Translation of independent auditors' report and financial statements originally issued in Spanish - Note 32

InRetail Real Estate Corp. and Subsidiaries

Consolidated financial statements as of December 31, 2016 and 2015, together with independent auditors' report

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Content

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 32

Independent auditors' report

To the Shareholders and Board of Directors of InRetail Real Estate Corp. and Subsidiaries

We have audited the accompanying consolidated financial statements of InRetail Real Estate Corp. and Subsidiaries (together "InRetail Real Estate"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes (notes 1 to 32).

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to InRetail Real Estate for the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate within the circumstances, but not for the purpose of expressing an opinion on the effectiveness of InRetail Real Estate's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made

Independent auditors' report (continued)

by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of InRetail Real Estate Corp. and Subsidiaries as of December 31, 2016 and 2015, and their consolidated results of operations and their cash flows for the years ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Lima, Peru,
March 30, 2017

Paredes, Burga & Asociados

Countersigned by:

Manuel Díaz
C.P.C.C. Register No. 30296

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of financial position

At December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Asset			
Current asset			
Cash and cash equivalents	3.2(f) and 4	49,109	46,044
Investments at fair value through profit or loss	3.2(b) and 5	90,334	34,896
Investments at fair value through other comprehensive income	3.2(b) and 6	57,470	47,222
Trade accounts receivables, net	3.2(b) and 7	30,034	34,213
Accounts receivable from related parties	3.2(b) and 27(b)	45,922	42,290
Other receivables	3.2(b) and 8	18,439	19,368
Prepaid expenses	3.2(g) and 9	2,374	456
Recoverable taxes	3.2(l) and 10	19,275	21,774
Total current assets		312,957	246,263
Recoverable taxes	3.2(l) and 10	50,346	77,609
Facilities, furniture and equipment, net	3.2(h) and 11	10,576	11,041
Investment properties	3.2(i) and 12	3,073,771	2,925,501
Accounts receivable from related parties	3.2(b) and 27(b)	31,690	-
Derivative financial instruments – "Call spread"	3.2(r) and 13	55,908	62,498
Other assets		2,814	1,991
Deferred Income tax asset	3.2(l) and 17(a)	1,106	798
Total asset		3,539,168	3,325,701

	Note	2016 S/(000)	2015 S/(000)
Liability and equity			
Current liability			
Trade accounts payables	3.2(b) and 14	31,172	30,772
Accounts payable to related parties	3.2(b) and 27(b)	5,043	4,151
Other liabilities	3.2(o) and 15	72,821	57,320
Current portion of long-term financial obligations	3.2(j) and 16	44,457	43,342
Total current liability		153,493	135,585
Other long-term liabilities	3.2(o) and 15	23,336	29,430
Long-term financial obligations	3.2(j) and 16	1,212,180	1,204,206
Deferred Income tax liability	3.2(l) and 17(a)	19,052	17,717
Taxes related to Special Purpose Entities	3.2(l) and 26(f)	166,501	113,342
Total liability		1,574,562	1,500,280
Equity	19		
Capital stock		1,475,706	1,475,706
Unrealized results		(11,678)	(32,171)
Retained earnings		500,578	375,467
Controlling interest		1,964,606	1,819,002
Non-controlling interest		-	6,419
Total equity		1,964,606	1,825,421
Total liability and equity		3,539,168	3,325,701

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of income

For the years ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Rental income	3.2(o) and 20	317,150	295,935
Cost of rental income	3.2(q) and 21	(34,001)	(28,023)
Net rental income		283,149	267,912
Management services			
Income from management services	3.2(o) and 20	140,728	139,196
Cost related to income from management services	3.2(q) and 21	(109,053)	(106,528)
Net management services		31,675	32,668
Gross profit		314,824	300,580
Fair value adjustment to investment properties	3.2(i) and 12(b)	11,056	37,569
Selling and administrative expenses	3.2(q) and 22	(32,609)	(33,015)
Other incomes (expenses), net	3.2(q) and 24	454	(3,789)
Operating profit		293,725	301,345
Financial income	3.2(o) and 25	6,251	4,352
Financial expenses	3.2(j), 3.2(p) and 25	(119,780)	(107,868)
Exchange difference, net	3.2(e) and 29(a)(ii)	3,878	(80,968)
Profit before income tax		184,074	116,861
Income tax	3.2(l) and 17(c)	(56,149)	(7,221)
Net income		127,925	109,640
Net income attributable to:	3.2(a)		
InRetail Real Estate Corp. shareholders		127,925	109,057
Non-controlling interest		-	583
Net income		127,925	109,640
Earnings per share:	3.2(t) and 19(d)		
Basic and diluted profit per share attributable to InRetail Real Estate Corp. shareholders		0.2251	0.1919

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of comprehensive income

For the years ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Net income		127,925	109,640
Update on the fair value of investments at fair value through other comprehensive income	3.2(b) and 6	5,800	(1,833)
Transfer of realized gain on available for sale investments to the profit for the year	3.2(b) and 6	-	(330)
Derivative financial instruments hedging	3.2(r) and 13	14,693	(30,338)
Other comprehensive income for the year, net of income tax effects		20,493	(32,501)
Total comprehensive income for the year		148,418	77,139
Attributable to:	3.2(a)		
InRetail Real Estate Corp. shareholders		148,418	76,556
Non-controlling interests		-	583
		148,418	77,139

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2016 and 2015

	Attributable to owners of the Parent						
	Number of shares issued Note 19 (in thousands of units)	**Capital stock** S/(000)	**Unrealized results** S/(000)	**Retained earnings** S/(000)	**Total** S/(000)	**Non-controlling interest** S/(000)	**Total** S/(000)
Balance as of January 1, 2015	568,201	1,475,706	330	266,410	1,742,446	6,043	1,748,489
Net income	-	-	-	109,057	109,057	583	109,640
Other comprehensive income, Note 19(b)	-	-	(32,501)	-	(32,501)	-	(32,501)
Total comprehensive income	-	-	(32,501)	109,057	76,556	583	77,139
Yields prepayments to non-controlling interests, Note 19(c)	-	-	-	-	-	(207)	(207)
Balance as of December 31, 2015	568,201	1,475,706	(32,171)	375,467	1,819,002	6,419	1,825,421
Net income	-	-	-	127,925	127,925	-	127,925
Other comprehensive income, Note 19(b)	-	-	20,493	-	20,493	-	20,493
Total comprehensive income	-	-	20,493	127,925	148,418	-	148,418
Acquisition of non-controlling interest, Note 19(c)	-	-	-	(2,621)	(2,621)	(6,419)	(9,040)
Other	-	-	-	(193)	(193)	-	(193)
Balance as of December 31, 2016	568,201	1,475,706	(11,678)	500,578	1,964,606	-	1,964,606

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Operating activities			
Revenue		450,839	406,662
Payments to suppliers of goods and services		(121,880)	(139,608)
Payments to employees for salaries and social benefits		(30,678)	(31,985)
Taxes paid		(3,807)	(5,852)
Taxes recovered		54,158	69,052
Other payments		(1,865)	(237)
Net cash provided by operating activities		346,767	298,032
Investing activities			
Purchase of investments at fair value through profit or loss		(360,426)	(34,873)
Rescue of investments at fair value through profit or loss		304,988	-
Sale of investments at fair value through other comprehensive income		-	17,530
Purchase of investments at fair value through other comprehensive income		(30,773)	(49,488)
Purchase of investment properties		(105,461)	(161,381)
Sale of investment properties	12(b.1)	2,751	-
Value added tax payment corresponding to work in progress		(33,493)	(31,093)
Purchase of facilities, furniture and equipment, net of acquisitions through leasing contracts	11(a)	(1,107)	(5,173)
Purchase and development of intangible assets		(972)	(1,268)
Loans granted, net		1,915	37,315
Sale of share maintained in InRetail Properties Management S.R.L.	1(a)	-	3,159
Acquisition of non-controlling interest	19(c)	(9,040)	-
Contributions by joint venture	27(d)	(31,690)	-
Net cash flows used in investing activities		(263,308)	(225,272)

Consolidated statements of cash flows (continued)

	Note	2016 S/(000)	2015 S/(000)
Financing activities			
Increase of borrowings		-	99,200
Payment of borrowings		(44,826)	(9,721)
Sale of bonds issued in the portfolio		55,000	-
Prepayment of bonds issued		-	(146,715)
Interest paid		(90,568)	(80,042)
Yields prepayments to non-controlling interests	27(d)	-	(207)
Net cash flows used in financing activities		(80,394)	(137,485)
Net increase (decrease) in cash and short-term deposits		3,065	(64,725)
Cash and short–term deposits at the beginning of the year	3.2(f) and 4(a)	46,044	110,769
Cash and short – term deposits at the end of the year		49,109	46,044
Non cash transactions -			
Leasing contracts	11(e)	1,793	701
Provision for costs incurred in investment properties		4,452	9,422
Complaint write off		-	1,934
Barter over investment property participation "REX" for investments at fair value through other comprehensive income	6(c)	30,071	-

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

1. **Business activity -**
   (a) Identification –

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

As of December 31, 2016 and 2015 Intercorp Perú holds directly and indirectly 71.46 and 70.38 percent, respectively, of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

The Company's legal address is 50 Street and 74 Street, floor 16 "PH" Building, San Francisco, Republic of Panama. However, its Management and administrative offices are located at Calle Morelli 181, San Borja, Lima, Peru.

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

On August 17, 2015, by General Shareholders Meeting of Partners InRetail Properties Managment S.R.L. (Hereinafter "IPM") agreed to sell:

- 1 share that kept Real Plaza S.R.L. in IPM to Intercorp Peru Ltd. for the amount of S/2.
- 29,999 shares that kept InRetail Real Estate Corp. in IPM to InRetail Peru Corp. for the amount of S/71,256.
- 1,300,000 shares that kept Patrimonio en Fideicomiso D.S. 093-2002-EF InRetail Shopping Malls in IPM to InRetail Peru Corp. for the amount of S/3,087,877.

100 percent of the shares of IPM were sold for the amount of S/3,159,135, generating a gain of approximately S/665,000 which is presented into the caption "Other incomes (expenses) net" in the consolidated statement of income, see Note 24.

In February 2016, the Company, through its subsidiary Interproperties Holding II, acquired the minority interest in Inmobiliaria Puerta del Sol, see Note 19 (c).

The consolidated financial statements attached to and for the year ended December 31, 2016 have been approved by Management in February 2017 and will be submitted for approval by the Board of Directors and the General Shareholders' Meeting within the deadline established by law. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors and the General Shareholders' Meeting without modifications.

2. Subsidiaries activities

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

(a) Patrimonio en Fideicomiso –D.S.N° 093-2002-EF- InRetail Shopping Malls is a special purpose entity ("SPE") formed for the purpose of holding the certificates of participation of Interproperties Holding and Interproperties Holding II and subsidiary. In addition it owns the 100 percent of shares of Real Plaza.

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

Additionally, as of December 31, 2016 Interproperties Holding II owns 100 percent (95 percent, as of December 31, 2015) of participation in the net assets of Patrimonio en Fideicomiso – D.S. N°093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own the 100 percent of shares of Inmobiliaria Puerta del Sol S.A., which is a company which handles Real Plaza Cusco "San Antonio" Shopping Mall. During 2016, Interproperties Holding II acquired 5 percent of the non-controlling interest, see Note 19(c)

(c) Real Plaza S.R.L. (hereinafter "Real Plaza")
An entity focused in operating the shopping malls (21 and 20 shopping malls as of December 31, 2016 and 2015, respectively) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of "Real Plaza Shopping Mall".

As of December 31, 2016 and 2015 Real Plaza operated shopping malls in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca and Lima.

A summary of the main data of the audited financial statements of the Company, its Subsidiaries and SPEs as of December 31, 2016 and 2015, and for the years then ended is presented below:

	As of December 31, 2016			
	Assets S/(000)	Liabilities S/(000)	Net Equity S/(000)	Profit (Loss) S/(000)
Company				
InRetail Real Estate Corp.	1,489,535	-	1,489,535	(74)
Real Plaza S.R.L.	50,731	47,131	3,600	185
Special purpose entities (SPEs)				
Patrimonio en Fideicomiso D.S.N°093-2002 – EF - Interproperties Holding	1,692,501	210,484	1,482,017	127,984
Patrimonio en Fideicomiso D.S. N°093-2002-EF-Interproperties Holding II (*)	1,668,911	220,286	1,448,625	74,147
Patrimonio en Fideicomiso – D.S. N°093-2002-EF- InRetail Shopping Malls	2,889,961	1,251,867	1,638,094	(71,957)

	As of December 31, 2015			
	Assets S/(000)	Liabilities S/(000)	Net Equity S/(000)	Profit (Loss) S/(000)
Company				
InRetail Real Estate Corp.	1,489,668	59	1,489,609	(149)
Real Plaza S.R.L.	47,751	44,337	3,414	129
InRetail Properties Management S.R.L.	-	-	-	3
Special purpose entities (SPEs)				
Patrimonio en Fideicomiso D.S.N°093-2002 – EF - Interproperties Holding	1,538,625	110,764	1,427,861	125,333
Patrimonio en Fideicomiso D.S. N°093-2002-EF-Interproperties Holding II (*)	1,569,266	198,325	1,370,941	85,155
Patrimonio en Fideicomiso – D.S. N°093-2002-EF- InRetail Shopping Malls	2,765,979	1,176,105	1,589,874	(123,466)

(*) Includes the assets, liabilities, net equity net and consolidated profit of its Subsidiary "Patrimonio en Fideicomiso – D.S. N° 093-2002-EF-Interproperties Puerta del Sol" which are described below:

	2016 S/(000)	2015 S/(000)
Assets	284,723	279,169
Liabilities	148,748	150,800
Net equity	135,975	128,369
Net profit	7,605	11,652

As of December 31, 2016 and 2015, this amount includes the eliminations between Inmobiliaria Puerta del Sol S.A. and Patrimonio en Fideicomiso – D.S. N° 093-2002-EF Interproperties Puerta del Sol.

