion, these clauses do not limit the operations of Supermercados Peruanos and Subsidiaries and Eckerd Perú S.A. and Subsidiaries as of March 31, 2017 and December 31, 2016.

- (f) On June and September 2015, Supermercados Peruanos S.A. received two loans from Scotiabank, each of S/120,000,000, bearing an annual effective interest rate of 6.95 and 6.35 percent respectively, percent and with maturities in May 2022 and September 2020, respectively. These loans are secured with Company properties.
- (g) On September 2016, the Company received a loan from Bank of Tokyo, for US\$30,000,000 equivalent to S/97,470,000 as of March 31, 2017 (US\$30,000,000 equivalent to S/100,800,000 as of December 31, 2016), with maturity in September 2019 and which bears an annual effective interest rate of 2.54 percent during the first year and 2.64 percent during the following two years. This loan was recorded at its amortized cost after considering the respective up-front fees for approximately S/646,000 (S/752,000 as of December 31, 2016).
- (h) Corresponds to the debt that Supermercados Peruanos S.A. incurred with IBM del Perú S.A.C. to purchase computer equipment. Likewise, Hewlett Packard S.A. signed a promissory note with Supermercados Peruanos S.A. to finance the payment of the balances owed to SAP Andina del Caribe S.A. for the development of the SAP system. Said contracts do not have any specific guarantee.
- (i) Debts and interest – bearing loans payable are as follows:

| | As of March 31, 2017 | As of December 31, 2016 |
|--------------|---------------------------------|------------------------------------|
| | S/(000) | S/(000) |
| 2017 | 193,459 | 144,222 |
| 2018 | 94,344 | 126,128 |
| 2019 | 201,665 | 204,469 |
| 2020 | 67,521 | 65,835 |
| 2021 onwards | 841,872 | 861,428 |
| Total | 1,398,861 | 1,402,082 |

Notes to the combined financial statements

15. Deferred income tax

- (a) The amounts presented in the statement of financial position as of March 31, 2017 and December 31, 2016, as well as the statements of comprehensive income for the three-month periods ended March 31, 2017 and 2016 are shown below:

| Statements of financial position | As of March 31, 2017 | | As of December 31, 2016 | |
|---|----------------------|----------------|-------------------------|----------------|
| | Assets | Liabilities | Assets | Liabilities |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Eckerd Perú and Subsidiaries | 12,942 | - | 12,193 | - |
| Supermercados Peruanos and Subsidiaries | - | 67,974 | - | 65,682 |
| Combination adjustments | - | 111,601 | - | 111,698 |
| Total | 12,942 | 179,575 | 12,193 | 177,380 |

| Statements of comprehensive income | Income tax for the three-month periods ended March 31, 2017 and 2016 | |
|------------------------------------|--|-----------------|
| | 2017 | 2016 |
| | S/(000) | S/(000) |
| Current | (24,213) | (17,399) |
| Deferred | (1,576) | (5,768) |
| Income tax expense | (25,789) | (23,167) |

- (b) As of March 31, 2017 and December 31, 2016 the income credit tax, net of provision for current income tax payable, amounts to approximately S/3,479,000 and S/8,709,000, respectively.

Notes to the combined financial statements

16. Equity

(a) Capital stock –

| Company | N° issued common shares | | Nominal value | Accounting balance of issued capital | |
|--|-------------------------|-------------------------|---------------|--------------------------------------|-------------------------|
| | As of March 31, 2017 | As of December 31, 2016 | | As of March 31, 2017 | As of December 31, 2016 |
| | | | | S/. (000) | S/. (000) |
| Supermercados Peruanos S.A. and Subsidiarias (*) | 320,332,671 | 320,332,671 | 1.05 | 336,349 | 336,349 |
| Eckerd Perú S.A. y Subsidiarias | 13,783,428 | 13,783,428 | 1.00 | 13,784 | 13,784 |

