

**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 June 30, 2017 (unaudited)
and December 31, 2016 (audited) and for the six-month periods ended
June 30, 2017 and 2016

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

Interim combined statements of financial position

As of June 30, 2017 and December 31, 2016

	<u>Note</u>	<u>2017</u>	<u>2016</u>		<u>Note</u>	<u>2017</u>	<u>2016</u>
		S/(000)	S/(000)			S/(000)	S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	4	105,143	192,091	Trade payables	13	1,413,984	1,565,202
Investment at fair value through profit or loss		16,407	68,299	Other payables		216,097	184,424
Trade receivables, net	5	41,272	65,999	Accounts payable to related parties	20(b)	13,121	31,410
Other receivables, net		45,381	50,056	Interest-bearing loans and borrowings	14	265,874	144,222
Accounts receivables from related parties	20(b)	17,173	19,823	Current income tax, net	15(b)	836	8,709
Inventories, net	6	977,895	978,829	Deferred revenue		3,069	3,737
Available-for-sale investment	7	44,600	49,908	Total current liabilities		1,912,981	1,937,704
Prepayments	8	34,774	17,844				
Total current assets		1,282,645	1,442,849	Accounts payable to related parties	20(b)	62,237	48,867
Non-current assets				Interest-bearing loans and borrowings	14	1,234,806	1,257,860
Other receivables, net		15,065	15,245	Deferred revenue		23,415	24,734
Prepayments	8	29,062	28,209	Deferred income tax liabilities, net	15	183,896	177,380
Derivative financial instruments	9	27,952	31,736	Total non-current liabilities		1,504,354	1,508,841
Property, furniture and equipment, net	10	2,212,717	2,140,443	Total liabilities		3,417,335	3,446,545
Investment properties	11	162,688	99,684				
Intangible assets, net	12	1,191,148	1,189,935	Equity			
Deferred income tax assets, net	15	13,174	12,193	Capital stock	16	369,607	369,607
Total non-current assets		3,651,806	3,517,445	Capital premium		181,603	181,603
				Additional paid in capital		706,427	706,427
				Unrealized results on financial instruments		2,883	(9,804)
				Unrealized results on available-for-sale-investment		4,409	9,669
				Other equity reserves		27,481	20,405
				Retained earnings		224,706	235,842
				Total equity		1,517,116	1,513,749
Total assets		4,934,451	4,960,294	Total liabilities and equity		4,934,451	4,960,294

The accompanying notes are an integral part of these 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

Interim combined income statements

For the six-month periods ended June 30, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Net sales of goods		3,516,935	3,273,638
Rental income		27,373	21,584
Rendering of services		26,163	16,051
Revenue		3,570,471	3,311,273
Cost of sales	18	(2,556,425)	(2,371,897)
Gross profit		1,014,046	939,376
Selling expenses	18	(772,493)	(708,577)
Administrative expenses	18	(91,613)	(83,667)
Income from joint venture	20	11,766	8,770
Other operating income		520	8,454
Other operating expenses		(5,355)	(7,565)
Operating profit		156,871	156,791
Finance income	19	3,191	2,484
Finance costs	19	(50,645)	(53,773)
Exchange difference, net		9,339	13,244
Profit before income tax		118,756	118,746
Income tax expense	15	(51,232)	(44,126)
Net profit		67,524	74,620

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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 six-month periods ended June 30, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Net profit		67,524	74,620
Other comprehensive income			
Unrealized gain on available-for-sale investments		(5,514)	2,899
Income tax effect		254	(271)
Total other comprehensive income of available for sale investment		<u>(5,260)</u>	<u>2,628</u>
Gain in derivative financial instrument		12,687	8,662
Total other comprehensive income derivative financial instruments		<u>12,687</u>	<u>8,662</u>
Other comprehensive income for the period, net of income tax effects		7,427	11,290
Total comprehensive income for the period		<u>74,951</u>	<u>85,910</u>

The accompanying notes are an integral part of these 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

Interim combined statements of changes in equity

For the six-month periods ended June 30, 2017 and 2016

	Capital stock S/(000)	Additional paid in capital S/(000)	Capital premiun 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, 2016	369,607	706,427	181,603	(13,582)	768	17,689	91,120	1,353,632
Profit for the period	-	-	-	-	-	-	74,620	74,620
Other comprehensive income	-	-	-	8,662	2,628	-	-	11,290
Total comprehensive income	-	-	-	8,662	2,628	-	74,620	85,910
Advance performance	-	-	-	-	-	-	(3,349)	(3,349)
Transfer to legal reserve	-	-	-	-	-	2,716	(2,716)	-
Balance as of June 30, 2016	369,607	706,427	181,603	(4,920)	3,396	20,405	159,675	1,436,193
Balance as of January 1, 2017	369,607	706,427	181,603	(9,804)	9,669	20,405	235,842	1,513,749
Profit for the period	-	-	-	-	-	-	67,524	67,524
Other comprehensive income	-	-	-	12,687	(5,260)	-	-	7,427
	-	-	-	12,687	(5,260)	-	67,524	74,951
Advance performance	-	-	-	-	-	-	(71,584)	(71,584)
Transfer to legal reserve	-	-	-	-	-	7,076	(7,076)	-
Balance as of June 30, 2017	369,607	706,427	181,603	2,883	4,409	27,481	224,706	1,517,116

The accompanying notes are an integral part of these 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