3. Summary of significant accounting policies

The significant accounting policies used in the preparation and presentation of InRetail Real Estate's consolidated financial statements are described below:

3.1 Basis of preparation and presentation –

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

The information contained in these consolidated financial statements is responsibility of Management of the Company and its Subsidiaries, who expressly declare that they have fully applied the principles and criteria of IFRS issued by IASB that are effective at the dates of the consolidated financial statements.

The consolidated financial statements have been prepared on a historical cost basis, except for investments at fair value through profit or loss, investments at fair value through other comprehensive income, investment properties and derivative financial instruments – "Call spread", 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.

The accounting policies adopted are consistent with the policies applied in previous years, except by the new IFRS and SIC´s adopted by InRetail Real Estate which are mandatory for the periods beginning during or after January 1, 2016. Also, during 2016, InRetail Real Estate decided to adopt in advance IFRS 9 "Financial Instruments" which is mandatory for the periods beginning on January 1, 2018. In relation to this, InRetail Real Estate used IFRS 9 (2014 version), which comprises modifications regarding the classification and measurement, impairment and hedging accounting of financial assets, as well as the new expected impairment loss model. InRetail Real Estate established January 1, 2015 as the initial application date for IFRS 9, for which it has evaluated the impact on their consolidated financial statements as of December 31, 2015, concluding that there were no significant impacts.

IFRS 9 introduces new requirements for classification and measurement of financial assets under the scope of IAS 39 "Financial Instruments: Recognition and measurement". Specifically, IFRS 9 demands that all financial assets be classified and subsequently measured at its amortized cost or at fair value under the business model of the entity for the management of financial assets and the characteristics of the contractual cash flows of financial assets. Debt instruments are measured at amortized cost if and only if: (i) the asset is maintained under the business model which objective is to maintain the assets to obtain contractual cash flows and (ii) the contractual terms of the financial asset give rise in specific dates to cash flows for payments of the principal and interests. If one of these criteria is not complied, the debt instruments are classified at the fair value through profit or loss. Otherwise, an entity might choose to designate upon initial recognition a debt instrument that complies with the criteria of amortized cost for measure it at fair value through profit or loss if this eliminates or reduce significantly an accounting mismatching.

By other hand, IFRS 9 introduces changes in hedging accounting, which are mainly not to require a specific ratio for hedging effectiveness but instead a correlation with risk management of the entity. IFRS 9 also permits that derivatives time value which are designated as hedging accounting be amortized on a straight line basis during the period of the respective contracts; see note 3.2 (r).

The information contained in the consolidated financial statements is responsibility of InRetail Real Estate's Corporate Management, who explicit manifest that principles and criteria included on International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) are fully applied as of the date of consolidated financial statements.

3.2. Summary of significant accounting policies –

(a) Basis of consolidation -

The consolidated financial statements comprises the financial statements of the Company and its Subsidiaries, Note 2, as of December 31, 2016 and 2015.

Control is achieved when the Group is exposed to or has rights over, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, it has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure to or rights over, variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements,
- The Group's voting rights and potential voting rights.

InRetail Real Estate reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the Subsidiary.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which InRetail Real Estate 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, the consolidated income statement and the consolidated statement of comprehensive income.

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

(b) Financial instruments–initial recognition and subsequent measurement –
As of the date of consolidated financial statements, InRetail Real Estate classifies its financial instruments in the following categories defined on IFRS 9 (2014 version): (i) assets at amortized cost, at fair value through other comprehensive income or profit or loss, (ii) financial liabilities at amortized cost or at fair value through profit or loss.

(i) Financial assets -
InRetail Real Estate, considering their operations, has as unique business model to maintain financial assets with the purpose to obtain contractual cash flows. The contractual conditions of the financial asset give rise to cash flows in specific dates which are uniquely payments of principal and interests over the main outstanding

principal; in consequence, InRetail Real Estate measures its financial assets at the amortized cost and fair value.

InRetail Real Estate maintains in this category: Cash and cash equivalents, investments at fair value through profit or loss and other comprehensive income, trade receivables, other receivables and accounts receivable to related parties, which are expressed at the value of the transaction, less the provision for doubtful, accounts when it is applicable.

(ii) Impairment of financial assets -

According IFRS 9, financial assets impairment is based on expected loss impairment model, which is applicable to financial assets measured at amortized cost (which includes loans, accounts receivables or debt instruments), or measured at fair value through other comprehensive income. For measurement of expected losses, it must reflect the result of weighted average probability of losses, money time value and the use of supportive reasonable information. In respect of this, IFRS 9 manages major criteria to estimate losses, it requires specifically that expected losses are based on supportive reasonable information, that can be obtained without a major cost or effort and such include as historical information of current conditions as estimated information about the future.

In other sense, for the case of accounts receivable or contracts that not include a significant financial component, IFRS 9 contemplates a simplified approach for expected losses which no requires controlling changes in credit risk, recognizing the expected loss during the term of the instrument. Taking into account the nature of the financial assets of InRetail Real Estate, it uses such simplified approach and estimates the expected losses during the term of the instrument based on the present value of all the deficiencies of the cash flows over the remnant life of the financial instrument. The expected losses of 12 months are a portion of the expected loss over the term of the instrument, which is associated with the probability of default event, occurred within the 12 subsequent months as of the reporting date. The model is about expected losses, consequently, is an estimated of what might happen in the future; however, the historical information is the main base over InRetail Real Estate perform these estimations, which are adjusted with the information available at the date of the analysis and conditions expected for the future, as far these are supported.

(iii) Financial liabilities-

The financial liabilities are recognized when InRetail Real Estate is part of contractual agreements of the instrument. Initially, financial liabilities are recognized at fair value through profit or loss. In the case of financial liabilities carried at amortized cost, the direct costs attributable to the transaction are included.

The financial liabilities include: trade accounts payable, accounts payable to related parties, other liabilities and Interest-bearing financial obligations.

Upon initial recognition, financial liabilities are measured at amortized cost using the interest effective rate method. The amortized cost is calculated considering any discount or prime during the issue and costs are integral part of the interest effective rate.

(c) Derecognition of financial assets and liabilities -

Financial assets:

A financial asset (or, when it's applicable, part of an asset or part of a group of similar financial assets) is derecognized when:

(i) The contractual rights has expired to receive cash flows generated by the asset; or,

(ii) The contractual rights has been transferred over the cash flows generated by the asset, or an obligation has been assumed of paying entirely to a third party the cash flows without a significant delay, through a transfer agreement, and (a) all risks and benefits of the asset were substantially transferred; or (b) all risks and benefits of the assets are neither transferred and retained substantially, but the control of them has been transferred instead.

InRetail Real Estate will recognize the asset when their rights to receive the cash flows generated by the asset had been transferred, or an intermediation agreement has been agreed, but neither transferred or retained substantially all risks and benefits of the asset, and neither transferred the control of the asset. In this case, InRetail Real Estate will recognize the transferred asset based on the continuing involvement in the asset and also will recognize the related liability. The transferred asset and the related liability will be measured over a base which reflects the rights and obligations retained by InRetail Real Estate.

Financial liabilities:

A financial liability is derecognized when the specified obligation in the corresponding contract is paid off or canceled or past due.

When an existing financial liability is replaced by another financial liability arisen by the same lender under substantially different conditions, or if the conditions of and existing liability are modified on a substantial way, such barter or modification is recognized as a write off from the original liability and the recognition of a new liability, and the difference between the respective amounts in books is recognized in the consolidated income statement.

(d) Offsetting of financial instruments -

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(e) Foreign currency transactions -

(i) Functional and presentation currency -

The functional currency for InRetail Real Estate is determined by the currency of the primary economic environment in which it operates. For InRetail Real Estate, it is the Sol. The financial information is presented in Soles, which is the functional currency of InRetail Real Estate because it reflects the nature of the economic events and the relevant circumstances for InRetail Real Estate.

(ii) Transactions and balances in foreign currency -

Foreign currency transactions are those that have been performed in currencies different that the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are retranslated at the functional currency using the prevailing exchange rate at the date of the consolidated statements of financial position. Exchange gains or losses resulting from the settlement of said transactions and from restating the monetary assets and liabilities denominated in foreign currency into the exchange rates prevailing at the end of the year are recognized in the "Exchange difference, net" caption of the consolidated statements of income.

Non-monetary assets and liabilities denominated in foreign currency and accounted at historic cost are translated into the functional currency at the exchange rate prevailing at the date of the transaction.

(f) Cash and cash equivalents –

For the purposes of the consolidated statements of cash flows, cash and cash equivalents correspond to cash, current accounts and bank deposits with a maturity of less than three months, recorded in the consolidated statements of financial position. Said accounts are not subject to a significant risk of changes in their value.

(g) Prepaid expenses -

The criteria adopted to record these items are the following:

- Operating lease payments made in advance are recorded as an asset and recognized as an expense over the rental period.
- The key money corresponding to the amounts paid by InRetail Real Estate for the rights for use of certain commercial stores are amortized during the term of the respective contracts.
- Insurance are recorded as the value of the premium paid for the coverage of the different assets and are amortized by applying the straight line method during the term of the policies.
- Payments in advance for advertising are recorded as an asset and are recognized as expenses when the service is accrued.

(h) Facilities, furniture and equipment –

Facilities, furniture and equipment are recorded at historical acquisition cost, less accumulated depreciation and impairment losses, if applicable.

The historical acquisition cost includes the expenditures that are directly attributable to the acquired of assets. The costs of maintenance and repair are charged to the consolidated statements of income, significant renewals and improvements are capitalized when it is probable future economic benefits, in excess the originally assessed of performance, will flow the use of the acquired assets.

Regarding the significant components of facilities, furniture and equipment that must be replaced periodically, InRetail Real Estate derecognizes the replaced component and recognizes the new component with its corresponding useful life and depreciation. Likewise, when an overhaul of significant importance is carried out, its cost is recognized as replacement provided that the requisites for its recognition are complied with. All the routine costs of repair and maintenance are recognized as expenses in the consolidated statements of income as they are incurred.

Depreciation is calculated by applying the straight line method using the following useful lives:

	Years
Facilities	Between 4 and 10
Furniture and fixtures	Between 2 and 10
Transport units	5
Miscellaneous equipment	Between 3 and 10
Computer equipment	4

When the assets are sold or disposed, the cost and the accumulated depreciation are eliminated, and any gain or loss from their disposal is included in the consolidated statements of income.

(i) Investment properties –
Investment properties comprise completed properties and properties under construction or redevelopment held to earn rentals or for capital appreciation or both.

Investment properties are initially measured at cost, including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and the initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property, if the recognition criteria are met.

Subsequent to initial recognition, investment properties are measured at fair value, which reflects the market conditions at the reporting date. Gains or losses arising from changes in the fair value of the investment properties are included in the consolidated statements of income for the period in which they arise. Fair values are evaluated periodically by Management, based on discounted cash flows over the benefits that are expected to be obtained from these investments. Fair values of investment properties under construction or investment properties held to operate in the future are assessed by a renowned independent external appraiser, through the application of a recognized valuation model.

Investment properties are derecognized either at the moment of their sale or when the investment property is permanently retired from active use, and it is not expected to recover any economic benefit from its sale. The difference between the amount received and the book amount of the assets is recognized in the consolidated statements of income in the period in which the asset was derecognized. Transfers to or from investment properties are performed only if there is a change in the asset's use.

In the case of a transfer from an investment property to a component of property, facilities, furniture and equipment, the attributed cost taken into account for its subsequent measurement is the fair value of the assets at the date of the change of use. If a component of facilities, furniture and equipment is transferred to an investment property, InRetail Real Estate recognizes the asset up to the date of the change of use in accordance with the accounting policy established for the property, facilities, furniture and equipment.

Properties under construction are recorded at acquisition cost or construction cost. The initial cost comprises its purchase price, plus the directly related costs that include professional fees for legal services and any cost directly attributable to locate and put the asset in useable condition.

The Company and its Subsidiaries' management deem that the book value of properties under construction does not exceed their recoverable value.

(j) Leases -

The determination of whether an agreement is, or contains, a lease is based on the agreement's essence at the date of its subscription, or if its compliance depends on the use of one or more specific assets, or if it grants the asset's right of use, even if said right is not specified explicitly by the agreement.

InRetail Real Estate as lessee

Finance leases which transfer to InRetail Real Estate substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that InRetail Real Estate will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the consolidated income statement on a straight-line basis over the lease term.

InRetail Real Estate as a lessor

Leases in which InRetail Real Estate does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(k) Impairment of non-financial assets –

InRetail Real Estate, assesses at each end of year, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, InRetail Real Estate estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate any cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable value, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. In determining fair value less costs of disposal, recent market transactions are taken into account, if any. If no such transactions can be identified, an appropriate valuation model is used.

InRetail Real Estate bases its impairment calculation, if needed, on detailed budgets and forecast calculations which are prepared separately for each of InRetail Real Estate's cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

(l) Taxes –

The income tax of the subsidiaries is determined based on the non-consolidated financial statements of each subsidiary based on taxable income calculated for tax purposes.

Current Income Tax -

Current income tax assets and liabilities for the current period are measured at the amounts expected to be recovered from or paid to the taxation authority. Tax rates and the tax laws used to compute said amounts are those officially approved at the day of financial statement.

Current income tax that is related to items directly recognized in the consolidated statement of changes in equity is also recognized in the consolidated statement of changes in equity and not in the consolidated income statement. Management periodically assesses the positions taken in the tax returns with regard to the situations in which the applicable tax legislation is subject to interpretation, and constitutes provisions when appropriate.

