

**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 September 30, 2016
(unaudited) and December 31, 2015 (audited) and for the nine-month
periods ended September 30, 2016 and 2015

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 September 30, 2016 and December 31, 2015

	<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)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	4	225,014	188,235	Trade payables	13	1,335,459	1,424,541
Trade receivables, net	5	40,475	63,472	Other payables	-	199,649	158,543
Other receivables, net	-	61,707	78,773	Accounts payable to related parties	20(b)	55,847	32,635
Accounts receivables from related parties	20(b)	24,808	23,363	Interest-bearing loans and borrowings	14	218,402	134,932
Inventories, net	6	945,073	891,355	Current income tax	15(b)	8,046	1,846
Available-for-sale investment	7	48,481	13,873	Deferred revenue	-	2,886	4,326
Prepayments	8	26,114	18,256	Total current liabilities		<u>1,820,289</u>	<u>1,756,823</u>
Total current assets		<u>1,371,672</u>	<u>1,277,327</u>	Accounts payable to related parties	20(b)	5,446	5,188
Non-current assets				Interest-bearing loans and borrowings	14	1,300,460	1,287,264
Other receivables, net		16,460	14,374	Deferred revenue		25,389	17,341
Prepayments	8	26,806	26,270	Deferred income tax liabilities, net	15	157,544	145,773
Derivative financial instruments	9	33,350	32,692	Total non-current liabilities		<u>1,488,839</u>	<u>1,455,566</u>
Property, furniture and equipment, net	10	2,105,848	2,014,053	Total liabilities		<u>3,309,128</u>	<u>3,212,389</u>
Investment properties	11	16,846	17,224	Equity			
Intangible assets, net	12	1,190,234	1,184,081	Capital stock	16	369,607	369,607
Total non-current assets		<u>3,389,544</u>	<u>3,288,694</u>	Capital premium	-	181,603	181,603
				Additional paid in capital		706,427	706,427
				Advanced performance		(8,678)	(3,560)
				Unrealized results on financial instruments		(15,719)	(13,582)
				Unrealized results on available-for-sale-investment		8,210	768
				Other equity reserves		20,405	17,689
				Retained earnings		<u>190,233</u>	<u>94,680</u>
				Total equity		<u>1,452,088</u>	<u>1,353,632</u>
Total assets		<u>4,761,216</u>	<u>4,566,021</u>	Total liabilities and equity		<u>4,761,216</u>	<u>4,566,021</u>

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 nine-month periods ended September 30, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Net sales of goods		4,939,969	4,589,558
Rental income		32,879	28,743
Rendering of services		27,729	28,379
Revenue		<u>5,000,577</u>	<u>4,646,680</u>
Cost of sales	18	<u>(3,574,999)</u>	<u>(3,356,526)</u>
Gross profit		1,425,578	1,290,154
Selling expenses	18	(1,075,853)	(973,543)
Administrative expenses	18	(128,917)	(116,213)
Income from joint venture		13,246	8,624
Other operating income		21,003	883
Other operating expenses		<u>(15,881)</u>	<u>(4,028)</u>
Operating profit		239,176	205,877
Finance income	19	3,324	2,941
Finance costs	19	(80,072)	(89,916)
Net exchange difference		3,364	(67,567)
Profit before income tax		<u>165,792</u>	<u>51,335</u>
Income tax expense	15	<u>(67,523)</u>	<u>(46,208)</u>
Net Profit		<u>98,269</u>	<u>5,127</u>

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 nine-month periods ended September 30, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Net profit		98,269	5,127
Other comprehensive income			
Unrealized gain on available-for-sale investments		7,925	(164)
Income tax effect		(483)	43
		<u>7,442</u>	<u>(121)</u>
Gain in derivative financial instrument		(2,137)	638
Income tax effect		-	(184)
		<u>(2,137)</u>	<u>454</u>
Other comprehensive income for the period, net of income tax effects		5,305	333
Total comprehensive income for the period		<u>103,574</u>	<u>5,460</u>

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 nine-month periods ended September 30, 2016 and 2015