Interim combined statements of cash flows

For the six-month periods ended June 30, 2017 and 2016

	2017	2016
	S/(000)	S/(000)
Operating activities		
Revenue	3,608,629	3,373,778
Payments to suppliers of goods and services	(3,136,771)	(2,902,637)
Payments to employees for salaries and social benefits	(322,466)	(313,363)
Taxes paid	(72,740)	(44,002)
Other collections, net	147	9,005
Net cash flows from operating activities	76,799	122,781
Investing activities		
Sales of property, furniture and equipment	-	2,895
Sales of investment at fair value through profit or loss	154,314	-
Purchase of investment at fair value through profit or loss	(103,314)	-
Purchase of available for sale investment	-	(26,474)
Purchase of property, furniture and equipment, net of acquisitions through leasing	(125,309)	(134,564)
Purchase and development of intangible assets	(8,441)	(12,116)
Purchase of investment properties, net of acquisitions through leasing	(24,657)	-
Net cash flows used in investing activities	(107,407)	(170,259)
Financing activities		
Proceeds from interest-bearing loans and borrowings	130,000	74,400
Payment of interest-bearing loans and borrowings	(74,674)	(74,304)
Interest payment	(40,082)	(42,867)
Advance performance	(71,584)	(3,349)
Net cash flows used in financing activities	(56,340)	(46,120)
Net decrease of cash and short-term deposits	(86,948)	(93,598)
Cash and short-term deposits at the beginning of the period	192,091	188,235
Cash and short-term deposits at the end of the period	105,143	94,637
Non-cash transactions		
Fixed assets purchased through leasing and others financial obligation	64,057	14,640

The accompanying notes are an integral part of these combined financial 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 June 30, 2017 (unaudited) and December 31, 2016 (audited)

1. Identification and business activities and reorganization and issuance process

(a) Identification.-

Patrimonio en Fideicomiso D.S. N°093-2002-EF-InRetail Consumer (a Special Purpose Entity-SPE, hereinafter "InRetail Consumer"), was incorporated in August 2014 by InRetail Perú Corp. only for the purpose of issuing debt in the local market and abroad. As of June 30, 2017 and December 31, 2016, the representative shares of capital stock of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Peru S.A. and Subsidiaries are maintained in trust in this entity.

Supermercados Peruanos S.A. and Eckerd Perú S.A. were incorporated in June 1979 and August 1996, respectively, in Lima, Peru. As of June 30, 2017 and December 31, 2016, those companies are subsidiaries of InRetail Perú Corp., which is part of Intercorp Perú Corp., InRetail Perú Corp. owns directly and indirectly the following percentages of ownership in these companies:

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

(b) Business activities –

The following is a description of the Companies activities:

- Supermercados Peruanos S.A. is dedicated to retail. As of June 30, 2017 and December 31, 2016, has a chain of stores operating under "Plaza Veá", "Plaza Veá Super", "Vivanda" and "Mass" brands, which are located in Lima and provinces, such as Trujillo, Chimbote, Piura, Cusco, Arequipa Huancayo, among others. Supermercados Peruanos S.A. holds 100 percent of: (i) Desarrolladora de Strip Centers S.A.C. (former Peruana de Tiquetes S.A.C.), and (ii) Plaza Veá Sur S.A.C.
- Eckerd Perú S.A. is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements related to health protection and recovery through its "Inkafarma" pharmacy chain. As of June 30, 2017 and December 31, 2016 it mainly operates in Lima and provinces, such as Lambayeque, La Libertad, Piura, Arequipa, Loreto, San Martín, Ucayali, Madre de Dios, among others. Eckerd Perú S.A. holds 100 percent of: (i) Eckerd Amazonía S.A.C. and (ii) Boticas del Oriente S.A.C.

Notes to the combined financial statements

The following is a summary of the main data of the financial statements of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries as of June 30, 2017 and December 31, 2016, and for the six-month periods ended June 30, 2017 and 2016:

	Supermercados Peruanos S.A. and Subsidiaries		Eckerd Perú S.A and Subsidiaries	
	As of June 30, 2017	As of December 31, 2016	As of June 30, 2017	As of December 31, 2016
	S/(000)	S/(000)	S/(000)	S/(000)
Consolidated statements of financial position				
Total assets	2,971,137	2,910,219	849,425	897,434
Total liabilities	1,940,648	1,911,278	697,681	736,674
Equity	1,030,489	998,941	151,744	160,760
	Balance as of June 30, 2017	Balance as of June 30, 2016	Balance as of June 30, 2017	Balance as of June 30, 2016
	S/(000)	S/(000)	S/(000)	S/(000)
	Consolidated income statements			
Operating profit	74,267	60,650	83,842	97,216
Net profit	31,548	27,474	56,510	67,760

The combined financial statements as of June 30, 2017 were approved by management of InRetail Perú Corp. on August 9, 2017

2. Summary of significant accounting policies

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

(a) Basis of preparation and presentation –

The interim condensed combined financial statements of the Companies have been prepared and presented solely to comply with certain obligations as a result of the issuance made by InRetail Consumer. Likewise, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective as of June 30, 2017 and December 31, 2016.

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

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

Notes to the combined financial statements

(b) Basis of combination –

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

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

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

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

(c) New standards, interpretations and amendments –

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

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.

Notes to the combined financial statements

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

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

Standards not adopted early

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

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

The new standard on revenues 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 June 30, 2017, the exchange rates in the market for transactions in US Dollars were S/3.251 per US\$1 bid and S/3.255 per US\$1 ask (S/3.352 and S/3.360 per US\$1 bid and ask as of December 31, 2016).

