

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

	Note	2016 S/(000)	2015 S/(000)		Note	2016 S/(000)	2015 S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	4	192,091	188,235	Trade payables	13	1,565,202	1,424,541
Investment at fair value through profit or loss		68,299	-	Other payables		184,424	158,543
Trade receivables, net	5	65,999	63,472	Accounts payable to related parties	20(b)	74,807	32,635
Other receivables, net		50,056	78,773	Interest-bearing loans and borrowings	14	144,222	134,932
Accounts receivables from related parties	20(b)	19,823	23,363	Current income tax	15(b)	8,709	1,846
Inventories, net	6	978,829	891,355	Deferred revenue		3,737	4,326
Available-for-sale investment	7	49,908	13,873	Total current liabilities		1,981,101	1,756,823
Prepayments	8	17,844	18,256				
Total current assets		1,442,849	1,277,327	Accounts payable to related parties	20(b)	5,470	5,188
Non-current assets				Interest-bearing loans and borrowings	14	1,257,860	1,287,264
Other receivables, net		15,245	14,374	Deferred revenue		24,734	17,341
Prepayments	8	28,209	26,270	Deferred income tax liabilities, net	15	165,187	145,773
Derivative financial instruments	9	31,736	32,692	Total non-current liabilities		1,453,251	1,455,566
Property, furniture and equipment, net	10	2,140,443	2,014,053	Total liabilities		3,434,352	3,212,389
Investment properties	11	99,684	17,224	Equity			
Intangible assets, net	12	1,189,935	1,184,081	Capital stock	16	369,607	369,607
Total non-current assets		3,505,252	3,288,694	Capital premium		181,603	181,603
				Additional paid in capital		706,427	706,427
				Advanced performance		(10,287)	(3,560)
				Unrealized results on financial instruments		(9,804)	(13,582)
				Unrealized results on available-for-sale-investment		9,669	768
				Other equity reserves		20,405	17,689
				Retained earnings		246,129	94,680
				Total equity		1,513,749	1,353,632
Total assets		4,948,101	4,566,021	Total liabilities and equity		4,948,101	4,566,021

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 twelve-month periods ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Net sales of goods		6,767,574	6,326,564
Rental income		43,914	39,219
Rendering of services		41,459	39,983
Revenue		6,852,947	6,405,766
Cost of sales	18	(4,877,556)	(4,611,267)
Gross profit		1,975,391	1,794,499
Selling expenses	18	(1,475,343)	(1,340,202)
Administrative expenses	18	(166,859)	(150,445)
Income from joint venture		21,089	13,843
Other operating income		21,012	43,036
Other operating expenses		(18,621)	(45,421)
Operating profit		356,669	315,310
Finance income	19	4,659	6,019
Finance costs	19	(108,489)	(117,921)
Net exchange difference		7,531	(88,465)
Profit before income tax		260,370	114,943
Income tax expense	15	(106,205)	(89,087)
Net Profit		154,165	25,856

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 twelve-month periods ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Net profit		154,165	25,856
Other comprehensive income			
Unrealized gain on available-for-sale investments		9,485	768
Income tax effect		(584)	-
		8,901	768
Gain in derivative financial instrument		3,778	(13,582)
Income tax effect		-	-
		3,778	(13,582)
Other comprehensive income for the period, net of income tax effects		12,679	(12,814)
Total comprehensive income for the period		166,844	13,042

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 twelve-month periods ended December 31, 2016 and 2015

