

**InRetail Perú 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 December 31, 2017 and 2016

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## InRetail Perú Corp. and Subsidiaries

### Interim consolidated statements of financial position

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

	Note	2017	2016		Note	2017	2016
		S/(000)	S/(000)			S/(000)	S/(000)
<b>Assets</b>				<b>Liabilities and equity</b>			
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and short-term deposits	4	280,342	243,555	Trade payables	12	1,643,241	1,593,744
Investments at fair value through profit or loss		288,641	158,633	Other payables		299,212	257,348
Trade receivables, net	5	113,113	96,033	Accounts payable to related parties	19(b)	38,531	34,028
Other receivables, net		57,003	51,262	Current income tax	14(b)	840	8,709
Accounts receivables from related parties	19 (b)	47,331	65,659	Interest-bearing loans and borrowings	13	171,926	188,704
Inventories, net	6	1,003,439	978,829	Deferred revenue, net		4,481	3,737
Available-for-sale investments	7	29,993	30,053	<b>Total current liabilities</b>		<b>2,158,231</b>	<b>2,086,270</b>
Prepayments		31,202	20,409				
Taxes recoverable		28,276	37,686	<b>Non current liabilities</b>			
<b>Total current assets</b>		<b>1,879,340</b>	<b>1,682,119</b>	Accounts payable to related parties	19(b)	25,819	17,177
				Interest-bearing loans and borrowings	13	2,531,882	2,470,040
<b>Non-current assets</b>				Income tax related to Special Purpose Entities	14 (b)	170,336	125,122
Other receivables, net		16,427	15,245	Deferred revenue		35,352	43,934
Prepayments		26,366	26,763	Deferred income tax liabilities, net	14(a)	217,113	192,923
Taxes recoverable		19,486	53,680	<b>Total non-current liabilities</b>		<b>2,980,502</b>	<b>2,849,196</b>
Derivative financial instruments	8	51,710	87,644	<b>Total liabilities</b>		<b>5,138,733</b>	<b>4,935,466</b>
Property, furniture and equipment, net	9	2,723,060	2,547,832	<b>Equity</b>			
Investment properties	10	2,870,002	2,687,776	Capital stock	15(a)	2,138,566	2,138,566
Intangible assets, net	11	1,196,750	1,194,173	Treasury shares	15(c)	(16,801)	(39,256)
Deferred income tax assets, net	14(a)	14,823	13,593	Additional paid in capital		538,036	527,029
Other assets		367	457	Unrealized results on financial instruments derivatives		(1,051)	(25,450)
<b>Total non-current assets</b>		<b>6,918,991</b>	<b>6,627,163</b>	Unrealized results on available for-sale-investments		1,400	673
				Retained earnings		999,231	772,055
<b>Total assets</b>		<b>8,798,331</b>	<b>8,309,282</b>	<b>Equity attributable to owners of the parent</b>		<b>3,659,381</b>	<b>3,373,617</b>
				Non-controlling interests		217	199
				<b>Total equity</b>		<b>3,659,598</b>	<b>3,373,816</b>
				<b>Total liabilities and equity</b>		<b>8,798,331</b>	<b>8,309,282</b>

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, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Selling expenses			
Net sales of goods		7,258,048	6,767,574
Rental income		353,893	331,344
Rendering of services		198,233	174,251
Revenue		<u>7,810,174</u>	<u>7,273,169</u>
Cost of sales	17	<u>(5,416,196)</u>	<u>(5,019,274)</u>
<b>Gross profit</b>		<b>2,393,978</b>	<b>2,253,895</b>
Income from joint venture	19(a)	18,621	21,089
Gain on valuation at fair value of investment properties	10(b)	21,746	10,745
Selling expenses	17	(1,547,436)	(1,446,751)
Administrative expenses	17	(220,062)	(202,537)
Other operating expenses, net		<u>(1,827)</u>	<u>(2,533)</u>
<b>Operating profit</b>		<b>665,020</b>	<b>633,908</b>
Financial income		13,433	10,770
Financial expenses	18	(222,031)	(228,337)
Exchange difference, net		<u>16,794</u>	<u>11,274</u>
<b>Profit before income tax</b>		<b>473,216</b>	<b>427,615</b>
Income tax expense	14(a)	<u>(187,439)</u>	<u>(159,737)</u>
<b>Net profit</b>		<b>285,777</b>	<b>267,878</b>
<b>Attributable to:</b>			
InRetail Perú Corp. Shareholders		285,759	267,865
Non-controlling interests		<u>18</u>	<u>13</u>
<b>Net profit</b>		<b>285,777</b>	<b>267,878</b>
<b>Earnings per share:</b>			
Basic and diluted profit for the period attributable to ordinary equity holders of the parent	20	<u>2.78</u>	<u>2.61</u>

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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
	S/(000)	S/(000)
<b>Profit for the period</b>	285,777	267,878
<b>Other comprehensive income</b>		
Unrealized gain on available-for-sale investments	940	3,860
Income tax related to Special Purpose Entities	(213)	(958)
	<b>727</b>	<b>2,902</b>
Unrealized gain on hedging derivative financial instrument	16,710	16,494
Income tax related to Special Purpose Entities	7,689	1,976
	<b>24,399</b>	<b>18,470</b>
<b>Other comprehensive income for the period, net of income tax effects</b>	25,126	21,372
<b>Total comprehensive income for the period</b>	<b>310,903</b>	<b>289,250</b>
<b>Attributable to:</b>		
InRetail Perú Corp. shareholders	310,885	289,237
Non-controlling interests	18	13
<b>Total comprehensive income for the period</b>	<b>310,903</b>	<b>289,250</b>

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, 2017 and 2016

	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)
<b>Balance as of January 1, 2016</b>	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
<b>Total comprehensive income</b>	-	-	-	<b>18,470</b>	<b>2,902</b>	<b>267,865</b>	<b>289,237</b>	<b>13</b>	<b>289,250</b>
Purchase treasury shares	-	(34,465)	(22,764)	-	-	-	(57,229)	-	(57,229)
Yields prepayments to non- controlling interest	-	-	-	-	-	(2,620)	(2,620)	(6,419)	(9,039)
Others	-	-	-	-	-	(194)	(194)	-	(194)
<b>Balance as of December 31, 2016</b>	<b>2,138,566</b>	<b>(39,256)</b>	<b>527,029</b>	<b>(25,450)</b>	<b>673</b>	<b>772,055</b>	<b>3,373,617</b>	<b>199</b>	<b>3,373,816</b>
<b>Balance as of January 1, 2017</b>	2,138,566	(39,256)	527,029	(25,450)	673	772,055	3,373,617	199	3,373,816
Profit for the period	-	-	-	-	-	285,759	285,759	18	285,777
Other comprehensive income	-	-	-	24,399	727	-	25,126	-	25,126
<b>Total comprehensive income</b>	-	-	-	<b>24,399</b>	<b>727</b>	<b>285,759</b>	<b>310,885</b>	<b>18</b>	<b>310,903</b>
Dividends	-	-	-	-	-	(64,980)	(64,980)	-	(64,980)
Dividends treasury shares	-	-	-	-	-	754	754	-	754
Sales treasury shares	-	22,455	11,007	-	-	5,724	39,186	-	39,186
Effect due to change of ownership in subsidiary	-	-	-	-	-	(50)	(50)	-	(50)
Others	-	-	-	-	-	(31)	(31)	-	(31)
<b>Balance as of December 31, 2017</b>	<b>2,138,566</b>	<b>(16,801)</b>	<b>538,036</b>	<b>(1,051)</b>	<b>1,400</b>	<b>999,231</b>	<b>3,659,381</b>	<b>217</b>	<b>3,659,598</b>