As of June 30, 2017 and December 31, 2016, the companies held the following foreign currency assets and liabilities:

	As of June 30, 2017 US\$(000)	As of December 31, 2016 US\$(000)
Assets		
Cash and short-term deposits	518	2,771
Available-for-sale investment	13,702	14,853
Investment at fair value through profit or loss	4,111	3,503
Trade receivables, net	-	174
Other receivables, net	3,586	4,028
Accounts receivable from related parties	825	804
Total assets	22,742	26,133
Liability		
Trade payables	(16,270)	(15,539)
Other payables	(14,438)	(17,437)
Accounts payable to related parties	(2,810)	(2,441)
Interest - bearing loans and borrowings	(219,492)	(220,998)
Total liabilities	(253,010)	(256,415)
Call Spread	130,000	130,000
Net liability position	(100,268)	(100,282)

As of June 30, 2017 and December 31, 2016, InRetail Consumer and its Subsidiaries, decided to reduce its exchange rate risk by entering into hedging operations through two Call Spreads written over its "Senior Notes Unsecured", which are considered effective hedging instruments. The Call Spreads are written over a nominal amount of US\$130,000,000 and will be effective until maturity of the "Senior Notes Unsecured". The net position in the derivatives related to the currency Call Spread agreement corresponds to an exchange operation (Soles exchanged for US Dollars) with notional amount of approximately US\$130,000,000. See 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 June 30, 2017 S/(000)	As of December 31, 2016 S/(000)
Cash	12,894	20,240
Current accounts (b)	79,103	80,571
Time deposits (c)	-	79,316
Other	13,146	11,964
	<hr/>	<hr/>
Total	105,143	192,091
	<hr/>	<hr/>

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

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

5. Trade receivables, net

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

	As of June 30, 2017 S/(000)	As of December 31, 2016 S/(000)
Trade accounts receivable (c)	22,461	28,467
Credit card operations (d)	13,727	35,563
Rent receivable (e)	4,099	2,058
Others	9,820	7,614
	<hr/>	<hr/>
Total	50,107	73,702
Provision for doubtful accounts (f)	(8,835)	(7,703)
	<hr/>	<hr/>
Total	41,272	65,999
	<hr/>	<hr/>

(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 six-month periods ended June 30, 2017 and 2016, were as follows:

	2017	2016
	S/(000)	S/(000)
Balance at the beginning of the year	7,703	5,490
Provision recognized as year expense, Note 18 (a)	1,132	857
Write offs and recoveries	-	(4)
Balance at the end of the period	8,835	6,343

As of June 30, 2017 and December 31, 2016, the amount of trade receivables past due but not impaired amounted to approximately S/29,859,000 and S/30,826,000, respectively.

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

In the opinion of Management, the provision for doubtful accounts receivable as of June 30, 2017 and December 31, 2016 appropriately covers the credit risk of this item at those dates.

6. Inventories, net

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

	As of June 30,	As of December 31,
	2017	2016
	S/(000)	S/(000)
Goods	956,342	962,870
In transit inventories (b)	19,654	12,258
Miscellaneous supplies	9,250	12,661
Total	985,246	987,789
Minus		
Provision for impairment of inventories (c)	(7,351)	(8,960)
Total	977,895	978,829

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

Notes to the combined financial statements

- (c) The changes in the provision for inventory impairment for the six-month periods ended as of June 30, 2017 and 2016 were as follows:

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	8,960	9,597
Provision of the period, Note 18(a)	6,312	6,099
Write-off/recovery	(7,921)	(8,112)
Balance at the end of the period	7,351	7,584
Balance as of December 31, 2016		8,960

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 June 30, 2017 and December 31, 2016, available for sale investments correspond to notes issued by a related company of Intercorp Group of approximately US\$2,555,000 equivalent to S/8,315,000 (US\$2,513,000 equivalent to S/8,445,000 as of December 31, 2016).

Additionally, as of June 30, 2017, the Company has other investments available for sale for an amount US\$11,149,000 equivalent to S/36,285,000 (US\$12,340,000 equivalent to S/.41,463,000 as of December 31, 2016)

8. Prepayments

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

	As of June 30, 2017 S/(000)	As of December 31, 2016 S/(000)
Prepaid rent	23,040	24,813
Key money	14,764	13,239
Insurance	6,668	2,492
Prepaid tax	6,055	-
Others	13,309	5,509
Total	63,836	46,053
Current	34,774	17,844
Non current	29,062	28,209
Total	63,836	46,053

Notes to the combined financial statements

9. Derivative financial instruments

As of June 30, 2017 and December 31, 2016, this item comprises of two principal Call Spread contracts designated to hedge cash flows from exchange rate variations and recorded at its fair value. The details of these operations are as follows:

Counterparty	Nominal value US\$(000)	Due	Pay fix at %	Book value of	Fair value	Fair value
				the hedged item S/(000)	2017 S/(000)	2016 S/(000)
Deutsche Bank A.G.	100,000	October 2021	1.56	325,500	21,762	25,404
Bank of Tokyo	30,000	October 2021	1.20	97,650	6,190	6,332
Total					27,952	31,736

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

10. Property, furniture and equipment, net

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

	As of June 30, 2017 S/(000)	As of December 31, 2016 S/(000)
Cost		
Initial balance	2,984,015	2,747,642
Additions (b)	189,366	286,573
Disposals and/or sales (c)	(14,481)	(50,200)
Transfer to investment properties, Note 11 (a)	(39,408)	-
Final balance	3,119,492	2,984,015
Accumulated depreciation		
Initial balance	843,572	733,589
Additions, Note 18 (a)	73,977	143,475
Disposals and/or sales	(9,713)	(33,492)
Transfer to investment properties, Note 11 (a)	(1,061)	-
Final balance	906,775	843,572
Net book value	2,212,717	2,140,443

(b) Additions for the periods ended June 30, 2017 and December 31, 2016 correspond mainly to the construction and equipment for the new premises of Supermercados Peruanos S.A. and the Eckerd Group.