	Capital stock S/(000)	Additional paid in capital S/(000)	Capital premium S/(000)	Unrealized results on financial instruments S/(000)	Unrealized results on available for sale investments S/(000)	Legal reserve S/(000)	Retained earnings S/(000)	Total 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	-	-	-	-	-	-	25,856	25,856
Other comprehensive income	-	-	-	(13,582)	768	-	-	(12,814)
Total comprehensive income	-	-	-	(13,582)	768	-	25,856	13,042
Capital contribution	-	-	-	-	-	-	-	-
Expenses related to the share issuance	-	-	-	-	-	-	(3,560)	(3,560)
Dividends	-	-	-	-	-	-	-	-
Movements in additional paid in capital	-	2,035	-	-	-	-	-	2,035
Transfer to legal reserve	-	-	-	-	-	1,460	(1,460)	-
Balance as of December 31, 2015	369,607	704,392	181,603	(13,582)	768	17,689	91,120	1,353,632
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	-	-	-	-	-	-	154,165	154,165
Other comprehensive income	-	-	-	3,778	8,901	-	-	12,679
	-	-	-	3,778	8,901	-	154,165	166,844
Capital contribution	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Movements in additional paid in capital	-	-	-	-	-	-	-	-
Advanced performance	-	-	-	-	-	-	(6,727)	(6,727)
Transfer to legal reserve	-	-	-	-	-	2,716	(2,716)	-
Balance as of December 31, 2016	369,607	706,427	181,603	(9,804)	9,669	20,405	235,842	1,513,749

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 twelve-month periods ended December 31, 2016 and 2015

	2016	2015
	S/(000)	S/(000)
Operating activities		
Revenue	6,923,874	6,400,244
Payments to suppliers of goods and services	(5,604,556)	(5,226,775)
Payments to employees for salaries and social benefits	(646,280)	(592,453)
Taxes paid	(87,127)	(94,360)
Other payments, net	1,733	66,988
Net cash flows from operating activities	587,644	553,644
Investing activities		
Sales of properties, furniture and equipment	14,480	-
Collection of loan to related parties, net	-	19,652
Purchase of Investment at fair value through profit or loss	(68,299)	-
Purchase of available for sale investment	(26,461)	(12,286)
Purchase of property, furniture and equipment, net of acquisitions through leasing	(259,619)	(263,422)
Purchase and development of intangible assets	(21,299)	(19,555)
	(82,963)	-
Net cash flows used in investing activities	(444,161)	(275,611)
Financing activities		
Proceeds from interest-bearing loans and borrowings	211,685	356,800
Capital contribution	-	-
Additional paid in capital	-	-
Payment of interest-bearing loans and borrowings	(260,117)	(508,845)
Interest payment	(84,468)	(95,956)
Call Spreads guarantee deposit	-	(6,446)
Advance performance	(6,727)	(3,560)
Net cash flows used in financing activities	(139,627)	(258,007)
Net decrease of cash and short-term deposits	3,856	20,026
Cash and short-term deposits at the beginning of the period	188,235	168,209
Cash and short-term deposits at the end of the period	192,091	188,235
Non-cash transactions		
Fixed assets purchased through leasing and others financial obligation	26,953	54,551

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 December 31, 2016 (unaudited) and 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2016 and December 31, 2015, and for the twelve-month periods ended December 31, 2016 and 2015:

	Supermercados Peruanos S.A. and Subsidiaries		Eckerd Perú S.A and Subsidiaries	
	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Consolidated statements of financial position				
Total assets	2,949,332	2,701,169	904,852	792,122
Total liabilities	1,950,391	1,771,952	744,092	653,972
Equity	998,941	929,217	160,760	138,150
	Balance as of December 31, 2016 S/(000)	Balance as of December 31, 2015 S/(000)	Balance as of December 31, 2016 S/(000)	Balance as of December 31, 2015 S/(000)
Consolidated income statements				
Operating profit	157,678	149,727	201,744	166,687
Net profit (loss)	69,722	26,915	136,525	116,400

The combined financial statements as of December 31, 2016 were approved by management of InRetail Perú Corp. on February 28, 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 December 31, 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) 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 December 31, 2016, the exchange rates in the market for transactions in US Dollars were S/3.352 per US\$1 bid and S/3.360 per US\$1 ask (S/3.408 and S/3.413 per US\$1 bid and ask as of December 31, 2015).