Equity trust funds are not considered as Income Tax taxpayers. The taxpayers in the securitization trusts may be either the originator, beneficiary, trustee, or a third party that is benefited by the results generated by the Equity trust funds, with respect to the profits, income or capital revenue.

Deferred Income Tax -
Deferred Income Tax is recognized by using the liability method on temporary differences at the reporting date between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When a deferred tax liability arises from the initial recognition of goodwill, or of an asset or a liability in a transaction that does not constitute a business combination and that, at the moment of the transaction, does not affect accounting nontaxable profit.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of their reversion can be controlled, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forwards of unused tax credits and unused tax losses. Deferred tax assets are recognized to the extent that it is probable taxable profit will be available against which the deductible temporary differences and the carry-forwards of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in consolidated equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax -
Revenues from ordinary activities, expenses and assets are recognized by excluding the Value Added Tax, with the following exceptions:

- When the Value Added Tax incurred in an asset acquisition or in the rendering of services is not recoverable with the Tax Authority, in which case said tax is recognized as part of the acquisition cost of the asset or as part of the expense, as applicable.

- The accounts receivable and accounts payable that are already expressed, including the amount of the Value Added Tax.

The net amount of the Value Added Tax that is expected to be recovered from, of that corresponds to be paid to the Tax Authority, is presented as a recoverable tax or an account payable in the statements of financial position, as applicable.

(m) Provisions -
Provisions are recognized when InRetail Real Estate has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where InRetail Real Estate expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated income statement.

(n) Contingencies -

A contingent liability is disclosed when the existence of an obligation shall only be confirmed by future events or when the amount of the obligation cannot be measured with sufficient reliability. Contingent assets are not recognized but are nonetheless disclosed when it is probable that it will generate economic benefits to InRetail Real Estate.

Given their nature, contingencies shall only be settled when one or more future events occur or not. The determination of contingencies involves inherently the exercise of judgment and the calculation of estimates on the results of future events.

(o) Revenue recognition –

Revenue is recognized to the extent that it is probable that economic benefits will flow to InRetail Real Estate and the amount can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. InRetail Real Estate assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

- Rental income

  Rental income arising from operating leases, less InRetail Real Estate's initial direct costs to enter the leases, is accounted for on a straight-line basis over the term of the lease, except for the inflation adjustment and contingent rental income which is recognized when it arises.

- Key money

  The incentives granted by the tenants to enter into lease agreements (key money) are distributed evenly and the term of the lease, even if payments are not made on that basis. The term deferral incentives corresponds to the period unearned lease, along with any other period for which the lessee has the option to extend the lease, and InRetail Real Estate's Management have certainty that it will exercise. These amounts are presented in the caption "Deferred income" of the consolidated financial statement.

  The amounts received from tenants to terminate leases or to compensate for wear are recognized in the consolidated statement of income when they arise.

- Income arising from expenses recharged to tenants is recognized in the period in which the compensation becomes receivable. Service and management charges and other such receipts are included in Net rental income gross of the related costs, as the directors consider that InRetail Real Estate acts as principal in this respect.

- Interest income: For all financial instruments measured at amortized cost and interest bearing financial assets classified as investments at fair value through other comprehensive income, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated income statement.

- Other income is recognized as realized and accrued, and is recorded in the periods to which it relates.

(p) Borrowing costs -

Borrowing costs are recorded as expenses in the period they occur. Borrowing costs consist of interest and other costs that InRetail Real Estate incurs in connection with the borrowing of funds.

(q) Recognition of costs and expenses –

Service cost is recognized in a simultaneous manner to the recognition of the income from the corresponding service provided.

Rentals paid in advance for landlord leases are recognized in results according to an accrual basis, in the "Cost of rental income" caption, from the conclusion of the works of the shopping mall project to a term that ranges between 30 and 36 months.

Lease expenses for use rights and landlord leases are recognized as they accrue, and are recorded in the periods to which they are related.

Loan costs are accounted for as financial expenses in the period they are incurred.

Loan costs include interests and other costs that InRetail Real Estate incurs in relation to the execution of the respective loan agreements.

Other operating costs and expenses are recognized when accrued, regardless of the moment they are paid, and are recorded in the periods to which they are related.

(r) Derivative financial instruments and hedging accounting –

Negotiation –

Derivatives financial instruments for negotiation are initially recognized in the consolidated statements of financial position at cost and subsequently are recognized at fair value. The fair value is obtained based on the prices, exchange rates, and market interest rates. All the derivatives are considered as assets when the fair value is positive and as liabilities when the fair value is negative. The profits and losses arisen by the changes in the fair value are recognized in consolidated income statement.

As of December 31, 2016 and 2015, InRetail Real Estate does not maintain derivatives financial instruments classified as negotiation.

Hedging -

InRetail Real Estate uses derivatives instruments in order to manage its exposure to the fluctuation of the interest rates and exchange rates. With the purpose of managing particular risks, InRetail Real Estate applies hedging accounting for transactions that imply with specific criteria for it.

At the beginning of the hedging relation, InRetail Real Estate documents formally the relation between the covered part and the hedging instrument; including the nature of the risk, the objective and the strategy to take over the hedge, and the method used to evaluate the effectiveness of the hedging relation.

Also at the beginning of the hedging relation, a formal evaluation is made in order to ensure that the hedging instrument is highly effective in compensation to the risk assigned of the covered part. Hedging is formally evaluated in every reporting period. A hedge is considered highly effective if it is expected that changes in the fair value or in cash flows, attributed to the covered risk during the period in which the hedge is designed, complies certain management ratios defined by Management.

The accounting treatment established according to the nature of the covered part and compliance with hedging criteria, is such as follows:

(i) Cash flow hedges -

InRetail Real Estate enters into cash flow hedging contracts for exchange rate risk and interest rate risks. The ineffective portion related to the exchange rate and interest rate contracts are recognized as financial cost.

The effective portion of these hedging is recognized in other comprehensive income and then the covered part is transferred when this affects to profit or loss (exchange rate and interest rate).

The money time value of an option at the beginning of the hedging does not belong to itself, and is recognized in profit or loss on a straight line basis over its term, thus is considered as a financial cost of the option. The change at fair value of an option that covers a covered part related with money time value of the option will be recognized in other comprehensive income.

If there is no expectation of the outcome of the expected transaction or the firm commitment, the accumulated profit or loss in the hedging cash flow reserve is transferred to the consolidated comprehensive income. If the hedging instrument expires, is sold, settled or exercised without a replacement or renewal, or if its designation as hedging has been revoked, any accumulated unrealized profit or loss in cash flow hedging reserve is maintained in such reserve, until the expected transaction or firm commitment affects results.

(s) Fair value measurement -

InRetail Real Estate measures its investment properties at fair value at each date of the consolidated statements of financial position. Also, the fair value of financial instruments measured at amortized cost is disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by InRetail Real Estate. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

InRetail Real Estate uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, InRetail Real Estate determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Management determines the policies and procedures for both recurring and non-recurring fair value measurement. At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per InRetail Real Estate accounting policies.

For the purpose of fair value disclosures, InRetail Real Estate has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

(t) Earnings per share -

Basic and diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. As of December 31, 2015 and 2014, the Company does not have financial instruments with dilutive effect, therefore basic and diluted earnings per share are identical for the years reported.

(u) Business segments –

A reportable business segment is an operating segment or an aggregate of operating segments that meet certain specific criteria. Business segments are a component of an entity on which the financial information is separately available and is periodically assessed by the Chief Operating Decision Maker (henceforth "CODM") on how to assign the resources and assess its performance. Generally, the financial information is presented on the same basis that is used internally to assess the operating performance of business segments and to decide how to assign resources to them. InRetail Real Estate has two business segment located in Lima and provinces related to Shopping Malls.

(v) Subsequent events –
The subsequent events at the end of the period that provide additional information about the financial situation of InRetail Real Estate at the date of the consolidated statements of financial situation (adjustment events) are included in the consolidated financial statements. The significant subsequent events that are not adjustment events are presented in the notes to the consolidated financial statements.

3.3 Significant accounting judgments, estimations and assumptions

The preparation of the consolidated financial statements requires Management to make judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the income and expenses amounts for the years ended on December 31, 2016 and 2015.

In opinion of Management of InRetail Real Estate, these judgments, estimations and assumptions have been made on the basis of its best knowledge of relevant events and circumstances at the preparation date of the consolidated financial statements. However, the final results could differ from the estimations included in the consolidated financial statements. Management does not expect that these changes, if any, have a significant effect on the consolidated financial statements.

In the process of application of the accounting policies of InRetail Real Estate, Management made the following judgments, which had a significant effect on the amounts recognized in the consolidated financial statements:

(i) Operating lease contracts –InRetail Real Estate as lessor (Note 3.2(j))
InRetail Real Estate has entered into commercial leases of its investment property portfolio. InRetail Real Estate has determined, on the basis of an assessment of the terms and conditions of the agreements, that it has retained all the significant risks and benefits inherent in the ownership of these assets and, consequently, has accounted these contracts as operating leases.

(ii) Taxes (Note 3.2(l) and 26)
The originators of the equity trusts of InRetail Real Estate are subject to the withholding of their Income Tax. Significant judgments are required to determine the provision for current and deferred Income Tax.

Diverse transactions and calculations exist for which the tax determination and the payment date are uncertain. In particular, in the calculation of the deferred taxes, the effective rate of taxes applicable to the temporary differences, mainly in the investment properties, depends on the method by which the carrying value of the assets or liabilities will be realized.

InRetail Real Estate recognizes current tax liabilities on the basis of the estimation that whether the additional taxes will be paid. When the final result of these matters is different from the amounts that have been initially recorded, said differences will impact net income and the provisions for deferred taxes in the period in which they are determined. The deferred tax assets and liabilities are recognized net, to the extent that they are related to the same fiscal authority and mature in approximately the same period.

The most significant estimations and assumptions considered by Management in relation to the consolidated financial statements are the following:

(i) Method of depreciation, useful lives and residual values of facilities, furniture and equipment (Note 3.2(h)) –
The determination of the method of depreciation, useful lives and residual values of facilities, furniture and equipment, involves judgments and assumptions that could be affected if circumstances change. Management reviews these assumptions periodically and adjusts them prospectively if any change is identified.

(ii) Fair value of investment properties (Note 3.2(i))
The fair value of all the finished investment properties has been determined by Management of InRetail Real Estate by using the discounted cash flow method.

For investment properties under construction, the value of land is determined by appraisals performed by an accredited, independent and external appraiser; and work-in-progress at cost. Nevertheless, when the progress in the construction of the shopping mall is significant, fair value is determined by using the discounted cash flow method. In exceptional cases, when the fair value cannot be determined in a trustworthy manner, these investments are recorded at cost. Up to month eighteen, the investment properties held to operate in the future are measured at cost, after that, their fair value is determined by appraisal.

The determination of the fair value of the investment properties requires the use of estimations such as the future cash flows of the assets (for example: leases, sales, fixed rents for the different types of tenants, variable rental in function to a percentage of the sales, operating costs, building costs (hereinafter "CAPEX"), maintenance CAPEX and discount rates applicable to the assets). Additionally, the development risks (such as construction and abandonment) are also taken into account when determining the fair value of the investment properties under construction.

The market value of investment properties in the consolidated statements of financial position must reflect the volatile nature of the real estate markets; therefore, Management and its appraisers use their market knowledge and professional criteria, and do not depend solely on historical comparable transactions. In this sense, there is a greater degree of uncertainty than when exists in a more active market, for the estimation of the market value of investment properties.

The significant methods and assumptions used in the estimation of the fair value of investment properties are detailed in Note 12(e).

Techniques used in the valuation of investment properties -
The discounted cash flow method involves the projection of a series of periodic cash flows of either a property or a property in development. For this series of projected cash flows, a discount rate is applied to obtain the present value of the income flow associated to the property. The periodic calculation of the cash flows is normally determined as rental income net of operating expenses for functioning investment properties, and in the case of investment properties under construction whose progress is significant, it is determined on the basis of the rents by square meter included in the contracts subscribed at that date. When the construction is realized in own property lands the cash flows considered unlimited life of assets; however when the construction is realized in surface or usufructs rights properties, the cash flows considered the period of the contract. The series of periodic net operating income, together with an estimation of the terminal value (which uses the traditional valuation method) at the end of the projection period, is discounted at present value. The sum of the net current values is equal to the property's fair value.

(iii) Impairment of non-financial assets (Note 3.2(k))
At the end of each year, InRetail Real Estate assesses whether any indications that the value of its assets are impaired. If such indications exist, InRetail Real Estate performs an estimation of the recoverable amount of the asset.

As of the date of the consolidated financial statements, the available projections of these variables show trends favorable to the interests of InRetail Real Estate, which support the recovery of its non-financial assets which are facilities furniture and equipment.

(iv) Recovery of deferred tax assets (Note 3.2(l))
Deferred tax assets require Management to evaluate the probability that InRetail Real Estate generates taxable income for future periods in order to use the deferred tax assets. The estimates of future taxable income are based on the projections of cash flows from operations and the application of the tax legislation in force. As the future cash flows and the taxable income differ significantly from the estimates, it might have an impact on the capability of InRetail Real Estate to realize the net deferred tax assets recorded at the reporting date.

Additionally, future changes in tax legislation might limit the capability of InRetail Real Estate to obtain tax deductions in future periods. Any difference between the estimations and the later actual payments is recorded in the year in which it occurs.

(v) Fair value measurement of derivative financial instruments (Note 3.2(r) and 13)
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 30 for further disclosures.

(vi) Taxes estimation (Note 26)
Uncertainties exist with regard to the interpretation of complex tax regulations, to changes in tax legislation and to the amount and the opportunity in which the future tax result is generated. InRetail Real Estate calculates provisions, on the basis of reasonable estimations, for the possible consequences derived from the examinations performed by the Tax Authority. The amount of these provisions is based on several factors, such as the experience in previous tax examinations and in the different interpretations on tax regulations made by InRetail Real Estate and its legal advisors. These interpretation differences can arise in a great variety of matters, depending on the circumstances and existing conditions in the place of domicile of InRetail Real Estate.