(*) During 2014, cash contributions were made (to Supermercados Peruanos S.A.) for a total amount of approximately S/230,788,000 (during 2015, and 2016 no cash contributions have been made to the companies). Approximately, S/182,837,000 of these contributions were made by InRetail Consumer and S/47,951,000 by InRetail Perú Corp.; consequently, only contributions made by InRetail Perú Corp. are considered as cash contribution for purpose of these combine financial statements. During the years 2013 and 2014, Supermercados Peruanos S.A. received equity contributions by InRetail Perú Corp. which were record as an increase of the capital stock pending to issue for approximately S/19,474,000. At the date of this report, Supermercados Peruanos S.A. is in the process of formalizing these contributions by the agreement of the respective Shareholders' General Meeting, and the issuance of the shares corresponding capital.

(b) Additional paid-in capital –

As of March 31, 2017 and December 31, 2016, the “Additional paid-in capital” caption includes the net effect of the adjustments related to the acquisition of Eckerd Perú S.A. and Subsidiaries at said dates; see Note 12(b).

(c) Legal reserve –

As provided in the Corporation Act, it is required that a minimum of 10 percent of distributable income for each year is transferred to a legal reserve until such reserve equals 20 percent of the capital. The legal reserve can absorb losses or be capitalized, but in both cases it must be replenished. The legal reserve is appropriated when the General Shareholders' Meeting approves the same.

(d) Advance performance –

During the first quarter of 2017, it was agreed to advance performance by S/69,607,000 of this amount, S/68,550,000 has been disbursed in April 2017

Notes to the combined financial statements

17. Tax Situation

- (a) The Companies are subject to the Peruvian Tax System and they calculate their income Tax on the basis of their individual financial statements. As of March 31, 2017 the statutory Income Tax rate was 29.5 percent (28 percent as of December 31, 2016), on taxable income.

Entities and individuals not domiciled in Perú 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 since 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) According to the text of the Law on Income Tax, as amended by Law N° 29663 and 29757, as of 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:

- First, 10 percent on more of the shares of non-resident must be sold in any twelve months period (assumed effective from February 16, 2011); and,
- Second, the market value of the shares of the Peruvian society must represent 50 percent or more the market value of non-domiciled, in any period of twelve months (assumed effective from July 22, 2011);.

- (c) For purposes of determining the Income Tax, transfer pricing of transactions with related companies and companies domiciled in territories with low or no taxation must be supported with documentation and information on assessment methods applied and criteria considered. Based on the analysis of the operations of the Group, Management and its legal advisors consider that as consequence of the application of the regulation in force, there will not be any significant contingencies for the Companies as of March 31, 2017 and December 31, 2016.

- (d) The tax authority is legally entitled to review and, if necessary, adjust the Income Tax computed during a term of four years following the year in which the tax declaration was submitted.

Notes to the combined financial statements

Following are the years subject to review by the tax authority of the Companies:

| | Income Tax | Value added tax |
|-----------------------------|-----------------------|----------------------------|
| Supermercados Peruanos S.A. | From 2012 to 2016 | From 2013 to 2016 |
| Eckerd Perú S.A. | From 2014 to 2016 | From 2013 to 2016 |
| Eckerd Amazonia S.A.C. | From 2013 to 2016 | From 2013 to 2016 |
| Boticas del Oriente S.A.C. | From 2013 to 2016 | From 2013 to 2016 |

According to Peruvian law, InRetail Consumer is not considered an income taxpayer due to its status as a trust. InRetail Consumer attributes its generated results, the net losses and Income Tax credits on foreign source income, to the holders of its certificates of participation or whoever holds those rights.

Due to possible interpretations that the authority may give to legislation, it is not possible to determine, to date, whether the reviews will result in liabilities for the Companies. Therefore, any major tax or surcharge that may result from eventual revisions by the tax authority would be charged to the combined statements of comprehensive income of the period in which said tax or surcharge is determined.

Management's opinion as well as its legal advisors opinion, any eventual additional tax settlement would not be significant to the combined financial statements as of March 31, 2017 and December 31, 2016.

