**InRetail Perú Corp. and Subsidiaries**

Interim consolidated financial statements as of December 31, 2016 (non-audited) and December 31, 2015 (audited) and for the twelve-month periods ended December 31, 2016 and 2015

**InRetail Peru Corp. and Subsidiaries**

Interim consolidated financial statements as of December 31, 2016 and December 31, 2015 and for the twelve-month periods ended December 31, 2016 and 2015.

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**Interim consolidated financial statements**

## InRetail Perú Corp. and Subsidiaries

Interim consolidated statements of financial position

As of December 31, 2016 and December 31, 2015

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | S/(000) | S/(000) |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and short-term deposits | 4 | 243,555 | 235,409 |
| Investments at fair value through profit or loss | | 158,633 | 34,896 |
| Trade receivables, net | 5 | 96,033 | 98,314 |
| Other receivables, net | | 51,262 | 38,177 |
| Accounts receivables from related parties | 19 (b) | 65,659 | 56,404 |
| Inventories, net | 6 | 978,829 | 891,355 |
| Available-for-sale investment | 7 | 30,053 | 55,132 |
| Prepayments | | 20,409 | 18,790 |
| Taxes recoverable | | 37,686 | 85,141 |
| **Total current assets** | | **1,682,119** | **1,513,618** |
| **Non-current assets** | | | |
| Other receivables, net | | 15,245 | 14,374 |
| Prepayments | | 26,763 | 23,348 |
| Taxes recoverable | | 53,680 | 80,943 |
| Derivative financial instruments | 8 | 87,644 | 95,190 |
| Property, furniture and equipment, net | 9 | 2,547,832 | 2,435,177 |
| Investment properties | 10 | 2,687,776 | 2,465,673 |
| Intangible assets, net | 11 | 1,194,173 | 1,185,910 |
| Other assets | | 457 | 362 |
| **Total non-current assets** | | **6,613,570** | **6,300,977** |
| **Total assets** | | **8,295,689** | **7,814,595** |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | S/(000) | S/(000) |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade payables | 12 | 1,593,744 | 1,450,088 |
| Other payables | | 257,348 | 216,045 |
| Accounts payable to related parties | 19(b) | 45,735 | 27,002 |
| Current income tax | 14(b) | 8,709 | 3,907 |
| Interest-bearing loans and borrowings | 13 | 188,704 | 178,689 |
| Deferred revenue | | 3,737 | 4,326 |
| **Total current liabilities** | | **2,097,977** | **1,880,057** |
| Accounts payable to related parties | 19(b) | 5,470 | 5,188 |
| Interest-bearing loans and borrowings | 13 | 2,470,040 | 2,491,125 |
| Income tax long term | | 125,122 | 75,637 |
| Deferred revenue | | 43,934 | 50,093 |
| Deferred income tax liabilities, net | 14(a) | 179,330 | 161,467 |
| **Total non-current liabilities** | | **2,823,896** | **2,783,510** |
| **Total liabilities** | | **4,921,873** | **4,663,567** |
| **Equity** | | | |
| Capital stock | 15 | 2,138,566 | 2,138,566 |
| Treasury shares | | (39,256) | (4,791) |
| Additional paid in capital | | 527,029 | 549,793 |
| Unrealized results on financial instruments | | (25,450) | (43,920) |
| Unrealized results on available for-sale-investment | | 673 | (2,229) |
| Retained earnings | | 772,055 | 507,004 |
| **Equity attributable to owners of the parent** | | **3,373,617** | **3,144,423** |
| Non-controlling interests | | 199 | 6,605 |
| **Total equity** | | **3,373,816** | **3,151,028** |
| **Total liabilities and equity** | | **8,295,689** | **7,814,595** |

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

## InRetail Perú Corp. and Subsidiaries

Interim consolidated Income statements
For the twelve-month periods ended December 31, 2016 and 2015

| | Note | 2016<br>S/(000) | 2015<br>S/(000) |
|---|---|---|---|
| Net sales of goods | | 6,767,574 | 6,326,561 |
| Rental income | | 331,344 | 308,418 |
| Rendering of services | | 174,251 | 163,094 |
| **Revenue** | | 7,273,169 | 6,798,073 |
| Cost of sales | 17 | (5,019,274) | (4,741,708) |
| **Gross profit** | | **2,253,895** | **2,056,365** |
| Selling expenses | 17 | (1,446,751) | (1,317,240) |
| Administrative expenses | 17 | (202,537) | (181,933) |
| Gain on valuation at fair value of investment properties | 10(b) | 10,745 | 32,790 |
| Income from joint venture | | 21,089 | 13,843 |
| Other operating (expenses) income | | (2,533) | (6,845) |
| **Operating profit** | | **633,908** | **596,980** |
| Finance income | | 10,770 | 10,452 |
| Finance costs | 18 | (228,337) | (225,658) |
| Net exchange difference | | 11,274 | (169,338) |
| **Profit before income tax** | | **427,615** | **212,436** |
| Income tax expense | 14 | (159,737) | (67,991) |
| **Profit for the period** | | **267,878** | **144,445** |
| **Attributable to:** | | | |
| InRetail Perú Corp. Shareholders | | 267,865 | 143,867 |
| Non-controlling interests | | 13 | 578 |
| **Profit for the period** | | **267,878** | **144,445** |
| **Earnings per share:** | 20 | | |
| Basic and diluted profit for the period attributable to ordinary equity holders of the parent | | 2.61 | 1.40 |

All items above are related to continuing operations.

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

## InRetail Perú Corp. and Subsidiaries

### Interim consolidated statements of comprehensive income
For the twelve-month periods ended December 31, 2016 and 2015

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | S/(000) | S/(000) |
| **Profit for the period** | | 267,878 | 144,445 |
| **Other comprehensive income** | | | |
| Unrealized gain on available-for-sale investments | | 3,860 | (3,014) |
| Income tax effect | | (958) | 785 |
| | | **2,902** | **(2,229)** |
| Unrealized gain on hedging derivative financial instrument | | 16,494 | (42,694) |
| Income tax effect | | 1,976 | (1,226) |
| | | **18,470** | **(43,920)** |
| **Other comprehensive income for the period, net of income tax effects** | | 21,372 | (46,149) |
| **Total comprehensive income for the period** | | **289,250** | **98,296** |
| **Attributable to:** | | | |
| InRetail Perú Corp. shareholders | | 289,237 | 97,718 |
| Non-controlling interests | | 13 | 578 |
| **Total comprehensive income for the period** | | **289,250** | **98,296** |

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

## InRetail Perú Corp. and Subsidiaries

### Interim consolidated statements of change in equity

For the twelve-month periods ended December 31, 2016 and 2015

| | Capital stock | Treasury shares | Capital premium | Unrealized results on financial instruments | Unrealized results on available for-sale-investment | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) |
| **Balance as of January 1, 2015** | 2,138,566 | - | 549,793 | - | - | 363,208 | 3,051,567 | 6,163 | 3,057,730 |
| Profit for the period | | | | | - | 143,867 | 143,867 | 578 | 144,445 |
| Other comprehensive income | | | | (43,920) | (2,229) | - | (46,149) | - | (46,149) |
| **Total comprehensive income** | **-** | **-** | **-** | **(43,920)** | **(2,229)** | **143,867** | **97,718** | **578** | **98,296** |
| Capital contribution | - | - | | | | | - | - | - |
| Treasury shares | - | (4,791) | - | | - | - | (4,791) | - | (4,791) |
| Advancement of minority returns to participants | - | - | - | - | - | - | - | (207) | (207) |
| Others | - | - | - | - | - | (71) | (71) | 71 | - |
| **Balance as of December 31, 2015** | **2,138,566** | **(4,791)** | **549,793** | **(43,920)** | **(2,229)** | **507,004** | **3,144,423** | **6,605** | **3,151,028** |
| **Balance as of January 1, 2016** | 2,138,566 | (4,791) | 549,793 | (43,920) | (2,229) | 507,004 | 3,144,423 | 6,605 | 3,151,028 |
| Profit for the period | - | - | | - | - | 267,865 | 267,865 | 13 | 267,878 |
| Other comprehensive income | - | - | - | 18,470 | 2,902 | - | 21,372 | - | 21,372 |
| **Total comprehensive income** | **-** | **-** | | **18,470** | **2,902** | **267,865** | **289,237** | **13** | **289,250** |
| Advancement of minority returns to participants | - | - | - | - | - | - | - | - | - |
| Treasury shares | - | (34,465) | (22,764) | - | - | - | (57,229) | - | (57,229) |
| Purchase of shares non controlling interest | - | - | - | - | - | (2,620) | (2,620) | (6,419) | (9,039) |
| Attribution of the equity premium to non-controlling interest | - | - | - | - | - | (194) | (194) | - | (194) |
| **Balance as of December 31, 2016** | **2,138,566** | **(39,256)** | **527,029** | **(25,450)** | **673** | **772,055** | **3,373,617** | **199** | **3,373,816** |

