

InRetail Real Estate Corp. And Subsidiaries

Interim consolidated financial statements as of December 31, 2017 (unaudited) and December 31, 2016 (audited) and for the twelve-month periods ended as of December 31, 2017 and 2016.

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Contents

Interim consolidated financial statements

Interim consolidated statements of financial position

Interim consolidated income statements

Interim consolidated statements of comprehensive income

Interim consolidated statements of changes in equity

Interim consolidated statements of cash flows

Notes to the interim consolidated financial statements

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of financial position

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

	<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 cash equivalents	4	54,155	49,109	Trade payables	14	40,405	31,172
Available for-sale-investments	5	56,403	57,470	Other liabilities	15	57,216	72,821
Investments at fair value through profit or loss	6	202,047	90,334	Accounts payable to related parties	25	931	5,043
Trade receivables, net	7	25,971	30,034	Current income tax		840	-
Other receivables	8	22,866	18,439	Current portion financial obligations	16	45,207	44,457
Accounts receivables from related parties	25	31,787	45,922	Total current liabilities		144,599	153,493
Prepaid expenses	9	5,166	2,374				
Recoverable taxes	10	10,045	19,275	Other long-term liabilities	15	22,203	23,336
Total current assets		408,440	312,957	Income tax related to special purpose entity	24(e)	213,081	166,501
				Long-term financial obligations	16	1,147,603	1,212,180
Non-current assets				Deferred income tax liabilities, net	17	27,478	19,052
Deferred income tax liability	17	1,521	1,106	Total non-current liabilities		1,410,365	1,421,069
Recoverable taxes	10	16,152	50,346	Total liabilities		1,554,964	1,574,562
Facilities, furniture and equipment, net	11	9,192	10,576				
Investment properties	12	3,159,414	3,073,771	Equity			
Investment in associates		42,986	31,690	Capital stock	19	1,475,706	1,475,706
Intangible assets		3,625	2,357	Unrealized results on financial instruments		3,706	(11,678)
Derivative financial instrument	13	30,279	55,908	Retained earnings		637,600	500,578
Other assets		367	457	Total equity		2,117,012	1,964,606
Total non-current assets		3,263,536	3,226,211				
				Total liabilities and equity		3,671,976	3,539,168
Total assets		3,671,976	3,539,168				

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of income and other comprehensive income

For the twelve-month periods ended as of December 31, 2017 (unaudited) and 2016 (audited)

	Note	2017 S/(000)	2016 S/(000)
Rental income	20	328,755	317,150
Cost of rental income	21	(44,693)	(34,001)
Net rental income		284,062	283,149
Income from management services	20	147,099	140,728
Cost related to income from management services	21	(112,177)	(109,053)
Net management service		34,922	31,675
Gross profit		318,984	314,824
Fair value adjustment for investment properties	12(b)	8,459	11,056
Administrative expenses	22	(28,300)	(26,355)
Selling expenses	22	(8,067)	(6,254)
Other operating income (expenses)		10,727	454
Operating profit		301,803	293,725
Financial income	23	7,783	6,251
Financial expenses	23	(114,641)	(119,780)
Exchange difference, net	26 (a)(ii)	7,997	3,878
Profit before income tax		202,942	184,074
Income tax	17(a)	(65,876)	(56,149)
Net profit		137,066	127,925
Earnings per share:			
Basic and diluted profit for the period attributable to ordinary equity holders of the parent	19(b)	0.2412	0.2251

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of other comprehensive income

For the twelve-month periods ended as of December 31, 2017 (unaudited) and 2016 (audited)

	2017	2016
	S/(000)	S/(000)
Profit for the period	137,066	127,925
Other comprehensive income		
Unrealized gain on available-for-sale investments	2,048	8,285
Transfer of the realized gain on available-for-sale investments	(181)	-
Income tax related special purpose entities	(560)	(2,485)
Total other comprehensive income of available for sale investments	1,307	5,800
Gain on hedging derivative financial instrument	6,388	12,716
Income tax related special purpose entities	7,689	1,977
Total other comprehensive income of financial instrument	14,077	14,693
Other comprehensive income for the period, net of income tax effects	15,384	20,493
Total comprehensive income for the period	152,450	148,418

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of changes in equity

For the twelve-month periods ended as of December 31, 2017 (unaudited) and 2016 (audited)

	Attributable to owners of InRetail Real Estate Corp.				Non-controlling interest	Total equity
	Capital stock	Unrealized results on financial instruments	Retained earnings	Total		
	S/(000)	S/(000)	S/(000)	S/(000)		
Balance as of January 1, 2016	1,475,706	(32,171)	375,467	1,819,002	6,419	1,825,421
Profit for the period	-	-	127,925	127,925	-	127,925
Other comprehensive income	-	20,493	-	20,493	-	20,493
Total comprehensive income	-	20,493	127,925	148,418	-	148,418
Purchase of share non-controlling interest	-	-	(2,621)	(2,621)	(6,419)	(9,040)
Others	-	-	(193)	(193)	-	(193)
Balance as of December 31, 2016	1,475,706	(11,678)	500,578	1,964,606	(6,419)	1,964,606
Balance as of January 1, 2017	1,475,706	(11,678)	500,578	1,964,606	-	1,964,606
Profit for the period	-	-	137,066	137,066	-	137,066
Other comprehensive income	-	15,384	-	15,384	-	15,384
Total comprehensive income	-	15,384	137,066	152,450	-	152,450
Effect change of participate in subsidiaries	-	-	(44)	(44)	-	(44)
Balance as of December 31, 2017	1,475,706	3,706	637,600	2,117,012	-	2,117,012