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

	As of December 31, 2016 US\$(000)	As of December 31, 2015 US\$(000)
Assets		
Cash and short-term deposits	2,771	14,313
Available-for-sale investment	14,853	4,065
Trade receivables, net	174	4
Other receivables, net	4,028	4,574
Accounts receivable from related parties	804	1,336
Total assets	22,630	24,292
Liability		
Trade payables	(15,539)	(15,565)
Other payables	(17,437)	(14,521)
Accounts payable to related parties	(2,441)	(217)
Interest - bearing loans and borrowings	(220,998)	(188,612)
Total liabilities	(256,415)	(218,915)
Call Spread	130,000	100,000
Net liability position	(103,785)	(94,623)

As of December 31, 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 December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Cash	20,240	9,152
Current accounts (b)	80,571	60,131
Time deposits (c)	79,316	102,837
Other	11,964	16,115
Total	192,091	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 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. As of December 31, 2015, this amount corresponded to time deposits freely available in Soles and US Dollars in local financial institutions that generate annual interest of 4.00 and 0.20, respectively, and matured up to a month since inception.

5. Trade receivables, net

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

	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Trade accounts receivable (c)	28,467	27,167
Credit card operations (d)	35,563	22,031
Rent receivable (e)	2,058	8,161
Others	7,614	11,603
Total	73,702	68,962
Provision for doubtful accounts (f)	(7,703)	(5,490)
Total	65,999	63,472

(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 twelve-month periods ended December 31, 2016 and 2015, were as follows:

	2016	2015
	S/(000)	S/(000)
Balance at the beginning of the year	5,490	2,770
Provision recognized as year expense, Note 18 (a)	2,216	2,899
Write offs and recoveries	(3)	(4)
Others	-	(175)
Balance at the end of the period	7,703	5,490

As of December 31, 2016 and December 31, 2015, the amount of trade receivables past due but not impaired amounted to approximately S/ 30,826,000 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 December 31, 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 December 31,	As of December 31,
	2016	2015
	S/(000)	S/(000)
Goods	962,870	876,298
In transit inventories (b)	12,661	9,599
Miscellaneous supplies	12,258	15,055
Total	987,789	900,952
Minus		
Provision for impairment of inventories (c)	(8,960)	(9,597)
Total	978,829	891,355

- (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 twelve-month periods ended as of December 31, 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)	7,926	5,934
Write-off/recovery	(8,563)	(5,338)
Balance at the end of the period	8,960	9,597

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 December 31, 2016 and December 31, 2015, available for sale investments correspond to notes issued by a related company of Intercorp Group of approximately US\$2,513,000 equivalent to S/8,445,000 (US\$2,318,000 equivalent to S/7,910,000 as of December 31, 2015).

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

8. Prepayments

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

	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Key money	14,970	16,452
Prepaid rent	23,082	19,048
Insurance	2,492	272
Others	5,509	8,754
Total	46,053	44,526
Current	17,844	18,256
Non current	28,209	26,270
Total	46,053	44,526

Notes to the combined financial statements

9. Derivative financial instruments

As of December 31, 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	Nominal value US\$(000)	Due	Pay fix at %	2016		
				Book value of the hedged item S/(000)	Fair value 2016 S/(000)	Fair value 2015 S/(000)
Deutsche Bank A.G.	100,000	October 2021	1.56	336,000	25,404	32,692
Bank of Tokyo	30,000	October 2021	1.20	100,800	6,332	-
Total					31,736	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. See Note 14.