Due to InRetail Real Estate considers as remote the probability of litigations of tax nature and subsequent payments as result; it has not recognized any contingent liability related to taxes.

In the Management's opinion, these judgments, estimations and assumptions were performed on the basis of its best knowledge of the relevant facts and circumstances at the date of preparation of the consolidated financial statements; nevertheless, the final results could differ from the estimations included in the consolidated financial statements. Management of InRetail Real Estate does not expect that the changes, provided they occur, will have significant effect on the consolidated financial statements.

3.4 New accounting standards

The standards and amendments and improvements to the standards that are issued, but not yet effective, up to the date of issuance of InRetail Real Estate's consolidated financial statements are disclosed below. InRetail Real Estate intends to adopt these standards and amendments and improvements to the standards, if applicable, when they become effective.

- IFRS 9 "Financial Instruments", effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 "Revenue from Contracts with Customers", effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 "Leases", effective for annual periods beginning on or after January 1, 2019.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures ", which effective application date is not defined.
- IAS 7 Disclosure Initiative – Amendments to IAS 7, effective for annual periods beginning on or after January 1, 2017.
- IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12, effective for annual periods beginning on or after January 1, 2017.
- Amendments to IAS 2 "Share-based Payment: Classification and measurement of share-payment transactions", effective for annual periods beginning on or after January 1, 2018.

As of the date of this report, except for IFRS 9 (which was early adopted in 2015), Management has not yet started the process of diagnosis and evaluation of the adoption effects of these standards in its processes and consolidated financial statements, including new disclosure requirements; whereby, no possible impact of the application of these standards on the internal processes and consolidated financial statements has been estimated.

4. Cash and cash equivalent

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

	2016 S/(000)	2015 S/(000)
Cash and petty cash	32	34
Current accounts (b)	7,058	24,411
Management and security trust current accounts (c)	3,481	7,927
Time deposits (d)	38,538	12,579
Restricted funds (e)	-	1,093
	49,109	46,044

(b) The current accounts comprise accounts in Soles and US Dollars, maintains in local financial institutions, free of liens and encumbrances, and do not bear interest rate.

(c) As of December 31, 2016 and 2015, corresponds to the bank accounts, which serve as means of payment of the guaranteed obligations with regard to the leasing granted by Banco de Crédito del Perú S.A. and Banco Internacional del Perú S.A.A. – Interbank, respectively, in favor of Interproperties Holding II, in compliance with the contract of management and security trust, see Note 16(c), (d), (e) y (g).

(d) As of December 31, 2016, time deposits are unrestricted, maintained in Soles and USD Dollars in local financial institutions, have maturities of up to one month from its inception and bear annual interests of 4.10 and 4.60 percent in Soles and 0.30 percent in USD Dollars. As of December 31, 2015, time deposits are unrestricted, maintained in Soles and USD Dollars in a related entity, see Note 27(C), have maturities of up to one month from its inception and bear annual interests of 4.00 and 4.58 percent in Soles and 0.20 percent in USD Dollars.

(e) As of December 31, 2015, corresponded to the bank accounts, in which the funds are collected in order to pay the dividends to the minority shareholder of Patrimonio en Fideicomiso – D.S. N° 093-2002 – EF Interproperties Puerta del Sol. These funds were restricted until the payment was made, see Note 19(c), in compliance with the contract of management and security trust.

5. Investments at fair value through profit or loss

Management of InRetail Real Estate has decided to invest its cash surplus in mutual funds of variable rent, which have been designated as financial assets at fair value through profit or loss. The composition of the caption is presented as follows:

Entity	Number of shares	Value share (in Soles)	2016	2015
			S/(000)	S/(000)
Investment funds managed by Sura S.A. SAF				
In soles -				
Sura Ultra Cash Soles FMIV (i)	282,887.78	121.19	34,350	-
Sura Ultra Cash Soles FMIV (ii)	41,715.49	120.75	5,047	5,000
Sura Corto Plazo Soles FMIV (iii)	60,409.96	139.21	8,426	-
In US Dollars -				
Sura Ultra Cash Dólares FMIV (iv)	62,379.77	346.67	21,667	12,886
Investment funds managed by Interfondos S.A. SAF				
In US Dollars -				
IF libre disponibilidad FMIV (v)	61,566.52	337.90	20,844	17,010
			90,334	34,896

(i) Investment fund composed of two investments, opened on March 1 and October 27, 2016, for S/3,100,000 and S/27,000,000, rescued on January 31, 2017.

(ii) Investment fund opened on September 30, 2016, for S/5,000,000, this fund has an indefinite maturity; nevertheless, Management expects to rescue this fund during the first quarter of 2017. The investment fund held as of December 31, 2015 was redeemed in February 2016.

(iii) Investment fund opened on December 20, 2016, for S/8,400,000, rescued on February 28, 2017.

(iv) Investment fund composed of four investments, opened on March 1, August 26, October 28 and December 15, 2016, for US$500,000, US$450,000, US$3,500,000 and US$1,500,000 (equivalent to S/1,759,000, S/1,503,000, S/11,756,000 and S/5,104,000), rescued on February 28, 2017. The investment fund held as of December 31, 2015 was redeemed in February 2016.

(v) Investment fund composed of two investments, opened on October 20 and December 20, 2016, for US$5,000,000 and US$1,100,000 (equivalent to S/16,910,000 and S/3,741,000), rescued on January 31, 2017. The investment fund held as of December 31, 2015 was redeemed in February 2016.

These funds are conformed by a portfolio of variable rent commercial papers issued by prestigious financial entities in local market and; in Management's opinion; they are highly liquid and they have low risk.

As of December 2016 and 2015, the amount of financial investments at fair value through profit or loss include the effect of the change in share value and the effect of higher exchange rate fluctuation at year end. These effects originated profits for the current year of approximately S/342,000 and S/99,000, respectively, which is presented in the caption "financial income" in the consolidated statement of income, see Note 25.

6. Investments at fair value through other comprehensive income

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

	Fair value	
	2016 S/(000)	**2015** S/(000)
Shares (b)	35,862	-
Bonds (c)	21,608	47,222
	57,470	47,222

(b) Corresponds to 550,729 shares issued by Inretail Peru Corp. (parent of the company, see Note 1 (a)), which represent approximately 0.54 percent of the holding in that entity. As of December 31, 2016, the fair value of these shares has been determined on the basis of prices quoted on the active market. In this sense, the stock market value per share, according to the information published by the Lima Stock Exchange, is US$19.38 (approximately S/65.12) in 2016 and since their acquisition, these instruments have generated an unrealized gain of approximately S/3,562,000, net of taxes related to Special Purpose Entities, which is included into the caption "Unrealized results" in the consolidated statements of changes in equity.

(c) As of December 31, 2016 and 2015, corresponds to bonds issued by Intercorp Ltd., which are denominated in US Dollars, have a maturity in 2025, accrue effective annual interests at a rate of 5.785 percent, which are recorded at fair value for approximately S/21,608,000 and S/47,222,000, respectively. As of December 31, 2016 and 2015, these instruments have generated an unrealized loss for approximately S/2,238,000 and S/1,833,000, respectively, net of taxes related to Special Purpose Entities, which is included into the caption "Unrealized results" in the consolidated statements of changes in equity.

During 2016, InRetail Shopping Malls sold part of the bonds for a value of approximately S/29,471,000; net of accrued interest, to Intercorp Ltd, , generating a gain on the sale for approximately S/1,155,000, which is presented into the caption "Financial income" in the consolidated statement of income, see Note 25.

As of December 31, 2014, corresponds to bonds issued by InRetail Consumer, which are denominated in US Dollars, have a maturity in 2021, accrue effective annual interests at a rate of 5.250 percent, which are recorded at fair value for approximately S/13,521,000. Since their acquisition, these instruments have generated an unrealized loss for approximately S/330,000, net of taxes related to Special Purpose Entities, which is included into the caption "Unrealized results" in the consolidated statements of changes in equity. During 2015 these bonds were sold for a value of approximately S/13,426,000, generating a gain on the sale for approximately S/311,000, which is presented into the caption "Financial income" in the consolidated statement of income, see Note 25.

7. Trade accounts receivables, net

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

	2016 S/(000)	2015 S/(000)
Bills receivable (b)	17,161	26,223
Unbilled services (c)	16,562	13,482
Receivable bills of exchange (b)	1,478	-
	35,201	39,705
Minus -		
Allowance for doubtful accounts (e)	(5,167)	(5,492)
	30,034	34,213

(b) As of December 31, 2016 and 2015, trade accounts receivable mainly correspond to bills and bills of exchange pending of receivable for rentals, are denominated in Soles and US Dollars, have current maturities and do not accrue interests.

(c) As of December 31, 2016 and 2015, mainly correspond to unbilled lease services for variable and fixed rents, which are billed during the following quarter.

(d) As of December 31, 2016 and 2015, the aging analysis of trade receivables is as follows:

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

	2015		
	Non-impaired S/(000)	Impaired S/(000)	Total S/(000)
Unbilled services	13,482	-	13,482
Past-due			
From 1 to 90 days	13,604	-	13,604
From 91 to 120 days	2,113	143	2,256
From 121 to 180 days	1,993	346	2,339
From 181 to 270 days	825	413	1,238
More than 271 days	2,196	4,590	6,786
	34,213	5,492	39,705

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

(e) The movement of the provision for impairment as of December 31, 2016 and 2015 is as follows:

	2016 S/(000)	2015 S/(000)
Balance as of January 1	5,492	3,863
Additions, Note 22(b)	2,051	2,150
Recover, Note 22(b)	(2,422)	(531)
Exchange difference	46	10
Balance as of December 31	5,167	5,492

In the opinion of InRetail Real Estate's Management, the provision for impairment appropriately covers the credit risk as of December 31, 2016 and 2015.

8. Other receivables

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

By type:	2016 S/(000)	2015 S/(000)
Funds held in Banco de la Nación (b)	13,134	17,094
Outstanding advances (c)	4,133	1,742-
Claims to EsSalud	110	45
Others	1,062	487
	18,439	19,368

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

(c) As of December 31, 2016 and 2015, corresponds to payments made to workers related to the Company activities, related to the projects in the investments properties.

(d) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of December 31, 2016 and 2015, as no credit risk has been identified.

9. Prepaid expenses

The composition of this caption is presented below:

	2016 S/(000)	2015 S/(000)
Insurance	1,903	240
Others	471	216
	2,374	456

10. **Recoverable taxes**

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

By type:	2016 S/(000)	2015 S/(000)
Tax credit recoverable for value-added-tax (b)	61,468	93,981
Income Tax payment	2,755	2,413
Retentions and perceptions	5,398	2,989
	69,621	99,383
By term:		
Current	19,275	21,774
Non-current	50,346	77,609
	69,621	99,383

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

11. Facilities, furniture and equipment, net

(a) The movement of facilities, furniture and equipment and accumulated depreciation, for the years ended as of December 31, 2016 and 2015, is as follows:

	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	Computer equipment and miscellaneous S/(000)	Work in progress S/(000)	Total S/(000)
Cost						
Balance as of January 1, 2015	959	2,851	554	4,927	3,686	12,977
Additions (c)	1,818	1,743	74	1,811	428	5,874
Transfers	3,686	-	-	-	(3,686)	-
Disposals	(1,039)	(336)	(185)	(587)	(365)	(2,512)
Balance as of December 31, 2015	5,424	4,258	443	6,151	63	16,339
Additions (c)	136	62	112	2,437	153	2,900
Disposals	-	-	(62)	(163)	(38)	(263)
Balance as of December 31, 2016	5,560	4,320	493	8,425	178	18,976
Accumulated depreciation						
Balance as of January 1, 2015	708	1,206	177	1,691	-	3,782
Depreciation of the year, see Note 22(b)	911	476	86	1,302	-	2,775
Disposals	(719)	(85)	(114)	(341)	-	(1,259)
Balance as of December 31, 2015	900	1,597	149	2,652	-	5,298
Depreciation of the year, see Note 22(b)	1,086	688	88	1,466	-	3,328
Disposals	-	-	(63)	(163)	-	(226)
Balance as of December 31, 2016	1,986	2,285	174	3,955	-	8,400
Net cost						
As of December 31, 2015	4,524	2,661	294	3,499	63	11,041
As of December 31, 2016	3,574	2,035	319	4,470	178	10,576

(b) As of December 31, 2016 and 2015, there are no pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.

(c) As of December 31, 2016, additions relate mainly to the acquisition of computers and light boxes for the passage and measurement of electricity for approximately S/1,740,000 and S/374,000, respectively. As of December 31, 2015, additions relate mainly to the installations and the purchase of assets for new administrative offices for approximately S/2,700,000, renovations and purchase of assets for the administrative offices of the Real Plaza Shopping Mall for approximately S/752,000 and the purchase and installation of Christmas decorations for Real Plaza Salaverry Shopping Mall for approximately S/642,000.

(d) As of December 31, 2016 and 2015, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on said assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.