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of cash flows

For the twelve-month periods ended as of December 31, 2017 (unaudited) and 2016 (audited)

	2017 S/(000)	2016 S/(000)
Operating activities		
Revenue	490,948	450,839
Payments of goods and services to suppliers	(133,531)	(121,880)
Payments of salaries and social benefits to employees	(28,879)	(30,678)
Taxes paid	(19,496)	(3,807)
Recovery of taxes	32,261	54,158
Other collections (payments), net	7,052	(1,865)
Net cash flows from operating activities	348,355	346,767
Investing activities		
Sales of investments at fair value through profit or loss	199,668	304,988
Sales of investment properties	4,004	2,751
Sales of property, furniture and equipment	64	-
Purchase of certificates of participation in associated companies	(8,331)	(31,690)
Purchase of investments at fair value through profit or loss	(311,381)	(360,426)
Loans granted to related parties	(1,800)	1,915
Purchase of property, furniture and equipment	(1,370)	(1,107)
Purchase and development of intangible assets	(1,556)	(972)
Purchase of investment properties	(78,144)	(105,461)
Purchase of available for sale investments	-	(30,773)
Purchase of non-controlling interest shares	-	(9,040)
Value Added tax payment related to investment properties	(14,066)	(33,493)
Net cash flows used in investing activities	(212,912)	(263,308)
Financing activities		
Payment of interest-bearing loans and borrowings	(43,210)	(44,826)
Sale of third-party bonds	-	55,000
Interests paid	(87,187)	(90,568)
Net cash flows used in financing activities	(130,397)	(80,394)
Net (decrease) increase of cash and short-term deposits	5,046	3,065
Cash and short-term deposits at the beginning of the period	49,109	46,044
Cash and short-term deposits at the end of the period	54,155	49,109
Non-cash transactions		
Fixed assets purchased through leasing and other financial obligations	929	1,793
Investment properties purchased through leasing	-	34,523

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

InRetail Real Estate Corp. and Subsidiaries

Notes to the interim consolidated financial statements

Interim unaudited consolidated financial statements as of December 31, 2017 and December 31, 2016 (audited) and for the twelve-month periods ended as of December 31, 2017 and 2016 (audited).

1. Business activity

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

As of December 31, 2017 and December 31, 2016 Intercorp Perú holds directly and indirectly 71.46 percent of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

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

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

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

The consolidated financial statements as of December 31, 2017, were approved by the Board of Directors on February 28th, 2018.

2. Subsidiaries activities

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

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

Notes to the interim consolidated financial statements (continued)

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

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

Additionally, Interproperties Holding II owns 100 percent as of December 31, 2017 and December 31, 2016 of participation in the assets of Patrimonio Fideicometido – D.S. N° 093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own and handle Real Plaza Cusco “San Antonio” Shopping Mall.

- (c) Real Plaza S.R.L. (hereinafter “Real Plaza”)
An entity focused on operating the shopping malls (21 as of December 31, 2017 and December 31, 2016) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of “Real Plaza Shopping Mall”.

As of December 31, 2017, Real Plaza manages shopping malls in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca, Pucallpa and Lima.

3. Summary of significant accounting policies

3.1 Basis of preparation and presentation

The interim consolidated financial statements of InRetail Real Estate have been prepared in accordance with the International Accounting Standard 34 “Interim financial reporting”. Also, the accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the InRetail Real Estate’s annual consolidated financial statements for the year ended December 31, 2016 which were audited. Therefore, these interim consolidated financial statements should be read in conjunction with such audited consolidated financial statements.

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

The interim consolidated financial statements do not include all information and disclosures required for annual consolidated financial statements and should be read together with consolidated financial statements as of December 31, 2016.

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

Notes to the interim consolidated financial statements (continued)

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

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

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

3.2 New standards and interpretations adopted by InRetail Real Estate-

Several standards and amendments have come into effect from January 1, 2017; however, in the opinion of InRetail Real Estate's Management, they have no impact on the accompanying unaudited consolidated financial statements as of December 31, 2017.

IFRS 9 early implementation

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

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

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

3.3 Significant estimations and assumptions

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

Notes to the interim consolidated financial statements (continued)

4. Cash and cash equivalent

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

	As of December 31, 2017 S/(000)	As of December 31, 2016 S/(000)
Cash	31	32
Current accounts (b)	29,675	7,058
Time deposits (c)	22,846	38,538
Management and security trust current accounts (d)	1,603	3,481
Total	54,155	49,109

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

(c) As of December 31, 2017, time deposits are unrestricted, maintained in Soles in local financial institutions, have maturities of up to one month since its inception and bear annual interests between 1.25 and 3.30 percent in Soles, (between 4.10 and 4.60 in Soles and 0.30 percent annual in US Dollars as of December 31, 2016).