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, 2017 and 2016

	2017 S/(000)	2016 S/(000)
<b>Operating activities</b>		
Revenue	7,818,173	7,264,578
Recovery of taxes	32,260	43,507
Payments of goods and services to suppliers	(6,197,471)	(5,682,285)
Payments of salaries and social benefits to employees	(701,519)	(677,437)
Taxes paid	(126,237)	(65,510)
Other (payments) collections, net	(11,510)	818
<b>Net cash flows from operating activities</b>	<b>813,696</b>	<b>883,671</b>
<b>Investing activities</b>		
Sales of property, furniture and equipment	10,394	14,333
Sales of intangible assets	4,125	147
Loan collected from related parties	74,056	-
Sales of investment properties	4,004	2,751
Sales of investments at fair value through profit or loss	387,041	34,896
Purchase of investments at fair value through profit or loss	(515,415)	(158,633)
Purchase of investment properties, net of acquisitions through leasing contracts	(114,990)	(177,359)
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(276,212)	(264,282)
Value added tax payment related to investment properties	(15,764)	(26,267)
Purchase of non-controlling interest shares	-	(9,039)
Loans granted to related parties	(79,774)	-
Purchase and development of intangible assets	(20,312)	(23,870)
<b>Net cash flows used in investing activities</b>	<b>(542,847)</b>	<b>(607,323)</b>
<b>Financing activities</b>		
Proceeds from interest-bearing loans and borrowings	577,831	212,530
Sales of treasury shares	39,186	-
Repayment of interest-bearing loans and borrowings	(615,715)	(303,567)
Payment of dividends	(64,226)	-
Interest paid	(171,138)	(174,936)
Sales of bonds issued	-	55,000
Purchase of treasury shares	-	(57,229)
<b>Net cash flows used in financing activities</b>	<b>(234,062)</b>	<b>(268,202)</b>
Net increase of cash and short-term deposits	36,787	8,146
<b>Cash and short-term deposits at the beginning of the period</b>	<b>243,555</b>	<b>235,409</b>
<b>Cash and short-term deposits at the end of the period</b>	<b>280,342</b>	<b>243,555</b>
<b>Non-cash transactions</b>		
Fixed assets purchased through leasing and other financial obligations and non financial	129,498	28,689
Investment properties purchased through leasing and other financial obligations	-	28,316
Intangible assets purchased outstanding	-	203

The accompanying notes are an integral part of these consolidated statements

## Notes to the interim consolidated financial statements (continued)

### InRetail Perú Corp. and Subsidiaries

#### Notes to the interim condensed consolidated financial statements

As of December 31, 2017 and December 31, 2016

#### 1. Business activity and InRetail 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, 2017 the percentages of ownership are:

<b>Owner</b>	<b>Ownership %</b>
Intercorp Retail Inc.	58.04
Intercorp Financial Services	2.33
Intercorp Perú Ltd	3.26
Intelige Bank	7.61
NG Pharma Corp.	6.30
Others	22.46
<b>Total</b>	<b>100.00</b>

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-InRetail Consumer (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, 2017 were approved by the Board of Directors on February 28th, 2018.



## Notes to the interim consolidated financial statements (continued)

### 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 "Senior Notes Unsecured". As of December 31, 2017 and December 31, 2016 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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, has a chain of stores operating under the "Plaza Veá", "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 Veá 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, 2017 and December 31, 2016, 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 (21 as of December 31, 2017 and December 31, 2016) 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) IR Management S.R.L. is an entity that manages and operates the Companies of the group and provides other types of corporate services.

## Notes to the interim consolidated financial statements (continued)

### 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, 2017 and December 31, 2016, 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 continues 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 as of December 31, 2016.

## Notes to the interim consolidated financial statements (continued)

### (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, 2016, except for the adoption of the new standards and interpretations as of January 1, 2017.

#### **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 effectiveness.

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, 2017:

##### - IFRS 15 "Revenue from Contracts with Customers"–

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

The new standard on 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.

## Notes to the interim consolidated financial statements (continued)

### 4. Cash and short-term deposits

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

	As of December 31, 2017 S/(000)	As of December 31, 2016 S/(000)
Cash (b)	23,459	20,294
Current accounts (c)	136,123	91,203
Time deposits (d)	106,556	119,264
Other	14,204	12,794
<b>Total</b>	<b>280,342</b>	<b>243,555</b>

(b) 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) 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 between 1.25 and 3.30 percent in soles and between 0.80 and 1.40 percent in US Dollars (between 4.15 and 4.70 percent in soles and between 0.20 and 0.30 percent in US Dollars as of December 31, 2016).

### 5. Trade receivables, net

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

	As of December 31, 2017 S/(000)	As of December 31, 2016 S/(000)
Trade accounts receivable (c)	52,912	35,563
Rent receivable (d)	15,742	16,056
Merchandise vouchers (e)	28,007	28,467
Provision for accrued revenue (f)	13,561	16,562
Others	18,552	12,255
<b>Total</b>	<b>128,774</b>	<b>108,903</b>
Provision for doubtful accounts (g)	(15,661)	(12,870)
<b>Total</b>	<b>113,113</b>	<b>96,033</b>

## Notes to the interim consolidated financial statements (continued)

- (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) Corresponds 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) 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, 2017 and 2016, were as follows:

	<b>2017</b>	<b>2016</b>
	S/(000)	S/(000)
<b>Balance at the beginning of the year</b>	12,870	10,982
Provision recognized as expense, Note 17 (a)	4,116	3,283
Recoveries, Note 17 (a)	(1,103)	(1,441)
Foreign currency variation	(222)	46
<b>Balance at the end of the period</b>	<b>15,661</b>	<b>12,870</b>

As of December 31, 2017 and December 31, 2016, the amount of trade receivables past due but not impaired amounted to approximately S/49,172,000 and S/44,298,000, respectively. Past-due accounts which have a payment agreement are considered as not impaired; therefore they do not represent risk of uncollectibility.