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

Notes to the combined financial statements

- (d) As of June 30, 2017, the cost and corresponding accumulated depreciation of assets acquired through finance leases was approximately S/636,223,000 and S/201,431,000 respectively (S/569,556,000 and S/175,788,000 respectively, as of December 31, 2016).
- (e) The Companies maintain insurance policies on their main assets in accordance with policies established by Management.

11. Investment properties

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

	As of June 30, 2017	As of December 31, 2016
	S/. (000)	S/. (000)
Balance at the beginning of the year	99,684	17,224
Additions (b)	24,657	82,460
Fixed assets transfer, Note 10 (a)	38,347	-
Total	162,688	99,684

- (b) As of June 30, 2017, investment properties include seven properties located in Lima, Moquegua, Tacna and Puno (five investment properties as of December 31, 2016) held to earn income.
- (c) As of June 30, 2017 and December 31, 2016, Management of the Companies performed an evaluation of their investment properties, and has not found any indication of impairment.

12. Intangible assets, net

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

	As of June 30, 2017	As of December 31, 2016
	S/(000)	S/(000)
Cost		
Initial balance	1,266,632	1,248,027
Additions	8,441	21,299
Disposal and/or sales	(95)	(2,694)
Final balance	1,274,978	1,266,632
Accumulated amortization		
Initial balance	76,697	63,946
Additions, Note 18 (a)	7,148	13,357
Disposals and/or sales	(15)	(606)
Final balance	83,830	76,697
Net, book value	1,191,148	1,189,935

- (b) As of June 30, 2017 and December 31, 2016, this caption mainly includes approximately S/373,054,000 and S/709,472,000 corresponding to the brand "Inkafarma" and goodwill respectively, resulting from applying the purchase method at the moment of the acquisition of 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.

Notes to the combined financial statements

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 June 30, 2017	As of December 31, 2016
	S/(000)	S/(000)
Bills payable for purchase of goods	1,244,229	1,354,097
Bills payable for commercial services	169,755	211,105
Total	1,413,984	1,565,202

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

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

Notes to the combined financial statements

14. Interest-bearing loans and borrowings

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

Type of obligation	Original currency	Interest rate %	Final maturity	Original amount		Total		Current		Non-current	
				US\$ (000)	S/(000)	2017	2016	2017	2016	2017	2016
				S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)		
Notes Senior Unsecured (e)											
Notes Senior Unsecured (c)	USD	5.250	2021	300,000	-	558,804	575,535	-	-	558,804	575,535
Notes Senior Unsecured (d)	PEN	6.813	2021	-	250,000	249,375	249,314	-	-	249,375	249,314
				300,000	250,000	808,179	824,849	-	-	808,179	824,849
Leasing (b)											
Related entities											
Banco Internacional del Perú-Interbank	PEN	7.850	2019	-	27,412	12,937	15,627	5,700	5,485	7,237	10,142
Banco Internacional del Perú-Interbank	PEN	Between 6.850 and 8.500	2020	-	132,181	91,596	45,921	17,506	24,865	74,090	21,056
Non-related entities											
Hewlett Packard S.A.	USD	2.360	2021	12,084	-	18,687	20,794	8,202	8,560	10,485	12,234
IBM Perú SAC	USD	2.170	2019	335	-	143	185	72	74	71	111
Banco de Crédito del Perú	PEN	Between 6.590 and 8.500	2022	-	81,335	41,513	49,583	16,592	16,409	24,921	33,174
BBVA Banco Continental	PEN	Between 7.800 and 8.000	2018	-	44,123	4,336	6,807	3,684	4,611	652	2,196
BBVA Banco Continental	PEN	8.040	2017	-	1,028	53	144	53	144	-	-
Banco Scotiabank	PEN	Between 6.390 and 7.760	2020	-	57,972	27,013	32,574	11,716	11,318	15,297	21,256
				12,419	344,051	196,278	171,635	63,525	71,466	132,753	100,169
Loans (b)											
Related entities											
Banco Internacional del Perú-Interbank	PEN	6.350	2020	-	60,000	40,678	46,234	11,775	11,415	28,903	34,819
Non-related entities											
Banco de Crédito del Perú	PEN	Between 4.000 and 6.350	2020	-	40,293	41,706	31,079	22,956	8,335	18,750	22,744
Banco Scotiabank (f)	PEN	Between 4.080 and 6.950	2022	-	240,000	189,026	182,389	68,143	41,143	120,883	141,246
Bank of Tokyo (g)	USD	Between 2.540 and 2.640	2019	30,000	-	97,087	100,048	-	-	97,087	100,048
BBVA Banco Continental	PEN	3.970	2017	-	88,000	88,000	-	88,000	-	-	-
				30,000	468,293	456,497	359,750	190,874	60,893	265,623	298,857
Foreign loans											
Deutsche Bank	USD	1.560	2021	9,366	-	21,696	24,690	4,575	5,091	17,121	19,599
Bank of Tokyo (g)	USD	1.200	2021	1,953	-	5,205	5,945	1,130	1,163	4,075	4,782
				11,319	-	26,901	30,635	5,705	6,254	21,196	24,381
Other obligations to third parties (h)											
Hewlett Packard S.A.	USD	Between 1.450 and 5.640	2021	15,886	-	12,825	15,213	5,770	5,609	7,055	9,604
				15,886	-	12,825	15,213	5,770	5,609	7,055	9,604
Total				369,624	1,062,344	1,500,680	1,402,082	265,874	144,222	1,234,806	1,257,860