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

## InRetail Perú Corp. and Subsidiaries

## Interim consolidated statements of cash flows

For the twelve-month periods ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| | S/(000) | S/(000) |
| **Operating activities** | | |
| Revenue | 7,264,578 | 6,778,319 |
| Payments of goods and services to suppliers | (5,682,285) | (5,341,992) |
| Payments of salaries and social benefits to employees | (677,437) | (614,214) |
| Taxes paid | (65,510) | (91,921) |
| Recovery of taxes | 43,507 | 41,154 |
| Other payments, net | 818 | 15,532 |
| **Net cash flows from operating activities** | **883,671** | **786,878** |
| **Investing activities** | | |
| Sales of property, furniture and equipment | 14,333 | - |
| Sales of intangible assets | 147 | - |
| Loan collected from related parties | - | 57,106 |
| Sales of investment properties | 2,751 | - |
| Sales of investments at fair value through profit or loss | 34,896 | - |
| Purchase of investments at fair value through profit or loss | (158,633) | (34,873) |
| Purchase of investment properties,net of acquisitions through leasing contracts | (177,359) | (295,490) |
| Purchase of property, furniture and equipment, net of acquisitions through leasing | (264,282) | (139,144) |
| Value Added Tax payment related to investment properties | (26,267) | (8,199) |
| Purchase of non-controlling interest shares | (9,039) | - |
| Purchase of available for sale investment | - | (54,401) |
| Purchase and development of intangible assets | (23,870) | (21,023) |
| **Net cash flows used in investing activities** | **(607,323)** | **(496,024)** |
| **Financing activities** | | |
| Proceeds from interest-bearing loans and borrowings | 212,530 | 439,898 |
| Repayment of interest-bearing loans and borrowings | (303,567) | (92,962) |
| Repurchase of own bonds | - | (512,584) |
| Interest paid | (174,936) | (169,797) |
| Sales of bonds issued | 55,000 | - |
| Purchase of treasury shares | (57,229) | (4,791) |
| Advancement of returns to minority shareholders | - | (207) |
| **Net cash flows used in financing activities** | **(268,202)** | **(340,443)** |
| Net (decrease) increase of cash and short-term deposits | 8,146 | (49,589) |
| **Cash and short–term deposits at the beginning of the period** | 235,409 | 284,998 |
| **Cash and short–term deposits at the end of the period** | **243,555** | **235,409** |
| **Non-cash transactions** | | |
| Fixed assets purchased through leasing and other financial obligations | 28,747 | 54,735 |
| Invesment properties purchased through leasing and other financial obligations | 28,317 | - |

The accompanying notes are an integral part of these consolidated statements

**InRetail Perú Corp. and Subsidiaries**

# Notes to the interim condensed consolidated financial statements
As of December 31, 2016 and December 31, 2015

## 1. Business activity and group reorganization and issuance process

InRetail Peru Corp, (hereinafter “the Company”), is a holding incorporated in January 2011 in the Republic of Panama and is a subsidiary of Intercorp Retail Inc., which in turn is a subsidiary of Intercorp Peru Ltd. (a holding company incorporated in Bahamas, hereinafter “Intercorp Peru”) which is the ultimate parent and holds 100.00 percent of Intercorp Retail Inc.’s capital stock.

As of December 31, 2016, the percentages of ownership are:

| Owner | Ownership<br>% |
|---|---|
| Intercorp Retail Inc. | 59.19 |
| Intercorp Financial Services | 2.33 |
| Intercorp Perú Ltd | 3.26 |
| Inteligo Bank | 6.68 |
| NG Pharma Corp. | 6.31 |
| Others | 22.23 |
| **Total** | **100.00** |

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 Calle Morelli N° 181, San Borja, Lima Perú.

On August 21, 2014, the Company, as initial originator, established a trust fund (special purpose entity) denominated "Patrimonio en Fideicomiso D.S.N°093-2002-EF-InRetailConsumer (hereinafter “InRetail Consumer"), in order to implement various investment projects and issuance of debt instruments that were executed, approved and supported by the Company and its Subsidiaries.

On September 15, 2014, the Board of InRetail Perú Corp. agreed to transfer in trust to return all shares of Supermercados Peruanos S.A. and Eckerd S.A. to InRetail Consumer.

The accompanying interim consolidated financial statements as of December 31, 2016 were approved by the Board of Directors on February 27, 2017.

**2. Subsidiary activities**

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

(a) As indicated in Note 1 (b), InRetail Consumer (a SPE controlled by the Company), was incorporated during the year 2014 only for the purpose of offering the "Senior Notes Unsecured". As of December 31, 2016 and December 31, 2015 the representative shares of stock of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries are maintained in trust in this entity. A description of such subsidiaries is presented below:

- Eckerd Perú S.A. is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements related to health protection and recovery through its "InkaFarma" pharmacy chain. As of December 31, 2016 and December 31, 2015, it mainly operates in Lima and provinces, such as Lambayeque, La Libertad, Piura, Arequipa, Loreto, San Martin, 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.

- Supermercados Peruanos S.A., is dedicated to retail. As of December 31, 2016 and December 31, 2015, has a chain of stores operating under the "Plaza Vea", "Plaza vea Super", "Plaza Vea Express" "Vivanda" and "Mass" brands, which are located in Lima and provinces, such as Trujillo, Chimbote, Piura, Cusco, Arequipa, Huancayo and 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 Vea Sur S.A.C.

(b) InRetail Real Estate Corp. is a Holding company incorporated in the Republic of Panama in April 2012. In July 2014 InRetail Shopping Malls (a SPE controlled by InRetail Real Estate Corp.) was incorporated only for the purpose of issuing "Senior Notes Unsecured". As of December 31, 2016 and December 31, 2015, the representative share of capital stock of InRetail Real Estate Corp.'s subsidiaries are maintained in trust in this entity, which are detailed below:

(i) Real Plaza S.R.L.

Entity dedicated to the management and administration of shopping centers (20 as of December 31, 2016 and December 31, 2015) named "Centro Comercial Real Plaza" and located in the cities of Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca , Huanuco, Cusco, Cajamarca, Sullana, Pucallpa and Lima.

(ii) Patrimonio en Fideicomiso – D.S. N°093-2002-EF-Interproperties Holdings and Patrimonio en Fideicomiso – D.S. N°093-EF-Interproperties Holding II

Equity trust funds (henceforth "Interproperties Holding") are Special Purpose Entities (SPE) incorporated with the purpose of creating independent entities of the originators, through which investments are made in real estate projects.

(c) In September 2015, the Company acquired 100 percent of the capital stock of InRetail Management S.R.L. (former InRetail Management S.R.L) from InRetail Shopping Malls, a related entity. InRetail Management S.R.L. is a entity that provides the staff which manages and operates Interproperties Holding.

**3. Basis of preparation and presentation**

(a) Interim Financial Statements

The consolidated financial statements of the InRetail Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (IASB), effective as of December 31, 2016 and December 31, 2015, respectively.

The interim financial statements of the InRetail Group have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

The interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited annual information.

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

At the date of this report, all the entities consolidated into the accompanying financial statements are legal subsidiaries of InRetail Peru Corp.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, see Note 2.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the InRetail Group obtains 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 non-controlling interests have 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 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 the subsidiary, without a loss of control, is accounted for as an equity transaction.

The accounting policies followed in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements at December 31, 2015.

(c) New accounting standards

The accounting policies adopted in the preparation of the interim condensed combined financial statements are consistent with those followed in the preparation of the Companies annual combined financial statements for the year ended December 31, 2015, except for the adoption of the new standards and interpretations as of January 1, 2016.

**Standard adopted early**

The Companies use derivative instruments to manage its exposure to exchange rates. In order to manage these risks, the Companies apply hedge accounting for transactions which meet specific criteria for this. At the beginning of the hedging relationship, the Companies formally document 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 its effectivenes.

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.

**Standards not adopted early**

The InRetail Group decided not to early adopt the following standards and interpretations that have been issued by the IASB, but which are not effective as of December 31, 2016:

- IFRS 15 “Revenue from Contracts with Customers”–

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

  The new standard on revenue is applicable to all entities and replaces all revenue recognition requirements under IFRS. Complete or modified retrospective application for annual periods beginning on 1 January 2017 is required and early adoption is permitted.

- IFRS 16 “Leasing”

  IFRS 16 deals with the identification of leases, as well as its accounting treatment for tenants and landlords. Under this IFRS operating leases entered the Statement of Financial Position, recognizing all leases on the balance sheet as an asset more and more passive, like a purchase financed.

  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.