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

## Notes to the interim consolidated financial statements (continued)

### 6. Inventories, net

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

	<b>As of December 31, 2017</b>	<b>As of December 31, 2016</b>
	S/(000)	S/(000)
Goods, Note 17 (a)	986,830	962,870
In transit inventories (b)	16,484	12,258
Miscellaneous supplies	8,226	12,661
<b>Total</b>	<b>1,011,540</b>	<b>987,789</b>
<b>Minus</b>		
Provision for impairment of inventories (c)	(8,101)	(8,960)
<b>Total</b>	<b>1,003,439</b>	<b>978,829</b>

(b) Correspond to goods and miscellaneous supplies imported by the InRetail 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, 2017 and 2016, was as follows:

	<b>2017</b>	<b>2016</b>
	S/(000)	S/(000)
<b>Balance at the beginning of the year</b>	8,960	9,597
Provision of the period, Note 17 (a)	7,062	7,926
Write-off	(7,921)	(8,563)
<b>Balance at the end of the period</b>	<b>8,101</b>	<b>8,960</b>

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, 2017 available for sale investments corresponded to notes issued by a related company of Intercorp Group of approximately US\$ 9,243,000, equivalent to S/29,993,000 (US\$8,944,000 equivalent to S/30,053,000 as of December 31, 2016). The unrealized gain, net of deferred income tax, of the notes held as of December 31, 2017 amounted to S/727,000 (gain of S/2,902,000 as of December 31, 2016) and is presented in the equity.

## Notes to the interim consolidated financial statements (continued)

### 8. Derivative financial instruments

As of December 31, 2017 and December 31, 2016, 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	Fair value	Fair value
	US\$(000)			the hedged item	2017	2016
			%	S/(000)	S/(000)	S/(000)
J.P. Morgan	200,000	July 2021	1.84	649,000	30,279	55,908
Deutsche Bank A.G.	100,000	October 2021	1.56	324,500	16,614	25,404
Bank of Tokyo	30,000	October 2021	1.20	97,350	4,817	6,332
<b>Total</b>					<b>51,710</b>	<b>87,644</b>

The financial instruments cover 43 and 57 percent, of the exposure to foreign currency risk arising from the international bond issues in July and October 2014, see note 13 (b) and (c). The Call Spreads cover variations in the exchange rate from S/3.220, S/3.379 and S/3.225, to S/3.75 per US\$1.00 and the price of the premiums was funded in installments, generating a liability. 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, 2017	As of December 31, 2016
	S/(000)	S/(000)
<b>Cost</b>		
<b>Initial balance</b>	3,390,798	3,155,591
Additions (b)	405,710	292,971
Disposals and/or sales (c)	(53,498)	(49,313)
Transfer to Investment properties, Note 10 (b)	(47,511)	(8,451)
<b>Final balance</b>	<b>3,695,499</b>	<b>3,390,798</b>
<b>Accumulated depreciation</b>		
<b>Initial balance</b>	842,966	720,414
Additions (d)	162,666	155,110
Disposals and/or sales	(32,132)	(32,558)
Transfer to Investment properties, Note 10 (b)	(1,061)	-
<b>Final balance</b>	<b>972,439</b>	<b>842,966</b>
<b>Net book value</b>	<b>2,723,060</b>	<b>2,547,832</b>

## Notes to the interim consolidated financial statements (continued)

- (b) Additions for the twelve-month periods ended December 31, 2017 and 2016 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 correspond 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, 2017 and 2016, was recorded as follows in the income statement:

	<b>2017</b> S/(000)	<b>2016</b> S/(000)
Sales expenses, Note 17 (a)	144,655	136,967
Administrative expenses, Note 17 (a)	18,011	18,143
<b>Balance as of December 31</b>	<b>162,666</b>	<b>155,110</b>

- (e) As of December 31, 2017 Supermercados Peruanos S.A. has mortgaged land lots, buildings and facilities for a net book value of S/412,243,000 (S/381,356,000 as of December 31, 2016), as collateral over the financial obligations and the leasing contracts (see Note 13).
- (f) As of December 31, 2017 the cost and corresponding accumulated depreciation of assets acquired through finance leases amount to approximately S/707,225,000 and S/216,367,000, respectively (S/569,556,000 and S/175,788,000, respectively, as of December 31, 2016).
- (g) The InRetail Group maintain insurance policies on their main assets in accordance with the policies established by Management.



## Notes to the interim consolidated financial statements (continued)

### 10. Investment properties

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

	As of December 31, 2017 S/(000)	As of December 31, 2016 S/(000)
Real Plaza Salaverry shopping Mall (i)	423,389	392,691
Real Plaza Primavera shopping Mall	222,477	208,378
Real Plaza Chiclayo shopping Mall	216,475	210,013
Real Plaza Cuzco shopping Mall (i)	211,849	195,115
Real Plaza Piura shopping Mall	198,820	189,398
Real Plaza Centro Civico shopping Mall (i)	197,392	195,638
Real Plaza Trujillo shopping Mall	173,770	157,927
Real Plaza Puruchuco project	141,749	137,298
Real Plaza Huancayo shopping Mall (i)	130,205	132,137
Real Plaza Huánuco shopping Mall (i)	89,422	89,983
Real Plaza Cajamarca shopping Mall	85,788	98,970
Real Plaza Villa Maria del Triunfo shopping Mall (La Curva) (i)	82,114	67,152
Real Plaza Juliaca shopping Mall (i)	74,691	74,632
Real Plaza Santa Clara - Altamirano shopping Mall	72,906	69,023
Real Plaza Chorrillos shopping Mall	63,514	60,402
Real Plaza Pro shopping Mall	60,472	54,556
Real Plaza Arequipa shopping Mall (i)	59,728	63,700
Plaza Center Lurin shopping Mall	47,780	34,409
Plaza Center Villa El Salvador shopping Mall	31,623	-
Real Plaza Sullana shopping Mall	28,801	31,842
Real Plaza Nuevo Chimbote shopping Mall	26,583	19,411
Jr. de la Unión stores	13,466	14,751
Others	216,988	190,350
<b>Total</b>	<b>2,870,002</b>	<b>2,687,776</b>

(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), Oficina de Normalización Provisional - ONP, (Centro Cívico), 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; with whom contracts have been signed that provide a minimum monthly rent and a variable rent based on sales.