Notes to the combined financial statements

- (b) Promissory notes and bank loans are used to fund working capital and do not have any specific guarantee. Leasing operations are guaranteed by the assets related to them; see Note 10(d). Such obligations do not have any special conditions that must be complied with covenants or restrictions affecting the operations of the Companies.
- (c) On October 2014, the Company issued through InRetail Consumer, an offering in the local market and abroad of "Senior Notes Unsecured" for US\$300,000,000 equivalent to approximately S/976,500,000 as of June 30, 2017 (S/1,008,000,000 approximately as of December 31, 2016), due in 2021 at an 5.25 percent nominal interest rate. This borrowing was recorded in the consolidated financial statements at their amortized cost at a 5.5869 percent effective interest rate, after considering the respective up-front fees for approximately US\$3,798,000, equivalent to a total amount of approximately S/12,363,000 as of June 30, 2017 (US\$4,184,000 equivalent to approximately S/14,058,000 as of December 31, 2016). Additionally, as of June 30, 2017, the balance is presented net of US\$124,526,000 equivalent to a total amount of approximately S/405,333,000 as of June 30, 2017 (US\$124,526,000 equivalent to a total amount of approximately S/418,407,000 as of December 31, 2016) corresponding to notes of these issuance acquired by the Company itself. As of June 30, 2017 and December 31, 2016 the balance of this loan is S/558,804,000 and S/575,535,000, respectively.
- (d) Also, in October 2014 the Company issued through InRetail Consumer, an offering in the local market and abroad of "Senior Notes Unsecured" for S/250,000,000, due in 2021 at an 6.8125 percent nominal interest rate. This borrowing was recorded in the consolidated financial statements at their amortized cost at a 6.8805 percent effective interest rate, after considering the respective up-front fees for approximately S/625,000, as of June 30, 2017 (S/686,000, as of December 31, 2016). As of June 30, 2017 and December 31, 2016 the balance of this loan is S/249,375,000 and S/249,314,000, respectively.
- (e) The funding was mainly used to:
- Purchase of "Senior Secured Notes" issued and placed in 2011 by InterCorp Retail Inc. through InterCorp Retail Trust, acquiring a total of 277,277,000, of such notes, and payment of the premiums for the repurchase of the bonds.

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

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

Notes to the combined financial statements

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

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

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

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

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

In Management's opinion, these clauses do not limit the operations of Supermercados Peruanos and Subsidiaries and Eckerd Perú S.A. and Subsidiaries as of June 30, 2017 and December 31, 2016.

- (f) On June and September 2015, Supermercados Peruanos S.A. received two loans from Scotiabank , each of S/120,000,000, bearing an annual effective interest rate of 6.95 and 6.35 percent respectively, percent and with maturities in May 2022 and September 2020, respectively. These loans are secured with Company properties.
- (g) On September 2016, the Company received a loan from Bank of Tokyo, for US\$30,000,000 equivalent to S/97,650,000 as of June 30, 2017 (US\$30,000,000 equivalent to S/100,800,000 as of December 31, 2016), with maturity in September 2019 and which bears an annual effective interest rate of 2.54 percent during the first year and 2.64 percent during the following two years. This loan was recorded at its amortized cost after considering the respective up-front fees for approximately S/564,000 (S/752,000 as of December 31, 2016).
- (h) Corresponds to the debt that Supermercados Peruanos S.A. incurred with IBM del Perú S.A.C. and Hewlett Packard S.A. to purchase computer equipment. Said contracts do not have any specific guarantee.
- (i) Debts and interest – bearing loans payable are as follows:

	As of June 30, 2017	As of December 31, 2016
	S/(000)	S/(000)
2017	201,146	144,222
2018	131,602	126,128
2019	96,847	204,469
2020	168,352	65,835
2021 onwards	902,733	861,428
Total	1,500,680	1,402,082

Notes to the combined financial statements

15. Deferred income tax

- (a) The amounts presented in the statement of financial position as of June 30, 2017 and December 31, 2016, as well as the statements of comprehensive income for the six-month periods ended June 30, 2017 and 2016 are shown below:

Statements of financial position	As of June 30, 2017		As of December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
Eckerd Perú and Subsidiaries	13,174	-	12,193	-
Supermercados Peruanos and Subsidiaries	-	72,353	-	65,682
Combination adjustments	-	111,543	-	111,698
Total	13,174	183,896	12,193	177,380

Statements of comprehensive income	Income tax for the six-month periods ended June 30, 2017 and 2016	
	2017	2016
	S/(000)	S/(000)
Current	(45,582)	(37,678)
Deferred	(5,650)	(6,448)
Income tax expense	(51,232)	(44,126)

- (b) As of June 30, 2017 and December 31, 2016 the income credit tax, net of provision for current income tax payable, amounts to approximately S/836,000 and S/8,709,000, respectively.