**4. Cash and short-term deposits**

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

| | As of December 31, 2016 S/(000) | As of December 31, 2015 S/(000) |
|---|---|---|
| Cash (b ) | 20,294 | 9,203 |
| Current accounts (c ) | 91,203 | 85,655 |
| Time deposits (d ) | 119,264 | 115,416 |
| Other | 12,794 | 25,135 |
| **Total** | **243,555** | **235,409** |

(b) The balance as of December 31, 2016 and December 31, 2015, comprises mainly cash held by subsidiaries in the premises of their store chains and in the vaults of a security company, corresponding to sales during the last days of the period.

(c) The company and its Subsidiaries maintain current accounts in local banks in Soles and US Dollars which do not accrue interest and they are freely available.

(d) As of December 31, 2016 and December 31, 2015, the time deposits are freely available and are kept in local banks in Soles and US Dollars, have maturities up to one month since inception and bear annual interest rates of 4.20 and 0.20 percent annual, respectively (4.00 and 0.20 percent annual, as of December 31, 2015 in Soles and US Dollars).

**5. Trade receivables, net**

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

| | As of December 31, 2016 S/(000) | As of December 31, 2015 S/(000) |
|---|---|---|
| Trade accounts receivable (c ) | 35,563 | 22,031 |
| Rent receivable (d ) | 16,056 | 35,013 |
| Merchandise vouchers (e ) | 28,467 | 27,167 |
| Provision for accrued revenue (f ) | 16,562 | 13,482 |
| Others | 12,255 | 11,603 |
| **Total** | **108,903** | **109,296** |
| Provision for doubtful accounts (g ) | (12,870) | (10,982) |
| **Total** | **96,033** | **98,314** |

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

(c) Corresponds mainly to (i) 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 S.A. and Eckerd Group and (ii) trade accounts receivable from corporate sales.

(d) Correspond to accounts receivable for the lease of commercial premises to concession holders inside the stores of Supermercados Peruanos S.A. and the accounts receivable for the rental income of Interproperties Holding.

(e) Correspond mainly to the balance receivable from the sale of merchandise vouchers to various companies and public institutions. At the date of this report, these balances are mostly collected.

(f) As of December 31, 2016 and December 31, 2015 relates to services unbilled at period end, mainly due to variable rentals. These amounts were billed in the month subsequent to the reporting date.

(g) Movements in the provision for doubtful accounts receivable for the twelve-months periods ended December 31, 2016 and 2015, were as follows:

| | 2016<br>S/(000) | 2015<br>S/(000) |
|---|---|---|
| **Balance at the beginning of the year** | 10,982 | 6,633 |
| Provision recognized as year expense, Note 17 (a) | 3,046 | 4,343 |
| Write offs and recoveries | (1,204) | - |
| Foreign currency variation | 46 | 6 |
| **Balance at the end of the period** | **12,870** | **10,982** |

As of December 31, 2016 and December 31, 2015, the balance of the trade receivable amounts to approximately S/123,207,000 and S/109,296,000 respectively, out of which approximately S/12,870,000 and S/10,982,000 were provisioned for at those dates. Likewise, the amount of non-impaired past due trade receivables amounted to S/42,215,000 and S/42,208,000, respectively.

In the opinion of Management of the InRetail Group, the provision for doubtful accounts receivable as of December 31, 2016 and December 31, 2015, appropriately covers the credit risk of this item at those dates.

**6. Inventories, net**

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

| | As of December 31, 2016 S/(000) | As of December 31, 2015 S/(000) |
|---|---|---|
| Goods | 962,870 | 876,298 |
| In transit inventories (b ) | 12,661 | 9,599 |
| Miscellaneous supplies | 12,258 | 15,055 |
| **Total** | **987,789** | **900,952** |
| **Minus** | | |
| Provision for impairment of inventories (c ) | (8,960) | (9,597) |
| **Total** | **978,829** | **891,355** |

(b) Corresponds to goods and miscellaneous supplies imported by the Group in order to satisfy customers demand in its stores.

(c) The movement in the provision for inventory impairment for the twelve-month periods ended December 31, 2016 and 2015, was as follows:

| | 2016 S/(000) | 2015 S/(000) |
|---|---|---|
| **Balance at the beginning of the year** | 9,597 | 9,001 |
| Provision of the period, Note 17(a) | 7,926 | 5,934 |
| Write-off | (8,563) | (5,338) |
| **Balance at the end of the period** | **8,960** | **9,597** |

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

**7. Available-for-sale investment**

As of December 31, 2016, available for sale investments corresponded to notes issued by a related company of Intercorp Group of approximately US$ 8,944,000, equivalent to S/30,053,000 (US$16,153,000 equivalent to S/55,132,000 as of December 31,2015). The unrealized gain, net of deferred income tax, of the notes held as of December 31, 2016 amounted to S/2,902,000 (gain of S/2,229,000 as of December 31, 2015) and is presented in the equity.

**8. Derivative financial instruments**

As of December 31, 2016 and December 31, 2015, this item comprises of three "Principal Call Spread" contracts designated to hedge cash flows from exchange rate variations and recorded at their fair value. The detail of the operations is as follows:

| Counterparty | Nominal value | Due | Pay fix at | Book value of the hedged item | Fair value 2016 | Fair value 2015 |
|---|---|---|---|---|---|---|
| | US$(000) | | % | | S/(000) | S/(000) |
| Deutsche Bank A.G. | 100,000 | October 2021 | 1.56 | 336,000 | 25,404 | 32,692 |
| Bank of Tokyo | 30,000 | October 2021 | 1.20 | 100,800 | 6,332 | - |
| J.P. Morgan | 200,000 | July 2021 | 1.84 | 672,000 | 55,908 | 62,498 |
| **Total** | | | | | **87,644** | **95,190** |

The financial instruments cover 43 and 57 percent, respectively, of the exposure to foreign currency risk arising from the international bond issues in July and October 2014, see note 13 (b) (c). The Call Spreads cover variations in the exchange rate from S/3.220, S/3.379 and S/3.225, respectively to S/3.75 per US$1.00 and the price of the premiums was funded in installments, generating a liability for the same. See Note 13.

**9. Property, furniture and equipment, net**

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

| | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| | S/(000) | S/(000) |
| **Cost** | | |
| **Initial balance** | 3,155,597 | 2,923,468 |
| Additions (b ) | 293,029 | 350,225 |
| Disposals and/or sales (c ) | (49,375) | (118,157) |
| Transfer to Investment properties | (8,451) | 61 |
| **Final balance** | **3,390,800** | **3,155,597** |
| **Accumulated depreciation** | | |
| **Initial balance** | 720,420 | 650,567 |
| Additions ( d ) | 155,110 | 142,216 |
| Disposals and/or sales | (32,562) | (72,369) |
| Transfer to Investment properties | - | 6 |
| **Final balance** | **842,968** | **720,420** |
| **Net book value** | **2,547,832** | **2,435,177** |

(b) Additions for the twelve-month periods ended December 31, 2016 and 2015 correspond mainly to the construction and equipment of new premises for Supermercados Peruanos S.A. and the Eckerd Group, and the construction and/or extension of shopping centers.

(c) It mainly corresponds to assets sold and to the disposals of unusable assets as a result of the process of change of format in some premises. The resulting income or expense has been included in the "Other operating income" or "Other operating expenses" caption of the consolidated income statement, respectively.

(d) Depreciation expense for the twelve-month periods ended December 31, 2016 and 2015, was recorded as follows in the income statement:

| | 2016 | 2015 |
|---|---|---|
| | S/(000) | S/(000) |
| Sales expenses, Note 17 (a ) | 136,967 | 125,812 |
| Administrative expenses, Note 17 (a ) | 18,143 | 16,404 |
| **Balance as of December 31** | **155,110** | **142,216** |

(e) As of December 31, 2016, Supermercados Peruanos S.A. has mortgaged land lots, buildings and facilities for a net book value of S/381,356,000 (S/402,391,000 as of December 31, 2015), as collateral over the financial obligations and the leasing contracts (see Note 13).

(f) As of December 31, 2016, the cost and corresponding accumulated depreciation of assets acquired through finance leases amount to approximately S/569,556,000 and S/175,788,000 respectively (S/548,464,000 and S/143,108,000, respectively, as of December 31, 2015).

(g) The Subsidiaries of the Company maintain insurance policies on their main assets in accordance with the policies established by Management.