## Notes to the interim consolidated financial statements (continued)

- (b) The movement of this account for the twelve-month periods ended December 31, 2017 and 2016 was as follows:

	<b>2017</b>	<b>2016</b>
	S/(000)	S/(000)
<b>Balance at the beginning of the year</b>	2,687,776	2,465,673
Additions	114,990	205,675
Disposal	(960)	(2,768)
Fair value adjustment	21,746	10,745
Transfer from property, furniture and equipment; Note 9 (a)	46,450	8,451
<b>Balance at the end of the period</b>	<b>2,870,002</b>	<b>2,687,776</b>

The fair value of investment properties has been determined on a discounted cash flows method basis by the Management of the InRetail 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 InRetail 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:

	<b>As of December 31, 2017</b>	<b>As of December 31, 2016</b>
	S/(000)	S/(000)
<b>Cost</b>		
<b>Initial balance</b>	1,262,105	1,240,125
Additions (c)	20,312	24,073
Disposal and/or sales	(2,156)	(2,093)
<b>Final balance</b>	<b>1,280,261</b>	<b>1,262,105</b>
<b>Accumulated amortization</b>		
<b>Initial balance</b>	67,932	54,215
Additions (d)	16,210	13,718
Disposals and/or sales	(631)	(1)
<b>Final Balance</b>	<b>83,511</b>	<b>67,932</b>
<b>Net, book value</b>	<b>1,196,750</b>	<b>1,194,173</b>

- (b) As of December 31, 2017 and December 31, 2016, this caption mainly includes approximately S/373,054,000 and S/709,472,000 corresponding to the brand "Inkafarma" and goodwill respectively, as a result of the acquisition of the Eckerd Group and other intangibles with finite lives such as software.

## Notes to the interim consolidated financial statements (continued)

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 InRetail Group 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, 2017 and December 31, 2016, additions mainly correspond to disbursements for the acquisition of a commercial software program, a general planning system (ERP) and related licenses; and disbursements for implementation of software and licenses in new stores of InRetail Group. Such disbursements include the acquisition of usage licenses, development costs and other directly attributable costs.
- (d) Amortization expense for the twelve-month periods ended December 31, 2017 and 2016 has been recorded in the following items of the combined statements:

	<b>2017</b> S/(000)	<b>2016</b> S/(000)
Sales expenses, Note 17 (a)	9,635	7,870
Administrative expenses, Note 17 (a)	6,575	5,848
<b>Balance as of December 31</b>	<b>16,210</b>	<b>13,718</b>

### 12. Trade payables

The table below presents the composition of this caption:

	<b>As of December 31, 2017</b> S/(000)	<b>As of December 31, 2016</b> S/(000)
Bills payable from purchase of goods	1,414,902	1,354,097
Bills payable from commercial services	228,339	239,647
<b>Total</b>	<b>1,643,241</b>	<b>1,593,744</b>

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.

## Notes to the interim consolidated financial statements (continued)

### 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	
				US\$ (000)	S/(000)	2017	2016	2017	2016	2017	2016
				S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
<b>Notes Senior Unsecured</b>											
Notes Senior unsecured (b)	USD	6.500	2021	350,000	-	916,875	936,147	-	-	916,875	936,147
Notes Senior unsecured (b)	PEN	7.875	2034	-	141,000	135,383	135,324	-	-	135,383	135,324
Notes Senior unsecured (c)	USD	5.250	2021	300,000	-	558,394	575,535	-	-	558,394	575,535
Notes Senior unsecured (c)	PEN	6.813	2021	-	250,000	249,439	249,314	-	-	249,439	249,314
				<b>650,000</b>	<b>391,000</b>	<b>1,860,091</b>	<b>1,896,320</b>	<b>-</b>	<b>-</b>	<b>1,860,091</b>	<b>1,896,320</b>
<b>Leasings (d)</b>											
<b>Related entities</b>											
Banco Internacional del Perú-Interbank	PEN	7.850	2019	-	27,412	10,142	15,627	5,923	5,485	4,219	10,142
Banco Internacional del Perú-Interbank	PEN	Between 6.850 and 8.500	2020	-	233,739	138,809	45,921	12,398	24,865	126,411	21,056
Banco Internacional del Perú-Interbank	USD	5.300	2018 - 2020	208	-	326	124	160	56	166	68
<b>Non related entities</b>											
Banco de Crédito del Perú	PEN	Between 6.590 and 7.850	2022	-	79,236	33,174	49,583	14,598	16,409	18,576	33,174
Banco de Crédito del Perú	PEN	9.020	2024	-	75,475	47,396	56,178	10,264	9,161	37,132	47,017
BBVA Banco Continental	PEN	Between 7.800 and 8.000	2018	-	23,518	2,196	6,807	2,196	4,611	-	2,196
BBVA Banco Continental	PEN	8.070	2017	-	355	-	144	-	144	-	-
Banco Scotiabank	PEN	Between 6.750 and 7.760	2020	-	59,494	21,258	32,574	10,382	11,318	10,876	21,256
				<b>208</b>	<b>499,229</b>	<b>253,301</b>	<b>206,958</b>	<b>55,921</b>	<b>72,049</b>	<b>197,380</b>	<b>134,909</b>

## Notes to the interim consolidated financial statements (continued)

Type of Obligation	Original currency	Interest rate %	Final maturity	Original amount		Total		Current		Non-current	
				US\$ (000)	S/(000)	2017	2016	2017	2016	2017	2016
				S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)		
<b>Notes and Loans (d)</b>											
<b>Related entities</b>											
Banco Internacional del Perú-Interbank	PEN	6.350	2020	-	60,000	34,939	46,234	12,140	11,415	22,799	34,819
<b>Non related entities</b>											
Banco de Crédito del Perú	PEN	Between 5.650 and 6.350	2024	-	189,197	171,776	31,079	8,204	8,335	163,572	22,744
Banco Scotiabank	PEN	Between 6.350 and 6.950	2022	-	240,000	141,670	182,389	41,143	41,143	100,527	141,246
Banco Scotiabank (f)	PEN	6.700	2019	-	100,000	49,785	74,539	24,844	24,822	24,941	49,717
Bank of Tokyo (e)	USD	Between 2.540 and 2.640	2019	30,000	-	96,927	100,048	-	-	96,927	100,048
				<b>30,000</b>	<b>589,197</b>	<b>495,097</b>	<b>434,289</b>	<b>86,331</b>	<b>85,715</b>	<b>408,766</b>	<b>348,574</b>
<b>Call spread financing, Note 8</b>											
JP Morgan	USD	1.840	2021	18,111	-	41,487	51,940	9,301	9,307	32,186	42,633
Deutsche bank	USD	1.560	2021	9,366	-	19,358	24,690	4,625	5,091	14,733	19,599
Bank of Tokyo	USD	1.200	2021	1,953	-	4,625	5,945	1,133	1,163	3,492	4,782
				<b>29,430</b>	<b>-</b>	<b>65,470</b>	<b>82,575</b>	<b>15,059</b>	<b>15,561</b>	<b>50,411</b>	<b>67,014</b>
<b>Other obligations (g)</b>											
Hewlett Packard S.A.	USD	Between 1.450 and 5.560	2021	15,886	-	11,132	15,213	5,812	5,609	5,320	9,604
IBM Perú SAC	USD	2.170	2019	335	-	107	185	71	74	36	111
Hewlett Packard S.A.	USD	2.930	2021	12,084	-	17,052	20,794	8,094	8,560	8,958	12,234
IBM Perú SAC	USD	3.000	2017	129	-	-	25	-	25	-	-
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 / Infratech	USD	4.240	2018 - 2020	216	-	367	193	173	112	194	81
				<b>29,267</b>	<b>-</b>	<b>29,849</b>	<b>38,602</b>	<b>14,615</b>	<b>15,379</b>	<b>15,234</b>	<b>23,223</b>
<b>Total</b>				<b>738,905</b>	<b>1,479,426</b>	<b>2,703,808</b>	<b>2,658,744</b>	<b>171,926</b>	<b>188,704</b>	<b>2,531,882</b>	<b>2,470,040</b>

## Notes to the interim consolidated financial statements (continued)

- (b) In July 2014, InRetail Real Estate Corp. issued, through InRetail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" 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 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 are S/916,875,000 and S/936,147,000, respectively.