Notes to the combined financial statements

16. Equity

(a) Capital stock –

Company	N° issued common shares		Nominal value	Accounting balance of issued capital	
	As of June 30, 2017	As of December 31, 2016		As of June 30, 2017	As of December 31, 2016
				S/. (000)	S/. (000)
Supermercados Peruanos S.A. and Subsidiarias (*)	320,332,671	320,332,671	1.05	336,349	336,349
Eckerd Perú S.A. y Subsidiarias	13,783,428	13,783,428	1.00	13,784	13,784

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

(b) Additional paid-in capital –

As of June 30, 2017 and December 31, 2016, the "Additional paid-in capital" caption includes the net effect of the adjustments related to the acquisition of Eckerd Perú S.A. and Subsidiaries at said dates; see Note 12(b).

(c) Legal reserve –

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

(d) Advance performance –

During the first quarter of 2017, it was agreed to advance performance by S/71,584,000 of this amount, S/68,550,000 has been disbursed in April 2017.

Notes to the combined financial statements

17. Tax Situation

- (a) The Companies are subject to the Peruvian Tax System and they calculate their income Tax on the basis of their individual financial statements. As of June 30, 2017 the statutory Income Tax rate was 29.5 percent (28 percent as of December 31, 2016), on taxable income.

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

- 4.1 percent of the profits generated until December 31, 2014
 - For the profits generated in the years 2015 and 2016 shall be 6.8 percent.
 - 5.0 percent for the profits generated since January 1, 2017.
- (b) According to the text of the Law on Income Tax, as amended by Law N° 29663 and 29757, as of year 2012, among the transactions subject to capital duty, are those obtained by the indirect sale of shares of Peruvian Companies. For these purposes, an indirect transfer is set when two instances occur together:
- First, 10 percent on more of the shares of non-resident must be sold in any twelve months period (assumed effective from February 16, 2011); and,
 - Second, the market value of the shares of the Peruvian society must represent 50 percent or more the market value of non-domiciled, in any period of twelve months (assumed effective from July 22, 2011);.
- (c) For purposes of determining the Income Tax, transfer pricing of transactions with related companies and companies domiciled in territories with low or no taxation must be supported with documentation and information on assessment methods applied and criteria considered. Based on the analysis of the operations of the Group, Management and its legal advisors consider that as consequence of the application of the regulation in force, there will not be any significant contingencies for the Companies as of June 30, 2017 and December 31, 2016.
- (d) The tax authority is legally entitled to review and, if necessary, adjust the Income Tax computed during a term of four years following the year in which the tax declaration was submitted.

Notes to the combined financial statements

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

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

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

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

Management's opinion as well as its legal advisors opinion, any eventual additional tax settlement would not be significant to the combined financial statements as of June 30, 2017 and December 31, 2016.

18. Operating expenses

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

	2017	2016
	S/(000)	S/(000)
Cost of sales	2,556,425	2,371,897
Selling expenses	772,493	708,577
Administrative expenses	91,613	83,667
Total	<u>3,420,531</u>	<u>3,164,141</u>

Notes to the combined financial statements

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

	2017			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods	962,870	-	-	962,870
Purchase of goods	2,543,585	-	-	2,543,585
Final balance of goods, Note 6(a)	(956,342)	-	-	(956,342)
Impairment of inventories, Note 6(c)	6,312	-	-	6,312
Packing and packaging	-	20,406	70	20,476
Personnel expenses	-	274,396	48,070	322,466
Depreciation, Note 10(a)	-	66,949	7,028	73,977
Amortization, Note 12(a)	-	4,265	2,883	7,148
Key money amortization	-	660	-	660
Services provided by third parties (b)	-	140,893	16,105	156,998
Advertising	-	45,028	-	45,028
Rental of premises	-	117,252	3,964	121,216
Taxes	-	14,481	1,728	16,209
Provision for doubtful trade receivables, Note 5(f)	-	1,132	-	1,132
Insurance	-	4,535	405	4,940
Other charges (c)	-	82,496	11,360	93,856
Total	2,556,425	772,493	91,613	3,420,531

	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	2,335,471	-	-	2,335,471
Final balance of goods	(845,971)	-	-	(845,971)
Impairment of inventories, Note 6(c)	6,099	-	-	6,099
Packing and packaging	-	21,210	109	21,319
Personnel expenses	-	268,483	44,880	313,363
Depreciation	-	63,315	7,202	70,517
Amortization	-	3,779	2,741	6,520
Key money amortization	-	715	-	715
Services provided by third parties (b)	-	117,861	13,464	131,325
Advertising	-	39,181	-	39,181
Rental of premises	-	104,863	4,207	109,070
Taxes	-	13,594	1,522	15,116
Provision for doubtful trade receivables, Note 5(f)	-	857	-	857
Insurance	-	5,154	375	5,529
Other charges (c)	-	69,565	9,167	78,732
Total	2,371,897	708,577	83,667	3,164,141

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

(c) Mainly include general expenses in stores.

Notes to the combined financial statements

19. Income and Finance costs

The table below presents the components of this caption:

	2017 S/(000)	2016 S/(000)
Finance income		
Interest and others	3,191	2,484
Total	3,191	2,484
Finance cost		
Interest on loans, borrowings and bonds payable	39,086	42,754
Premium accrual "Call Spread"	2,821	395
Other financial costs	8,738	10,624
Total	50,645	53,773

20. Transactions with related parties

(a) The following table provides the total amount of transactions with related parties for the relevant financial periods ended June 30, 2017 and 2016:

	2017 S/(000)	2016 S/(000)
Income		
Sales	2,359	2,037
Rental income	9,934	7,667
Services income	3,791	3,217
Collection services	3,867	2,711
Income from joint venture	11,766	8,770
Others	5,737	11,056
Total	37,454	35,458
Expenses		
Renting of premises and land	20,799	18,641
Reimbursement of expenses	8,513	9,231
Commissions	18	52
Interest	2,380	1,523
Others	6,596	5,329
Total	38,306	34,776