(d) As of December 31, 2017 and December 31, 2016, correspond to the bank accounts, which serve as means of payment of the guaranteed obligations with regard to the leasing granted by Banco de Crédito del Perú in favor of Interproperties Holding II, see note 16 (c), in compliance with the contract of management and security trust.

5. Available for-sale investments

As of December 31, 2017, corresponds to bonds issued by Intercorp Ltd., of US\$6,656,000 equivalent to S/21,599,000 (US\$6,431,000 equivalent to S/21,608,000 as of December 31, 2016), which mature in 2025, and accrue effective annual interests at a rate of 5.785 percent. The fair value is determined by price quotations published in an active market.

Additionally, as of December 31, 2017, the Company has other investments available for sale for an amount of US\$10,725,000 equivalent to S/34,804,000 (US\$10,673,000 equivalent to S/35,862,000 as of December 31, 2016).

Notes to the interim consolidated financial statements (continued)

6. Investments at fair value through profit or loss

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

Entity	As of December 31, 2017 S/(000)	As of December 31, 2016 S/(000)
Mutual funds managed by Sura SAF S.A.C.	180,965	69,383
Mutual funds managed by Interfondo S.A. SAF	<u>21,082</u>	<u>20,951</u>
Total	<u>202,047</u>	<u>90,334</u>

As of December 31, 2017 and December 31, 2016, these mutual funds invested in a portfolio of financial instruments issued by renowned financial institutions of the local market. The results from this valuation are presented in the "Financial Income" caption of the consolidated statement of income.

7. Trade receivables

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

	As of December 31, 2017 S/(000)	As of December 31, 2016 S/(000)
Rents receivable (b)	16,459	17,161
Unbilled services (c)	13,561	16,562
Documents receivable	<u>1,972</u>	<u>1,478</u>
Total trade receivables	31,992	35,201
Allowance for doubtful accounts (e)	<u>(6,021)</u>	<u>(5,167)</u>
Total trade receivables, net	<u>25,971</u>	<u>30,034</u>

(b) As of December 31, 2017 and December 31, 2016, trade accounts receivable are denominated in Soles and US Dollars, have current maturities and do not accrue interests.

(c) As of December 31, 2017 and December 31, 2016, mainly corresponds to unbilled lease services for variable and fixed rents, which are billed during the following month.

Notes to the interim consolidated financial statements (continued)

(d) As of December 31, 2017 and December 31, 2016 the analysis of trade receivables is as follows:

	Balance as of December 31, 2017		
	Non-impaired	Impaired	Total
	S/(000)	S/(000)	S/(000)
Unbilled services	13,561	-	13,561
Past-due			
From 1 to 90 days	11,550	-	11,550
From 91 to 120 days	317	113	430
From 121 to 180 days	367	240	607
From 181 to 270 days	102	376	478
More than 271 days	74	5,292	5,366
Total	25,971	6,021	31,992

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

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

(e) The movement of the provision for impairment as of December 31, 2017 and 2016 is as follows:

	2017	2016
	S/(000)	S/(000)
Balance at the beginning of the year	5,167	5,492
Provision recognized as period expense, note 22(b)	1,970	2,051
Write offs and recovery's, note 22(b)	(1,103)	(2,422)
Exchange difference	(13)	46
Balance at the end of the period	6,021	5,167

In the opinion of InRetail Real Estate Management, the provision for impairment appropriately covers the credit risk as of December 31, 2017 and December 31, 2016.

Notes to the interim consolidated financial statements (continued)

8. Other receivables

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

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
By type:		
Outstanding advances (b)	680	4,133
Fund retained - Banco de la Nación (c)	20,422	13,134
Others	1,764	1,172
	<hr/>	<hr/>
Total	22,866	18,439
	<hr/>	<hr/>

(b) As of December 31, 2017 and December 31, 2016, correspond to advances given to suppliers related to projects for the investments properties.

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

(d) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of December 31, 2017 and December 31, 2016, as no credit risk has been identified.

9. Prepaid expenses

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

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
Insurances paid in advance (b)	1,526	1,903
Municipal taxes prepaid (c)	630	-
Structuring cost (d)	2,700	-
Others	310	471
	<hr/>	<hr/>
Total	5,166	2,374
	<hr/>	<hr/>

(b) Corresponds mainly to insurance payments on properties of the Company.

(c) Corresponds mainly to Municipal prepaid taxes on properties.

(d) Corresponds mainly to the restructuring cost of the financial lease of the "Puruchuco project".

Notes to the interim consolidated financial statements (continued)

10. Recoverable taxes

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

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
By type:		
Tax credit for value-added-tax (b)	22,471	66,866
Income tax payment	1,821	2,755
Others	1,905	-
	<hr/>	<hr/>
Total	26,197	69,621
	<hr/>	<hr/>
By term:		
Current	10,045	19,275
Non-current	16,152	50,346
	<hr/>	<hr/>
Total	26,197	69,621
	<hr/>	<hr/>

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

Notes to the interim consolidated financial statements (continued)

11. Facilities, furniture and equipment, net

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

	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	Equipment miscellaneous S/(000)	Work in progress S/(000)	Total S/(000)
Cost						
Balance as of January 1, 2017	5,560	4,320	493	8,425	178	18,976
Additions	262	215	477	1,171	174	2,299
Disposals	44	(349)	(275)	(14)	(42)	(636)
Balance as of December 31, 2017	5,866	4,186	695	9,582	310	20,639
Accumulated depreciation						
Balance as of January 1, 2017	1,986	2,285	174	3,955	-	8,400
Depreciation of the period, Note 22(b)	1,107	607	132	1,613	-	3,459
Disposals	-	(231)	(165)	(16)	-	(412)
Balance as of December 31, 2017	3,093	2,661	141	5,552	-	11,447
Net cost as of December 31, 2017	2,773	1,525	554	4,030	310	9,192
Net cost as of December 31, 2016	3,574	2,035	318	4,471	178	10,576

(b) As of December 31, 2017 and December 31, 2016, there are no pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.