Also, In July 2014, InRetail Real Estate Corp. issued, through InRetail 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/1,617,000 as of December 31, 2017 ( S/1,676,000 as of December 31, 2016). Additionally, as of December 31, 2017 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 Mall. As of December 31, 2017 and December 31, 2016 the balance of this loan are S/135,383,000 and S/135,324,000, respectively.

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

As of December 31, 2017 and December 31, 2016, 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.

## 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 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, 2017 and December 31, 2016. 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/973,500,000 as of December 31, 2017 (S/1,008,000,000 as of December 31, 2016), 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 5.5869 percent effective interest rate, after considering the respective up-front fees for approximately US\$3,396,000, equivalent to a total amount of approximately S/11,020,000 as of December 31, 2017 (US\$4,184,000 equivalent to approximately S/14,058,000 as of December 31, 2016). Additionally, as of December 31, 2017 the balance is presented net of US\$124,526,000 equivalent to a total amount of approximately S/404,086,000 (US\$124,526,000 equivalent to a total amount of approximately S/418,407,000 as of December 31, 2016) corresponding to notes of this issuance acquired by the Company itself. As of December 31, 2017 and December 31, 2016 the balance of this loan is S/558,394,000 and S/575,535,000, 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/561,000, as of December 31, 2017 (S/686,000, as of December 31, 2016). As of December 31, 2017 and December 31, 2016 the balance of this loan is S/249,439,000 and S/249,314,000, respectively.

## Notes to the interim consolidated financial statements (continued)

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 InRetail Group.

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, 2017 and December 31, 2016.

- (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(e). 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/97,350,000 as of December 31, 2017 (US\$30,000,000 equivalent to S/100,800,000 as of December 31, 2016), with maturity in September 2019 and which bears an annual 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/423,000 (S/752,000 as of December 31, 2016).
- (f) On December 2015, InRetail Shopping Malls received a loan from Bank Scotiabank of Peru S.A.A for S/100,000,000, for a term of 4 years, payable in quarterly installments, at an annual interest rate of 6.70. This loan was recorded at its amortized cost after considering the respective up-front fee of approximately S/215,000 (S/461,000 as of December 31, 2016).

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



## Notes to the interim consolidated financial statements (continued)

- (g) Corresponds to the debt that the Subsidiaries acquired with Hewlett Packard, IBM and CSI Renting to purchase computer equipment. Said contracts do not have any specific guarantee.
- (h) During the twelve-month-periods ended December 31, 2017 and 2016, 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, 2017 and December 31, 2016, there are interests payable which are recorded in the "Other payables" caption of the consolidated statements of financial position.
- (i) Some of the interest-bearing loans and borrowings include standard clauses requiring the InRetail Group to meet financial ratios, use of funds criteria and other administrative matters. In Management's opinion, as of December 31, 2017 and December 31, 2016, standard clauses do not limit the normal operation of the InRetail Group and have been fulfilled.
- (j) Financial obligations are payable as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
2017	-	188,704
2018	171,926	170,668
2019	274,939	250,052
2020	229,179	83,332
2021 onwards	2,027,765	1,965,988
<b>Total</b>	<b>2,703,809</b>	<b>2,658,744</b>

### 14. Income tax

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

Statements of financial position	<b>As of December 31, 2017</b>		<b>As of December 31, 2016</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	S/(000)	S/(000)	S/(000)	S/(000)
Eckerd Perú and Subsidiaries	12,862	-	12,193	-
Supermercados Peruanos and Subsidiaries	-	80,920	-	65,682
InRetail Real Estate and Subsidiaries	1,521	27,478	1,106	17,946
IR Management S.R.L.	323	-	294	-
Consolidation adjustment	117	108,715	-	109,295
<b>Total</b>	<b>14,823</b>	<b>217,113</b>	<b>13,593</b>	<b>192,923</b>

## Notes to the interim consolidated financial statements (continued)

Statements of comprehensive income	Income tax for the twelve-month periods ended December 31, 2017 and 2016	
	2017 S/(000)	2016 S/(000)
Current	(165,141)	(141,874)
Deferred	(22,298)	(17,863)
<b>Income tax expense</b>	<b>(187,439)</b>	<b>(159,737)</b>

- (b) As of December 31, 2017 and December 31, 2016 the provision for current income tax payable, net of advanced payments amounts to approximately S/840,000 and S/8,709,000, respectively.

Also, as of December 31, 2017 and December 31, 2016, non-current income related special purpose entity tax of S/170,336,000 and S/125,122,000, respectively, is payable as a result of the net taxable income from the assets in the trusts, the InRetail Group.

### 15. Equity

- (a) Capital stock –  
As of December 31, 2017 and December 31, 2016, 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, 2017, the InRetail Group have acquired 510,729 Shares issue for InRetail Perú Corp., for approximately S/28,558,000, the nominal value of said shares being S/16,801,000, with the difference of S/11,757,000 being recorded as a decrease in the capital premium (1,187,815 Shares issue as of December 31, 2016 for InRetail Perú Corp., for approximately S/57,229,000, The nominal value of said shares being S/39,256,000, with the difference of S/22,764,000 being recorded as a decrease in the capital premium).
- (d) Dividends  
At the General Shareholders' Meeting held on March 31, 2017 it was agreed to distribute dividends of US\$20,000,000 equivalent to S/64,980,000. Of this amount S/754,000 corresponds to the dividends related to treasury shares maintained by the Company.

### 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:

## Notes to the interim consolidated financial statements (continued)

- 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 of the profits generated since January 1, 2017.
- (b) The InRetail Group's Companies 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, 2017 the statutory Income Tax rate was 29.5 percent (28.0 percent as of December 31, 2016) on taxable income, after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.
- (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 domiciled 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 InRetail 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 InRetail Group as of December 31, 2017 and December 31, 2016.
- (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:

	<b>Income Tax</b>	<b>Value added tax</b>
Supermercados Peruanos S.A.	From 2013 to 2017	From 2013 to 2017
Eckerd Perú S.A.	From 2014 to 2017	From 2013 to 2017
Eckerd Amazonia S.A.C.	From 2013 to 2017	From 2013 to 2017
Boticas del Oriente S.A.C.	From 2013 to 2017	From 2013 to 2017
Real Plaza S.R.L.	From 2015 to 2017	From 2013 to 2017
IR Management S.R.L.	from 2013, 2015 to 2017	From 2013 to 2017
Inmobiliaria Puerta del Sol S.A.	From 2014 to 2017	From 2013 to 2017

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, 2017 and December 31, 2016, the accrued income tax amounted to S/170,336,000 and S/125,122,000, respectively.