10. Property, furniture and equipment, net

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

	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Cost		
Initial balance	2,747,557	2,547,374
Additions (b)	286,572	317,973
Disposals and/or sales (c)	(49,033)	(117,853)
Transfer to investment properties	-	63
Final balance	2,985,096	2,747,557
Accumulated depreciation		
Initial balance	733,504	673,775
Additions, Note 18 (a)	143,475	131,320
Disposals and/or sales	(32,326)	(71,598)
Transfer to investment properties	-	7
Final balance	844,653	733,504
Net book value	2,140,443	2,014,053

(b) Additions for the periods ended December 31, 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 December 31, 2016, the cost and corresponding accumulated depreciation of assets acquired through finance leases was approximately S/569,556,000 and S/175,788,000 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 December 31, 2016	As of December 31, 2015
	S/. (000)	S/. (000)
Cost of buildings	102,531	19,567
Less: Accumulated depreciation	2,847	2,343
	<hr/>	<hr/>
Total	99,684	17,224
	<hr/>	<hr/>

- (b) As of December 31, 2016 and December 31, 2015, investment properties include five properties located in Lima, Tacna and Puno held to earn income.
- (c) In Management's opinion, the book value of investment properties as of December 31, 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 December 31, 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 December 31, 2016	As of December 31, 2015
	S/(000)	S/(000)
Cost		
Initial balance	1,248,027	1,228,786
Additions	21,299	19,555
Disposal and/or sales	(2,694)	(314)
	<hr/>	<hr/>
Final balance	1,266,632	1,248,027
	<hr/>	<hr/>
Accumulated amortization		
Initial balance	63,946	52,912
Additions, Note 18 (a)	13,357	11,060
Disposals and/or sales	(606)	(26)
	<hr/>	<hr/>
Final balance	76,697	63,946
	<hr/>	<hr/>
Net, book value	1,189,935	1,184,081
	<hr/>	<hr/>

Notes to the combined financial statements

- (b) As of December 31, 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 December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Bills payable for purchase of goods	1,354,097	1,259,258
Bills payable for commercial services	211,105	165,283
Total	1,565,202	1,424,541

- (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)
Notes Senior Unsecured (e)											
Notes Senior Unsecured (c)	USD	5.250	2021	300,000	-	575,535	582,122	-	-	575,535	582,122
Notes Senior Unsecured (d)	PEN	6.813	2021	-	250,000	249,314	249,197	-	-	249,314	249,197
				300,000	250,000	824,849	831,319	-	-	824,849	831,319
Leasing (b)											
Related entities											
Banco Internacional del Perú-Interbank	PEN	7.850	2019	-	27,412	15,627	21,083	5,485	5,184	10,142	15,899
Banco Internacional del Perú-Interbank	PEN	Between 11.240 and 11.430	2020	-	145,277	45,921	74,627	24,865	27,375	21,056	47,252
Non-related entities											
Hewlett Packard S.A.	USD	2.930	2018	7,855	-	20,794	16,076	8,560	7,357	12,234	8,719
IBM Perú SAC	USD	2.170	2018	335	-	185	545	74	357	111	188
Banco de Crédito del Perú	PEN	Between 6.590 and 7.762	2022	-	81,335	49,583	61,502	16,409	14,467	33,174	47,035
BBVA Banco Continental	PEN	Between 5.960 and 10.850	2018	-	44,123	6,807	12,617	4,611	4,669	2,196	7,948
BBVA Banco Continental	USD	8.000	2017	1,028	-	144	316	144	172	-	144
Banco Scotiabank	PEN	Between 6.750 and 7.760	2020	-	57,972	32,574	41,270	11,318	7,458	21,256	33,812
				9,218	356,119	171,635	228,036	71,466	67,039	100,169	160,997
Loans (b)											
Related entities											
Banco Internacional del Perú-Interbank	PEN	6.350	2020	-	60,000	46,234	56,848	11,415	10,614	34,819	46,234
Non-related entities											
Banco de Crédito del Perú	PEN	6.350	2020	-	40,293	31,079	38,216	8,335	7,133	22,744	31,083
Banco Scotiabank (f)	PEN	Between 4.450 and 6.950	2022	-	240,000	182,389	223,103	41,143	40,714	141,246	182,389
Bank of Tokyo (g)	USD	Between 2.540 and 2.640	2021	30,000	-	100,048	-	-	-	100,048	-
				30,000	380,293	359,750	318,167	60,893	58,461	298,857	259,706
Foreign loans											
Deutsche Bank	USD	1.560	2021	9,366	-	24,690	29,670	5,091	4,875	19,599	24,795
Bank of Tokyo (g)	USD	1.200	2021	1,953	-	5,945	-	1,163	-	4,782	-
				11,319	-	30,635	29,670	6,254	4,875	24,381	24,795
Other obligations to third parties (h)											
Hewlett Packard S.A.	USD	Between 1.690 and 6.840	2021	15,213	-	15,213	14,563	5,609	4,116	9,604	10,447
IBM Perú SAC	USD	Between 1.690 and 7.220	2016	6,441	-	-	441	-	441	-	-
				21,654	-	15,213	15,004	5,609	4,557	9,604	10,447
Total				372,191	986,412	1,402,082	1,422,196	144,222	134,932	1,257,860	1,287,264