(c) As of December 31, 2017 and 2016, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on said assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.

Notes to the interim consolidated financial statements (continued)

12. Investment properties

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

	As of December 31, 2017 S/(000)	As of December 31, 2016 S/(000)
Real Plaza Salaverry shopping mall (i)	462,095	428,338
Real Plaza Chiclayo shopping mall	262,796	255,084
Real Plaza Cuzco shopping mall (i)	260,129	247,614
Real Plaza Centro Cívico shopping mall (i)	233,451	231,510
Real Plaza Piura shopping mall	231,112	220,966
Real Plaza Primavera shopping mall	222,477	208,377
Real Plaza Trujillo shopping mall	199,368	181,977
Real Plaza Huancayo shopping mall (i)	158,189	163,393
Real Plaza Puruchuco project	141,749	137,298
Real Plaza Huánuco shopping mall (i)	116,370	117,551
Real Plaza Santa Clara shopping mall	113,984	108,051
Real Plaza Pro shopping mall	106,905	97,957
Real Plaza Cajamarca shopping mall	96,057	112,670
Real Plaza Juliaca shopping mall (i)	95,634	95,631
Real Plaza Arequipa shopping mall (i)	85,802	103,607
Real Plaza Chorrillos shopping mall	76,085	71,884
Real Plaza Sullana shopping mall	50,141	55,829
Real Plaza Nuevo Chimbote shopping mall	30,607	24,866
Jiron de la Union	18,768	20,646
Others (ii)	197,695	190,522
Total	3,159,414	3,073,771

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

(ii) Correspond to lands on which real estate projects will be developed, mainly shopping malls branded “Real Plaza”. In the opinion of InRetail Real Estate’s Management the book values of these investment properties do not differ significantly from their fair values as of December 31, 2017 and as of December 31, 2016 since Management has been managing the related licenses for their development.

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

Notes to the interim consolidated financial statements (continued)

- (b) The movement of this caption for the twelve-month period ended as of December 31, 2017 and 2016 is as follows:

	2017	2016
	S/(000)	S/(000)
Balance at the beginning of the year	3,073,771	2,925,501
Additions	79,246	139,984
Disposal	(2,062)	(2,770)
Fair value adjustment	8,459	11,056
Balance at the end of the period	3,159,414	3,073,771

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

13. Derivative financial instrument

As of December 31, 2017 and December 31, 2016, this item comprises of a principal Call Spread contract designated to hedge cash flows and recorded at its fair value. The detail of this operation is as follows:

Counterparty	Nominal value	Due	Pay fix at	Book value of	Fair value	Fair value
	US\$(000)		%	the hedged	2017	2016
				item	S/(000)	S/(000)
J.P. Morgan	200,000	July 21	1.84	649,000	30,279	55,908
Total					30,279	55,908

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

Notes to the interim consolidated financial statements (continued)

14. Trade payables

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

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
Bills payable to third parties (b)	32,941	19,668
Provision of services unbilled (c)	7,464	11,504
Total	40,405	31,172

(b) As of December 31, 2017 and December 31, 2016, trade payables mainly comprise the liabilities with contractors for the construction works and/or refurbishing of shopping malls. Bills payable are denominated in Soles and US Dollars, do not accrue interests and their maturities don't exceed the current period.

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

15. Other liabilities

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

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
By type:		
Deferred income (b)	23,411	30,577
Interests payable (c)	36,198	38,393
Deposits from third parties (d)	2,719	2,751
Workers' profit sharing	3,486	2,400
Vacations	280	235
Other payables	13,325	21,801
Total	79,419	96,157
By term:		
Current	57,216	72,821
Non-current	22,203	23,336
Total	79,419	96,157

Notes to the interim consolidated financial statements (continued)

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

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
Key money (b.1)	16,019	18,293
Advanced rents (b.2)	7,392	12,284
Total	<u>23,411</u>	<u>30,577</u>

- (b.1) As of December 31, 2017 and December 31, 2016, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.
- (b.2) As of December 31, 2017 and December 31, 2016, correspond mainly to rents paid in advance by Cineplex S.A. (a related entity) and Ripley (third-party entity) for the premises it operates in the shopping malls Real Plaza Pro and Real Plaza Salaverry, respectively.
- (c) As of December 31, 2017 and December 31, 2016, correspond mainly to interests payable originated from the private offering of "Senior Unsecured Notes", maturing in 2021. Interest on the notes will accrue at a rate of 6.50% percent annual and will be paid semi-annually on January and July of each year.
- (d) As of December 31, 2017 and December 31, 2016 it mainly correspond to deposits from the tenants of the Real Plaza shopping malls Arequipa, Primavera, Pro, Santa Clara, Huancayo, Huánuco, Trujillo, Cajamarca, Juliaca, Salaverry, Centro Cívico and Nuevo Chimbote.