## Notes to the interim consolidated financial statements (continued)

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 InRetail 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, 2017 and December 31, 2016.

### 17. Operating expenses

(a) The table below presents the components of this caption for the twelve-month periods ended December 31, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
	S/(000)	S/(000)
Cost of sales	5,416,196	5,019,274
Selling expenses	1,547,436	1,446,751
Administrative expenses	220,062	202,537
<b>Total</b>	<b>7,183,694</b>	<b>6,668,562</b>

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

	<b>2017</b>			
	<b>Cost of sales</b>	<b>Selling expenses</b>	<b>Administrative expenses</b>	<b>Total</b>
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods, Note 6 (a)	962,870	-	-	962,870
Purchase of goods	5,274,896	-	-	5,274,896
Final balance of goods, Note 6 (a)	(986,830)	-	-	(986,830)
Impairment of inventories Note 6 (c)	7,062	-	-	7,062
Cost of services	158,198	-	-	158,198
Personnel expenses	-	570,561	130,958	701,519
Depreciation, Note 9 (d)	-	144,655	18,011	162,666
Amortization, Note 11 (d)	-	9,635	6,575	16,210
Key money amortization	-	956	-	956
Services provided by third parties (b)	-	267,781	32,508	300,289
Advertising	-	102,663	-	102,663
Packing and packaging	-	76,812	120	76,932
Rental of premises	-	208,270	6,690	214,960
Taxes	-	29,693	3,994	33,687
Provision for doubtful trade receivables, Note 5(g)	-	3,013	-	3,013
Insurance	-	9,376	1,024	10,400
Other charges (c)	-	124,021	20,182	144,203
<b>Total</b>	<b>5,416,196</b>	<b>1,547,436</b>	<b>220,062</b>	<b>7,183,694</b>

## Notes to the interim consolidated financial statements (continued)

	2016			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods	876,298	-	-	876,298
Purchase of goods	4,956,202	-	-	4,956,202
Final balance of goods	(962,870)	-	-	(962,870)
Impairment of inventories, Note 6 (c)	7,926	-	-	7,926
Cost of services	141,718	-	-	141,718
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
Provision for doubtful other account receivables	-	112	-	112
Insurance	-	10,236	750	10,986
Other charges (c)	-	158,048	20,128	178,176
<b>Total</b>	<b>5,019,274</b>	<b>1,446,751</b>	<b>202,537</b>	<b>6,668,562</b>

(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:

	2017	2016
	S/(000)	S/(000)
Interest on loans, borrowings and bonds payable	162,080	172,599
Premium accrual "Call Spread"	14,695	14,168
Other financial costs	45,256	41,570
<b>Total</b>	<b>222,031</b>	<b>228,337</b>

(b) As of December 31, 2017 and December 31, 2016, there are interests payable for these obligations for approximately S/47,143,000 and S/52,651,000, respectively, which are recorded in the "Other payables" caption of the consolidated statements of financial position.

## Notes to the interim consolidated financial statements (continued)

### 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, 2017 and 2016:

	<b>2017</b> S/(000)	<b>2016</b> S/(000)
<b>Income</b>		
Sales	4,466	4,780
Rental income	106,992	94,461
Rendering of services	42,937	43,593
Income from Joint Venture	18,621	21,089
Other	63,194	27,664
<b>Total</b>	<b>236,210</b>	<b>191,587</b>
<b>Expenses</b>		
Renting of premises and land	8,521	10,194
Reimbursement of expenses	2,105	1,208
Commissions	2,032	290
Interest	5,740	4,244
Others	13,219	8,477
<b>Total</b>	<b>31,617</b>	<b>24,413</b>

(b) As a result of the transactions with related companies, the InRetail Group recorded the following balances as of December 31, 2017 and December 31, 2016:

	<b>As of December 31,</b> <b>2017</b> S/(000)	<b>As of December 31,</b> <b>2016</b> S/(000)
<b>Receivables</b>		
Tiendas Peruanas S.A.	5,800	22,558
Homecenters Peruanos S.A.	3,702	4,057
Bembos S.A.C.	1,917	3,988
Cineplex S.A.	1,240	4,138
Inmobiliaria Milenia S.A.	4,262	63
Financiera Oh! S.A.	4,673	4,533
Banco Internacional del Perú S.A.A.-Interbank	3,353	2,581
Intercorp Perú Ltd. (d)	552	476
Interseguro Compañía de Seguros S.A.	556	342
Intercorp Retail Inc. (h)	223	429
Urbi Propiedades S.A.	205	213
Bellavista Global Opportunities S.A.C.	2,117	2,091
Others	18,731	20,190
<b>Total</b>	<b>47,331</b>	<b>65,659</b>

## Notes to the interim consolidated financial statements (continued)

	As of December 31, 2017	As of December 31, 2016
	S/(000)	S/(000)
<b>Payables</b>		
Homecenters Peruanos S.A. (j)	20,912	12,225
Financiera Oh! S.A. (i)	34,851	24,573
Banco Internacional del Perú S.A.A. – Interbank:		
Credit lines and others	17	-
Guarantee deposits	5,658	5,470
Tiendas Peruanas S.A.	1,143	4,698
Interseguro Compañía de Seguros S.A.	607	741
Horizonte Global Opportunities Perú S.A. (g)	25	25
Intercorp Retail Inc.	21	1
Inmobiliaria Milenia S.A.	42	478
Others	1,074	2,994
	<b>64,350</b>	<b>51,205</b>
Remunerations payable to key management	-	-
<b>Total</b>	<b>64,350</b>	<b>51,205</b>
Current portion	38,531	34,028
Non-current portion	25,819	17,177
<b>Total</b>	<b>64,350</b>	<b>51,205</b>

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, 2017 and December 31, 2016, the InRetail 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, 2017 and December 31, 2016, the balance receivable from Intercorp Peru Ltd. corresponds to a loan in Soles that includes accrued interest at market rate of 6.625 percent annually.
- (e) Include 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.

## Notes to the interim consolidated financial statements (continued)

- (f) Supermercados Peruanos S.A. and Banco Internacional del Perú – Interbank, signed contract on future leases of financial stores for 15 years in October 2004. This contract amount to approximately S/27,212,000, (equivalent to approximately US\$8,000,000) which was collect in advance by Supermercados Peruanos S.A. and are presented in the “Deferred revenue” caption in the consolidated statements of financial position.