## 10. Investment properties

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

| | As of December 31, 2016<br>S/(000) | As of December 31, 2015<br>S/(000) |
|---|---|---|
| Real Plaza Salaverry shopping Mall (i) | 392,691 | 373,585 |
| Real Plaza Primavera shopping Mall | 208,378 | 208,371 |
| Real Plaza Chiclayo shopping Mall | 210,013 | 206,011 |
| Real Plaza Centro Civico shopping Mall | 195,638 | 197,095 |
| Real Plaza Cuzco shopping Mall (i) | 195,115 | 196,516 |
| Real Plaza Piura shopping Mall | 189,398 | 172,565 |
| Real Plaza Trujillo shopping Mall | 157,927 | 139,709 |
| Real Plaza Huancayo shopping Mall (i) | 132,137 | 129,904 |
| Real Plaza Puruchuco project | 137,298 | 124,978 |
| Real Plaza Cajamarca shopping Mall | 98,970 | 98,860 |
| Real Plaza Huánuco shopping Mall (i) | 89,983 | 91,268 |
| Real Plaza Juliaca shopping Mall (i) | 74,632 | 70,684 |
| Real Plaza Arequipa shopping Mall (i) | 72,638 | 64,862 |
| Real Plaza Santa Clara - Altamirano shopping Mall | 69,023 | 68,161 |
| Real Plaza Chorrillos shopping Mall | 60,402 | 55,274 |
| Real Plaza Pro shopping Mall | 54,556 | 51,030 |
| Real Plaza Sullana shopping Mall | 31,842 | 32,891 |
| Real Plaza Nuevo Chimbote shopping Mall | 19,411 | 18,471 |
| Jr. de la Unión stores | 14,751 | 15,481 |
| Others | 282,973 | 149,957 |
| **Total** | **2,687,776** | **2,465,673** |

(i) For the construction of these shopping malls and properties, surface right contracts were subscribed with the Arzobispado de Cuzco (on land in Cuzco “San Antonio”), Municipalidad Provincial de Huánuco (on land of “Real Plaza Huanuco” Shopping Mall), Inmobiliaria Pazos S.A.C. (La Curva), Gobierno Regional de Moquegua, (Moquegua), Ferrovias 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). These contracts have term for periods between 20 and 70 years.

“Real Plaza” shopping centers consist of department stores, home improvement, supermarket, other retail shops, a cinema complex and an entertainment area; on which they have signed contracts that provide a minimum monthly rent and a variable rent based on sales.

(b) The movement of this account for the twelve-month periods ended December 31, 2016 and 2015 was as follows:

| | 2016 | 2015 |
|---|---|---|
| | S/(000) | S/(000) |
| **Balance at the beginning of the year** | 2,465,673 | 2,291,588 |
| Additions | 205,676 | 139,144 |
| Disposal | (2,770) | - |
| Fair value adjustment | 10,745 | 32,790 |
| Transfer from property, furniture and equipment; Note 9 | 8,452 | 2,151 |
| **Balance at the end of the period** | **2,687,776** | **2,465,673** |

The fair value of investment properties has been determined on a discounted cash flows method basis by the Management of the Group for completed investment properties and based on the value assigned by an independent appraiser for investment properties under construction and investment properties held to operate in the future. The valuation is prepared on an aggregated unleveraged basis. In arriving at their estimates of market values, the Management of the Group has used their market knowledge and professional judgment and not only relied on historical transactional comparables. Fair value adjustment is included in the “Other operating income” caption of the consolidated income statement.

## 11. Intangible assets, net

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

| | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| | S/(000) | S/(000) |
| **Cost** | | |
| **Initial balance** | 1,240,125 | 1,219,524 |
| Additions (c ) | 23,870 | 21,023 |
| Disposal and/or sales | (1,894) | (485) |
| Transfer | - | 63 |
| **Final balance** | **1,262,101** | **1,240,125** |
| **Accumulated amortization** | | |
| **Initial balance** | 54,215 | 43,032 |
| Additions ( d ) | 13,718 | 11,209 |
| Disposals and/or sales | (5) | (19) |
| Transfer | - | (7) |
| **Final Balance** | **67,928** | **54,215** |
| **Net, book value** | **1,194,173** | **1,185,910** |

(b) As of December 31, 2016 and December 31, 2015, this caption mainly includes approximately S/373,054,000 and S/709,472,000 corresponding to the brand “Inkafarma” and goodwill respectively, as a result of the acquisition of the Eckerd Group and other intangibles with finite lives such as software.

The Goodwill and the “InkaFarma” brand are tested for impairment annually (as of December 31) and when circumstances indicate that the carrying value may be impaired. The Company and Subsidiaries’ impairment test for goodwill and intangible assets with indefinite useful lives is based on value-in-use calculations which use a discounted cash flow model.

(c) As of December 31, 2016 and December 31, 2015, additions mainly correspond to disbursements for the acquisition of a commercial software program, a general planning system (ERP) and the corresponding licenses for use of “point of sales software” to InkaFarma, which will be used in the new stores.

(d) Amortization expense for the twelve-month periods ended December 31, 2016 and 2015 has been recorded in the following items of the combined statements:

| | **2016**<br>S/(000) | **2015**<br>S/(000) |
|---|---|---|
| Sales expenses, Note 17 (a) | 7,870 | 6,759 |
| Administrative expenses, Note 17 (a) | 5,848 | 4,450 |
| **Balance as of December 31** | **13,718** | **11,209** |

## 12. Trade payables

The table below presents the composition of this caption:

| | **As of December 31, 2016**<br>S/(000) | **As of December 31, 2015**<br>S/(000) |
|---|---|---|
| Bills payable from purchase of goods | 1,354,097 | 1,259,258 |
| Bills payable from commercial services | 239,647 | 190,830 |
| **Total** | **1,593,744** | **1,450,088** |

This item mainly includes the obligations to non-related local and foreign suppliers, denominated in local currency and US Dollars, originated mainly by the acquisition of goods, with current maturities and that do not bear any interest. There have been no liens granted on these obligations.

InRetail Group offers its 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. InRetail Group has no direct financial interest in these transactions. All of InRetail Group’s obligations, including amounts due, remain due to its suppliers as stated in the supplier agreements.

## 13. Interest-bearing loans and borrowings

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

| Type of obligation | Original currency | Interes rate % | Final maturity | Original amount | | Total | | Current | | Non-current | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | | | US$ (000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) |
| **Notes Senior Unsecured** | | | | | | | | | | | |
| Notes Senior unsecured (b) | USD | 6.500 | 2021 | 350,000 | - | 936,147 | 938,518 | - | - | 936,147 | 938,518 |
| Notes Senior unsecured (b) | PEN | 7.875 | 2034 | - | 141,000 | 135,324 | 80,365 | - | - | 135,324 | 80,365 |
| Notes Senior unsecured (c) | USD | 5.250 | 2021 | 300,000 | - | 575,535 | 582,122 | - | - | 575,535 | 582,122 |
| Notes Senior unsecured (c) | PEN | 6.813 | 2021 | - | 250,000 | 249,314 | 249,197 | - | - | 249,314 | 249,197 |
| | | | | **650,000** | **391,000** | **1,896,320** | **1,850,202** | **-** | **-** | **1,896,320** | **1,850,202** |
| **Leasings (d)** | | | | | | | | | | | |
| **Related entities** | | | | | | | | | | | |
| Banco Internacional del Perú-Interbank | PEN | 7.850 | 2019 | - | 27,412 | 15,627 | 21,083 | 5,485 | 5,184 | 10,142 | 15,899 |
| Banco Internacional del Perú-Interbank | PEN | Between 11.240 and 11.430 | 2020 | - | 145,277 | 45,921 | 74,627 | 24,865 | 27,375 | 21,056 | 47,252 |
| Banco Internacional del Perú-Interbank | USD | Between 5.250 and 5.400 | 2017 - 2019 | 129 | - | 124 | 184 | 56 | 124 | 68 | 60 |
| **Non related entities** | | | | | | | | | | | |
| Hewlett Packard S.A. (f) | USD | 2.930 | 2018 | 7,855 | - | 20,794 | 16,076 | 8,560 | 7,357 | 12,234 | 8,719 |
| IBM Perú SAC (f ) | USD | 3.000 | 2017 | 129 | - | 25 | 70 | 25 | 55 | - | 15 |
| Hewlett Packard S.A. (f ) | USD | Between 2.750 and 6.202 | 2017 - 2020 | 1,131 | - | 1,998 | 1,326 | 852 | 723 | 1,146 | 603 |
| IBM Perú SAC (f ) | USD | Between 1.919 and 2.584 | 2017 - 2018 | 172 | - | 194 | 387 | 147 | 186 | 47 | 201 |
| IBM Perú SAC (f ) | USD | 2.170 | 2018 | 335 | - | 185 | 545 | 74 | 357 | 111 | 188 |
| Banco de Crédito del Perú | PEN | Between 6.590 and 7.850 | 2022 | - | 81,335 | 49,583 | 61,502 | 16,409 | 14,467 | 33,174 | 47,035 |
| Banco de Crédito del Perú | PEN | 9.020 | 2019 - 2024 | - | 87,901 | 56,178 | 64,645 | 9,161 | 8,467 | 47,017 | 56,178 |
| BBVA Banco Continental | PEN | Between 5.960 and 8.000 | 2018 | - | 44,123 | 6,807 | 12,617 | 4,611 | 4,669 | 2,196 | 7,948 |
| BBVA Banco Continental | USD | 8.000 | 2017 | 1,028 | - | 144 | 316 | 144 | 172 | - | 144 |
| Banco Scotiabank | PEN | Between 6.750 and 7.760 | 2020 | - | 57,972 | 32,574 | 41,270 | 11,318 | 7,458 | 21,256 | 33,812 |
| | | | | **10,779** | **444,020** | **230,154** | **294,648** | **81,707** | **76,594** | **148,447** | **218,054** |