	<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, 2015	369,607	704,392	181,603	-	-	16,229	70,284	1,342,115
Profit for the period	-	-	-	-	-	-	5,127	5,127
Other comprehensive income	-	-	-	454	(121)	-	-	333
Total comprehensive income	-	-	-	454	(121)	-	5,127	5,460
Capital contribution	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Movements in additional paid in capital	-	-	-	-	-	-	-	-
Transfer to legal reserve	-	-	-	-	-	1,460	(1,460)	-
Balance as of September 30, 2015	<u>369,607</u>	<u>704,392</u>	<u>181,603</u>	<u>454</u>	<u>(121)</u>	<u>17,689</u>	<u>73,951</u>	<u>1,347,575</u>
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	-	-	-	-	-	-	98,269	98,269
Other comprehensive income	-	-	-	(2,137)	7,442	-	-	5,305
	-	-	-	(2,137)	7,442	-	98,269	103,574
Capital contribution	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Movements in additional paid in capital	-	-	-	-	-	-	-	-
Advanced performance	-	-	-	-	-	-	(5,118)	(5,118)
Transfer to legal reserve	-	-	-	-	-	2,716	(2,716)	-
Balance as of September 30, 2016	<u>369,607</u>	<u>706,427</u>	<u>181,603</u>	<u>(15,719)</u>	<u>8,210</u>	<u>20,405</u>	<u>181,555</u>	<u>1,452,088</u>

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 nine-month periods ended September 30, 2016 and 2015

	2016 S/(000)	2015 S/(000)
Operating activities		
Revenue	5,075,684	4,659,218
Payments to suppliers of goods and services	(4,286,212)	(3,923,458)
Payments to employees for salaries and social benefits	(475,142)	(439,850)
Taxes paid	(69,105)	(71,168)
Other payments, net	1,072	(10,683)
Net cash flows from operating activities	<u>246,297</u>	<u>214,059</u>
Investing activities		
Sales of properties, furniture and equipment	14,999	69
Sales of available for sale investment	-	-
Collection of loan to related parties	-	19,652
Purchase of available for sale investment	(26,474)	(12,320)
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(190,757)	(157,228)
Purchase and development of intangible assets	(16,163)	(13,723)
Net cash flows used in investing activities	<u>(218,395)</u>	<u>(163,550)</u>
Financing activities		
Proceeds from interest-bearing loans and borrowings	174,766	644,807
Capital contribution	-	-
Additional paid in capital	-	-
Payment of interest-bearing loans and borrowings	(109,136)	(342,539)
Interest payment	(51,635)	(58,636)
Call Spreads guarantee deposit	-	(6,446)
Advance performance	(5,118)	-
Bonds repurchase	-	(346,413)
Net cash flows used in financing activities	<u>8,877</u>	<u>(109,227)</u>
Net decrease of cash and short-term deposits	<u>36,779</u>	<u>(58,718)</u>
Cash and short-term deposits at the beginning of the period	<u>188,235</u>	<u>168,209</u>
Cash and short-term deposits at the end of the period	<u>225,014</u>	<u>109,491</u>
Non-cash transactions		
Fixed assets purchased through leasing and others financial obligation	23,566	41,699

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 condensed combined financial statements

As of September 30, 2016 and 2015 (unaudited), December 31, 2015 (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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015 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 September 30, 2016 and December 31, 2015, and for the nine-month periods ended September 30, 2016 and 2015:

	Supermercados Peruanos S.A. and Subsidiaries		Eckerd Perú S.A and Subsidiaries	
	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Consolidated statements of financial position				
Total assets	2,802,266	2,701,169	867,204	792,122
Total liabilities	1,841,469	1,771,952	705,907	653,972
Equity	960,797	929,217	161,297	138,150
	Balance as of September 30, 2016 S/(000)	Balance as of September 30, 2015 S/(000)	Balance as of September 30, 2016 S/(000)	Balance as of September 30, 2015 S/(000)
Consolidated income statements				
Operating profit	90,026	82,344	150,909	124,142
Net profit (loss)	31,578	1,924	105,893	85,013

The combined financial statements as of September 30, 2016 were approved by management of InRetail Perú Corp. on November 9, 2016

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 September 30, 2016 and December 31, 2015.

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, 2015.

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.
- (iii) Incorporation of costs related to the debt acquired by InRetail Perú Corp. due to the acquisition of Eckerd Perú S.A. and Subsidiaries (Senior Guaranteed Notes for US\$130,000,000). Accrued interest and exchange difference effects associated with the debt were incorporated in the combined financial statements in the retained earnings, which amount to S/173,964,000.