18. Operating expenses

(a) The table below presents the components of this caption:

| | 2017 | 2016 |
|-------------------------|-------------------------|-------------------------|
| | S/(000) | S/(000) |
| Cost of sales | 1,306,640 | 1,200,581 |
| Selling expenses | 382,217 | 350,045 |
| Administrative expenses | 44,661 | 41,572 |
| Total | <u>1,733,518</u> | <u>1,592,198</u> |

The table below presents the components of operating expenses included in cost of sales, sales and administrative expenses captions:

Notes to the combined financial statements

| | 2017 | | | |
|---|----------------------|-------------------------|--------------------------------|------------------|
| | Cost of sales | Selling expenses | Administrative expenses | Total |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Initial balance of goods | 962,870 | - | - | 962,870 |
| Purchase of goods | 1,254,262 | - | - | 1,254,262 |
| Final balance of goods, Note 6(a) | (914,336) | - | - | (914,336) |
| Impairment of inventories, Note 6(c) | 3,844 | - | - | 3,844 |
| Packing and packaging | - | 9,700 | 35 | 9,735 |
| Personnel expenses | - | 137,759 | 23,525 | 161,284 |
| Depreciation, Note 10(a) | - | 33,284 | 3,517 | 36,801 |
| Amortization, Note 12(a) | - | 2,079 | 1,421 | 3,500 |
| Key money amortization | - | 329 | - | 329 |
| Services provided by third parties (b) | - | 70,171 | 8,183 | 78,354 |
| Advertising | - | 20,811 | - | 20,811 |
| Rental of premises | - | 58,226 | 1,866 | 60,092 |
| Taxes | - | 6,744 | 779 | 7,523 |
| Provision for doubtful trade receivables, Note 5(f) | - | 1 | - | 1 |
| Insurance | - | 2,574 | 237 | 2,811 |
| Other charges (c) | - | 40,539 | 5,098 | 45,637 |
| Total | 1,306,640 | 382,217 | 44,661 | 1,733,518 |

| | 2016 | | | |
|---|----------------------|-------------------------|--------------------------------|------------------|
| | Cost of sales | Selling expenses | Administrative expenses | Total |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Initial balance of goods, | 868,050 | - | - | 868,050 |
| Purchase of goods | 1,241,729 | - | - | 1,241,729 |
| Final balance of goods | (911,616) | - | - | (911,616) |
| Impairment of inventories, Note 6(c) | 2,418 | - | - | 2,418 |
| Packing and packaging | - | 10,140 | 57 | 10,197 |
| Personnel expenses | - | 131,186 | 22,729 | 153,915 |
| Depreciation | - | 31,509 | 3,447 | 34,956 |
| Amortization | - | 1,859 | 1,342 | 3,201 |
| Key money amortization | - | 376 | - | 376 |
| Services provided by third parties (b) | - | 59,807 | 6,700 | 66,507 |
| Advertising | - | 18,134 | - | 18,134 |
| Rental of premises | - | 52,717 | 2,312 | 55,029 |
| Taxes | - | 6,614 | 594 | 7,208 |
| Provision for doubtful trade receivables, Note 5(f) | - | 177 | - | 177 |
| Insurance | - | 2,630 | 196 | 2,826 |
| Other charges (c) | - | 34,896 | 4,195 | 39,091 |
| Total | 1,200,581 | 350,045 | 41,572 | 1,592,198 |

(b) Correspond mainly to expenses of electricity, water, telephone, premises maintenance services and transport services.

(c) Mainly include general expenses in stores.