| Type of Obligation | Original currency | Interest rate % | Final maturity | Original amount | | Total | | Current | | Non-current | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | | | US$ (000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) |
| **Notes and Loans (d)** | | | | | | | | | | | |
| **Related entities** | | | | | | | | | | | |
| Banco Internacional del Perú-Interbank | PEN | 6.350 | 2020 | - | 60,000 | 46,234 | 56,848 | 11,415 | 10,614 | 34,819 | 46,234 |
| Banco Internacional del Perú-Interbank | PEN | 8.900 | 2016 | - | 108,300 | - | 928 | - | 77 | - | 851 |
| **Non related entities** | | | | | | | | | | | |
| Banco de Crédito del Perú | PEN | 6.350 | 2020 | - | 40,293 | 31,079 | 38,216 | 8,335 | 7,133 | 22,744 | 31,083 |
| Banco Scotiabank | PEN | Between 4.450 and 6.950 | 2022 | - | 240,000 | 182,389 | 223,103 | 41,143 | 40,714 | 141,246 | 182,389 |
| Banco Scotiabank | PEN | 6.700 | 2019 | - | 100,000 | 74,539 | 99,200 | 24,822 | 25,000 | 49,717 | 74,200 |
| Bank of Tokyo (e ) | USD | Between 2.540 and 2.640 | 2021 | 30,000 | - | 100,048 | - | - | - | 100,048 | - |
| | | | | **30,322** | **548,593** | **434,289** | **418,295** | **85,715** | **83,538** | **348,574** | **334,757** |
| **Call spread financing** | | | | | | | | | | | |
| JP Morgan | USD | 1.840 | 2021 | 18,111 | - | 51,940 | 61,816 | 9,307 | 9,046 | 42,633 | 52,770 |
| Deutsche Bank | USD | 1.560 | 2021 | 9,366 | - | 24,690 | 29,670 | 5,091 | 4,875 | 19,599 | 24,795 |
| Bank of Tokyo (e ) | USD | 1.200 | 2021 | 1,953 | - | 5,945 | - | 1,163 | - | 4,782 | - |
| | | | | **29,430** | **-** | **82,575** | **91,486** | **15,561** | **13,921** | **67,014** | **77,565** |
| **Other obligations (f)** | | | | | | | | | | | |
| Hewlett Packard S.A. | USD | Between 1.690 and 6.840 | 2021 | 15,213 | - | 15,213 | 14,563 | 5,609 | 4,116 | 9,604 | 10,447 |
| IBM Perú SAC | USD | Between 1.690 and 7.220 | 2016 | 6,441 | - | - | 441 | - | 441 | - | - |
| CSI Renting | USD | Between 4.635 and 5.132 | 2018 -2019 | 99 | - | 193 | 179 | 112 | 79 | 81 | 100 |
| | | | | **21,753** | **-** | **15,406** | **15,183** | **5,721** | **4,636** | **9,685** | **10,547** |
| **Total** | | | | **742,284** | **1,383,613** | **2,658,744** | **2,669,814** | **188,704** | **178,689** | **2,470,040** | **2,491,125** |

(b) In July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for US$350,000,000 equivalent to approximately S/1,176,000,000 as of December 31, 2016 (equivalent to approximately S/1,194,550,000 as of December 31, 2015), due in July 2021, at a 6.50 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.806 percent, after considering the respective up-front fees that amounted to US$ 20,571,000 equivalent to approximately S/69,118,000 as of December 31, 2016 (US$24,203,000 equivalent to approximately S/ 82,604,000 as of December 31, 2015). Additionally, as of December 31, 2016 the balance is presented net of US$50,814,000 equivalent to S/170,735,000 (US$50,814,000 equivalent to S/173,428,000 as of December 31 2015), corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2016 and December 31, 2015 the balance of this loan are S/936,147,000 and S/938,518,000, 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 Notes Unsecured" 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/1,676,000 as of December 31, 2016 ( S/ 1,635,000 as of December 31, 2015). Additionally, as of December 31, 2016, the balance is presented net of S/4,000,000 (S/59,000,000 as of December 31, 2015) corresponding to the notes of this issuance held by InRetail Shopping Mall. As of December 31, 2016 and December 31, 2015 the balance of this loan are S/135,324,000 and S/80,365,000, 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 of December 31, 2016 and December 31, 2015, InRetail Shopping Malls complied with certain obligations and restrictive clauses that are referred to the compliance with financial ratios. Amongst the main obligations are presented as follows:

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 of the parent and its restricted subsidiaries.
- 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 is greater than 1.50.

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 of the parent and its restricted subsidiaries.
- 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 is greater than 2.00.

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, 2016 and December 31, 2015. Additionally, 100 percent of the "Senior Notes Unsecured" is guaranteed by InRetail Real estate Corp. and Subsidiaries' shares.

(c) On October 2014 the Company issued through InRetail Consumer, an offering in the local market and abroad of "Senior Notes Unsecured" for US$300,000,000 equivalent to approximately S/1,008,000,000 as of December 31, 2016 (S/1,023,900,000 as of December 31, 2015), due in 2021 at and 5.25 percent nominal interest rate. This borrowing was recorded in the consolidated financial statements at amortized cost at a 5.823 percent effective interest rate, after considering the respective up-front fees for approximately US$4,184,000, equivalent to a total amount of approximately S/14,058,000 as of December 31, 2016 (US$4,933,000 equivalent to approximately S/16,836,000 as of December 31, 2015). Additionally, as of December 31, 2016, the balance is presented net of US$124,526,000 equivalent to a total amount of approximately S/418,407,000 (US$124,526,000 equivalent to a total amount of approximately S/424,942,000 as of December 31, 2015) corresponding to notes of this issuance acquired by the Company itself. As of December 31, 2016 and December 31, 2015 the balance of this loan is S/575,535,000 and S/582,122,000, respectively.

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 amortized cost at a 6.8805 percent effective interest rate, after considering the respective up-front fees for approximately S/686,000, as of December 31, 2016 (S/803,000, as of December 31, 2015). As of December 31, 2016 and December 31, 2015 the balance of this loan is S/249,314,000 and S/249,197,000, respectively.

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.

  (iii) 30,000,000 were purchased on behalf of Intercorp Retail Inc.

- Restructuring of liabilities, purchase of 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 the InRetail Group and have been complied as of December 31, 2016 and December 31, 2015.

(d) 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 9(f). Such obligations do not have any special conditions that must be complied (covenants), or restrictions affecting the operations of the InRetail Group.

(e) On September 2016, the Company received a loan from Bank of Tokyo for US$30,000,000 (equivalent to S/100,800,000), with maturity in September 2019 and which bears an annual interest rate of 2.54 percent during the first year and 2.64 during the following two years . This loan was recorded at its amortized cost after considering the respective up-front fees of approximately S/752,000.

(f) Corresponds to the debt that Subsidiaries. acquired with IBM del Perú S.A.C. to purchase computer equipment. Likewise, Hewlett Packard S.A. signed a promissory note with Supermercados Peruanos S.A. to finance the payment of the balances indebted to SAP Andina del Caribe S.A. for the development of the SAP system. Said contracts do not have any specific guarantee.

(g) During the twelve-month-periods ended December 31, 2016 and 2015, loans and borrowings accrued interest which is recorded in the "Finance costs" caption of the consolidated income statements, see Note 18. Also, as of December 31, 2016 and December 31, 2015, there are interests payable which are recorded in the "Other payables" caption of the consolidated statements of financial position.

(h) Some of the interest-bearing loans and borrowing include standard clauses requiring the InRetail Group to meet financial ratios, use of funds criteria and other administrative matters. Management's opinion, as of December 31, 2016 and December 31, 2015, said standard clauses do not limit the normal operation of the Group and have been fulfilled.

(i) Financial obligations are payable as follows:

| | 2016<br>S/ (000) | 2015<br>S/ (000) |
|---|---|---|
| 2016 | - | 178,689 |
| 2017 | 188,704 | 180,902 |
| 2018 | 170,668 | 174,875 |
| 2019 | 250,052 | 125,675 |
| 2020 onwards | 2,049,320 | 2,009,673 |
| **Total** | **2,658,744** | **2,669,814** |

## 14. Deferred income tax liabilities, net

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

| **Statements of financial position** | **Deferred liability, net** | |
|---|---|---|
| | **As of December 31, 2016**<br>S/(000) | **As of December 31, 2015**<br>S/(000) |
| Deferred income tax liabilities | (179,330) | (161,467) |
| **Deferred income tax liability, net** | **(179,330)** | **(161,467)** |

| **Statements of comprehensive income** | **Income tax for the twelve-month periods ended December 31, 2016 and 2015** | |
|---|---|---|
| | **2016**<br>S/(000) | **2015**<br>S/(000) |
| Current | (141,874) | (39,757) |
| Deferred | (17,863) | (28,234) |
| **Income tax expense** | **(159,737)** | **(67,991)** |

(b) As of December 31, 2016 and December 31, 2015 the provision for current income tax payable, net of advanced payments amounts to approximately S/8,709,000 and S/3,907,000, respectively.