(e) As of December 31, 2016 and 2015, the cost and corresponding accumulated depreciation of assets acquired through finance leases are the following:

	December 31, 2016			December 31, 2015		
	Cost S/(000)	Accumulated depreciation S/(000)	Net Cost S/(000)	Cost S/(000)	Accumulated depreciation S/(000)	Net Cost S/(000)
Miscellaneous equipment	4,885	(2,072)	2,813	3,186	(1,112)	2,074

12. Investment properties

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

	2016 S/(000)	2015 S/(000)	Valuation methodology 2016	Valuation methodology 2015
Built on owned land				
Shopping malls:				
Real Plaza Chiclayo shopping mall (ii)	255,084	250,444	DCF	DCF
Real Plaza Piura shopping mall (ii)	220,966	203,971	DCF	DCF
Real Plaza Primavera shopping mall (ii)	208,377	208,429	DCF	DCF
Real Plaza Trujillo shopping mall (ii)	181,977	164,109	DCF and Appraisal	DCF and Appraisal
Puruchuco (iii)	137,298	125,666	DCF and Appraisal	DCF and Appraisal
Real Plaza Cajamarca shopping mall (ii)	112,670	112,589	DCF	DCF
Real Plaza Santa Clara shopping mall (ii)	108,051	106,890	DCF and Appraisal	DCF and Appraisal
Real Plaza Pro shopping mall (ii)	97,957	92,633	DCF	DCF
Real Plaza Guardia Civil shopping mall (ii)	71,884	67,565	DCF	DCF
Real Plaza Sullana shopping mall (ii)	55,829	57,727	DCF and Appraisal	DCF and Appraisal
Real Plaza Nuevo Chimbote shopping mall (ii)	24,866	23,616	DCF and Appraisal	DCF and Appraisal
Real Plaza Lurín shopping mall (ii)	21,271		DCF and Appraisal	-
Jirón de la Unión – Stores	20,646	21,713	DCF	DCF
San Juan de Lurigancho – Retail store	10,420	10,386	DCF	DCF
Lands (iii):				
Rex	57,428	30,050	Appraisal	Appraisal
Chacarilla	26,406	25,761	Appraisal	Appraisal
Carabayllo	23,256	22,851	Appraisal	Appraisal
Cañete Valley land	16,592	16,159	Appraisal	Appraisal
Tarapoto	15,719	15,423	Appraisal	Appraisal
Zapallal	13,467	13,686	Appraisal	Appraisal
Pueblo Joven Miramar Bajo Mz A Lt 16 – Chimbote – Santa – Ancash	-	1,705	Appraisal	Appraisal
Pisco	4,723	4,799	Appraisal	Appraisal
	1,684,887	1,576,172		
Built on surface or usufruct rights				
Real Plaza Salaverry shopping mall (i) and (ii)	428,338	407,754	DCF	DCF
Real Plaza "San Antonio" Cusco shopping mall (i) and (ii)	247,614	243,706	DCF	DCF
Real Plaza Centro Cívico shopping mall (i) and (ii)	231,510	233,572	DCF	DCF
Real Plaza Huancayo shopping mall (i) and (ii)	163,393	162,179	DCF	DCF
Real Plaza Huánuco shopping mall (i) and (ii)	117,551	119,301	DCF	DCF
Real Plaza Juliaca shopping mall (i) and (ii)	95,631	90,411	DCF	DCF
Real Plaza Arequipa shopping mall (i) and (ii)	103,607	90,069	DCF	DCF
Moquegua (i) and (iii)	1,102	1,102	Cost (*)	Cost (*)
La Curva (i) and (iii)	-	1,065	Cost (*)	Cost (*)
Others	138	170	Cost (*)	Cost (*)
	1,388,884	1,349,329		
Total	3,073,771	2,925,501		

(*) Corresponds to disbursements for usufruct rights on those lands where future real estate projects will be developed. At the date of the report, InRetail Real Estate is evaluating alternatives investment of real estate, yet so as of December 31, 2016 and 2015 investments are accounted at cost.

DCF: Discounted cash flow

(i) For the construction of these shopping malls and properties, landlord leases contracts were subscribed with the Marina de Guerra del Perú (Salaverry), the Arzobispado de Cuzco (on land in Cusco "San Antonio"), Oficina de Normalización Previsional – ONP (Centro Cívico), Ferrovías Central Andina S.A.(Huancayo), Municipalidad provincial de Huánuco (on land of "Real Plaza Huánuco" shopping mall), Ferrocarril Trasandino S.A.(Juliaca), the Association denominated "Religiosas del Sagrado Corazón de Jesús" (Arequipa), Gobierno Regional de Moquegua (Moquegua) and Inmobiliaria Pazos S.A.C. (La Curva). These contracts have terms for periods between 20 to 70 years.

(ii) Correspond mainly to the "Real Plaza" shopping malls, which comprise a hypermarket, department store, commercial premises, a cinema complex and entertainment zone for which there have been subscribed contracts that include minimum monthly fixed rental payments and variable payments based on the retail sales of the tenants.

(iii) Correspond to land on which real estate projects will be developed, mainly shopping malls branded "Real Plaza".

(b) The movement of the investment properties is as follows:

	2016 S/(000)	2015 S/(000)
As of January 1 and at incorporation date	2,925,501	2,719,800
Additions (c) y (d)	139,984	172,737
Sale and disposal (b.1), Nota 24	(2,770)	(4,605)
Fair value adjustment (e)	11,056	37,569
As of December 31	3,073,771	2,925,501

(b.1) As of December 31, 2016, corresponds to the following:

(b.1.1) During 2016, InRetail Real Estate sold the land "Pueblo Joven Miramar Bajo Mz A Lt 16 - Chimbote - Santa - Ancash" to a third party, in cash and market values, for an amount ascending to US$500,000 (equivalent to approximately S/1,733,000); Amount shown are presented in the caption "Other incomes (expenses)" of the consolidated statements income, see Note 24. Product of this sale is generated a gain for approximately S/28,000.

(b.1.2) During the year 2016, InRetail Real Estate transferred the session of usufruct rights on the land "La Curva" to its linked Supermercados Peruanos S.A., rebilling to the related partie the costs incurred in the land by S/1,018,000; Amount shown are presented in the caption "Other incomes (expenses)" of the consolidated statements income, see Note 24. Product of this transfer is generated a gain for approximately S/47,000.

As of December 31, 2015, correspond to the cost incurred by Inretail Real Estate for the retirement of the "Peramás" investment property, which is presented into the caption "Cost for retirement of investment property" in the consolidated statement of income, see note 24

(c) As of December 31, 2016 and 2015, the additions to the investment properties caption are comprised by:

	2016 S/(000)	2015 S/(000)
Projects under construction and land acquisition (d)	124,977	154,219
Work in progress (d)	15,007	18,518
As of December 31	139,984	172,737

(d) As of December 31, 2016 and 2015, corresponds mainly to enlargements and/or refurnishing of the following shopping malls and properties:

Shopping mall - SM	**Description**	**2016** S/(000)
Rex	Purchase of the land "Ladrillera Rex," which has an area of 114.550 m2, which will be used for future projects.	27,898
Lurín SM	Works made for the construction of a Shopping Mall (SM), which has an area of 37,300 m2.	26,645
Real Plaza Arequipa SM	Indemnities for the application of the penalty for reduction of the area assigned to Tiendas Peruanas S.A. (Breach of contract) and remodeling made to the Shopping Mall	20,539
Real Plaza Trujillo SM	Expansion of the Shopping Mall for opening of the smaller stores.	19,552
Real Plaza Piura SM	Expansion of the Shopping Mall for opening of the smaller stores.	14,141
Puruchuco	Works made for the construction of a Shopping Mall, which has an area of 142,701 m2.	7,117
Real Plaza Guardia Civil SM	Expansion of the Shopping Mall for opening of the smaller stores.	7,031
Real Plaza Cusco SM	Expansion of the Shopping Mall for opening of the smaller stores.	5,995
Real Plaza Huancayo SM	Expansion of the shopping center that includes the parking improvements.	4,332
	Others less than S/(000) 1,500	6,734
		139,984

Centro Comercial - CC	Descripción	2015 S/(000)
Real Plaza Sullana SM	Purchase of shopping mall which has an area of 41,172 m2. It is located in a strategic zone in the city of Sullana.	57,601
Rex	Purchase of the land "Ladrillera Rex," which has an area of 114.550 m2, which will be used for future projects.	30,050
Real Plaza Huancayo SM	Expansion of the shopping center that includes the construction of a gym.	18,519
Real Plaza Trujillo SM	Expansion of the Shopping Mall for opening of the smaller stores.	17,077
Real Plaza Piura SM	Expansion of the Shopping Mall for opening of the smaller stores and the construction of an educational center ("IPAE", by its Spanish acronym).	14,954
Real Plaza Centro Cívico SM	Expansion of the Shopping Mall for the opening of the anchor store Saga Falabella and other smaller stores.	12,055
Puruchuco	Works made for the construction of a Shopping Mall, which has an area of 142,701 m2.	8,879
Real Plaza Salaverry SM	It Corresponds to the works of the Real Plaza Salaverry Shopping Mall	4,557
	Others less than S/(000) 3,000	9,045
		172,737

(e) The following table presents the valuation analysis of investment properties recognized in the consolidated statements of financial position by fair value hierarchy level, as described in Note 3.2(s), as of December 31, 2016 and 2015:

	As of December 31, 2016		As of December 31, 2015	
	Level 3(*) S/(000)	Total gains (losses) in the period of the consolidated statements of comprehensive income S/(000)	Level 3(*) S/(000)	Total gains (losses) in the period of the consolidated statements of comprehensive income S/(000)
Built on owned land				
Shopping malls:				
Real Plaza Chiclayo shopping mall	255,084	4,171	250,444	(3,988)
Real Plaza Piura shopping mall	220,966	2,852	203,971	7,623
Real Plaza Primavera shopping mall	208,377	(1,134)	208,429	(5,973)
Real Plaza Trujillo shopping mall	181,977	(1,685)	164,109	5,787
Puruchuco	137,298	4,514	125,666	1,644
Real Plaza Cajamarca shopping mall	112,670	(144)	112,589	(5,296)
Real Plaza Santa Clara shopping mall	108,051	817	106,890	5,230
Real Plaza Pro shopping mall	97,957	5,021	92,633	1,805
Real Plaza Guardia Civil shopping mall	71,884	(2,713)	67,565	7,998
Real Plaza Sullana shopping mall	55,829	(1,950)	57,727	126
Real Plaza Nuevo Chimbote shopping mall	24,866	448	23,616	(2,098)
Real Plaza Lurín shopping mall	21,271	(5,394)	-	-
Jirón de la Unión – Stores	20,646	(1,066)	21,713	(1,866)
San Juan de Lurigancho – Retail store	10,420	34	10,386	(308)
Lands:				
Rex	57,428	(521)	30,050	-
Chacarilla	26,406	645	25,761	3,707
Carabayllo	23,256	405	22,851	6,330
Cañete Valley land	16,592	433	16,159	2,790
Tarapoto	15,719	166	15,423	1,380
Zapallal	13,467	(219)	13,686	1,414
Pueblo Joven Miramar Bajo Mz A Lt 16 – Chimbote – Santa – Ancash	-	-	1,705	(13)
Pisco	4,723	(76)	4,799	1,925
	1,684,887	4,604	1,576,172	28,217
Built on surface or usufruct rights				
Real Plaza Salaverry shopping mall	428,338	19,333	407,754	6,508
Real Plaza "San Antonio" Cusco shopping mall	247,614	(2,913)	243,706	4,997
Real Plaza Centro Cívico shopping mall	231,510	(2,723)	233,572	4,997
Real Plaza Huancayo shopping mall	163,393	(3,117)	162,179	(6,937)
Real Plaza Huánuco shopping mall	117,551	(2,147)	119,301	1,896
Real Plaza Juliaca shopping mall	95,631	5,021	90,411	(417)
Real Plaza Arequipa shopping mall	103,607	(7,002)	90,069	(1,642)
Moquegua	1,102	-	1,102	-
La Curva	-	-	1,065	-
Others	138	-	170	-
	1,388,884	6,452	1,349,329	9,352
	3,073,771	11,056	2,925,501	37,569

(*) The Company does not have properties classified as level 1 or 2, therefore the fair value of the assets are classified as Level 3 and has been determined through the discounted cash flow methodology and an appraisal formulated by an independent professional who is registered in the "Consejo Nacional de Tasadores –CONATA". Additionally, the appraisers (REPEV) in the Superintendency of Banking and Insurance (SBS).

The fair value of the investment properties has been determined by InRetail Real Estate's Management on the basis of the discounted cash flow method and based on the value assigned by an independent appraiser in the case of the land of investment properties under construction and for those held to operate in the future. The valuation is prepared on an aggregated and deleveraged basis. According to what is established in Note 3.2(i), in order to estimate the market value of investment properties, Management has used its market knowledge and professional judgment.

A brief description of the cash flow assumptions used as of December 31, 2016 and 2015, is presented below:

- Long-term inflation -
  Is the increase of the general level of prices expected in Peru for the long term.

- Long-term average occupancy rate -
  Is the expected occupancy level of tenants in the leased properties.

- Average growth rate of rental income -
  Is the rate that expresses the rental income growth and includes growth factors of the industry, inflation rates, stable exchange rate, per capita income and increasing expenses.

- Average EBITDA margin -
  Is projected from the rental income from leasable areas by property and marketing income, less costs related to administration fees, other administrative expenses, insurance, taxes and other expenses.

- Discount rate -
  It reflects the current market risk and the uncertainty associated to the obtaining of cash flows.