In addition, the combined adjustments include approximately S/15,189,000 corresponding to taxes recovered from the tax authorities for Eckerd Peru S.A. According to the purchase agreement, the taxes recovered would be returned to the former shareholders of Eckerd Peru S.A. by InRetail Peru Corp. At the date of this report, Eckerd Peru S.A. has recovered these taxes and were returned to its former shareholders in December 2014 and October 2015.

(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, 2015, except for the adoption of the new standards and interpretations as of January 1, 2016.

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, 2016:

- 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 September 30, 2016, the exchange rates in the market for transactions in US Dollars were S/3.397 per US\$1 bid and S/3.403 per US\$1 ask (S/3.408 and S/3.413 per US\$1 bid and ask as of December 31, 2015).

As of September 30, 2016 and December 31, 2015, the companies held the following foreign currency assets and liabilities:

	As of September 30, 2016	As of December 31, 2015
	US\$(000)	US\$(000)
Assets		
Cash and short-term deposits	31,487	14,313
Available-for-sale investment	14,247	4,065
Trade receivables, net	355	4
Other receivables, net	5,319	4,574
Accounts receivable from related parties	228	1,336
	<u>51,636</u>	<u>24,292</u>
Liability		
Trade payables	(15,319)	(15,565)
Other payables	(15,824)	(14,521)
Accounts payable to related parties	(2,582)	(217)
Interest - bearing loans and borrowings	(221,780)	(188,612)
	<u>(255,505)</u>	<u>(218,915)</u>
Call Spread	130,000	100,000
Net liability position	<u>(73,869)</u>	<u>(94,623)</u>

As of September 30, 2016 and December 31, 2015, 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 September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Cash	18,676	9,152
Current accounts (b)	46,382	60,131
Time deposits (c)	152,990	102,837
Other	6,966	16,115
Total	225,014	188,235

(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 September 30, 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 4.00 and 0.30 percent annual, respectively. As of December 31, 2015, this amount corresponded to time deposits freely available in Soles in local financial institutions that generate annual interest of 4.00 in Soles and 0.20 in US Dollars and matured up to a month since inception.

5. Trade receivables, net

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

	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Trade accounts receivable (c)	26,788	27,167
Credit card operations (d)	7,050	22,031
Rent receivable (e)	3,553	8,161
Others	9,450	11,603
Total	46,841	68,962
Provision for doubtful accounts (f)	<u>(6,366)</u>	<u>(5,490)</u>
	<u>40,475</u>	<u>63,472</u>

(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 nine-month periods ended September 30, 2016 and 2015, were as follows:

	2016 S/(000)	2015 S/(000)
Balance at the beginning of the year	5,490	2,770
Provision recognized as year expense, Note 18 (a)	900	19
Write offs and recoveries	(24)	-
Balance at the end of the period	<u>6,366</u>	<u>2,789</u>

As of September 30, 2016 and December 31, 2015, the amount of trade receivables past due but not impaired amounted to approximately S/ 15,272,000 and S/20,848,000, 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 September 30, 2016 and December 31, 2015 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 September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Goods	922,394	876,298
In transit inventories (b)	19,043	9,599
Miscellaneous supplies	<u>12,183</u>	<u>15,055</u>
Total	953,620	900,952
Minus		
Provision for impairment of inventories (c)	(8,547)	(9,597)
Total	<u>945,073</u>	<u>891,355</u>

- (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 nine-month periods ended as of September 30, 2016 and 2015 were as follows:

	2016 S/(000)	2015 S/(000)
Balance at the beginning of the year	9,597	9,001
Provision of the period, Note 18(a)	7,062	3,866
Write-off/recovery	(8,112)	(4,973)
Balance at the end of the period	<u>8,547</u>	<u>7,894</u>

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 September 30, 2016 and December 31, 2015, available for sale investments correspond to notes issued by a related company of Intercorp Group of approximately US\$2,586,000 equivalent to S/8,801,000 (US\$2,318,000 equivalent to S/7,910,000 as of December 31, 2015).

Additionally, as of September 30, 2016, the Company has other investments available for sale for an amount US\$11,660,000 equivalent to S/39,680,000.