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

Notes to the interim consolidated financial statements (continued)

16. Financial obligations

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

Type of Obligation	Original		Maturity final	Total				Current		Non-current	
	Currency	Interest Rate %		Original Amount		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
				US\$ (000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Bonds issuance (b)											
Foreign currency bonds issuance	USD	6.500	2021	350,000	-	916,875	936,147	-	-	916,875	936,147
Local currency bonds issuance	PEN	7.875	2034	-	141,000	135,383	135,324	-	-	135,383	135,324
				<u>350,000</u>	<u>141,000</u>	<u>1,052,258</u>	<u>1,071,471</u>	<u>-</u>	<u>-</u>	<u>1,052,258</u>	<u>1,071,471</u>
Leasings											
Related entities											
Banco Internacional del Perú-Interbank	USD	5.300	2018 - 2020	208	-	326	124	160	56	166	68
Non-related entities											
Banco de Crédito del Perú (c)	PEN	8.020	2019	-	54,748	9,321	13,314	5,099	4,371	4,222	8,943
Banco de Crédito del Perú (d)	PEN	7.970	2023	-	32,926	23,003	26,055	3,291	3,053	19,712	23,002
Banco de Crédito del Perú (e)	PEN	8.060	2024	-	20,727	15,072	16,809	1,874	1,737	13,198	15,072
Hewlett Packard S.A.	USD	4.680	2017 - 2021	547	-	1,152	1,998	426	852	726	1,146
IBM Perú SAC	USD	2.250	2018	70	-	39	194	39	147	-	47
CSI Renting	USD	Between 2.720 and 5.130	2018 - 2020	151	-	194	193	103	112	91	81
INFRATECH	USD	5.00	2020	41	-	173	-	70	-	103	-
				<u>1,220</u>	<u>216,701</u>	<u>49,280</u>	<u>58,687</u>	<u>11,062</u>	<u>10,328</u>	<u>38,218</u>	<u>48,359</u>
Promissory notes and loans											
Non-related entities											
J.P. Morgan	USD	1.658	2021	18,111	-	41,487	51,940	9,301	9,307	32,186	42,633
Scotiabank Perú S.A.A. (f)	PEN	6.700	2019	-	100,000	49,785	74,539	24,844	24,822	24,941	49,717
				<u>18,111</u>	<u>100,000</u>	<u>91,272</u>	<u>126,479</u>	<u>34,145</u>	<u>34,129</u>	<u>57,127</u>	<u>92,350</u>
Total				<u>369,331</u>	<u>457,701</u>	<u>1,192,810</u>	<u>1,256,637</u>	<u>45,207</u>	<u>44,457</u>	<u>1,147,603</u>	<u>1,212,180</u>

Notes to the interim consolidated financial statements (continued)

- (b) As of July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Unsecured Notes" for US\$350,000,000 equivalent to approximately S/1,135,750,000 as of December 31, 2017 (equivalent to approximately S/1,176,000,000 as of December 31, 2016), due in July 2021, at a 6.50 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.806 percent, after considering the respective up-front fees that amounted to US\$16,636,000 equivalent to approximately S/53,984,000 as of December 31, 2017 (US\$20,571,000 equivalent to approximately S/69,118,000 as of December 31, 2016). Additionally, as of December 31, 2017 the balance is presented net of US\$50,814,000 equivalent to S/164,891,000 (US\$50,814,000 equivalent to S/170,735,000 as of December 31 2016), corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2017 and December 31, 2016 the balance of this loan is S/916,875,000, and S/936,147,000, respectively.

Also, in July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Unsecured Notes" for S/141,000,000, due in July 2034, at a 7.875 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.988 percent, after considering the respective up-front fees that amounted to S/1,617,000 as of December 31, 2017 (S/1,676,000 as of December 31, 2016). Additionally, as of December 31, 2016, the balance is presented net of S/4,000,000 (S/4,000,000 as of December 31, 2016) corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2017 and December 31, 2016 the balance of this loan is S/135,383,000 and S/135,324,000, respectively.

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

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

Local currency debt:

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

Notes to the interim consolidated financial statements (continued)

Foreign currency debt:

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

In the opinion of InRetail Real Estate's Management, these obligations have been complied satisfactorily and are within the agreed limits as of December 31, 2017 and December 31, 2016.

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

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

In August 2014, the loan was restructured with a change in the interest rate, which changed from 9.02 to 8.02.

In the opinion of InRetail Real Estate's Management, these obligations have been complied satisfactorily and are within the agreed limits. Additionally, 100 percent of the Senior Unsecured Notes are guaranteed by the shares of InRetail Real Estate Corp. and Subsidiaries.

- (d) During 2012, Interproperties Holding II (SPE), decided to enlarge Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2A"), for which on December 26, 2012, signed an addendum to the Framework Contract with BCP, which committed to finance the project up to US\$12,500,000. As of December 31, 2017 and December 31, 2016, it is already operating; therefore, Interproperties Holding II has recorded the corresponding liabilities at such dates.