Also, as of December 31, 2016 and December 31, 2015, non-current income tax of S/125,122,000 and S/75,637,000, respectively, is payable as a result of the net taxable income from the assets in the trusts, the Company's subsidiaries.

**15. Equity**

(a) Capital stock –
As of December 31, 2016 and December 31, 2015, the capital stock of InRetail Perú Corp. is represented by 102,807,319 shares with no par value, issued at US$10.00 each, which were totally paid and issued (equivalent to S/2,138,566,000).

(b) Capital premium
It corresponds to the difference between the nominal value of shares issued and their offering value. The international offering of new shares, mentioned in paragraph (a) above, was made at a price of US$20 per share, being the issuance value of shares US$ 10.00 per share, and recording a capital Premium which is presented net of expenses related to the issuance (professional services of legal advisors, investment bankers, transaction commissions, among others) for approximately S/549,793,000.

(c) Treasury shares
As of December 31, 2016, the Company and Its Subsidiaries have acquired 1,187,815 Shares issue for InRetail Perú Corp., for approximately S/57,229,000 (125,000 shares for approximately S/4,791,000 as of December 31, 2015).

**16. Tax Situation**

(a) InRetail Peru Corp. and InRetail Real Estate Corp. are incorporated in Panama, thus they are not subject to any Income Tax.

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

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

(b) The Company's Subsidiaries domiciled in Peru are subject to the Peruvian Tax System and, in compliance with current Peruvian legislation they calculate their Income tax on the basis of their individual financial statements. As of December 31, 2016 and December 31, 2015, the statutory Income Tax rate was 28 percent on taxable income, after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.

According to Legislative Decree N°1261 the income tax rate will be 29.5 percent from 2017.

(c) Law No. 29663, later amended by law 29757, established Peruvian source income as that obtained by the indirect sales of shares representing the capital stock of companies domicilied in the country.

To this end, an indirect transference is configured when the following two assumptions occur together:

(I ) In first place, 10 percent or more of shares of the non domiciliated company must be sold in a period of twelve months.

(ii) In second place, the market value of the Peruvian company's shares must represent 50 percent or more of the market value of the non domiciliated company, in a period of twelve months.

(d) 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 Group as of December 31, 2016 and December 31, 2015.

(e) 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. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Peru Corp. incorporated in Peru:

| | **Income Tax** | **Value added tax** |
|---|---|---|
| Supermercados Peruanos S.A. | From 2012 to 2016 | From 2013 to 2016 |
| Eckerd Perú S.A. | From 2013 to 2016 | From 2013 to 2016 |
| Eckerd Amazonia S.A.C. | From 2012 to 2016 | From 2013 to 2016 |
| Boticas del Oriente S.A.C. | From 2012 to 2016 | From 2013 to 2016 |
| Real Plaza S.R.L. | 2015 and 2016 | From 2013 to 2016 |
| InRetail Management S.R.L. | From 2012 to 2016 | From 2013 to 2016 |

According to Peruvian law, InRetail Consumer, InRetail Shopping Malls and Interproperties Holding, special purpose entities, are not considered an income taxpayer due to its status as a trust. InRetail Shopping Malls and Interproperties Holding attribute 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. Therefore, to reflect this obligation, the Company has provisioned 30 percent of long term income tax over the profit earned to date. As of December 31, 2016 and December 31, 2015, the accrued income tax amounted to S/125,122,000 and S/75,637,000, respectively.

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

In opinion of Management of the InRetail Group as well as its legal advisors opinion, any eventual additional tax settlement would not be significant to the consolidated financial statements as of December 31, 2016 and December 31, 2015.

**17. Operating expenses**

(a) The table below presents the components of this caption for the twelve-month periods ended December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| | S/(000) | S/(000) |
| Cost of sales | 5,019,274 | 4,741,708 |
| Selling expenses | 1,446,751 | 1,317,240 |
| Administrative expenses | 202,537 | 181,933 |
| **Total** | **6,668,562** | **6,240,881** |

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

| | 2016 | | | |
|---|---|---|---|---|
| | **Cost of sales** | **Selling expenses** | **Administrative expenses** | **Total** |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Initial balance of goods, Note 6(a) | 876,298 | - | - | 876,298 |
| Purchase of goods | 4,956,201 | - | - | 4,956,201 |
| Final balance of goods, Note 6(a) | (962,870) | - | - | (962,870) |
| Impairment of inventories Note 6 (c ) | 7,926 | - | - | 7,926 |
| Cost of services | 141,719 | - | - | 141,719 |
| Personnel expenses | - | 560,866 | 116,571 | 677,437 |
| Depreciation, Note 9(d) | - | 136,967 | 18,143 | 155,110 |
| Amortization, Note 11(d) | - | 7,870 | 5,848 | 13,718 |
| Key money amortization | - | 1,165 | - | 1,165 |
| Services provided by third parties (b ) | - | 219,800 | 30,196 | 249,996 |
| Advertising | - | 87,175 | - | 87,175 |
| Packing and packaging | - | 45,380 | 215 | 45,595 |
| Rental of premises | - | 188,902 | 6,608 | 195,510 |
| Taxes | - | 28,388 | 4,078 | 32,466 |
| Provision for doubtful trade receivables, Note 5(g) | - | 1,842 | - | 1,842 |
| Insurance | - | 10,236 | 750 | 10,986 |
| Other charges (c) | - | 158,160 | 20,128 | 178,288 |
| **Total** | **5,019,274** | **1,446,751** | **202,537** | **6,668,562** |

| | 2015 | | | |
|---|---|---|---|---|
| | Cost of sales | Selling expenses | Administrative expenses | Total |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Initial balance of goods | 777,051 | - | - | 777,051 |
| Purchase of goods | 4,704,580 | - | - | 4,704,580 |
| Final balance of goods | (876,298) | - | - | (876,298) |
| Impairment of inventories, Note 6(c ) | 5,934 | - | - | 5,934 |
| Cost of services | 130,441 | - | - | 130,441 |
| Personnel expenses | - | 513,849 | 100,365 | 614,214 |
| Depreciation, Note 9(d) | - | 125,812 | 16,404 | 142,216 |
| Amortization, Note 11(d) | - | 6,759 | 4,450 | 11,209 |
| Key money amortization | - | 1,338 | - | 1,338 |
| Services provided by third parties (b ) | - | 199,175 | 29,576 | 228,751 |
| Advertising | - | 82,347 | - | 82,347 |
| Packing and packaging | - | 42,228 | 228 | 42,456 |
| Rental of premises | - | 159,486 | 6,413 | 165,899 |
| Taxes | - | 26,468 | 2,739 | 29,207 |
| Provision for doubtful trade receivables, Note 5(g) | - | 4,343 | - | 4,343 |
| Provision for doubtful other account receivables | - | 219 | - | 219 |
| Insurance | - | 9,325 | 640 | 9,965 |
| Other charges (c) | - | 145,891 | 21,118 | 167,009 |
| **Total** | **4,741,708** | **1,317,240** | **181,933** | **6,240,881** |

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

(c) Mainly include general expenses in stores and shopping centers.

## 18. Finance costs

**(a)** The table below presents the components of finance costs:

| | 2016 | 2015 |
|---|---|---|
| | S/(000) | S/(000) |
| Interest on loans, borrowings and bonds payable | 192,732 | 178,290 |
| Repurchase premium | - | 19,028 |
| Interest from derivative instruments | - | - |
| Effect of financial liabilities "Call Spread" | 14,168 | 7,585 |
| Other financial costs | 21,437 | 20,755 |
| **Total** | **228,337** | **225,658** |

(b) As of December 31, 2016 and December 31, 2015, there are interests payable for these obligations for approximately S/52,651,000 and S/47,572,000, respectively, which are recorded in the “Other payables” caption of the consolidated statements of financial position.