8. Prepayments

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

	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Key money	16,452	16,452
Prepaid rent	20,581	19,048
Insurance	4,689	272
Others	11,198	8,754
Total	<u>52,920</u>	<u>44,526</u>
Current	26,114	18,256
Non current	26,806	26,270
Total	<u>52,920</u>	<u>44,526</u>

Notes to the combined financial statements

9. Derivative financial instruments

As of September 30, 2016 and December 31, 2015, 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	2016					
	Nominal value US\$(000)	Due	Pay fix at %	Book value of	Fair value	Fair value
				the hedged item S/(000)	2016 S/(000)	2015 S/(000)
Deutsche Bank A.G.	100,000	October 2021	1.56	340,300	27,483	32,692
Bank of Tokyo	30,000	October 2021	1.20	102,090	5,867	-
					33,350	32,692

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 for the same. See Note 14.

10. Property, furniture and equipment, net

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

	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Cost		
Initial balance	2,747,557	2,547,374
Additions (b)	214,323	317,973
Disposals and/or sales (c)	(38,343)	(117,853)
Transfer to investment properties	-	63
Final balance	2,923,537	2,747,557
Accumulated depreciation		
Initial balance	733,504	673,775
Additions, Note 18 (a)	106,674	131,320
Disposals and/or sales	(22,489)	(71,598)
Transfer to investment properties	-	7
Final balance	817,689	733,504
Net book value	2,105,848	2,014,053

(b) Additions for the periods ended September 30, 2016 and December 31, 2015 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 September 30, 2016, the cost and corresponding accumulated depreciation of assets acquired through finance leases was approximately S/564,055,000 and S/172,975,000 respectively (S/548,464,000 and S/143,108,000 respectively, as of December 31, 2015).
- (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 September 30, 2016	As of December 31, 2015
	S/. (000)	S/. (000)
Cost of buildings	19,567	19,567
Less: Accumulated depreciation	2,721	2,343
	16,846	17,224

- (b) As of September 30, 2016 and December 31, 2015, investment properties include three properties located in Lima, Tacna and Puno held to earn income.
- (c) In Management's opinion, the book value of investment properties as of September 30, 2016, and December 31, 2015 is not significantly different from its corresponding fair value since these properties were acquired, completed or implemented during 2014 and 2013.
- (d) As of September 30, 2016 and December 31, 2015, 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 September 30, 2016	As of December 31, 2015
	S/(000)	S/(000)
Cost		
Initial balance	1,248,027	1,228,786
Additions	16,163	19,555
Disposal and/or sales	-	(314)
Final balance	1,264,190	1,248,027
Accumulated amortization		
Initial balance	63,946	52,912
Additions, Note 18 (a)	10,011	11,060
Disposals and/or sales	(1)	(26)
Final balance	73,956	63,946
Net, book value	1,190,234	1,184,081

Notes to the combined financial statements

- (b) As of September 30, 2016 and December 31, 2015, 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 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 September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Bills payable for purchase of goods	1,188,579	1,259,258
Bills payable for commercial services	146,880	165,283
Total	<u>1,335,459</u>	<u>1,424,541</u>