Notes to the interim consolidated financial statements (continued)

In June 2014 the debt was restructured with a change in the financing currency of US Dollars to Soles, the loan with the currency exchange amounted to S/32,926,355 and as a result, the interest rate changed to 7.97 from 7.62.

- (e) During 2013, Interproperties Holding II (SPE) continued the enlargement of Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2B"), for which it signed an addendum to the leasing agreement with BCP, which committed to finance the project for up to US\$7,500,000. As of December 31, 2017 and December 31, 2016, the expansion of Section 2B is finished.

In June 2014 the debt was restructured with a change in the financing currency of US Dollars to Soles, the loan with the currency exchange amounted to S/20,726,824 and as a result the interest rate changed from 7.02 to 8.06.

- (f) Corresponds to a loan agreement with Scotiabank Perú S.A.A. of S/ 100,000,000, for a period of four years, payable in quarterly installments. This loan was used to repay debt and other corporate purposes.

This obligation was recorded in the consolidated financial statement as amortized cost at effective annual interest rate of 7.135 percent per annum after considering the respective initial charge of approximately S/215,000 in December 31, 2017 (S/461,000 in December 31, 2016).

As of December 31, 2017, InRetail Real Estate amortized the debt by S/50,000,000.

- (g) Financial obligations are payable as follows:

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
2017	-	44,457
2018	45,207	44,539
2019	45,488	45,583
2020	17,173	17,497
2021	934,861	954,537
2022 onwards	150,080	150,024
Total	1,192,809	1,256,637

Notes to the interim consolidated financial statements (continued)

17. Income tax

- (a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as of December 31, 2017 and December 31, 2016 is detailed as follows:

Statements of financial position	As of December 31, 2017		As of December 31, 2016	
	Assets S/(000)	Liabilities S/(000)	Assets S/(000)	Liabilities S/(000)
Real Plaza S.R.L.	1,521	-	1,106	-
Inmobiliaria Puerta del Sol	-	27,478	-	19,052
Deferred income tax liability, net	1,521	27,478	1,106	19,052

Statements of comprehensive income	Income tax for the twelve-month period ended December 31, 2017 and 2016	
	2017 S/(000)	2016 S/(000)
Current	(57,866)	(55,122)
Deferred	(8,010)	(1,027)
Income tax expense	(65,876)	(56,149)

18. Commitments

As of December 31, 2017, corresponds to guarantee letters in favor of third parties for approximately S/8,827,000 and US\$3,391,000 (S/10,635,000 and US\$3,391,000 as of December 31, 2016), which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

19. Equity

- (a) Capital stock –

As of December 31, 2017 and December 31, 2016, the capital stock of InRetail Real Estate Corp. amounts to S/1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US\$1.00 each.

- (b) Earnings per share –

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

Notes to the interim consolidated financial statements (continued)

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

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 01, 2016	568,201,039	365	568,201,039
Number as of December 31, 2016	568,201,039		568,201,039
Number as of January 01, 2017	568,201,039	365	568,201,039
Number as of December 31, 2017	568,201,039		568,201,039
	For the twelve-month-period ended December 31, 2017		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	137,066,000	568,201,039	0.2412
	For the twelve-month-period ended December 31, 2016		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	127,925,000	568,201,039	0.2251

Notes to the interim consolidated financial statements (continued)

20. Income from real estate service

- (a) The composition of the balance for the twelve-month periods ended as of December 31, 2017 and 2016 is presented below:

	2017 S/(000)	2016 S/(000)
Rental income		
Rental income (b)	310,625	295,783
Rent of space for publicity	11,129	11,960
Key money	7,001	9,407
	<hr/>	<hr/>
Total	328,755	317,150
	<hr/>	<hr/>
Income from management services		
Common expenses (c)	66,824	62,191
Electricity and water (d)	48,055	49,662
Promotion and advertisement (e)	17,492	16,493
Parking	8,793	8,541
Management services	1,221	1,029
Others	4,714	2,812
	<hr/>	<hr/>
Total	147,099	140,728
	<hr/>	<hr/>

- (b) As of December 31, 2017 and 2016, corresponds to rental income from the economic exploitation of the "Real Plaza" Shopping Malls.

The composition of the rental income is presented below:

	2017 S/(000)	2016 S/(000)
Fixed rental income	264,374	254,446
Variable rental income	46,251	41,337
	<hr/>	<hr/>
Total	310,625	295,783
	<hr/>	<hr/>

- (c) Corresponds to income from common expenses including expenses of maintenance, safety management and supervision of shopping malls, which are billed to each tenant according to the terms established in the lease contract.
- (d) Corresponds to income from electricity and water that are assumed by the Company and are then billed to every tenant of shopping malls.
- (e) Corresponds to income from advertising and promotional activities of Shopping malls, which are billed to every tenant of the shopping malls according to the terms established in the lease contract.