Notes to the combined financial statements

19. Income and Finance costs

The table below presents the components of this caption:

| | 2017 S/(000) | 2016 S/(000) |
|---|------------------------|------------------------|
| Finance income | | |
| Interest and others | 2,109 | 1,392 |
| Total | 2,109 | 1,392 |
| Finance cost | | |
| Interest on loans, borrowings and bonds payable | 19,287 | 21,404 |
| Interest from derivatives instruments | 183 | 208 |
| Other financial costs | 6,233 | 5,187 |
| Total | 25,703 | 26,799 |

20. Transactions with related parties

(a) The following table provides the total amount of transactions with related parties for the relevant financial periods ended March 31, 2017 and 2016:

| | 2017 S/(000) | 2016 S/(000) |
|------------------------------|------------------------|------------------------|
| Income | | |
| Sales | 979 | 1,144 |
| Services income | 7,129 | 4,062 |
| Collection services | 2,361 | 3,443 |
| Others | 7,192 | 5,807 |
| Total | 17,661 | 14,456 |
| Expenses | | |
| Renting of premises and land | 9,248 | 9,459 |
| Reimbursement of expenses | 5,104 | 4,717 |
| Commissions | 12 | 31 |
| Interest | 970 | 862 |
| Others | 2,303 | 2,811 |
| Total | 17,637 | 17,880 |

Notes to the combined financial statements

- (b) As a result of the transactions with related companies, the Companies recorded the following balances of receivables and payables as of March 31, 2017 and December 31, 2016:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|---|------------------------------------|---------------------------------------|
| Receivables | | |
| Banco Internacional del Perú S.A.A. – Interbank | 3,003 | 1,945 |
| Financiera Uno | 2,771 | 4,529 |
| Tiendas Peruanas S.A. | 1,268 | 789 |
| Home Centers Peruanos S.A | 1,410 | 570 |
| Interproperties Holding (f) | 9 | 107 |
| Bembos | 1,496 | 305 |
| Urbi | 205 | 213 |
| Intercorp Retail Inc. | 168 | 206 |
| Cineplex S.A. | 117 | 103 |
| Others | 9,230 | 11,056 |
| Total | 19,677 | 19,823 |

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|--|------------------------------------|---------------------------------------|
| Payables | | |
| Interproperties Holding (f) | 38,070 | 32,579 |
| Financiera Uno (d) | 20,540 | 24,573 |
| InRetail Management S.R.L. | 2,495 | 1,680 |
| Banco Internacional del Perú S.A.A. – Interbank: | | |
| Line of credit and others | - | 27 |
| Deposit in guarantee (e) | 5,024 | 5,470 |
| Home Centers Peruanos S.A | 14,330 | 12,179 |
| Interseguro Compañía de Seguros S.A. | 720 | 731 |
| Real Plaza S.A. | 778 | 1,098 |
| Horizonte Global Opportunities Perú S.A. | 25 | 26 |
| Cineplex S.A. | 5 | 5 |
| Inretail Perú Corp. (g) | 68,550 | - |
| Others | 1,464 | 1,909 |
| | 152,001 | 80,277 |
| Remunerations payable to key management | - | - |
| Total | 152,001 | 80,277 |
| Current portion | 94,921 | 31,410 |
| Non-current portion | 57,080 | 48,867 |
| Total | 152,001 | 80,277 |

The policy of the InRetail Group is to make transactions with related companies at terms equivalent to those that prevail in arm's length transactions.

- (c) Outstanding balances at the year-end are unsecured and interest free, except for the financial obligations explained in note 14. There have been no guarantees provided or received for any related party receivables or payables. For the Three month periods end March 31, 2017 and 2016, the Companies have not recorded any impairment of receivables relating to amounts owed

Notes to the combined financial statements

by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

- (d) On March 30, 2013, Supermercados Peruanos S.A. and Financiera Oh! S.A., a related entity, signed the "Contract of Issuance and Administration of the "Oh!" credit card". This contract allows that Financiera Oh! S.A. can exclusively operate its "Oh!" credit card in the Supermercados Peruanos stores.

Likewise, as a consequence of such contract, as of March 31, 2017 and December 31, 2016, Supermercados Peruanos S.A. holds accounts payable to Financiera Oh! S.A. for approximately S/20,539,000 and S/24,573,000 respectively, which corresponded mainly to the collection of installments to users of the "Oh!" credit card, which normally are transferred to Financiera Oh! S.A. the day following of its collection.