- (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)	2016	2015	2016	2015	2016	2015
				S/(000)	S/(000)	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	-	582,244	582,122	-	-	582,244	582,122
Notes Senior Unsecured (d)	PEN	6.813	2021	-	250,000	249,283	249,197	-	-	249,283	249,197
				<u>300,000</u>	<u>250,000</u>	<u>831,527</u>	<u>831,319</u>	<u>-</u>	<u>-</u>	<u>831,527</u>	<u>831,319</u>
Leasing (b)											
Related entities											
Banco Internacional del Perú-Interbank	PEN	7.850	2019	-	27,412	16,926	21,083	5,381	5,184	11,545	15,899
Banco Internacional del Perú-Interbank	PEN	Between 11.240 and 11.430	2020	-	145,277	52,824	74,627	26,719	27,375	26,105	47,252
Non-related entities											
Hewlett Packard S.A.	USD	2.963	2018	7,855	-	20,139	16,076	8,438	7,357	11,701	8,719
IBM Perú SAC	USD	2.930	2018	839	-	238	545	107	357	131	188
Banco de Crédito del Perú	PEN	Between 6.590 and 7.850	2021	-	-	53,511	61,502	16,125	14,467	37,386	47,035
BBVA Banco Continental	PEN	Between 5.960 and 10.850	2018	-	69,850	7,708	12,617	4,325	4,669	3,383	7,948
BBVA Banco Continental	USD	4.370	2017	4,658	-	188	316	172	172	16	144
Banco Scotiabank	PEN	Between 6.750 and 7.760	2020	-	57,972	35,284	41,270	11,124	7,458	24,160	33,812
				<u>13,352</u>	<u>300,511</u>	<u>186,818</u>	<u>228,036</u>	<u>72,391</u>	<u>67,039</u>	<u>114,427</u>	<u>160,997</u>
Loans (b)											
Related entities											
Banco Internacional del Perú-Interbank	PEN	6.350	2020	-	60,000	48,950	56,848	11,241	10,614	37,709	46,234
Non-related entities											
BBVA Banco Continental	PEN	5.850	2016	-	40,000	47,000	-	47,000	-	-	-
Banco de Crédito del Perú	PEN	6.350	2020	-	40,182	32,903	38,216	8,207	7,133	24,696	31,083
Banco Scotiabank (f)	PEN	Between 5.350 and 6.950	2022	-	240,000	219,569	223,103	68,143	40,714	151,426	182,389
Bank of Tokyo (g)	USD	Between 2.540 and 2.640	2021	30,000	-	101,326	-	-	-	101,326	-
				<u>30,000</u>	<u>380,182</u>	<u>449,748</u>	<u>318,167</u>	<u>134,591</u>	<u>58,461</u>	<u>315,157</u>	<u>259,706</u>
Foreign loans											
Deutsche Bank	USD	1.560	2021	9,366	-	27,322	29,670	4,489	4,875	22,833	24,795
Bank of Tokyo (g)	USD	1.200	2021	1,953	-	6,645	-	1,300	-	5,345	-
				<u>11,319</u>	<u>-</u>	<u>33,967</u>	<u>29,670</u>	<u>5,789</u>	<u>4,875</u>	<u>28,178</u>	<u>24,795</u>
Other obligations to third parties (h)											
Hewlett Packard S.A.	USD	Between 1.69 and 6.840	2018	11,549	-	16,793	14,563	5,622	4,116	11,171	10,447
IBM Perú SAC	USD	Between 1.69 and 7.220	2016	6,441	-	9	441	9	441	-	-
				<u>17,990</u>	<u>-</u>	<u>16,802</u>	<u>15,004</u>	<u>5,631</u>	<u>4,557</u>	<u>11,171</u>	<u>10,447</u>
Total				<u>372,661</u>	<u>930,693</u>	<u>1,518,862</u>	<u>1,422,196</u>	<u>218,402</u>	<u>134,932</u>	<u>1,300,460</u>	<u>1,287,264</u>

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/1,020,900,000 as of September 30, 2016 (S/1,023,900,000 approximately as of December 31, 2015), 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 5.823 percent effective interest rate, after considering the respective up-front fees for approximately US\$4,377,000, equivalent to a total amount of approximately S/14,895,000 as of September 30, 2016 (US\$4,933,000 equivalent to approximately S/16,836,000 as of December 31, 2015). Additionally, as of September 30, 2016, the balance is presented net of US\$124,526,000 equivalent to a total amount of approximately S/423,761,000 as of September 30, 2016 (US\$124,526,000 equivalent to a total amount of approximately S/424,942,000 as of December 31, 2015) corresponding to notes of these issuance acquired by the Company itself. As of September 30, 2016 and December 31, 2015 the balance of this loan is S/582,244,000 and S/582,122,000, 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/717,000, as of September 30, 2016 (S/803,000, as of December 31, 2015). As of September 30, 2016 and December 31, 2015 the balance of this loan is S/249,283,000 and S/249,197,000, 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 September 30, 2016 and December 31, 2015.

- (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/102,090,000 as of September 30, 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/763,000.
- (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 September 30, 2016	As of December 31, 2015
	S/(000)	S/(000)
2016	212,610	134,932
2017	115,126	141,274
2018	104,874	118,505
2019	84,436	85,348
2020 onwards	1,001,816	942,137
Total	1,518,862	1,422,196

Notes to the combined financial statements

15. Deferred income tax

- (a) The amounts presented in the statement of financial position as of September 30, 2016 and December 31, 2015, as well as the statements of comprehensive income for the nine-month periods ended September 30, 2016 and 2015 are shown below:

Statements of financial position	Deferred liability, net	
	As of September 30, 2016 S/. (000)	As of December 31, 2015 S/(000)
Deferred income tax asset	55,837	54,801
Deferred income tax liability	<u>(213,381)</u>	<u>(200,574)</u>
Deferred income tax liability, net	<u>(157,544)</u>	<u>(145,773)</u>