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/1,008,000,000 as of December 31, 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\$4,184,000, equivalent to a total amount of approximately S/14,058,000 as of December 31, 2016 (US\$4,933,000 equivalent to approximately S/16,836,000 as of December 31, 2015). Additionally, as of December 31, 2016, the balance is presented net of US\$124,526,000 equivalent to a total amount of approximately S/418,407,000 as of December 31, 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 December 31, 2016 and December 31, 2015 the balance of this loan is S/575,535,000 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/686,000, as of December 31, 2016 (S/803,000, as of December 31, 2015). As of December 31, 2016 and December 31, 2015 the balance of this loan is S/249,314,000 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 December 31, 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/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/752,000.
- (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 December 31, 2016	As of December 31, 2015
	S/(000)	S/(000)
2016	-	134,932
2017	144,222	141,274
2018	126,128	118,505
2019	204,469	85,348
2020 onwards	927,263	942,137
Total	1,402,082	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 December 31, 2016 and December 31, 2015, as well as the statements of comprehensive income for the twelve-month periods ended December 31, 2016 and 2015 are shown below:

Statements of financial position	Deferred liability, net	
	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Deferred income tax asset	59,623	55,530
Deferred income tax liability	<u>(224,810)</u>	<u>(201,303)</u>
Deferred income tax liability, net	<u>(165,187)</u>	<u>(145,773)</u>

Statements of comprehensive income	Income tax for the twelve-month periods ended December 31, 2016 and 2015	
	2016 S/(000)	2015 S/(000)
Current	(87,608)	(62,841)
Deferred	<u>(18,597)</u>	<u>(26,246)</u>
Income tax expense	<u>(106,205)</u>	<u>(89,087)</u>

- (b) As of December 31, 2016 and December 31, 2015 the income credit tax, net of provision for current income tax payable, amounts to approximately S/8,709,000 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 December 31, 2016	As of December 31, 2015		As of December 31, 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 December 31, 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 December 31, 2016 and December 31, 2015, the statutory Income Tax rate was 28 percent on taxable income.

According to Legislative Decree N° 1261 the rate of income tax will be, 29.5 percent as of the year 2017.

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 from January 1, 2017, the additional tax on dividend income generated is as follows:

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

- (b) 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 December 31, 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 2012 to 2016	From 2013 to 2016
Eckerd Perú S.A.	From 2013 to 2016	From 2013 to 2016
Eckerd Amazonia S.A.C.	From 2012 to 2016	From 2013 to 2016
Boticas del Oriente S.A.C.	From 2012 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 December 31, 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	4,877,556	4,611,267
Selling expenses	1,475,343	1,340,202
Administrative expenses	166,859	150,445
Total	<u>6,519,758</u>	<u>6,101,914</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	876,299	-	-	876,299
Purchase of goods	4,956,201	-	-	4,956,201
Final balance of goods, note 6(a)	(962,870)	-	-	(962,870)
Impairment of inventories, note 6(c)	7,926	-	-	7,926
Packing and packaging	-	45,380	215	45,595
Personnel expenses	-	555,306	90,974	646,280
Depreciation, note 10(a)	-	128,865	14,610	143,475
Amortization, note 12(a)	-	7,870	5,487	13,357
Key money amortization	-	1,173	-	1,173
Services provided by third parties (b)	-	234,642	29,716	264,358
Advertising	-	87,175	-	87,175
Rental of premises	-	217,657	7,565	225,222
Taxes	-	28,388	3,896	32,284
Provision for doubtful trade receivables, note 5(f)	-	2,213	-	2,213
Provision for doubtful other account receivables,	-	160	-	160
Insurance	-	10,236	740	10,976
Other charges (c)	-	156,278	13,656	169,934
Total	4,877,556	1,475,343	166,859	6,519,758