Notes to the interim consolidated financial statements (continued)

21. Operating costs

(a) The composition of this caption for the twelve-month period ended as of December 31, 2017 and 2016 is presented below:

	2017 S/(000)	2016 S/(000)
Cost of rental income		
Landlord leases (b)	27,490	16,324
Property tax and duties	13,275	12,342
Property insurance costs	3,745	3,909
Others	183	1,426
Total	44,693	34,001
Cost related to income from management services		
Electricity and water	41,309	47,325
Maintenance and administration of parking lot	17,357	14,802
Advertising and marketing	18,246	18,430
Personnel expenses	12,155	9,812
Cleaning services	10,597	9,053
Safety services	7,805	6,743
Leases, professional fees and communications	144	1,635
Other costs	4,564	1,253
Total	112,177	109,053

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

22. Selling and administrative expenses

(a) The composition of this caption for the twelve-month period ended as of December 31, 2017 and 2016 is presented below:

	2017 S/.(000)	2016 S/.(000)
Administrative expenses	28,300	26,355
Selling expenses	8,067	6,254
Total	36,367	32,609

Notes to the interim consolidated financial statements (continued)

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

	2017		
	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)
Personnel expenses	5,822	14,718	20,540
Depreciation, Note 11 (a)	-	3,459	3,459
Amortization	-	287	287
Services provided by third parties	390	4,322	4,712
Allowance for doubtful accounts, Note 7 (e)	1,970	-	1,970
Recovery of allowance for doubtful accounts, Note 7 (e)	(1,103)	-	(1,103)
Other charges	988	5,514	6,502
Total	8,067	28,300	36,367

	2016		
	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)
Personnel expenses	5,560	9,268	14,828
Depreciation	-	3,328	3,328
Amortization	-	244	244
Services provided by third parties	869	8,228	9,097
Allowance for doubtful accounts, Note 7 (e)	2,051	-	2,051
Recovery of allowance for doubtful accounts, Note 7 (e)	(2,422)	-	(2,422)
Other charges	196	5,287	5,483
Total	6,254	26,355	32,609

Notes to the interim consolidated financial statements (continued)

23. Financial income and expenses

The composition of this caption for the twelve-month period ended as of December 31, 2017 and 2016 is presented below:

	2017	2016
	S/(000)	S/(000)
Income		
Interest on deposits	5,574	1,275
Gain from valuation of financial instruments	-	1,459
Interest from granted loans	655	638
Others	1,554	2,879
Total	7,783	6,251
	2017	2016
	S/(000)	S/(000)
Expenses		
Bond interest expenses	74,160	76,674
Derivative financial instruments expenses	9,018	8,705
Debt structuring expenses	13,110	12,673
Interest from long-term loans	4,293	5,976
Interest from leasing and others	7,281	8,819
Others	6,779	6,933
Total	114,641	119,780

24. Tax situation

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

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

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

(b) Real Plaza is domiciled in Perú and is subject to the Peruvian tax system and, in compliance with current Peruvian legislation calculate their income tax on the basis of their separate financial statements. As of December 31, 2017, the statutory income tax rate was 29.5 percent (28.0 percent as of December 31, 2016) on tax payable income, after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.

Notes to the interim consolidated financial statements (continued)

- (c) According to the text of the Law on Income Tax, as amended by Law 29663 and 29757, since year 2012, among the transactions subject to capital duty, are those obtained by the indirect sale of shares of Peruvian companies. For these purposes, an indirect transfer is set when two instances occur together:
- (i) In first place, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months and,
 - (ii) In second place, 10 percent or more of the shares of the non-resident must be sold in any twelve month period;
- (d) Transactions entered into between related parties and/or with tax heaven residents fall into the scope of the Peruvian Transfer Pricing rules. Such rules are based on the application of the arm's length principle, as understood by the OECD. It is important to mention that Transfer Pricing rules are only applicable for Income Tax purposes, and adjustments are allowed under certain conditions only. Based on the analysis of operations of InRetail, its Management and legal advisors believe that the implementation of these standards does not generate any significant contingencies for InRetail Real Estate as of December 31, 2017 and December 31, 2016.
- (e) The Peruvian Tax Authority is legally entitled to perform tax audit procedures on local taxpayers for up to four years subsequent to the year of the presentation of the tax return. The Tax Authority is entitled to challenge the Income Tax calculation performed by such taxpayers. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Real estate Corp. incorporated in Perú:

	Income Tax	Value added tax
Real Plaza S.R.L.	From 2015 to 2017	From 2013 to 2017
Inmobiliaria Puerta del Sol S.A.	From 2014 to 2017	From 2013 to 2017

In accordance with Peruvian law, InRetail Shopping Malls, Interproperties Holding and Interproperties Holding II, Special Purpose Entities, are not considered to be taxpayers due to their conditions as trusts but they attribute their obtained income, net losses and tax credits on their foreign source income to the holders of their certificates of participation. Therefore, to reflect this obligation, the Company has provisioned 30 percent of long term income tax over the profits earned to date. As of December 31, 2017 and December 31, 2016, the accrued income tax amounted to S/213,081,000 and S/166,501,000, respectively.

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

In the opinion of the Management of InRetail Real Estate and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of December 31, 2017 and December 31, 2016.