Statements of comprehensive income	Income tax for the nine-month periods ended September 30, 2016 and 2015	
	2016 S/ (000)	2015 S/(000)
Current	(56,467)	(39,821)
Deferred	<u>(11,056)</u>	<u>(6,387)</u>
	<u>(67,523)</u>	<u>(46,208)</u>

- (b) As of September 30, 2016 and December 31, 2015 the income credit tax, net of provision for current income tax payable, amounts to approximately S/8,046,000 and S/1,846,000, 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 September 30, 2016	As of December 31, 2015		As of September 30, 2016	As of December 31, 2015
				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

(*) From May to December 2014, a cash contribution by InRetail Peru Corp. (shareholder of this Company) was approved, for a total of approximately S/47,951,000. Consequently, an increase in capital for approximately S/8,818,000 and a capital premium of approximately S/39,133,000 were recorded. At the date of this report, the issuance of 8,398,000 new shares in relation to this cash contribution is pending.

Between August and December 2013, the company received capital contribution by approximately S/57,951,000. Consequently, an increase in capital for approximately S/10,656,000 and a capital premium of approximately S/47,295,000 were recorded. At the date of this report the issuance of 10,148,861 new shares in relation to this cash is pending.

(b) Additional paid-in capital –

As of September 30, 2016 and December 31, 2015, 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.

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 September 30, 2016 and December 31, 2015, the statutory Income Tax rate was 28 percent on taxable income.

According to Law N° 30296 the rate of income tax will be, 27 percent for 2017 and 2018, and 26 percent as of the year 2019.

Entities and individuals not domiciled in Perú are subject to retention of an additional tax on dividends received. In this regard, attention to Law N° 30296, published on December 31, 2014 and effective from January 1, 2015, 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 from 2015, whose distribution is made after that date, shall be:
 - For 2015 and 2016 will be 6.8 percent.
 - For 2017 and 2018 will be 8.0 percent
 - For 2019 onwards will be 9.3 percent.
- (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 September 30, 2016 and December 31, 2015.
- (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 2011 to 2015	From 2011 to 2015
Eckerd Perú S.A.	From 2013 to 2015	From 2013 to 2015
Eckerd Amazonia S.A.C.	From 2012 to 2015	From 2012 to 2015
Boticas del Oriente S.A.C.	From 2012 to 2015	From 2012 to 2015

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 September 30, 2016 and December 31, 2015.

18. Operating expenses

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

	2016	2015
	S/(000)	S/(000)
Cost of sales	3,574,999	3,356,526
Selling expenses	1,075,853	973,543
Administrative expenses	<u>128,917</u>	<u>116,213</u>
	<u>4,779,769</u>	<u>4,446,282</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

	2016			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods	876,298	-	-	876,298
Purchase of goods	3,614,033	-	-	3,614,033
Final balance of goods, note 6(a)	(922,394)	-	-	(922,394)
Impairment of inventories, note 6(c)	7,062	-	-	7,062
Packing and packaging	-	33,373	162	33,535
Personnel expenses	-	407,797	67,345	475,142
Depreciation, note 10(a)	-	95,788	10,886	106,674
Amortization, note 12(a)	-	5,794	4,217	10,011
Key money amortization	-	998	-	998
Services provided by third parties (b)	-	173,861	20,843	194,704
Advertising	-	61,715	-	61,715
Rental of premises	-	159,524	6,448	165,972
Taxes	-	20,194	2,493	22,687
Provision for doubtful trade receivables, note 5(f)	-	900	-	900
Provision for doubtful other account receivables,	-	-	-	-
Insurance	-	7,602	552	8,154
Other charges (c)	-	108,307	15,971	124,278
	<u>3,574,999</u>	<u>1,075,853</u>	<u>128,917</u>	<u>4,779,769</u>