- (e) Supermercados Peruanos S.A. and Banco Internacional del Perú S.A.A. –Interbank signed contracts on leases of financial stores for 15 and 7 years in October 2004 and September 2009, respectively. Said contracts amount to approximately S/27,212,000 (equivalent to approximately US\$8,000,000) and S/14,788,000 (equivalent to approximately US\$5,016,000) which were collected in advance by Supermercados Peruanos S.A. and are presented in the "Deferred revenue" caption in the Combined statements of financial position. Additionally, and only in the case of the 2004 contract, Supermercados Peruanos S.A. received from Banco Internacional del Perú S.A.A. – Interbank US\$2,000,000 as collateral for the contract. As of March 31, 2017 and 2016, Supermercados Peruanos S.A. has credited the update of the present value of this deposit in the "Financial income" caption. The net present value of the balances related to guarantee deposit amount to S/5,624,000 and S/5,470,000 respectively, as of March 31, 2017 and December 31, 2016, and is accounted for in the "Other Payables" in the Combined statement of financial position. The contract signed in September 2009 finished in April 2016.

In relation to the contracts, during 2017 Supermercados Peruanos S.A. recognized accrued rental income that amounted to approximately S/258,000, equivalent to US\$81,000 (S/690,000, equivalent to US\$230,000, for the same period in 2016), which are recorded in the "Rental income" caption in the Combined income statements.

As of March 31, 2017, Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/2,345,000 (S/2,698,000 as of December 31, 2016) which will be recognized as income in upcoming periods.

- (f) As of March 31, 2017 mainly includes contributions from the affiliates Patrimonio en Fideicomiso D.S. N°093-2002-EF Interproperties Perú and Homecenters Peruanos S.A. for approximately S/37,829,000 and S/14,227,000, respectively (S/31,690,000 and S/11,707,000 as of December 31, 2016), these contributions arise from the joint venture agreements celebrated with the Company which establishes that the associates undertake to deliver cash in favor of the Company in exchange of having a participation in the results of the projects Mall "La Curva" and "Lurin". These agreements have a term of 30 and 60 years, respectively. For this reason is recognized as long-term liability.
- (g) Corresponds to the advance performances distributed by InRetail Consumer, see Note 16(b).

Notes to the combined financial statements

21. Deferred revenue

The table below presents the components of this caption:

| | As of March 31, 2017 S/(000) | As of December 31, 2016 S/(000) |
|-----------------------------|------------------------------------|---------------------------------------|
| Leases to financial modules | 2,345 | 2,698 |
| Other leases | <u>24,891</u> | <u>25,773</u> |
| Total | <u>27,236</u> | <u>28,471</u> |
| Current portion | 3,370 | 3,737 |
| Non-current portion | <u>23,866</u> | <u>24,734</u> |
| Total | <u>27,236</u> | <u>28,471</u> |

As of March 31, 2017, The company received from its related party Patrimonio en Fideicomiso D.S. N°093-2002-EF Interproperties Perú S/15,300,000 as loss profits. During the year 2016 an amount of S/5,300,000, corresponding to the time that the destruction and construction of the area ceded to a third party was carried out, was recognized as an income; the remaining amount will accrue in the remaining term of the lease that the Company maintains with its related party.

22. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of March 31, 2017 and December 31, 2016, the Companies have signed rental contracts with third parties for the premises in which some of its stores operate. The assumed commitments correspond to fixed and/or variable monthly rents based on sales, whichever is highest. The total commitments assumed up until 2044.
- (b) As of March 31, 2017 and December 31, 2016, the Companies agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee to comply with the payment of goods purchased to foreign suppliers.
- (c) During 2014, InRetail Consumer, issued US\$300,000,000 and S/250,000,000 of “Senior Guaranteed Notes” which are guaranteed by the Companies’ equity and other related parties.