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 June 30, 2017 and December 31, 2016:

	As of June 30, 2017 S/(000)	As of December 31, 2016 S/(000)
Receivables		
Financiera Oh! S.A.	3,004	4,529
Banco Internacional del Perú S.A.A. – Interbank	1,963	1,945
Homecenters Peruanos S.A.	1,833	570
Bembos	1,056	305
Tiendas Peruanas S.A.	789	789
Interproperties Holding (f)	391	107
Urbi S.A.	209	213
Cineplex S.A.	92	103
Intercorp Retail Inc.	-	206
Others	7,836	11,056
Total	17,173	19,823
	S/(000)	S/(000)
Payables		
Interproperties Holding (f)	40,805	32,579
Homecenters Peruanos S.A (f)	16,819	12,179
Financiera Oh! (d)	8,823	24,573
Banco Internacional del Perú S.A.A. – Interbank:		
Line of credit and others	-	27
Deposit in guarantee (e)	5,484	5,470
Interseguro Compañía de Seguros S.A.	629	731
InRetail Management S.R.L.	271	1,680
Real Plaza S.A.	75	1,098
Horizonte Global Opportunities Perú S.A.	44	26
Cineplex S.A.	12	5
Others	2,396	1,909
	75,358	80,277
Remunerations payable to key management	-	-
Total	75,358	80,277
Current portion	13,121	31,410
Non-current portion	62,237	48,867
Total	75,358	80,277

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

Notes to the combined financial statements

- (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 Six month periods end June 30, 2017 and 2016, 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 Oh! S.A., a related entity, signed the "Contract of Issuance and Administration of the "Oh!" credit card". This contract allows that Financiera Oh! S.A. can exclusively operate its "Oh!" credit card in the Supermercados Peruanos stores.

Likewise, as a consequence of such contract, as of June 30, 2017 and December 31, 2016, Supermercados Peruanos S.A. holds accounts payable to Financiera Oh! S.A. for approximately S/8,823,000 and S/24,573,000 respectively, which corresponded mainly to the collection of installments to users of the "Oh!" credit card, which normally are transferred to Financiera Oh! S.A. the day following of its collection.

- (e) Supermercados Peruanos S.A. and Banco Internacional del Perú S.A.A. –Interbank signed contracts on leases of financial stores for 15 and 7 years in October 2004 and September 2009, respectively. Said contracts amount to approximately S/27,212,000 (equivalent to approximately US\$8,000,000) and S/14,788,000 (equivalent to approximately US\$5,016,000) which were collected in advance by Supermercados Peruanos S.A. and are presented in the "Deferred revenue" caption in the Combined statements of financial position. Additionally, and only in the case of the 2004 contract, Supermercados Peruanos S.A. received from Banco Internacional del Perú S.A.A. – Interbank US\$2,000,000 as collateral for the contract. As of March 31, 2017 and 2016, Supermercados Peruanos S.A. has credited the update of the present value of this deposit in the "Financial income" caption. The net present value of the balances related to guarantee deposit amount to S/5,484,000 and S/5,470,000 respectively, as of March 31, 2017 and December 31, 2016, and is accounted for in the "Other Payables" in the Combined statement of financial position. The contract signed in September 2009 finished in April 2016.

In relation to the contracts, during 2017 Supermercados Peruanos S.A. recognized accrued rental income that amounted to approximately S/511,000, equivalent to US\$160,000 (S/1,100,000, equivalent to US\$363,000, for the same period in 2016), which are recorded in the "Rental income" caption in the Combined income statements.

As of June 30, 2017, Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/2,090,000 (S/2,698,000 as of December 31, 2016) which will be recognized as income in upcoming periods.

- (f) As of June 30, 2017 mainly includes contributions from the affiliates Patrimonio en Fideicomiso D.S. N°093-2002-EF Interproperties Perú and Homecenters Peruanos S.A. for approximately S/40,021,000 and S/16,732,000, respectively (S/31,690,000 and S/11,707,000 as of December 31, 2016), these contributions arise from the joint venture agreements celebrated with the Company which establishes that the associates undertake to deliver cash in favor of the Company in exchange of having a participation in the results of the projects Mall "La Curva" and "Lurin". These agreements have a term of 30 and 60 years, respectively. For this reason is recognized as long-term liability.

Notes to the combined financial statements

21. Deferred revenue

The table below presents the components of this caption:

	As of June 30, 2017 S/(000)	As of December 31, 2016 S/(000)
Leases to financial modules	2,090	2,698
Other leases	12,925	13,155
Other deferred revenue	11,469	12,618
Total	26,484	28,471
Current portion	3,069	3,737
Non-current portion	23,415	24,734
Total	26,484	28,471

As of June 30, 2017, The company received from its related party Patrimonio en Fideicomiso D.S. N°093-2002-EF Interproperties Perú S/15,300,000 as loss profits. During the year 2016 an amount of S/5,300,000, corresponding to the time that the destruction and construction of the area ceded to a third party was carried out, was recognized as an income; the remaining amount will accrue in the remaining term of the lease that the Company maintains with its related party.

22. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of June 30, 2017 and December 31, 2016, the Companies have signed rental contracts with third parties for the premises in which some of its stores operate. The assumed commitments correspond to fixed and/or variable monthly rents based on sales, whichever is highest. The total commitments assumed up until 2076.
- (b) As of June 30, 2017 and December 31, 2016, the Companies agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee to comply with the payment of goods purchased to foreign suppliers.
- (c) During 2014, InRetail Consumer, issued US\$300,000,000 and S/250,000,000 of “Senior Guaranteed Notes” which are guaranteed by the Companies’ equity and other related parties.