The main assumptions used in the valuation and estimation of the market value of investment properties are detailed below:

	Percentage	
	2016 %	2015 %
Long-term inflation	2.50	2.50
Long-term average occupancy rate	98.75	98.75
Average long-term growth rate of rental income	2.50	2.50
Average EBITDA margin	83.60	83.92
Discount rate	9.00	9.17

(f) The sensitivity analysis on the valuation of property investments, against changes in factors deemed relevant by Management, is presented below:

	Rates change	2016 S/(000)	2015 S/(000)
Average growth rate of rents (basis) – 2.50%			
Increase	+0.25%	97,947	84,153
Decrease	-0.25%	(91,724)	(77,609)
Discount rate (basis) – 9.00%- 9.17%			
Increase	+0.5%	(200,973)	(194,707)
Decrease	-0.5%	229,096	221,594

(g) The amount of the future minimum fixed rental income by currency corresponding to the lease of the investment properties of InRetail Real Estate is as follows:

Year	Related parties		Third parties		Total	
	US$(000)	S/(000)	US$(000)	S/(000)	US$(000)	S/(000)
2017	6,495	83,906	2,933	130,501	9,428	214,407
2018	6,357	80,719	2,392	95,979	8,749	176,698
2019	6,250	75,083	2,152	57,240	8,402	132,323
2020	5,895	71,470	1,639	38,991	7,534	110,461
2021-2044	105,218	1,126,066	27,909	313,637	133,127	1,439,703
Total	130,215	1,437,244	37,025	636,348	167,240	2,073,592

13. Derivative financial instruments – "Call spread"

	Counterpart	Reference Amount US$(000)	Expiration	Fair Value 2016 S/(000)	Fair Value 2015 S/(000)
Designated Derivative of Coverage -					
Call spread	J.P. Morgan	200,000	jul-21	55,908	62,498
				55,908	62,498

During 2015, InRetail Real Estate signed a "Call Spread" with J.P. Morgan for a total notional amount of US$200,000,000 in order to reduce its foreign currency risk related to a part of the senior notes issued in July, 2014 in foreign currency, see Note 16(b). The price paid for such derivative financial instruments (premium) was financed, generating a liability for approximately S/51,940,000 and S/61,816,000 as of December 31, 2016 and 2015, respectively; see Note 16(a). According to IFRS 9, this premium was recorded into the non-current asset and it is recognized in profit and losses on straight-line basis over the hedging term; consequently, approximately S/12,685,000 and S/5,939,000 were recorded in profit and losses during 2016 and 2015, respectively; see Note 25. Additionally, approximately S/14,693,000 and S/30,338,000, were charged into the caption "Unrealized results" in the consolidated statement of changes in equity during 2016 and 2015, respectively, representing the derivative financial instruments hedging during that year.

14. Trade payables

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

	2016 S/(000)	2015 S/(000)
Third parties (b)	19,668	13,550
Provisions for unbilled services but received (c)	11,504	17,222
	31,172	30,772

(b) As of December 31, 2016 and 2015, trade payable mainly comprises the liabilities with contractors for the construction works and/or refurnishing of shopping malls. Bills payable are denominated in Soles and US Dollars, do not accrue interests and their maturities are in the current period.

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

15. Other liabilities

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

	2016 S/(000)	2015 S/(000)
Interests payable (b)	38,393	36,750
Deferred income (c)	30,577	34,895
Value added tax	10,263	553
Deposits from third parties (d)	2,751	2,817
Workers' profit sharing	2,400	2,997
Taxes payable	2,023	727
Vacation payable	235	686
Other payable	9,515	7,325
	96,157	86,750

	2016 S/(000)	2015 S/(000)
By term:		
Current	72,821	57,320
Non-current	23,336	29,430
	96,157	89,445

(b) As of December 31, 2016 and 2015, mainly corresponds to interests payable originated by the long-term bank loan subscribed with foreign entities, see Note 16(b), and the derivative financial instruments – "Call spread", see Nota 13.

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

	2016 S/(000)	2015 S/(000)
Key money (c.1)	18,293	21,032
Advanced rents (c.2)	12,284	13,863
	30,577	34,895

(c.1) As of December 31, 2016 and 2015, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.

The movement of the deferred income of key money as of December 31, 2016 and 2015 is as follows:

	2016 S/(000)	2015 S/(000)
Balance as of January 1	21,032	25,721
Additions	6,668	2,752
Accrued key money	(9,407)	(7,441)
Balance as of December 31	18,293	21,032

(c.2) As of December 31, 2016 and 2015, mainly corresponds to advanced rents made by Cineplex S.A. (a related entity), Ripley S.A. and América Móvil S.A. for the premises it operates in the Real Plaza shopping malls until 2021, 2019 and 2018, respectively.

(d) As of December 31, 2016 and 2015, corresponds mainly to cash deliveries from the tenants of the Real Plaza shopping malls. These deposits do not accrue interests and will be refunded in the original currency at the end of the lease contract.

16. **Financial obligations**

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

Type of obligation	Original currency	Interest rate %	Maturity	Original amount in thousands	2016 Total S/(000)	2016 Current S/(000)	2016 Non-current S/(000)	2015 Total S/(000)	2015 Current S/(000)	2015 Non-current S/(000)
Bond Issuance (b)										
Foreign currency bonds issuance	US$	6.50	2021	350,000	936,147	-	936,147	938,518	-	938,518
Local currency bonds issuance	S/	7.875	2034	141,000	135,324	-	135,324	80,365	-	80,365
					1,071,471	-	1,071,471	1,018,883	-	1,018,883
Leasing										
Unrelated parties										
Banco de Crédito del Perú S.A., purchase of property of Real Plaza Chiclayo Shopping Mall (c)	S/	8.02	2019	54,748	13,314	4,371	8,943	17,357	4,046	13,311
Banco de Crédito del Perú S.A., enlargement of Section 2A of Real Plaza Chiclayo Shopping Mall (d)	S/	7.97	2023	32,926	26,055	3,053	23,002	28,876	2,819	26,057
Banco de Crédito del Perú S.A., enlargement of Section 2B of Real Plaza Chiclayo Shopping Mall (e)	S/	8.06	2023	20,726	16,809	1,737	15,072	18,412	1,602	16,810
IBM Perú S.A.C.	US$	Between 1.92 and 3.10	Between 2017 and 2018	173	194	147	47	387	186	201
Hewlett Packard Perú S.R.L.	US$	Between 1.82 and 4.93	2020	672	1,998	852	1,146	1,326	723	603
CSI Renting Perú S.A.C.	US$	Between 4.64 and 4.73	2018	70	193	112	81	179	79	100
					58,563	10,272	48,291	66,537	9,455	57,082
Related parties										
Banco Internacional del Perú S.A.A. - Interbank, Real Plaza San Antonio del Cusco Shopping Mall (g)	S/	8.90	2026	1,000	-	-	-	928	77	851
Banco Internacional del Perú S.A.A. - Interbank, purchase of transport units	US$	Between 5.25 and 5.40	2019	135	124	56	68	184	124	60
					124	56	68	1,112	201	911
					58,687	10,328	48,359	67,649	9,656	57,993
Promissory notes and loans										
Unrelated parties										
Scotiabank del Perú S.A.A. (h)	S/	6.70	2019	100,000	74,539	24,822	49,717	99,200	24,640	74,560
Derivative financial instruments - "Call spread", Note 13										
Unrelated parties										
JP Morgan S.A.	US$	1.84	2021	18,111	51,940	9,307	42,633	61,816	9,046	52,770
Total					1,256,637	44,457	1,212,180	1,247,548	43,342	1,204,206

(b) In July 2014 InRetail Real Estate Corp. issued through In Retail Shopping Malls, a private offering in the local market and abroad of "Senior Unsecured Notes" for US$350,000,000 and S/141,000,000 (equivalent to approximately S/1,317,000,000 as of December 31, 2016 and approximately S/1,335,550,000 as of December 31, 2015), which bear annual interest rate of 6.50 and 7.875 percent, respectively, and mature in 2021 and 2034, respectively. These obligations were recognized in the consolidated financial statements at amortized cost at an annual effective interest rate of 7.806 and 7.988 percent for US Dollars and soles, respectively. Which include the issuance charges of approximately US$20,571,000 and S/1,676,000 (equivalent to approximately S/70,794,000 as of December 31, 2016 and approximately S/84,239,000 as of December 31, 2015). Additionally, as of December 31, 2016, this caption is presented net of US$50,814,000 and S/4,000,000 (equivalent to S/174,735,000 approximately) corresponding to these "Senior Unsecured Notes" held by InRetail Shopping Malls (equivalent to S/232,428,000 as of December 31, 2015).

The proceeds from these issuances were allocated mainly for purchasing property, investments in real estate projects and prepaid certain debts owed of prior years.

As of December 31, 2016 and 2015, InRetail Real Estate Corp. accrued interest expenses for S/76,674,000 and S/77,608,000, respectively, which are presented in the caption "Financial expenses" of the consolidated statements of income, see Note 25. Also this transaction generated structuring expenses of S/12,673,000 and S/10,302,000, respectively, which are presented in the caption "Financial expenses" of the consolidated statements income, see Note 25.

As of December 31, 2016 and 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 it is restricted.
- 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 1.5 to 1.

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 to 1.

(c) Corresponds to a leasing agreement with Banco de Crédito del Perú (hereinafter "BCP"), for an approximate amount of S/54,748,000, over a term of 120 months, for the properties Interseguro sold through a surface right contract. This loan was used mainly for the acquisition of the property where Real Plaza Chiclayo shopping mall is located.

BCP put at disposal the buildings in leasing in favor of Interproperties Peru, who made the payment of an initial installment amounting to S/18,748,000 on October 28, 2009, in accordance with the leasing contract.

This obligation is associated solely with the Real Plaza Chiclayo project and is provided with a guarantee and management trust through La Fiduciaria S.A., which securitized the future cash flows of the collection rights of the contracts of lease, sublease, usufruct and any other type of contract that the lessees of Real Plaza Chiclayo shopping mall must pay for: (a) rent (fixed and/or variable), use, penalties, indemnifications, key rights and/or any type of consideration for the use or enjoyment of said premises; (b) commissions on events and sponsorships or the leases of spaces for advertisement; and, (c) in a general way, any type of collection related to the activity of Real Plaza Chiclayo shopping mall, which constitute the assets in trust that have been transferred to the trust managed by La Fiduciaria S.A. In order to secure this funding, a new guarantee called "Reserve account" has been constituted, which as of December 31, 2016 and 2015, amounted to approximately S/1,604,000.

On August 2014 the debt was restructured with a change in the interest rate which change from 9.02 to 8.02.

As of December 31, 2016 and 2015, InRetail Real Estate complied with certain obligations and restrictive clauses that are refined to the compliance with financial obligations.

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

(d) During 2012, Interproperties Holding II (SPE), decided to enlarge Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2A"), for which on December 26, 2012, signed an addendum to the Framework Contract with BCP, which committed to finance the project up to US$12,500,000. As of December 31, 2016 and 2015 it is already operating therefore, Interproperties Holding II has recorded the corresponding liabilities at such dates.

On June 20, 2014 the funding currency and the interest rate of the debt were renegotiated and changed from us dollar to soles, therefore the new amount of the debt is S/32,926,355 and the annual interest rate changed from 7.62 percent to 7.97 percent.

(e) During 2013, Interproperties Holding II (SPE) continued the expansion of Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2B"), for which it signed an addendum to the leasing agreement with BCP, which committed to finance the project for up to US$7,500,000. As of December 31, 2013, the expansion of Section 2B is under construction; however, Interproperties Holding II (SPE) has recorded the corresponding liabilities at such dates.

On June 20, 2014 the funding currency and the interest rate of the debt were renegotiated and changed from US Dollar to Soles, therefore the new amount of the debt is S/20,726,824 and the annual interest rate changed from 7.02 to 8.06 percent.

(f) As of December 31, 2016 and 2015, the Company recorded interests expenses for the loans described above in (c),(d) and (e) for an approximate amount of S/4,759,000 and S/5,335,000 respectively, which are presented in the "Financial expenses" caption of the consolidated statements income and other of comprehensive income, see Note 25.

(g) Inmobiliaria Puerta del Sol S.A. (IPS) entered into a leaseback agreement with Banco Internacional del Perú S.A.A. - Interbank to build the building where the Real Plaza San Antonio shopping mall operates. This leaseback was agreed for a former amount of S/108,300,000, with a term of 144 months and a grace period of 6 months, which will be computed from the date the asset is finished. As of December 31, 2013, the Bank had disbursed S/60,000,000. During the first semester of 2014, the bank disbursed the total amount of the debt, however on September 2014 the Company made a prepayment of S/107,300,000, and as of result of this transaction the debt balance amounted to S/1,000,000 with a structuring cost for S/12,500. As of December 31, 2013, this operation generated structuring expenses by S/1,341,000, which began to accrue when the Shopping Mall initiated operations. This amount was recognized as expense in the consolidated statements income and other of comprehensive income, since January 2014 until the date of the early cancellation of the debt.

In order to secure the payment this funding, IPS subscribed a cash flow trust contract with La Fiduciaria S.A., through which the former binds to channel all the future cash flows from the credit rights derived, generated or caused, as consequence of each and every asset comprised in the Real Plaza San Antonio project to the escrow accounts so that these assets serve as security for the guaranteed obligations.

In October 2016, the Company prepaid entered into a leaseback.

During 2016 and 2015, this loan accrued interests for S/31,000 and S/84,000, respectively, which are presented in the "Financial expenses" caption of the consolidated statements of income, Note 25.

(h) Corresponds to a loan, which it was used to repay debts and for other corporate purposes. As of December 31, 2016 and 2015, this obligation was recognized in the consolidated financial statements at amortized cost at an annual effective interest rate of 7.135 percent, which include the issuance charges of approximately S/461,000 and S/800,000, respectively.