	2015			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods,	771,051	-	-	771,051
Purchase of goods	3,408,357	-	-	3,408,357
Final balance of goods, Note 6(a)	(826,748)	-	-	(826,748)
Impairment of inventories, Note 6(c)	3,866	-	-	3,866
Packing and packaging	-	31,273	332	31,605
Personnel expenses	-	376,719	63,131	439,850
Depreciation	-	85,484	11,051	96,535
Amortization	-	4,757	3,089	7,846
Key money amortization	-	959	-	959
Services provided by third parties (b)	-	154,472	18,535	173,007
Advertising	-	55,958	-	55,958
Rental of premises	-	134,077	5,062	139,139
Taxes	-	18,342	1,804	20,146
Provision for doubtful trade receivables, note 5(f)	-	19	-	19
Provision for doubtful others account receivables	-	1,653	-	1,653
Insurance	-	6,671	366	7,037
Other charges (c)	-	103,159	12,843	116,002
	<u>3,356,526</u>	<u>973,543</u>	<u>116,213</u>	<u>4,446,282</u>

(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:

	Balance as of September 30, 2016	Balance as of September 30, 2015
	S/. (000)	S/. (000)
Finance income		
Interest and others	3,324	2,941
	<u>3,324</u>	<u>2,941</u>
Finance cost		
Interest on loans, borrowings and bonds payable	63,822	63,394
Interest from derivatives instruments	6,077	2,106
Other financial costs	10,173	24,416
	<u>80,072</u>	<u>89,916</u>

20. Transactions with related parties

(a) The following table provides the total amount of transactions with related parties for the relevant financial periods ended September 30, 2016 and 2015:

	2016	2015
	S/(000)	S/(000)
Income		
Sales	2,991	3,321
Rental income	12,236	9,572
Services income	4,571	6,970
Sales of fixed assets	1,117	2
Collection services	4,298	-
Others	23,068	17,059
	<u>48,281</u>	<u>36,924</u>
Expenses		
Renting of premises and land	28,677	27,125
Reimbursement of expenses	13,161	9,537
Commissions	68	134
Interest	2,084	7,779
Others	7,649	7,857
	<u>51,639</u>	<u>52,432</u>

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 September 30, 2016 and December 31, 2015:

	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Receivables		
Banco Internacional del Perú S.A.A. – Interbank	7,223	2,360
Financiera Uno	3,784	3,701
Tiendas Peruanas S.A.	959	1,359
Home Centers Peruanos S.A	609	1,157
Interproperties Holding (f)	484	-
Bembos	330	1,597
Urbi	215	217
Intercorp Retail Inc.	181	44
Cineplex S.A.	-	230
Others	11,023	12,698
	24,808	23,363
	24,808	23,363
	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Payables		
Interproperties Holding (f)	25,310	7,300
Financiera Uno (d)	19,754	21,828
InRetail Management S.R.L.	7,785	-
Banco Internacional del Perú S.A.A. – Interbank:		
Line of credit and others	100	202
Deposit in guarantee (e)	5,446	5,188
Home Centers Peruanos S.A	952	-
Interseguro Compañía de Seguros S.A.	671	554
Real Plaza S.A.	525	-
Horizonte Global Opportunities Perú S.A.	26	35
Cineplex S.A.	-	6
Others	724	2,710
	61,293	37,823
Remunerations payable to key management	-	-
	61,293	37,823
	61,293	37,823
Current portion	55,847	32,635
Non-current portion	5,446	5,188
Total	61,293	37,823

Notes to the combined financial statements

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 nine month periods end September 30, 2016 and 2015, the Companies have not recorded any impairment of receivables relating to amounts owed 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 Uno S.A., a related entity, signed the "Contract of Issuance and Administration of the "Oh!" credit card". This contract allows that Financiera Uno S.A. can exclusively operate its "Oh!" credit card in the Supermercados Peruanos stores.

Likewise, as a consequence of such contract, as of September 30, 2016 and December 31, 2015, Supermercados Peruanos S.A. holds accounts payable to Financiera Uno S.A. for approximately S/19,754,000 and S/21,828,000 respectively, which corresponded mainly to the collection of installments to users of the "Oh!" credit card, which normally are transferred to Financiera Uno 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 September 30, 2016 and 2015, 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/5,446,000 and S/5,188,000 respectively, as of September 30, 2016 and December 31, 2015, and is accounted for in the "Other Payables" in the Combined statement of financial position.

In relation to the contracts, during 2016 Supermercados Peruanos S.A. recognized accrued rental income that amounted to approximately S/1,370,000, equivalent to US\$448,000 (S/2,211,000, equivalent to US\$736,000, during 2015), which are recorded in the "Rental income" caption in the Combined income statements.

As of September 30, 2016, Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/3,015,000 (S/4,552,000 as of December 31, 2015) which will be recognized as income in upcoming periods.