**19. Transactions with related parties**

(a) The following table provides the total amount of transactions that have been entered into with related parties for the twelve-month periods ended as of December 31, 2016 and 2015:

| | 2016<br>S/(000) | 2015<br>S/(000) |
|---|---|---|
| **Income** | | |
| Sales | 4,780 | 5,331 |
| Rental income | 94,461 | 79,501 |
| Rendering of services | 43,593 | 52,870 |
| Other | 33,421 | 31,313 |
| **Total** | **176,255** | **169,015** |
| **Expenses** | | |
| Renting of premises and land | 10,194 | 37,881 |
| Reimbursement of expenses | 1,208 | 17,049 |
| Commissions | 290 | 150 |
| Interest | 4,244 | 30,295 |
| Others | 8,477 | 10,093 |
| **Total** | **24,413** | **95,468** |

(b) As a result of the transactions with related companies, the InRetail Group recorded the following balances as of December 31, 2016 and December 31, 2015:

| | As of December 31, 2016<br>S/(000) | As of December 31, 2015<br>S/(000) |
|---|---|---|
| **Receivables** | | |
| Tiendas Peruanas S.A. | 22,558 | 9,346 |
| Bembos S.A.C. | 3,988 | 4,856 |
| Home Centers Peruanos S.A. | 4,057 | 4,642 |
| Cineplex S.A. | 4,138 | 4,590 |
| Financiera Uno S.A. | 4,533 | 3,701 |
| Banco Internacional del Perú S.A.A.-Interbank | 2,581 | 3,321 |
| Intercorp Perú Ltd. (d) | 476 | 2,652 |
| Interseguro Compañía de Seguros S.A. | 342 | 5,969 |
| Intercorp Retail Inc. (h) | 429 | 267 |
| Urbi Propiedades S.A. | 213 | 244 |
| Others | 22,344 | 16,816 |
| **Total** | **65,659** | **56,404** |

| | As of December 31, 2016 S/(000) | As of December 31, 2015 S/(000) |
|---|---|---|
| **Payables** | | |
| Banco Internacional del Perú S.A.A. – Interbank: | | |
| Credit line and others (e ) | - | 243 |
| Guarantee deposit (f) | 5,470 | 5,188 |
| Financiera Uno S.A. | 24,573 | 21,828 |
| Tiendas Peruanas S.A. | 4,698 | 2,161 |
| Inmobiliaria Milenia S.A. | 478 | 663 |
| Interseguro Compañía de Seguros S.A. | 741 | 569 |
| Horizonte Global Opportunities Perú S.A. (g) | 25 | 35 |
| Cineplex S.A. | - | 6 |
| Others | 15,220 | 1,497 |
| | **51,205** | **32,190** |
| Remunerations payable to key management | - | - |
| **Total** | **51,205** | **32,190** |
| Current portion | 45,735 | 27,002 |
| Non-current portion | 5,470 | 5,188 |
| **Total** | **51,205** | **32,190** |

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

(c) Outstanding balances at the period-end are unsecured and interest free, except for the financial obligations explained in this one. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2016 and December 31, 2015, the Group has 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) As of December 31, 2015, the balance receivable from Intercorp Peru Ltd. corresponds to a loan in Soles that includes accrued interest at market rates of 6.625 percent annual.

(e) Includes amounts payable corresponding to professional services, commissions and financial costs. Financial costs have been generated from loans received during the period, which accrued market interest rates.

(f) Supermercados Peruanos S.A. and Banco Internacional del Perú – Interbank, signed contracts on future leases of financial stores for 15 and 7 years in October 2004 and September 2009, respectively. These 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 consolidated statements of financial position. The contract signed in September 2009 finished in April 2016.

Additionally, and only in the case of the 2004 contract, Supermercados Peruanos S.A. received from Banco Internacional del Perú – Interbank US$2,000,000 as collateral for the contract. As of December 31, 2016 and December 31, 2015, Supermercados Peruanos S.A. has credited the update of the present value of this deposit in the “Financial income” caption. As of December 31, 2016 and December 31, 2015, the net present value of the balances related to guarantee deposits amounts to S/5,470,000 and S/5,188,000, respectively, and is accounted for in the “Other payables” caption.

In relation to such contracts, during the twelve-month periods ended December 31, 2016 Supermercados Peruanos S.A. recognized accrued renting revenue that amounted to approximately S/1,635,000 equivalent to US$531,000 (S/2,917,000, equivalent to approximately US$971,000 during the twelve-month periods ended September 30, 2015), which are recorded net of the renting expenses in the “Rental income” caption in the consolidated statements of income.

As of December 31, 2016 Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/2,698,000 (S/4,552,000 as of December 31, 2015) which will be recognized as income in upcoming periods.

(g) Corresponds to balances payable on land and premises renting.

(h) As of December 31, 2016 and December 31, 2015 it corresponds to the account receivable for some expenses assumed for Intercorp Retail Inc. This balance does not generate interest and is of current maturity.

Interest-bearing loans and borrowings (Note, 13)

(i) Banco Internacional del Perú – Interbank signed leasing and leaseback contracts with Supermercados Peruanos S.A., Eckerd S.A., and Real Plaza which to date have outstanding balances of approximately S/45,921,000, S/15,627,000, and S/124,000 respectively, for the construction of new stores, Real Plaza shopping center building located in Santa Clara and working capital. These leasing contracts accrue annual interest rates that fluctuate between 6.45 and 8.48 percent, and whose maturities are between 2016 and 2019. These transactions are included in “Interest-bearing loans and borrowings”. During the twelve-month periods ended December 31, 2016 and 2015, leasing contracts generated interests which are recorded in the “Financial costs” caption of the consolidated income statements.

(j) The compensation of key management personnel of the Group for the twelve-month periods ended December 31, 2016 and 2015, is detailed below:

| | **2016** | **2015** |
|---|---|---|
| | S/(000) | S/(000) |
| Short term employee benefits | 21,391 | 15,528 |
| Insurance and medical benefits | 3,118 | 452 |
| **Total** | **24,509** | **15,980** |

(k) As of December 31, 2016 and December 31, 2015, the Group maintains the following balances in the cash and cash equivalent captions:

| | **2016** | **2015** |
|---|---|---|
| | S/(000) | S/(000) |
| Banco Internacional del Peru – Interbank S.A.A. | 33,503 | 92,726 |
| Inteligo Bank Ltd. | 6,832 | 1,009 |

## 20. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the twelve-month periods attributable to ordinary equity holders of InRetail Perú Corp. by the weighted average number of ordinary shares outstanding during the same period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following reflects basic and diluted earnings per share computations:

| | Ordinary shares | | |
|---|---|---|---|
| | Outstanding shares | Effective days until period-end | Weighted average of shares |
| **Number as of January 1, 2015** | 102,807,319 | | 102,807,319 |
| **Number as of December 31, 2015** | 102,807,319 | | 102,807,319 |
| **Number as of January 1, 2016** | 102,807,319 | | 102,807,319 |
| **Number as of December 31, 2016** | 102,807,319 | | 102,807,319 |

| | For the twelve-month-periods ended December 31, 2016 | | |
|---|---|---|---|
| | Net income (numerator) S/ | Shares (denominator) | Earnings per share S/ |
| **Basic and diluted earnings per share** | 267,865,000 | 102,807,319 | 2.61 |

| | For the twelve-month-periods ended December 31, 2015 | | |
|---|---|---|---|
| | Net income (numerator) S/ | Shares (denominator) | Earnings per share S/ |
| **Basic and diluted earnings per share** | 143,867,000 | 102,807,319 | 1.40 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

**21. Commitments and contingencies**

Commitments –
The main commitments assumed are presented below:

(a) As of December 31, 2016 and December 31, 2015, the Company and its Subsidiaries have signed renting 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 base on sales, whichever is highest.

The total commitments are assumed to be calculated on the basis of the fixed renting and paid up until 2052.

(b) As of December 31, 2016, the Company as its Subsidiaries agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/18,261,000 and US$3,794,000 (S/27,572,000 and US$ 3,627,000 as of December 31, 2015), respectively, to comply with the payment of goods purchased to foreign suppliers.

Contingencies –

(a) Eckerd Amazonía 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 September 2005. In opinion of Management and its legal advisors these contingencies are stated as possible and significant liabilities will not arise as result of this contingency as of December 31, 2016 and December 31, 2015.

(b) Eckerd Perú S.A. received a notification issued by Instituto Nacional de Defensa de la Competencia y de la Propiedad Intelectual (INDECOPI), whereby Eckerd Perú SA was sanctioned for alleged offenses committed in previous years. In November 2016, Eckerd Perú S.A. decided not to appeal and pay in full that sanction. The reason for this decision is that the facts investigated occurred in 2008 and 2009, before InKafarma was acquired by the Intercorp Group in 2011. As part of the Intercorp Group, Inkafarma rejects any kind of practice that would Market and the consumer.

(c) Supermercados Peruanos S.A. is a party to tax proceedings related to Income Tax and monthly Value Added Tax presented in taxable years 2004, 2005, 2006, 2007, 2008, 2009 and 2010. As of the date of this report, Supermercados Peruanos S.A. has challenged the Tax Administration for these resolutions and, in Management's opinion and its legal advisors, significant liabilities will not arise as result of this situation as of December 31, 2016 and December 31, 2015.

**22. Business segments**

For management purposes, the InRetail Group is organized into business units based on their products and services and has three reportable segments as follows:

- The supermarkets segment operates supermarkets and hypermarkets nationwide.
- The pharmacies segment is a nationwide supplier of drugs, medicines and cosmetic related products through the chain of pharmacies named "InkaFarma".
- Shopping center segment leases commercial stores in shopping centers owned by the InRetail Group.