(i) Future minimum payments for the leasing described in subsection (a) of this Note, net of future financial charges, are as follows:

2016	Related parties		Third parties		Total	
	Minimum Payments S/(000)	Present value of the leasing installments S/(000)	Minimum payments S/(000)	Present value of the leasing installments S/(000)	Minimum payments S/(000)	Present value of the leasing installments S/(000)
Up to 1 year	62	57	14,432	10,273	14,494	10,330
Between 1 and 3 years	69	67	26,637	20,679	26,706	20,746
Up to 3 years	-	-	32,242	27,611	32,242	27,611
Total minimum payments	131	124	73,311	58,563	73,442	58,687
Minus- amounts representing finance charges	(7)	-	(14,748)	-	(14,755)	-
Present value of future minimum payments	124	124	58,563	58,563	58,687	58,687

2015	Related parties		Third parties		Total	
	Minimum Payments S/(000)	Present value of the leasing installments S/(000)	Minimum payments S/(000)	Present value of the leasing installments S/(000)	Minimum payments S/(000)	Present value of the leasing installments S/(000)
Up to 1 year	292	201	14,330	9,515	14,622	9,716
Between 1 and 3 years	516	325	39,658	29,713	40,174	30,038
Up to 3 years	706	586	31,931	27,309	32,637	27,895
Total minimum payments	1,514	1,112	85,919	66,537	87,433	67,649
Minus- amounts representing finance charges	(402)	-	(19,382)	-	(19,784)	-
Present value of future minimum payments	1,112	1,112	66,537	66,537	67,649	67,649

(l) Future payments for Bonds include interests described in subsection (a) of this Note, which include interest expense, are as follows:

	2016			2015		
	Principal S/(000)	Interest S/(000)	Total S/(000)	Principal S/(000)	Interest S/(000)	Total S/(000)
2016	-	-	-	-	88,750	88,750
2017	-	87,544	87,544	-	88,750	88,750
2018	-	87,544	87,544	-	88,750	88,750
2019	-	82,746	82,746	-	88,750	88,750
2020	-	76,440	76,440	-	83,952	83,952
Up to 2034	1,002,353	38,189	1,040,542	1,103,122	40,722	1,143,844
	1,002,353	372,463	1,374,816	1,103,122	479,674	1,582,796

17. **Deferred income Tax**

(a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as of December 31, 2016 and 2015 is detailed as follows:

	2016		2015	
	Deferred asset S/(000)	Deferred liability S/(000)	Deferred asset S/(000)	Deferred liability S/(000)
Inmobiliaria Puerta del Sol S.A.	-	19,052	-	17,717
Real Plaza S.A.	1,106	-	798	-
Total	1,106	19,052	798	17,717

(b) Following is the detail of the deferred Income Tax assets and liabilities:

	Balance as of December 1, 2015 S/(000)	Reclassification by change in estimate, Note 26(f) S/(000)	Income (expense) in consolidated statement of income S/(000)	Balance as of December 31, 2015 S/(000)	Income (expense) in consolidated statement of income S/(000)	Balance as of December 31, 2016 S/(000)
Real Plaza S.A.						
Deferred assets						
Income Tax attributed to trust participants	-	-	-	-	-	-
Provision for unpaid vacations	150	-	42	192	(123)	69
Depreciation	(30)	-	405	375	509	884
Provision for doubtful accounts	116	-	82	198	(79)	119
Others	45	-	(12)	33	1	34
Total	281	-	517	798	308	1,106
Inmobiliaria Puerta del Sol S.A.						
Deferred assets						
Income Tax attributed to trust participants	32,781	(31,971)	(810)	-	-	-
Provision for unpaid vacations	111	(111)	-	-	-	-
Depreciation	153	(153)	-	-	-	-
Provision for doubtful accounts	(1)	(35)	36	-	-	-
Others	(45)	45	-	-	-	-
Deferred liabilities						
Fair value adjustment of investment properties	(92,039)	79,582	(1,299)	(13,756)	861	(12,895)
Tax depreciation of investment properties	(38,088)	36,127	(1,982)	(3,943)	(2,199)	(6,142)
Income Tax attributed to trust participants	(27,250)	27,250	-	-	-	-
Others	(107)	107	(18)	(18)	3	(15)
Deferred liabilities, net	(124,485)	110,841	(4,073)	(17,717)	(1,335)	(19,052)

(*) As of December 31, 2016, the effect of the application of the new income tax rate, see Note 13(a), resulted in an expense that amounted of approximately S/2,341,000, Which were recorded as part of the consolidated statement of income.

(c) The Income Tax expense presented in the consolidated statements of income for the years 2016 and 2015 is comprised as follows:

	2016 S/(000)	2015 S/(000)
Current	(55,122)	(3,665)
Deferred	(1,027)	(3,556)
Total	(56,149)	(7,221)

18. Commitments

During 2016, corresponds to guarantee letters in favor of third parties for approximately S/10,635,000 and US$3,391,000 (equivalent to S/11,394,000), which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II (During 2015 for approximately S/21,447,000).

19. Equity

(a) Capital stock -

As of December 31, 2016 and 2015, the capital stock of InRetail Real Estate Corp. amounts to S/1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US$1 each.

(b) Unrealized results, net -

As of December 31, 2016 and 2015, the unrealized results were generated by the investments at fair value through other comprehensive income and derivate financial instruments – "Call spread" see Note 6 and 13, respectively.

(c) Transactions with non-controlling interests -

In February 2016, the Company purchased 100 percent of the non-controlling interests for approximately US$2,732,000 (equivalent to approximately S/9,040,000); The highest amount paid for approximately S/2,621,000 was recorded in the caption "Retained earnings" in the consolidated statement of changes in equity.

During 2015, yield prepayments to non-controlling interests amounted to approximately S/207,000.

(d) Earnings per share -

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

	Common shares		
	Thousands of shares outstanding	Effective days until year's closing	Weighted average of shares
2015 -			
As of January 1, 2015	568,201	365	568,201
As of December 31, 2015	568,201		568,201
2016 -			
As of January 1, 2016	568,201	365	568,201
As of December 31, 2016	568,201		568,201

	2016		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	127,925	568,201	0.2251

	2015		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	109,057	568,201	0.1919

20. Income from real estate service

(a) The composition of the balance is presented below:

	2016 S/(000)	2015 S/(000)
Rental income		
Rental income (b)	295,783	275,756
Rent of space for publicity	11,960	12,738
Key money, Note 15(c.1)	9,407	7,441
	317,150	295,935
Income from management services		
Common expenses (c)	62,191	59,493
Electricity and water (d)	49,662	46,435
Promotion and advertisement fund (e)	16,493	15,869
Parking	8,541	5,208
Management services	1,029	1,628
Negotiations of land and buildings	-	7,857
Advisory and supervision	-	44
Other	2,812	2,662
	140,728	139,196

(b) As of December 31, 2016 and 2015, corresponds to rental income from the economic exploitation of the "Real Plaza" shopping malls. The composition of the rental income is presented below:

	2016 S/(000)	2015 S/(000)
Fixed rental income	254,446	238,447
Variable rental income	41,337	37,309
	295,783	275,756

(c) Corresponds to income from common expenses that comprise maintenance expenses, safety, administration and supervision of the shopping malls, which are billed to every lessee according to the terms established in the lease contract.

(d) Corresponds to income from electricity and water that are assumed by the Company and are billed later to every lessee of the shopping malls.

(d) Corresponds to income from the activities of promotion and advertisement of the shopping malls, which are billed to every lessee of the shopping malls according to the terms established in the lease contract.

21. Operating costs

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

	2016 S/(000)	2015 S/(000)
Cost of rental income		
Landlord leases (b)	16,324	12,024
Property Tax and duties	12,342	11,307
Property insurance costs	3,909	3,773
Other costs	1,426	919
	34,001	28,023
Cost related to income from management services		
Electricity and water	47,325	44,970
Advertising and marketing	18,430	17,205
Maintenance and administration of parking lot	14,802	11,313
Personnel expenses, Note 23(b)	9,812	14,977
Cleaning	9,053	8,615
Safety services	6,743	6,774
Leases, professional fees and communications	1,635	1,634
Other costs	1,253	1,040
	109,053	106,528

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

22. Selling and administrative expenses

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

	2016 S/(000)	2015 S/(000)
Administrative expenses	26,355	25,158
Selling expenses	6,254	7,857
	32,609	33,015

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

	2016		
	Administrative expenses S/(000)	Selling expenses S/(000)	Total S/(000)
Personnel expenses, Note 23(b)	9,268	5,560	14,828
Professional fees	8,228	869	9,097
Depreciation, Note 11(a)	3,328	-	3,328
Amortization	244	-	244
Allowance for doubtful accounts, Note 7(e)	-	2,051	2,051
Recovery of allowance for doubtful accounts, Note 7(e)	-	(2,422)	(2,422)
Other expenses	5,287	196	5,483
	26,355	6,254	32,609

	2015		
	Administrative expenses S/(000)	Selling expenses S/(000)	Total S/(000)
Personnel expenses, Note 23(b)	12,910	5,532	18,442
Professional fees	1,991	-	1,991
Depreciation, Note 11(a)	2,775	-	2,775
Amortization	147	-	147
Allowance for doubtful accounts, Note 7(e)	-	2,150	2,150
Recovery of allowance for doubtful accounts, Note 7(e)	-	(531)	(531)
Other expenses	7,335	706	8,041
	25,158	7,857	33,015

23. Personnel expenses

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

	2016 S/(000)	2015 S/(000)
Salaries	13,947	17,319
Regular bonuses	2,838	4,219
Workers' profit sharing	1,961	4,127
Social security	1,532	2,148
Severance indemnities	1,389	1,960
Vacations	733	1,567
Other personnel expenses	2,239	2,079
	24,640	33,419

(b) The distribution of personnel expenses is presented below:

	2016 S/(000)	2015 S/(000)
Operating costs, see Note 21(a)	9,812	14,977
Administrative expenses, see Note 22(b)	9,268	12,910
Selling expenses, see Note 22(b)	5,560	5,532
	24,640	33,419

24. Other incomes (expenses), net

The composition of this caption is presented below:

	2016 S/(000)	2015 S/(000)
Other incomes		
Income from sale of investment property, Note 12(b.1.1)	1,733	-
Income from transfer investment property, Note 12(b.1.2)	1,018	-
Gain on sale of subsidiary, Note 1	-	665
Other	485	413
	3,236	1,078
Other expenses		
Cost of disposal of investment property, Note 12(b.1.1)	(1,705)	-
Cost for transfer of Investment property, Note 12(b.1.2)	(1,065)	-
Cost for retirement of investment property, Note 12(b.1)	-	(4,605)
Other	(12)	(262)
Total other incomes (expenses), net	454	(3,789)

25. Financial income and expenses

The composition of this caption is presented below:

	2016 S/(000)	2015 S/(000)
Income		
Interests on bonds	2,879	2,530
Interests on deposits	933	954
Interests from granted loans	638	402
Income from investments sold at fair value through other comprehensive income, Note 6	1,155	311
Interests on mutual funds, Note 5	342	99
Other	304	56
	6,251	4,352
Expenses		
Bond interest expense, Note 16(b)	76,674	77,608
"Call Spread" premium, Note 13	12,685	5,939
Debt structuring expenses, Note 16(b)	12,673	10,302
Leasing -Real Plaza Chiclayo, Note 16(f)	4,759	5,335
Leasing -Real Plaza San Antonio del Cusco, Note 16(g)	31	84
Other financial expenses	12,958	8,600
	119,780	107,868

26. Tax situation

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

Entities and individuals not domiciled in Peru are subject to retention of an additional tax on dividends received. In attention to Legislative Decree No. 1261, issued on December 10, 2016 and effective since January 1, 2017, the additional tax on dividend income generated is as follows:

- 4.1 percent of the profits generated until December 31, 2014.
- 6.8 percent for the profits generated from January 1, 2015 to December 31, 2016.
- For the profits generated since January 1, 2017, which will be distributed as from that date, the applicable rate will be 5 percent.

(b) Real Plaza is domiciled in Peru and is subject to the Peruvian tax regime. As of December 31, 2016 and 2015, the statutory Income Tax rate was 28 percent, on the taxable income. After deducting the workers profit sharing which is calculated at a rate of 5 percent on taxable income. In attention to Legislative Decree No. 1261, issued on December 10, 2016 and effective since January 1, 2017, the income tax rate applicable on taxable profit, after deducting employee participation will be from 2017 onwards, 29.5 percent.

(c) According to the text of the Law on Income Tax, as amended by Law 29663 and 29757, since year 2012, among the transactions subject to capital duty, are those obtained by the indirect sale of shares of Peruvian companies. For these purposes, an indirect transfer is set when two instances occur together:

(i) First, 10 percent or more of the shares of non-resident must be sold in any twelve month period (assumed effective from February 16, 2011); and,
(ii) Second, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months (of course in force since July 22 2011).

(d) In Peru, for purposes of determining income tax, transfer pricing transactions with related companies and companies resident in territories with low or no taxation, must be supported with documentation and information on the valuation methods used and the criteria considered in its determination. Based on the analysis of operations, Management and its legal advisors believe that, as a result of the application of the regulation in force, there will not emerge significant contingencies for InRetail Real Estate as of December 31, 2016 and 2015.

(e) The Peruvian Tax Authority is legally entitled to perform tax audit procedures on local taxpayers for up to four years subsequent to the year of the presentation of the tax return. The Tax Authority is entitled to challenge the Income Tax calculation performed by such taxpayers. In the case of the Subsidiaries of InRetail Real Estate Corp., the years subject to tax audit procedures by the Tax Authority are detailed below:

	Income Tax	**IGV**
Real Plaza S.R.L.	From 2015 to 2016	From 2013 to 2016

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

In the opinion of the Management of InRetail Real Estate and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of December 31, 2016 and 2015.

(f) According to Peruvian law, Interproperties Holding I, Interproperties Holding II and InRetail Shopping Mall are not considered as income taxpayers due to its status as SPS's. Such entities attribute their 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. During 2015, InRetail Real Estate analyzed how this tax liability was estimated and its presentation in the consolidated financial statements. Considering its nature and the tax regulation in force, InRetail Real Estate decided to change them according to IFRS, recording prospectively the effect of this change in accounting estimate; consequently, during 2015 a total amount of approximately S/110,841,000 was reclassified from the caption "Deferred income tax liabilities" to the caption "Taxes related to Special Purpose Entities"; see Note 17(b). After this change in accounting estimate, the balance of said caption amounts to approximately S/113,342,000 and S/166,501,000, respectively, of December 31, 2016 and 2015.