	2015			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods,	777,051	-	-	777,051
Purchase of goods	4,704,580	-	-	4,704,580
Final balance of goods, Note 6(a)	(876,298)	-	-	(876,298)
Impairment of inventories, Note 6(c)	5,934	-	-	5,934
Packing and packaging	-	42,228	228	42,456
Personnel expenses	-	508,317	84,136	592,453
Depreciation	-	117,789	13,531	131,320
Amortization	-	6,759	4,301	11,060
Key money amortization	-	1,345	-	1,345
Services provided by third parties (b)	-	211,630	22,757	234,387
Advertising	-	82,347	-	82,347
Rental of premises	-	184,892	7,674	192,566
Taxes	-	26,468	2,601	29,069
Provision for doubtful trade receivables, note 5(f)	-	2,895	-	2,895
Provision for doubtful others account receivables	-	-	-	-
Insurance	-	9,325	621	9,946
Other charges (c)	-	146,207	14,596	160,803
Total	4,611,267	1,340,202	150,445	6,101,914

(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 December 31, 2016 S/(000)	Balance as of December 31, 2015 S/(000)
Finance income		
Interest and others	4,659	6,019
Total	4,659	6,019
Finance cost		
Interest on loans, borrowings and bonds payable	85,888	83,655
Interest from derivatives instruments	5,463	3,184
Other financial costs	17,138	31,082
Total	108,489	117,921

20. Transactions with related parties

(a) The following table provides the total amount of transactions with related parties for the relevant financial periods ended December 31, 2016 and 2015:

	2016 S/(000)	2015 S/(000)
Income		
Sales	4,785	5,331
Rental income	-	-
Services income	23,843	18,141
Sales of fixed assets	-	-
Collection services	5,757	13,843
Others	30,646	16,351
Total	65,031	53,666
Expenses		
Renting of premises and land	39,012	36,769
Reimbursement of expenses	17,320	16,755
Commissions	86	150
Interest	4,239	-
Others	10,233	39,121
Total	70,890	92,795

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 December 31, 2016 and December 31, 2015:

	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Receivables		
Banco Internacional del Perú S.A.A. – Interbank	1,945	2,360
Financiera Uno	4,529	3,701
Tiendas Peruanas S.A.	789	1,359
Home Centers Peruanos S.A	570	1,157
Interproperties Holding (f)	107	-
Bembos	305	1,597
Urbi	213	217
Intercorp Retail Inc.	206	44
Cineplex S.A.	103	230
Others	11,056	12,698
Total	19,823	23,363