Notes to the combined financial statements

- (f) Corresponds to account payables generated from the construction of two new stores for Supermercados Peruanos S.A., whose construction was realized by Interproperties Holding.

21. Deferred revenue

The table below presents the components of this caption:

	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Leases to financial modules	3,014	4,551
Other leases	<u>25,261</u>	<u>17,116</u>
Total	<u>28,275</u>	<u>21,667</u>
Current portion	2,886	4,326
Non-current portion	<u>25,389</u>	<u>17,341</u>
Total	<u>28,275</u>	<u>21,667</u>

22. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, 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 of this contingency as of September 30, 2016 and December 31, 2015.

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 September 30, 2016 and December 31, 2015, 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. has received a notification issued by Instituto Nacional de Defensa de la Competencia y de la Propiedad Intelectual (INDECOPI), whereby Eckerd Perú SA has been sanctioned for alleged offenses committed in previous years. In management opinion and its legal advisors, this contingency is considered as “possible” and no material liabilities will be generated as of September 30, 2016
- (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 September 30, 2016 and December 31, 2015, 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 nine-month periods ended September 30, 2016 and 2015:

	Supermarkets S/(000)	Pharmacies S/(000)	Total segments S/(000)	Holding accounts, combination adjustments and intercompany eliminations S/(000)	Combined S/(000)
For the nine-month periods ended September 30, 2016					
Revenue					
External income	3,052,557	1,948,020	5,000,577	-	5,000,577
Inter-segment	9,062	-	9,062	(9,062)	-
Total revenue	3,061,619	1,948,020	5,009,639	(9,062)	5,000,577
Cost of sales	(2,257,406)	(1,317,593)	(3,574,999)	-	(3,574,999)
Gross profit	804,213	630,427	1,434,640	(9,062)	1,425,578
Other operating income	33,468	781	34,249	-	34,249
Selling expenses	(650,384)	(434,531)	(1,084,915)	9,062	(1,075,853)
Administrative expenses	(82,328)	(44,830)	(127,158)	(1,759)	(128,917)
Other operating expenses	(14,943)	(938)	(15,881)	-	(15,881)
Operating profit	90,026	150,909	240,935	(1,759)	239,176
Net, exchange difference	2,793	123	2,916	448	3,364
Finance income	1,804	2,053	3,857	(533)	3,324
Finance costs	(40,698)	(2,016)	(42,714)	(37,358)	(80,072)
Profit before income tax	53,925	151,069	204,994	(39,202)	165,792
Income tax expense	(22,347)	(45,176)	(67,523)	-	(67,523)
Profit for the year	31,578	105,893	137,471	(39,202)	98,269

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 nine-month periods ended September 30, 2015					
Revenue					
External income	2,920,780	1,725,900	4,646,680	-	4,646,680
Inter-segment	7,540	11	7,551	(7,551)	-
Total revenue	2,928,320	1,725,911	4,654,231	(7,551)	4,646,680
Cost of sales	(2,176,711)	(1,179,815)	(3,356,526)	-	(3,356,526)
Gross profit	751,609	546,096	1,297,705	(7,551)	1,290,154
Other operating income	8,813	694	9,507	-	9,507
Selling expenses	(601,745)	(378,519)	(980,264)	6,721	(973,543)
Administrative expenses	(72,546)	(43,888)	(116,434)	221	(116,213)
Other operating expenses	(3,787)	(241)	(4,028)	-	(4,028)
Operating profit	82,344	124,142	206,486	(609)	205,877
Net, exchange difference	(36,890)	(108)	(36,998)	(30,569)	(67,567)
Finance income	2,308	1,490	3,798	(857)	2,941
Finance costs	(38,274)	(1,867)	(40,141)	(49,775)	(89,916)
Profit before income tax	9,488	123,657	133,145	(81,810)	51,335
Income tax expense	(7,564)	(38,644)	(46,208)	-	(46,208)
Profit for the year	1,924	85,013	86,937	(81,810)	5,127

Notes to the combined financial statements

Geographic information –

As of September 30, 2016 and December 31, 2015, 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 have not performed transfers of financial instruments from Level 3 to Level 1 or to Level 2 during the nine-month periods ended September 30, 2016 and 2015. The financial instruments and its level of hierarchy for the determination of the fair value, to record or disclose, are the following:

- 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.