Contingencies –

- (a) Eckerd Amazonia S.A.C. is in the process of claim against the Tax Authority for determinations of debts and fines related to VAT for the period between January 2003 and June 2005. In opinion of Management and its legal advisors these contingencies are stated as “Possible” and significant liabilities will not arise as a result of this contingency as of June 30, 2017 and December 31, 2016.

Notes to the combined financial statements

- (b) Eckerd Perú S.A. has a legal process with its supplier Ekalmi S.A. as consequence of disagreements on the services it provides. At the date of this report, Ekalmi S.A. has demanded Eckerd Perú S.A. a pending payment for approximately S/12,000,000. As of June 30, 2017 and December 31, 2016, Eckerd Perú S.A. holds liabilities with this supplier for approximately S/5,000,000; and in opinion of Eckerd Perú S.A., it would be the maximum amount it would pay.
- (c) (a) Eckerd Perú S.A. received a notification issued by Instituto Nacional de Defensa de la Competencia y de la Propiedad Intelectual (INDECOPI), whereby Eckerd Perú SA was sanctioned for alleged offenses committed in previous years. In November 2016, Eckerd Perú S.A. decided not to appeal and pay in full that sanction. The reason for this decision is that the facts investigated occurred in 2008 and 2009, before Inkafarma was acquired by the Intercorp Group in 2011. As part of the Intercorp Group, Inkafarma rejects any kind of wrongdoing that would affect the Market competition and the consumer rights.
- (d) Supermercados Peruanos S.A. is a party to tax proceedings related to Income Tax returns and its monthly Value Added Tax presented in taxable years 2004 to 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 June 30, 2017 and December 31, 2016, respectively.

23. Business segments

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

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

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

Notes to the combined financial statements

The following table presents the financial information of Companies by business segments for the six-month periods ended June 30, 2017 and 2016:

	Supermarkets S/(000)	Pharmacies S/(000)	Total segments S/(000)	Holding accounts, combination adjustments and intercompany eliminations S/(000)	Combined S/(000)
For the six-month periods ended June 30, 2017					
Revenue					
External income	2,246,957	1,323,514	3,570,471	-	3,570,471
Inter-segment	5,637	-	5,637	(5,637)	-
Total revenue	2,252,594	1,323,514	3,576,108	(5,637)	3,570,471
Cost of sales	(1,667,967)	(888,458)	(2,556,425)	-	(2,556,425)
Gross profit	584,627	435,056	1,019,683	(5,637)	1,014,046
Other operating income	12,054	232	12,286	-	12,286
Selling expenses	(461,421)	(316,709)	(778,130)	5,637	(772,493)
Administrative expenses	(58,456)	(31,923)	(90,379)	(1,234)	(91,613)
Other operating expenses	(2,537)	(2,814)	(5,351)	(4)	(5,355)
Operating profit	74,267	83,842	158,109	(1,238)	156,871
Exchange difference, net	6,104	(1,100)	5,004	4,335	9,339
Finance income	1,890	1,645	3,535	(344)	3,191
Finance costs	(26,180)	(1,178)	(27,358)	(23,287)	(50,645)
Profit before income tax	56,081	83,209	139,290	(20,534)	118,756
Income tax expense	(24,533)	(26,699)	(51,232)	-	(51,232)
Profit for the year	31,548	56,510	88,058	(20,534)	67,524

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 six-month periods ended June 30, 2016					
Revenue					
External income	2,037,843	1,273,430	3,311,273	-	3,311,273
Inter-segment	5,745	-	5,745	(5,745)	-
Total revenue	2,043,588	1,273,430	3,317,018	(5,745)	3,311,273
Cost of sales	(1,508,854)	(863,043)	(2,371,897)	-	(2,371,897)
Gross profit	534,734	410,387	945,121	(5,745)	939,376
Other operating income	17,034	190	17,224	-	17,224
Selling expenses	(430,837)	(283,485)	(714,322)	5,745	(708,577)
Administrative expenses	(53,076)	(29,516)	(82,592)	(1,075)	(83,667)
Other operating expenses	(7,205)	(360)	(7,565)	-	(7,565)
Operating profit	60,650	97,216	157,866	(1,075)	156,791
Exchange difference, net	8,075	(729)	7,346	5,898	13,244
Finance income	1,439	1,327	2,766	(282)	2,484
Finance costs	(27,244)	(1,374)	(28,618)	(25,155)	(53,773)
Profit before income tax	42,920	96,440	139,360	(20,614)	118,746
Income tax expense	(15,446)	(28,680)	(44,126)	-	(44,126)
Profit for the year	27,474	67,760	95,234	(20,614)	74,620

Notes to the combined financial statements

Geographic information –

As of June 30, 2017 and December 31, 2016, the operations of the Companies are concentrated in Peru, therefore, there are no revenues from external customers, or assets located in a foreign country as of those dates.

24. Fair value

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

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

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

- (a) Financial instruments whose fair value are similar to book value –
Assets and liabilities that are liquid or have short maturities (less than three months), such as cash and short-term deposits, trade and other receivables, trade and 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 do not hold financial instruments whose fair value was determined through level 3, nor were there inter-level transfers during the six-month periods ended June 30, 2017 and 2016. The Companies holds the following financial instruments at fair value:

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