Contingencies –

- (a) Eckerd Amazonia S.A.C. is in the process of claim against the Tax Authority for determinations of debts and fines related to VAT for the period between January 2003 and June 2005. In opinion of Management and its legal advisors these contingencies are stated as “Possible” and significant liabilities will not arise as result a of this contingency as of March 31, 2017 and December 31, 2016.

Notes to the combined financial statements

- (b) Eckerd Perú S.A. has a legal process with its supplier Ekalmi S.A. as consequence of disagreements on the services it provides. At the date of this report, Ekalmi S.A. has demanded Eckerd Perú S.A. a pending payment for approximately S/12,000,000. As of March 31, 2017 and December 31, 2016, Eckerd Perú S.A. holds liabilities with this supplier for approximately S/5,000,000; and in opinion of Eckerd Perú S.A., it would be the maximum amount it would pay.
- (c) (a) Eckerd Perú S.A. received a notification issued by Instituto Nacional de Defensa de la Competencia y de la Propiedad Intelectual (INDECOPI), whereby Eckerd Perú SA was sanctioned for alleged offenses committed in previous years. In November 2016, Eckerd Perú S.A. decided not to appeal and pay in full that sanction. The reason for this decision is that the facts investigated occurred in 2008 and 2009, before InKafarma was acquired by the Intercorp Group in 2011. As part of the Intercorp Group, InKafarma rejects wrongdoing regarding any kind of practice that would Market competition and the consumer rights.
- (d) Supermercados Peruanos S.A. is a party to tax proceedings related to Income Tax returns and its monthly Value Added Tax presented in taxable years 2004, 2005, 2006, 2007, 2008, 2009 and 2010. As of the date of this report Supermercados Peruanos S.A. has challenged the Tax Administration for these resolutions and, in the opinion of Management as well as its legal advisors, Supermercados Peruanos has sufficient arguments supporting its case; hence it expects favorable results on the contingent issues explained above, and therefore has not recorded any provision for these processes as of March 31, 2017 and December 31, 2016, respectively.

23. Business segments

For management purposes, the Companies are organized into business units based on their products and services and they have two reportable segments i) supermarkets and ii) drugstores. No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the combined financial statements.

Transfer pricing between operating segments is on an arm's-length basis in a manner similar to all transactions with third parties.

Notes to the combined financial statements

The following table presents the financial information of Companies by business segments for the Three-month periods ended March 31, 2017 and 2016:

| | Supermarkets S/(000) | Pharmacies S/(000) | Total segments S/(000) | Holding accounts, combination adjustments and intercompany eliminations S/(000) | Combined S/(000) |
|---|-------------------------|-----------------------|---------------------------|--|---------------------|
| For the three-month periods ended March 31, 2017 | | | | | |
| Revenue | | | | | |
| External income | 1,148,621 | 662,070 | 1,810,691 | - | 1,810,691 |
| Inter-segment | 2,831 | - | 2,831 | (2,831) | - |
| Total revenue | 1,151,452 | 662,070 | 1,813,522 | (2,831) | 1,810,691 |
| Cost of sales | (857,244) | (449,396) | (1,306,640) | - | (1,306,640) |
| Gross profit | 294,208 | 212,674 | 506,882 | (2,831) | 504,051 |
| Other operating income | 5,686 | 156 | 5,842 | - | 5,842 |
| Selling expenses | (230,109) | (154,939) | (385,048) | 2,831 | (382,217) |
| Administrative expenses | (28,390) | (15,672) | (44,062) | (599) | (44,661) |
| Other operating expenses | (470) | (1,395) | (1,865) | (4) | (1,869) |
| Operating profit | 40,925 | 40,824 | 81,749 | (603) | 81,146 |
| Net, exchange difference | 6,346 | (772) | 5,574 | 4,585 | 10,159 |
| Finance income | 1,273 | 699 | 1,972 | 137 | 2,109 |
| Finance costs | (13,617) | (490) | (14,107) | (11,596) | (25,703) |
| Profit before income tax | 34,927 | 40,261 | 75,188 | (7,477) | 67,711 |
| Income tax expense | (13,502) | (12,287) | (25,789) | - | (25,789) |
| Profit for the year | 21,425 | 27,974 | 49,399 | (7,477) | 41,922 |