27. Transactions with Headquarters and related companies

(a) The main transactions with related parties recorded in the consolidated income statements for the years 2016 and 2015, as the following:

	2016 S/(000)	2015 S/(000)
Income		
Rental income	108,001	92,894
Income from management services	43,671	41,865
Reimbursements of expenses	1,970	432
Other	3,056	-
	156,698	135,191
Expenses		
Renting of premises and land	522	650
Reimbursements of expenses	1,498	296
Commissions	3,515	-
Other	2,531	1,474
	8,066	2,420

(b) As result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of December 31, 2016 and 2015:

	2016 S/(000)	2015 S/(000)
Cash and cash equivalents		
Banco Internacional del Perú S.A.A.-Interbank (c)	22,052	29,087
Trade and other receivable		
Supermercados Peruanos S.A. (d)	32,871	6,788
Tiendas Peruanas S.A	21,757	8,085
Cineplex S.A.	3,979	4,360
Bembos S.A.	3,669	3,209
Homecenters Peruanos S.A.	3,432	3,160
Banco Internacional del Perú S.A.A.-Interbank	658	954
Eckerd Perú S.A.	573	240
Intercorp Perú Ltd. (e)	476	2,652
InRetail Management S.R.L.	22	1,915
Other related companies	10,175	10,927
	77,612	42,290
Current	45,922	42,290
Non-current	31,690	-
	77,612	42,290
Trade and other payable		
Tiendas Peruanas S.A	3,609	1,900
Supermercados Peruanos S.A.	72	1,606
Home Centers Peruanos S.A.	47	-
Interseguro Compañía de Seguros S.A.	10	-
Other related companies	1,305	645
	5,043	4,151
Financial obligations		
Banco Internacional del Perú S.A.A.-Interbank, Note 16	124	1,112

(c) As of December 31, 2016 InRetail Real Estate holds S/22,043,000 and S/16,600,000 in time deposits, current accounts and management and security trust current accounts, respectively. (As of December 31, 2015 holds S/12,579,000, S/13,566,000 and S/2,943,000, respectively).

(d) As of December 31, 2016, it corresponds mainly to the contribution made by Interproperties Honlding II to Supermercados Peruanos S.A., for the project "La Curva" for approximately S/31,690,000. In accordance with the terms of the Joint Venture Agreement, Interproperties Holding II has a participation in the results generated by the project; in addition, the agreement is of unlimited term, therefore it is considered a long-term receivable account.

(e) As of December 31, 2016 and 2015, corresponds to loans to Intercorp Perú; it accrued interests at an annual interest rate of 6.625 percent.

(f) Transactions with related companies have been performed under normal market conditions. The taxes that these transactions generated, as well as the calculation basis for their determination, are the usual ones in the industry and they are settled in accordance with the current tax regulations.

28. Segments

InRetail Real Estate 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. The Group separated in two groups their incomes and costs in Lima and Provinces.

The following table presents income and certain asset information regarding InRetail Real Estate's reportable segments (in millions of Soles) for the years ended 31 December 2016 and 2015:

2016	Rental income	Income from management services	Fair value adjustment to investment properties	Investments properties
Lima	152,347	66,014	17,452	1,473,038
Provinces	164,803	74,714	(6,396)	1,600,733
Total	317,150	140,728	11,056	3,073,771

2015	Rental income	Income from management services	Fair value adjustment to investment properties	Investments properties
Lima	139,189	67,122	31,170	1,474,419
Provinces	156,746	72,074	6,399	1,451,082
Total	295,935	139,196	37,569	2,925,501

29. Financial risks management

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

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

(a) Market risk -

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

The sensitivity analysis shown in the following section relates to the position as of December 31, 2016 and 2015. The sensitivity analysis has been prepared considering that the total amount of the net debt and the proportion of financial instruments in foreign currency is constant.

(i) Interest rate risk -

It is the risk that the fair values or future cash flows of a financial instrument fluctuate due to changes in market interest rates. InRetail Real Estate manages its interest rate risk through the obtaining of debt with fixed interest rate. As of December 31, 2016 and 2015, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.

The information on financial instruments with fixed interest rates is presented below:

	Fixed interest rate S/(000)	Not sensitive to interest rate S/(000)	Total S/(000)	Average interest rate as of December 31, 2016 %
Financial assets				
Cash and cash equivalents	37,733	11,376	49,109	4.35
Investments at fair value through profit or loss	-	90,334	90,334	-
Investments at fair value through other comprehensive income	-	57,470	57,470	-
Trade receivables	-	30,034	30,034	-
Accounts receivable from related parties	476	77,136	77,612	6.63
Derivative financial instruments – "Call spread"	55,908	-	55,908	6.7
Other receivables	-	18,439	18,439	-
Financial liabilities				
Trade payables	-	31,172	31,172	-
Accounts payable to related parties	-	5,043	5,043	-
Other liabilities	-	96,157	96,157	-
Financial obligations	1,256,637	-	1,256,637	7.76

	Fixed interest rate S/(000)	Not sensitive to interest rate S/(000)	Total S/(000)	Average interest rate as of December 31, 2015 %
Financial assets				
Cash and cash equivalents	12,579	33,465	46,044	4.29
Investments at fair value through profit or loss	-	34,896	34,896	-
Investments at fair value through other comprehensive income	-	47,222	47,222	-
Trade receivables	-	34,213	34,213	-
Accounts receivable from related parties	2,652	39,638	42,290	6.63
Derivative financial instruments – "Call spread"	62,498	-	62,498	6.70
Other receivables	-	19,368	19,368	-
Financial liabilities				
Trade payables	-	30,772	30,772	-
Accounts payable to related parties	-	4,151	4,151	-
Other liabilities	-	86,750	86,750	-
Financial obligations	1,247,548	-	1,247,548	4.97

As described in Note 16, InRetail Real Estate only has debt instruments with fixed interest rates, so Management considers that the fluctuations in the interest rates, which are at market rates, will not affect significantly the operations of InRetail Real Estate in the next 12 months.

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

As of December 31, 2016 and 2015, assets and liabilities by currency were the following (expressed in US Dollars):

	2016 US$(000)	2015 US$(000)
Assets		
Cash and cash equivalents	4,225	2,362
Investments at fair value through profit or loss	12,644	767
Investments at fair value through other comprehensive income	17,104	17,571
Trade receivables	726	1,053
Accounts receivable from related parties	2,432	2,848
Other receivables	816	1,267
	37,947	25,868
Liabilities		
Trade payables	2,450	337
Accounts payable from related parties	61	452
Other liabilities	10,501	9,974
Financial obligations	294,820	283,559
	307,832	294,322
"Call Spread" – Short position	200,000	200,000
Net liability position	(69,885)	(68,454)

InRetail Real Estate is exposed to the effects of fluctuations in the exchange rates of the prevailing foreign currency in its financial position and cash flows. Management sets limits on the exposure levels by currency for the entirety of the daily operations which are monitored daily.

As of December 31, 2016 and 2015, InRetail Real Estate signed "Call Spread" agreements with notional amounts of US$200,000,000 to reduce its foreign currency risk related to a part of the senior notes issued. The derivatives financial instruments have been qualified as effective hedging instruments; see Note 13.

Transactions in foreign currency are performed at free market exchange rates publish by the Superintendence of Banks, Insurance and Pension Funds Administration. As of December 31, 2016, the market weighted average exchange rate for transactions in US Dollars was S/3.352 per US$1.00 bid and S/3.360 per US$1.00 ask (S/3.408 per US$1.00 bid and S/3.413 per US$1.00 ask as of December 31, 2015).

During 2015, InRetail Real Estate has incurred a net gain for exchange difference of approximately S/3,878,000 (net loss of S/80,968,000, for the year ended December 31, 2014, respectively), which is presented in the caption "Exchange difference, net" of the consolidated statements of income.

InRetail Real Estate manages the exchange rate risk by monitoring and controlling the values of the exchange position that is not significant in Soles (functional currency) exposed to the movements in the exchange rates. InRetail Real Estate measures its yield in Soles so that if the exchange position in foreign currency is positive, any depreciation of the US dollar would be affected in a negative manner by the consolidated statements of financial position of InRetail Real Estate. The current position in foreign currency comprises the assets and liabilities that are indicated at the exchange rate. Any devaluation/revaluation of the foreign currency would affect the consolidated statements of income and other comprehensive income.

The following table presents the sensitivity analysis of US Dollars, the currency at which InRetail Real Estate has a significant exposure as of December 31, 2016 and 2015, in its monetary assets and liabilities and its estimated cash flows. The analysis determines the effect of a reasonably possible change of the US dollar exchange rate, considering other variables to be constant in the consolidated statement of income. Any negative amount shows a potential net decrease in the consolidated statement of income, while a positive amount reflects a net potential increase.

		Income (expense)	
Sensitivity analysis	**Change in exchange rates**	**2016**	**2015**
	%	S/(000)	S/(000)
Devaluation -			
US Dollars	5	11,741	11,682
US Dollars	10	23,482	23,364
Revaluation -			
US Dollars	5	(11,741)	(11,682)
US Dollars	10	(23,482)	(23,364)

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

Credit risk related to accounts receivable –
The credit risk of clients is managed by Management, and it is subject to policies, procedures and controls properly established. The pending balances on accounts receivable are reviewed periodically to assure their recovery. As of December 31, 2016 and 2015, InRetail Real Estate has 656 and 616 clients, respectively. The maximum exposure to credit risk at the date of the consolidated statement of financial position is the book value of each class of financial asset, see Note 7.

Credit risk related to financial instruments and bank deposits –
The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of December 31, 2016 and 2015 is the book value of the balances of cash and cash equivalent shown in Note 4.

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

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

The following table shows the maturity of the obligations contracted by InRetail Real Estate at the date of the consolidated statements of financial position and the amounts to disburse at their maturities, based on non-discounted payments that will be made:

	Less than 3 months S/(000)	More than 3 months and less than 1 year S/(000)	More than 1 year and less than 5 years S/(000)	More than 5 years and less than 11 years S/(000)	Total S/(000)
As of December 31, 2016					
Financial obligations (*)					
Principal amortization	10,943	28,837	1,136,152	151,499	1,327,431
Cash flow for interest payment	25,029	74,814	284,919	20,164	404,926
Trade payables	20,257	7,707	-	-	27,964
Accounts payable to related parties	1,114	2,232	1,697	-	5,043
Other liabilities	41,372	27,416	30,577	-	99,365
	98,715	141,006	1,453,345	171,663	1,864,729
As of December 31, 2015					
Financial obligations (*)					
Principal amortization	8,628	26,109	117,862	1,180,002	1,332,601
Cash flow for interest payment	23,580	67,622	339,620	198,989	629,811
Trade payables	25,437	5,335	-	-	30,772
Accounts payable to related parties	-	4,151	-	-	4,151
Other liabilities	45,430	6,425	29,430	-	81,285
	103,075	109,642	486,912	1,378,991	2,078,620

(*) It does not include the balance of the disbursements made by structuring costs.

(d) Real estate risk -
It is the possibility of losses due to the changes or the volatility of the market prices of market of properties.

The following properties are deemed as assets subject to real estate risk:

- Properties on which real rights exist, both those used for investing purposes and those for own use.
- Securities representative of shares of real estate companies, which are those that generate periodic income from this activity or are dedicated to real estate investing.
- Certificates of participation in collective schemes of real estate investments, both private and public.
- Participations in real estate trusts.

InRetail Real Estate has identified the following risks associated to the real estate investment portfolio:

- The cost of the development projects can increase if there are delays in the planning process. InRetail Real Estate receives services from experts for the requirements of specific planning at the project's location in order to reduce the risks that could arise in the planning process.

- An important tenant can become insolvent, thus generating a significant loss in rental income and a decrease in the value of the associated property. To reduce this risk, InRetail Real Estate reviews the financial situation of all the possible tenants and decides on the suitable level of security needed, such as lease deposits of guarantees.

- The exposure of the fair values of the real estate property portfolio, as well as the cash flows generated by occupants and/or tenants.

30. Fair value of financial instruments –

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

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

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

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

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

(b) Financial instruments at fixed rate –

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

On the basis of the criteria mentioned before, following is a comparison between the book value and fair value of the financial instruments held by InRetail Real Estate in its consolidated financial statements:

	2016		2015	
	Book value S/(000)	Fair value S/(000)	Book value S/(000)	Fair value S/(000)
Financial assets -				
Cash and cash equivalents	49,914	49,914	46,044	46,044
Investments at fair value through profit or loss	90,334	90,334	34,896	34,896
Investments at fair value through other comprehensive income	57,470	57,470	47,222	47,222
Trade receivables	30,034	30,034	34,213	34,213
Accounts receivable from related parties	77,612	77,612	42,290	42,290
Other receivables, net	18,439	18,439	19,368	19,368
Derivative financial instruments – "Call spread"	55,908	55,908	62,498	62,498
Financial liabilities -				
Trade payables	27,964	27,964	30,772	30,772
Accounts payable to related parties	5,043	5,043	4,151	4,151
Other liabilities	99,365	99,365	86,750	86,750
Financial obligations	1,256,637	1,267,211	1,247,548	1,258,046

31. Subsequent events

The management of InRetail Real Estate is evaluating the impact of the climate events that occurred in our country during the first quarter of 2017, mainly in the different shopping mall that InRetail Real Estate manages in the northern region of the country. These effects may have not only an impact on the viability of the use of fixed assets (impairment) but also the impact of cash flows on "those days of non-sale". In the opinion of the Management of InRetail Real Estate, both the economic effects of the impairment of assets and the reduction of income for "those days of non-sale" are not significant with respect to the financial statements taken as a whole, The risks are adequately covered by insurance policies against natural disasters and loss-making policies in force at the date of the financial statements.

32. Explanation added for English translation

The accompanying consolidated financial statements were originally issued in Spanish and are presented on the basis of International Financial Reporting Standards, as described in Note 3. Certain accounting practices applied by the Company that conform to those accounting principles may not conform to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.