Notes to the interim consolidated financial statements (continued)

25. Transactions with related companies

- (a) As a result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of December 31, 2017 and December 31, 2016:

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
Receivables		
Tiendas Peruanas S.A.	4,419	21,757
Homecenters Peruanos S.A.	1,591	3,432
Cineplex S.A.	754	3,979
Bembos	1,817	3,669
IR Management S.R.L.	1,874	22
Supermercados Peruanos S.A. (c)	5,364	1,181
Banco Internacional del Perú S.A.A.- Interbank	1,139	658
Intercorp Perú Ltd	552	476
Eckerd Perú S.A.	127	573
Others	14,150	10,175
Total	31,787	45,922
	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
Payables		
Tiendas Peruanas S.A.	270	3,609
Supermercados Peruanos S.A.	513	72
Homecenters Peruanos S.A.	51	47
Interseguro Compañía de Seguros S.A.	-	10
Others	97	1,305
	931	5,043
Financial Obligations		
Leasing:		
Banco Internacional del Perú - Interbank	326	124

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

- (b) As of December 31, 2017 and December 31, 2016, InRetail Real Estate holds balances with its related entity Banco Internacional del Perú S.A.A. – Interbank in the cash and cash equivalent caption for an amount of S/16,652,000 and S/22,052,000, respectively.

Notes to the interim consolidated financial statements (continued)

- (c) As of December 31, 2017 and December 31, 2016, it corresponds mainly to the contribution made by Interproperties Holding II to Supermercados Peruanos S.A. by the project "La Curva" for approximately S/42,986,000 and S/31,690,000, respectively. In accordance with the terms of the joint venture agreement, Interproperties Holding II has a share in the results generated by the project; Additionally, the contract is of limited duration considering a long-term receivable.
- (d) Transactions with related companies have been performed under normal market conditions. The taxes that these transactions generated, as well as the calculation bases for their determination, are the usual ones in the industry and they are settled in accordance with the current tax regulations.

26. Financial risks management

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

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

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

(a) Market risk –

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

The sensitivity analysis shown in the following section relates to the position as of December 31, 2017 and December 31, 2016. The sensitivity analysis has been prepared considering that the total amount of the net debt and the proportion of financial instruments in foreign currency is constant.

(i) Interest rate risk –

It is the risk that the fair values or future cash flows of a financial instrument fluctuate due to changes in market interest rates. InRetail Real Estate manages its interest rate risk through the obtaining of debt with fixed interest rate. As of December 31, 2017 and December 31, 2016, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.

(ii) Exchange rate risk –

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

Notes to the interim consolidated financial statements (continued)

As of December 31, 2017 and December 31, 2016, assets and liabilities by currency were the following (expressed in Thousands US Dollars):

	As of December 31, 2017	As of December 31, 2016
	US\$(000)	US\$(000)
Assets		
Cash and cash equivalents	2,595	4,225
Investment at fair value through profit or loss	18,985	12,644
Available-for-sale investments	17,381	17,104
Trade receivables, net	402	726
Other receivables, net	403	816
Accounts receivable from related parties	2,722	2,432
Total assets	42,488	37,947
Liability		
Trade payables	(1,498)	(2,450)
Other liabilities	(11,303)	(10,501)
Accounts payable to related parties	(362)	(61)
Financial obligations	(295,916)	(294,820)
Total liabilities	(309,079)	(307,832)
Call Spread	200,000	200,000
Net liability position	(66,591)	(69,885)

As of December 31, 2017 and December 31, 2016, InRetail Real Estate and its Subsidiaries have decided to reduce its exchange rate risk by entering into a hedging operation through a Call Spread written over its "Senior Notes Unsecured", which is considered an effective hedging instrument. The Call Spread is written over a nominal amount of US\$200,000,000, protects it from exchange rate fluctuations between S/3.225 and S/3.750 and will be effective until maturity of the "Senior Notes Unsecured". The net position in the derivatives related to the currency Call Spread agreement corresponds to exchange rate operations (Soles exchanged for US Dollars) with notional of US\$200,000,000. See further detail in Note 13 y 16.

Transactions in foreign currency are performed at free market exchange rates. As of December 31, 2017, the market weighted average exchange rate for transactions in US dollars was S/3.238 per US\$1.00 bid and S/3.245 per US\$1.00 ask (S/3.352 per US\$1.00 bid and S/3.360 per US\$1.00 ask as of December 31, 2016).

For the twelve-month period ended as of December 31, 2017, InRetail Real Estate incurred into a net gain for exchange difference of approximately S/7,997,000 (gain of S/3,878,000 as of December 31, 2016), which is presented in the caption "Exchange difference, net" the consolidated statements of income and other comprehensive income.

(b) Credit risk –

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

Notes to the interim consolidated financial statements (continued)

Credit risk related to accounts receivable –

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

Credit risk related to financial instruments and bank deposits –

The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of December 31, 2017 and December 31, 2016, is the book value of the balances of cash and cash equivalent.

(c) Liquidity risk –

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

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

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

27. Fair value of financial instruments –

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

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

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

(a) Financial instruments whose fair value is similar to their book value-

For financial assets and liabilities that are liquid or have short-term maturities (less than three-months), such as cash and cash equivalents, trade receivables, accounts receivable to related parties and other receivables, trade accounts payable and other current liabilities, it is deemed that their book values are similar to their fair values.

Notes to the interim consolidated financial statements (continued)

(b) Financial instruments at fixed rate –

The fair value of the financial assets and liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. The estimated fair value of financial obligations that accrue interests is determined through discounted cash flows by using the currently available rates for debts with similar conditions, credit risk and maturities.