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 consolidated financial statements.

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

Notes to the interim consolidated financial statements

As of December 31, 2016 and December 31, 2015 and for the twelve-month periods ended December 31, 2016 and 2015, InRetail Peru Corp. is organized into three main business lines, see Note 2. Transactions between the business segments are carried out under normal commercial terms and conditions. The following table presents the financial information of InRetail Perú Corp. and subsidiaries by business segments for the twelve-month periods ended December 31, 2016 and 2015

| | Supermarkets S/(000) | Pharmacies S/(000) | Shopping center S/(000) | Total segments S/(000) | Holding accounts, consolidation adjustments and intercompany eliminations S/(000) | Consolidated S/(000) |
|---|---|---|---|---|---|---|
| **For the twelve-month periods ended December 31, 2016** | | | | | | |
| **Revenue** | | | | | | |
| External income | 4,226,691 | 2,624,352 | 414,732 | 7,265,775 | 7,394 | 7,273,169 |
| Inter-segment | 14,286 | - | 43,146 | 57,432 | (57,432) | - |
| **Total revenue** | 4,240,977 | 2,624,352 | 457,878 | 7,323,207 | (50,038) | 7,273,169 |
| Cost of sales | (3,110,646) | (1,766,910) | (143,054) | (5,020,610) | 1,336 | (5,019,274) |
| **Gross profit** | **1,130,331** | **857,442** | **314,824** | **2,302,597** | **(48,702)** | **2,253,895** |
| Gain on valuation at fair value of investment properties | - | - | 11,056 | 11,056 | (311) | 10,745 |
| Selling expenses | (894,895) | (592,632) | (6,254) | (1,493,781) | 47,030 | (1,446,751) |
| Administrative expenses | (102,316) | (61,992) | (26,355) | (190,663) | (11,874) | (202,537) |
| Other operating income (expenses) | 24,558 | (1,074) | 454 | 23,938 | (5,382) | 18,556 |
| **Operating profit** | **157,678** | **201,744** | **293,725** | **653,147** | **(19,239)** | **633,908** |
| Net, exchange difference | 5,728 | (373) | 3,878 | 9,233 | 2,041 | 11,274 |
| Finance income | 2,529 | 2,945 | 6,322 | 11,796 | (1,026) | 10,770 |
| Finance costs | (54,175) | (3,624) | (119,851) | (177,650) | (50,687) | (228,337) |
| **Profit before income tax** | **111,760** | **200,692** | **184,074** | **496,526** | **(68,911)** | **427,615** |
| Income tax expense | (42,038) | (64,167) | (56,149) | (162,354) | 2,617 | (159,737) |
| **Profit for the year** | **69,722** | **136,525** | **127,925** | **334,172** | **(66,294)** | **267,878** |
| **Attributable to:** | | | | | | |
| Owners of the parent | 69,722 | 136,525 | 127,925 | 334,172 | (66,307) | 267,865 |
| Non-controlling interests | - | - | - | - | 13 | 13 |
| **Profit for the year** | **69,722** | **136,525** | **127,925** | **334,172** | **(66,294)** | **267,878** |

| | Supermarkets S/(000) | Pharmacies S/(000) | Shopping center S/(000) | Total segments S/(000) | Holding accounts, consolidation adjustments and intercompany eliminations S/(000) | Consolidated S/(000) |
|---|---|---|---|---|---|---|
| **For the twelve-month periods ended December 31, 2015** | | | | | | |
| **Revenue** | | | | | | |
| External income | 4,064,766 | 2,339,061 | 396,603 | 6,800,430 | (2,357) | 6,798,073 |
| Inter-segment | 12,276 | 14 | 38,528 | 50,818 | (50,818) | - |
| **Total revenue** | 4,077,042 | 2,339,075 | 435,131 | 6,851,248 | (53,175) | 6,798,073 |
| Cost of sales | (3,012,534) | (1,598,733) | (134,551) | (4,745,818) | 4,110 | (4,741,708) |
| **Gross profit** | 1,064,508 | 740,342 | 300,580 | 2,105,430 | (49,065) | 2,056,365 |
| Gain on valuation at fair value of investment properties | (830,350) | (520,203) | (7,857) | (1,358,410) | 41,170 | (1,317,240) |
| Selling expenses | (94,736) | (54,605) | (25,158) | (174,499) | (7,434) | (181,933) |
| Administrative expenses | 10,305 | 1,153 | (3,789) | 7,669 | (671) | 6,998 |
| Other operating income (expenses) | - | - | - | - | - | - |
| **Operating profit** | **149,727** | **166,687** | **263,776** | **580,190** | **(16,000)** | **564,190** |
| Net, exchange difference | 2,720 | 2,526 | 4,352 | 9,598 | 854 | 10,452 |
| Finance income | (53,501) | (2,901) | (107,869) | (164,271) | (61,387) | (225,658) |
| Finance costs | 50,463 | 167,017 | 116,861 | 334,341 | (121,905) | 212,436 |
| **Profit before income tax** | **149,409** | **333,329** | **277,120** | **759,858** | **(198,438)** | **561,420** |
| Income tax expense | - | - | - | - | - | - |
| **Profit for the year** | **149,409** | **333,329** | **277,120** | **759,858** | **(198,438)** | **561,420** |
| **Attributable to:** | | | | | | |
| Owners of the parent | - | - | 583 | 583 | (5) | 578 |
| Non-controlling interests | 26,915 | 116,400 | 109,640 | 252,955 | (108,510) | 144,445 |
| **Profit for the year** | **26,915** | **116,400** | **110,223** | **253,538** | **(108,515)** | **145,023** |

Income and expenses of the Company are not allocated to individual segments as the underlying instruments are managed on a group basis and are reflected in the adjustments and eliminations column. Additionally, Inter-segment revenues are eliminated upon combination and reflected also in the "Adjustments and eliminations" column.

**Geographic information-**
As of December 31, 2016 and December 31, 2015, the operations of all the Subsidiaries of the Company are concentrated in Peru, therefore, there are no revenues from external customers, or assets located in a foreign country as of those dates.

**23. 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 of settlement value.

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

(a) Financial instruments whose fair value is similar to book value –
Assets and liabilities that are liquid or have short maturities (less than three months), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments. Also, the derivative instrument by the Group is recorded at fair value.

(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 instrument. 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.

**Fair value hierarchy –**

The InRetail Group uses the following hierarchy for determining and disclosing the fair value of its financial instrument recorded in the statement 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 InRetail Group does not maintain any financial instrument with fair value determination under level 3 and there were no transfers between levels during the twelve-month periods ended December 31, 2016 and 2015. The InRetail Group maintains 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.

**24. Transactions in foreign currency**

Transactions in foreign currency are carried out using exchange rates prevailing in the market as published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of December 31, 2016, the weighted average exchange rates in the market for transactions in US Dollars were S/3.352 per US$ 1.00 bid and S/ 3.360 per US$ 1.00 ask (S/3.408 and S/3.413 per US$1.00 for bid and ask as of December 31, 2015).

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

| | **As of December 31, 2016** | **As of December 31, 2015** |
|---|---|---|
| | US$(000) | US$(000) |
| **Assets** | | |
| Cash and short-term deposits | 7,000 | 16,708 |
| Investments at fair value through profit or loss | 16,147 | 8,800 |
| Available-for-sale investment | 8,944 | 16,153 |
| Trade receivables, net | 900 | 1,057 |
| Other accounts receivables, net | 4,846 | 4,967 |
| Accounts receivable from related parties | 3,325 | 4,987 |
| **Total assets** | **41,162** | **52,672** |
| **Liabilities** | | |
| Trade payables | (18,138) | (15,911) |
| Other payables | (27,938) | (25,282) |
| Accounts payable to related parties | (2,487) | - |
| Interest - bearing loans and borrowings | (515,824) | (482,336) |
| **Total Liabilities** | **(564,387)** | **(523,529)** |
| Call Spread | 330,000 | 300,000 |
| **Net liability position** | **(193,225)** | **(170,857)** |

As of December 31, 2016 and December 31, 2015 InRetail Perú Corp.and its Subsidiaries have decided to reduce its exchange rate risk by entering into three hedging operations through a Call Spread written over its “Senior Notes Unsecured”, which are considered effective hedging instruments. The Call Spreads have been written over a nominal amount of US$100,000,000, US$30,000,000 and US$200,000,000, respectively, and will be effective until maturity of the “Senior Notes Unsecured”. See further detail in Note 8.

**25. Additional explanation for English translation**

The accompanying consolidated financial statements are presented on the basis of the IFRS. Certain accounting practices applied by the Company and its Subsidiaries may differ in certain respects from accounting principles generally accepted in other countries. In the event of any discrepancy, the Spanish-language version prevails.