Additionally, Supermercados Peruanos S.A. received from Banco Internacional del Perú – Interbank US\$2,000,000 as collateral for the contract. As of December 31, 2017 and December 31, 2016, Supermercados Peruanos S.A. has credited the update of the present value of this deposit in the “Financial income” caption. As of December 31, 2017 and December 31, 2016, the net present value of the balances related to guarantee deposits amounts to S/5,658,000 and S/5,470,000, respectively, and is accounted for in the “Other payables” caption.

In relation to such contracts, during the twelve-month periods ended December 31, 2017 Supermercados Peruanos S.A. recognized accrued renting revenue that amounted to approximately S/975,000 equivalent to US\$306,000 (S/1,635,000, equivalent to approximately US\$531,000 during the twelve-month periods ended December 31, 2016), which are recorded net of the renting expenses in the “Rental income” caption in the consolidated statements of income.

As of December 31, 2017 Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/1,611,000 (S/2,698,000 as of December 31, 2016) which will be recognized as income in upcoming periods.

- (g) Corresponds to balances payable on land and premises renting.
- (h) As of December 31, 2017 and December 31, 2016 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.
- (i) On June 2013, Supermercados Peruanos S.A. y Financiera Oh! S.A., a related entity, signed the “Contract of Issuance and Administration of the “Oh! credit card”. Said contract established that Financiera Oh! S.A. can exclusively operate its “Oh! credit card” in the Supermercados Peruanos stores, instead of the “Vea” credit card of Banco Internacional del Perú S.A.A. –Interbank, which was operating until that moment. Also, as a result of this agreement, as of December 31, 2017 and December 31, 2016, the InRetail Group holds Inretail accounts payables to Financiera Oh! S.A for S/34,851,000 and S/24,573,000, respectively, which correspond mainly to the collection of installments to user of the Oh! Credit card.
- (j) As of December 31, 2017 mainly includes contributions from the affiliate Homecenters Peruanos S.A. (hereinafter “The associate”)) for approximately S/20,161,000, (S/11,707,000 as of December 31, 2016), these contributions arise from the joint venture agreements celebrated with the Company which establishes that the associate undertake to deliver cash in favor of the Company in exchange of having a participation in the results of the project Mall “Lurín”. This agreement have a term of 60 years, for this reason is recognized as long-term liability.



## Notes to the interim consolidated financial statements (continued)

- (k) 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/138,809,000, S/10,142,000, and S/326,000 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 5.25 and 8.48 percent, and whose maturities are between 2018 and 2020. These transactions are included in “Interest-bearing loans and borrowings”. During the twelve-month periods ended December 31, 2017 and 2016, leasing contracts generated interests which are recorded in the “Financial costs” caption of the consolidated income statements.
- (l) The compensation of key management personnel of the InRetail Group for the twelve-month periods ended December 31, 2017 and 2016, is detailed below:

	<b>2017</b> S/(000)	<b>2016</b> S/(000)
Short term employee benefits	28,345	21,391
Insurance and medical benefits	1,523	3,118
Others	186	-
<b>Total</b>	<b>30,054</b>	<b>24,509</b>

- (m) As of December 31, 2017 and December 31, 2016, the InRetail Group maintains the following balances in the cash and cash equivalent and investments at fair value through profit or loss captions:

	<b>2017</b> S/(000)	<b>2016</b> S/(000)
<b>Cash and short-term deposits</b>		
Banco Internacional del Peru – Interbank S.A.A.	96,973	42,979
Inteligo Bank Ltd.	1,548	6,898
<b>Investments at fair value through profit or loss</b>		
Interfondos S.A. Sociedad Administradora de Fondos SAF	64,224	-
Fondos Sura SAF S.A.C.	43,451	21,786

## Notes to the interim consolidated financial statements (continued)

### 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:

	<b>Ordinary shares</b>		
	<b>Outstanding shares</b>	<b>Effective days until period-end</b>	<b>Weighted average of shares</b>
Number as of January 1, 2016	102,807,319		102,807,319
Number as of December 31, 2016	<u>102,807,319</u>		<u>102,807,319</u>
Number as of January 1, 2017	102,807,319		102,807,319
Number as of December 31, 2017	<u>102,807,319</u>		<u>102,807,319</u>
	<b>For the twelve-month-periods ended December 31, 2017</b>		
	<b>Net income (numerator) S/</b>	<b>Shares (denominator)</b>	<b>Earnings per share S/</b>
Basic and diluted earnings per share	<u>285,759,000</u>	<u>102,807,319</u>	<u>2.78</u>
	<b>For the twelve-month-periods ended December 31, 2016</b>		
	<b>Net income (numerator) S/</b>	<b>Shares (denominator)</b>	<b>Earnings per share S/</b>
Basic and diluted earnings per share	<u>267,865,000</u>	<u>102,807,319</u>	<u>2.61</u>

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.

## Notes to the interim consolidated financial statements (continued)

### 21. Commitments and contingencies

#### Commitments –

The main commitments assumed are presented below:

- (a) As of December 31, 2017 and December 31, 2016, the InRetail Group 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 2077.

- (b) As of December 31, 2017 the Company agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/34,439,000 and US\$8,817,000 (S/18,261,000 and US\$3,794,000 as of December 31, 2016), 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, 2017 and December 31, 2016.
- (b) Supermercados Peruanos S.A. has been examined by the Tax Authority of Income Tax returns and monthly Value Added Tax returns for the years 2004 to 2010. As of the date of this report, Supermercados Peruanos S.A. has challenged the Tax Administration for these resolutions and, in Management's opinion and its legal advisors, significant liabilities will not arise as result of this situation as of December 31, 2017 and December 31, 2016.

### 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.

As of December 31, 2017 and December 31, 2016 and for the twelve-month periods ended December 31, 2017 and 2016, 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 nine-month periods ended December 31, 2017 and 2016