Notes to the combined financial statements

| | Supermarkets S/(000) | Pharmacies S/(000) | Total segments S/(000) | Holding accounts, combination adjustments and intercompany eliminations S/(000) | Combined S/(000) |
|---|-------------------------|-----------------------|---------------------------|--|---------------------|
| For the three-month periods ended March 31, 2016 | | | | | |
| Revenue | | | | | |
| External income | 1,035,510 | 629,411 | 1,664,921 | - | 1,664,921 |
| Inter-segment | 2,857 | - | 2,857 | (2,857) | - |
| Total revenue | 1,038,367 | 629,411 | 1,667,778 | (2,857) | 1,664,921 |
| Cost of sales | (770,644) | (429,937) | (1,200,581) | - | (1,200,581) |
| Gross profit | 267,723 | 199,474 | 467,197 | (2,857) | 464,340 |
| Other operating income | 12,912 | 102 | 13,014 | - | 13,014 |
| Selling expenses | (213,717) | (139,185) | (352,902) | 2,857 | (350,045) |
| Administrative expenses | (26,323) | (14,439) | (40,762) | (810) | (41,572) |
| Other operating expenses | (5,870) | (272) | (6,142) | - | (6,142) |
| Operating profit | 34,725 | 45,680 | 80,405 | (810) | 79,595 |
| Net, exchange difference | 5,761 | (342) | 5,419 | 4,302 | 9,721 |
| Finance income | 815 | 711 | 1,526 | (134) | 1,392 |
| Finance costs | (13,242) | (767) | (14,009) | (12,790) | (26,799) |
| Profit before income tax | 28,059 | 45,282 | 73,341 | (9,432) | 63,909 |
| Income tax expense | (9,817) | (13,350) | (23,167) | - | (23,167) |
| Profit for the year | 18,242 | 31,932 | 50,174 | (9,432) | 40,742 |

Notes to the combined financial statements

Geographic information –

As of March 31, 2017 and December 31, 2016, the operations of the Companies are concentrated in Peru, therefore, there are no revenues from external customers, or assets located in a foreign country as of those dates.

24. Fair value

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

When a financial instrument is traded in 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, other estimation techniques may be used to determine such fair value, including the current market value of another financial instrument that is substantially similar, discounted cash flow analysis or other techniques applicable, all of which are significantly affected by the assumptions used. 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 or settlement value.

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

- (a) Financial instruments whose fair value are similar to book value –
Assets and liabilities that are liquid or have short maturities (less than three months), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments.
- (b) Fixed-rate financial instruments –
The fair value of financial assets and liabilities at fixed interest rates and amortized cost is determined by comparing market interest rates at their initial recognition to current market rates related to similar financial instruments. The estimated fair value of interest-bearing deposits is determined through discounted cash flows by using market interest rates in the prevailing currency with similar maturities and credit risks.
- (c) Available-for-sale investment –
Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available. Fair value of unquoted available-for-sale financial assets is estimated using a discounted cash flow technique.

Notes to the combined financial statements

Fair value hierarchy –

The Companies use the following hierarchy to record or disclose, as required by the IFRS, the fair value of the financial instruments and investment properties recorded in the combined statements of financial position:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The companies do not hold financial instruments whose fair value was determined through level 3, nor were there inter-level transfers during the three-month periods ended March 31, 2017 and 2016. The Companies holds the following financial instruments at fair value:

- Available-for-sale investments which fair value was determined under level 1 hierarchy.
- Derivative instrument which fair value was determined under level 2 hierarchy.
- Bonds issued, and debts and loans that accrue interests, whose exposure fair values were determined through the Level 2 hierarchy.