	As of December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Payables		
Interproperties Holding (f)	32,579	7,300
Financiera Uno (d)	24,573	21,828
InRetail Management S.R.L.	1,680	-
Banco Internacional del Perú S.A.A. – Interbank:		
Line of credit and others	27	202
Deposit in guarantee (e)	5,470	5,188
Home Centers Peruanos S.A	12,179	-
Interseguro Compañía de Seguros S.A.	731	554
Real Plaza S.A.	1,098	-
Horizonte Global Opportunities Perú S.A.	26	35
Cineplex S.A.	5	6
Others	1,909	2,710
	80,277	37,823
Remunerations payable to key management	-	-
Total	80,277	37,823
Current portion	74,807	32,635
Non-current portion	5,470	5,188
Total	80,277	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 twelve month periods end December 31, 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 December 31, 2016 and December 31, 2015, Supermercados Peruanos S.A. holds accounts payable to Financiera Uno S.A. for approximately S/24,573,000 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 December 31, 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/5,470,000 and S/5,188,000 respectively, as of December 31, 2016 and December 31, 2015, 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 2016 Supermercados Peruanos S.A. recognized accrued rental income that amounted to approximately S/1,635,000, equivalent to US\$531,000 (S/2,917,000, equivalent to US\$971,000, 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/2,698,000 (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 December 31, 2016 S/(000)	As of December 31, 2015 S/(000)
Leases to financial modules	2,698	4,551
Other leases	<u>25,773</u>	<u>17,116</u>
Total	<u>28,471</u>	<u>21,667</u>
Current portion	3,737	4,326
Non-current portion	<u>24,734</u>	<u>17,341</u>
Total	<u>28,471</u>	<u>21,667</u>

22. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of December 31, 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 December 31, 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 December 31, 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 December 31, 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. 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 any kind of practice that would Market and the consumer.
- (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 December 31, 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 twelve-month periods ended December 31, 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 twelve-month periods ended December 31, 2016					
Revenue					
External income	4,228,595	2,624,352	6,852,947	-	6,852,947
Inter-segment	12,382	-	12,382	(12,382)	-
Total revenue	4,240,977	2,624,352	6,865,329	(12,382)	6,852,947
Cost of sales	(3,110,646)	(1,766,910)	(4,877,556)	-	(4,877,556)
Gross profit	1,130,331	857,442	1,987,773	(12,382)	1,975,391
Other operating income	40,640	1,461	42,101	-	42,101
Selling expenses	(894,895)	(592,632)	(1,487,527)	12,184	(1,475,343)
Administrative expenses	(102,316)	(61,992)	(164,308)	(2,551)	(166,859)
Other operating expenses	(16,082)	(2,535)	(18,617)	(4)	(18,621)
Operating profit	157,678	201,744	359,422	(2,753)	356,669
Net, exchange difference	5,728	(373)	5,355	2,176	7,531
Finance income	2,529	2,945	5,474	(815)	4,659
Finance costs	(54,175)	(3,624)	(57,799)	(50,690)	(108,489)
Profit before income tax	111,760	200,692	312,452	(52,082)	260,370
Income tax expense	(42,038)	(64,167)	(106,205)	-	(106,205)
Profit for the year	69,722	136,525	206,247	(52,082)	154,165

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 twelve-month periods ended December 31, 2015					
Revenue					
External income	4,066,705	2,339,061	6,405,766	-	6,405,766
Inter-segment	10,337	14	10,351	(10,351)	-
Total revenue	4,077,042	2,339,075	6,416,117	(10,351)	6,405,766
Cost of sales	(3,012,534)	(1,598,733)	(4,611,267)	-	(4,611,267)
Gross profit	1,064,508	740,342	1,804,850	(10,351)	1,794,499
Other operating income	52,909	3,970	56,879	-	56,879
Selling expenses	(830,350)	(520,203)	(1,350,553)	10,351	(1,340,202)
Administrative expenses	(94,736)	(54,605)	(149,341)	(1,104)	(150,445)
Other operating expenses	(42,604)	(2,817)	(45,421)	-	(45,421)
Operating profit	149,727	166,687	316,414	(1,104)	315,310
Net, exchange difference	(48,483)	705	(47,778)	(40,687)	(88,465)
Finance income	2,720	2,526	5,246	773	6,019
Finance costs	(53,501)	(2,901)	(56,402)	(61,519)	(117,921)
Profit before income tax	50,463	167,017	217,480	(102,537)	114,943
Income tax expense	(23,548)	(50,617)	(74,165)	(14,922)	(89,087)
Profit for the year	26,915	116,400	143,315	(117,459)	25,856

Notes to the combined financial statements

Geographic information –

As of December 31, 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 another 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 twelve-month periods ended December 31, 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.