	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)
Gain on valuation at fair value of investment properties						
<b>For the twelve-month periods ended December 31, 2017</b>						
<b>Revenue</b>						
External income	4,636,947	2,733,933	431,853	7,802,733	7,441	7,810,174
Inter-segment	15,418	-	44,001	59,419	(59,419)	-
<b>Total revenue</b>	<b>4,652,365</b>	<b>2,733,933</b>	<b>475,854</b>	<b>7,862,152</b>	<b>(51,978)</b>	<b>7,810,174</b>
Cost of sales	(3,425,368)	(1,832,630)	(156,870)	(5,414,868)	(1,328)	(5,416,196)
<b>Gross profit</b>	<b>1,226,997</b>	<b>901,303</b>	<b>318,984</b>	<b>2,447,284</b>	<b>(53,306)</b>	<b>2,393,978</b>
Join venture income	18,621	-	-	18,621	-	18,621
Gain on valuation at fair value of investment properties	11,267	-	8,459	19,726	2,020	21,746
Selling expenses	(939,565)	(647,768)	(8,067)	(1,595,400)	47,964	(1,547,436)
Administrative expenses	(115,326)	(65,288)	(28,300)	(208,914)	(11,148)	(220,062)
Other operating (expenses) income, net	(8,041)	(4,513)	10,727	(1,827)	-	(1,827)
<b>Operating profit</b>	<b>193,953</b>	<b>183,734</b>	<b>301,803</b>	<b>679,490</b>	<b>(14,470)</b>	<b>665,020</b>
Exchange difference, net	6,394	(2,147)	7,997	12,244	4,550	16,794
Finance income	3,203	6,005	7,783	16,991	(3,558)	13,433
Finance costs	(57,836)	(2,503)	(114,640)	(174,979)	(47,052)	(222,031)
<b>Profit before income tax</b>	<b>145,714</b>	<b>185,089</b>	<b>202,943</b>	<b>533,746</b>	<b>(60,530)</b>	<b>473,216</b>
Income tax expense	(59,923)	(58,608)	(65,877)	(184,408)	(3,031)	(187,439)
<b>Profit for the year</b>	<b>85,791</b>	<b>126,481</b>	<b>137,066</b>	<b>349,338</b>	<b>(63,561)</b>	<b>285,777</b>
<b>Attributable to:</b>						
Owners of the parent	85,791	126,481	137,066	349,338	(63,579)	285,759
Non-controlling interests	-	-	-	-	18	18
<b>Profit for the year</b>	<b>85,791</b>	<b>126,481</b>	<b>137,066</b>	<b>349,338</b>	<b>(63,561)</b>	<b>285,777</b>

Notes to the interim consolidated financial statements (continued)

	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)
<b>For the twelve-month periods ended December 31, 2016</b>						
<b>Revenue</b>						
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)	-
<b>Total revenue</b>	<b>4,240,977</b>	<b>2,624,352</b>	<b>457,878</b>	<b>7,323,207</b>	<b>(50,038)</b>	<b>7,273,169</b>
Cost of sales	(3,110,646)	(1,766,910)	(143,054)	(5,020,610)	1,336	(5,019,274)
<b>Gross profit</b>	<b>1,130,331</b>	<b>857,442</b>	<b>314,824</b>	<b>2,302,597</b>	<b>(48,702)</b>	<b>2,253,895</b>
Join venture income	21,089	-	-	21,089	-	21,089
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 (expenses) income, net	3,469	(1,074)	454	2,849	(5,382)	(2,533)
<b>Operating profit</b>	<b>157,678</b>	<b>201,744</b>	<b>293,725</b>	<b>653,147</b>	<b>(19,239)</b>	<b>633,908</b>
Exchange difference, net	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)
<b>Profit before income tax</b>	<b>111,760</b>	<b>200,692</b>	<b>184,074</b>	<b>496,526</b>	<b>(68,911)</b>	<b>427,615</b>
Income tax expense	(42,038)	(64,167)	(56,149)	(162,354)	2,617	(159,737)
<b>Profit for the year</b>	<b>69,722</b>	<b>136,525</b>	<b>127,925</b>	<b>334,172</b>	<b>(66,294)</b>	<b>267,878</b>
<b>Attributable to:</b>						
Owners of the parent	69,722	136,525	127,925	334,172	(66,307)	267,865
Non-controlling interests	-	-	-	-	13	13
<b>Profit for the year</b>	<b>69,722</b>	<b>136,525</b>	<b>127,925</b>	<b>334,172</b>	<b>(66,294)</b>	<b>267,878</b>

Income and expenses of the Company are not allocated to individual segments as the underlying instruments are managed on an InRetail 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, 2017 and December 31, 2016, 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 or 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 InRetail 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.

## Notes to the interim consolidated financial statements (continued)

### 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, 2017 and 2016. 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, 2017 the weighted average exchange rates in the market for transactions in US Dollars were S/3.238 per US\$ 1.00 bid and S/ 3.245 per US\$ 1.00 ask (S/3.352 and S/3.360 per US\$1.00 for bid and ask as of December 31, 2016).

As of December 31, 2017 and December 31, 2016, The InRetail Group held the following foreign currency assets and liabilities:

	As of December 31, 2017 US\$(000)	As of December 31, 2016 US\$(000)
<b>Assets</b>		
Cash and short-term deposits	8,158	7,000
Investments at fair value through profit or loss	29,114	16,147
Available-for-sale investment	9,243	8,944
Trade receivables, net	402	900
Other accounts receivables, net	4,355	4,846
Accounts receivable from related parties	4,763	3,325
<b>Total assets</b>	<b>56,035</b>	<b>41,162</b>
<b>Liabilities</b>		
Trade payables	(9,046)	(18,138)
Other payables	(19,611)	(27,938)
Accounts payable to related parties	(3,138)	(2,487)
Interest - bearing loans and borrowings	(513,971)	(515,824)
<b>Total Liabilities</b>	<b>(545,766)</b>	<b>(564,387)</b>
Call Spread	330,000	330,000
<b>Net liability position</b>	<b>(159,731)</b>	<b>(193,225)</b>

## Notes to the interim consolidated financial statements (continued)

As of December 31, 2017 and December 31, 2016 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. Subsequent events**

The Company through Eckerd Perú S.A. (as the Parent Company) incorporated in January 2018 IR Pharma S.A. (before Chakana Salud S.A.C.), for the acquisition of 100 percent of Quicorp S.A. and its following Subsidiaries (hereinafter and jointly, "Quicorp"): Química Suiza Comercial S.A., Química Suiza S.A., Cifarma S.A., Mifarma S.A.C., Empresa Comercializadora Mifarma S.A., Botica Torres de Limatambo S.A.C., BTL Amazonía S.A.C., Vantive S.A.C., Farmacias Peruanas S.A., Droguería La Victoria S.A.C., Vantive Cía Ltda., Quifatex S.A., Quimiza Ltda, Quideca S.A., Albis S.A., Jorsa de la Selva S.A. and Superfarma Mayorista S.A. It is important to mention that these entities operate in manufacturing, distribution and retail segments within the pharmaceutical sector in Peru, Ecuador, Bolivia and Colombia.

Purchase price for the acquisition of Quicorp was approximately US\$583 million, which was partially funded with a US\$1,000 million bridge loan at one-year maturity, and at an LIBOR plus a spread interest rate. Such bridge loan was obtained by Eckerd Perú S.A. from Citibank N.A. and JP Morgan Chase Bank N.A. Likewise, such bridge loan has been partially used for the aforementioned acquisition and, the difference, mainly for the restructuring of several debts obtained by related parties.

On the other hand, at the date of this report, the acquisition of Quifatex S.A. and Subsidiaries (subsidiaries of Quicorp operating in Ecuador), is subject to the authorization of the market regulator in Ecuador ("SCPM", by its acronym in Spanish), therefore, Quifatex S.A.'s common shares have been contributed to trusts incorporated in Ecuador and Peru, pending the decision of SCPM, which is expected to occur during the first semester 2018.

### **26. Additional explanation for English translation**

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