

InRetail Real Estate Corp. And Subsidiaries

Interim consolidated financial statements as of December 31, 2015 (unaudited) and December 31, 2014 (audited) and for the twelve-month periods ended as of December 31, 2015 and 2014.

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of financial position

As of December 31, 2015 (unaudited) and December 31, 2014 (audited)

	<u>Note</u>	<u>2015</u>	<u>2014</u>		<u>Note</u>	<u>2015</u>	<u>2014</u>
		S/(000)	S/(000)			S/(000)	S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and Cash equivalents	4	45,785	110,769	Trade payables	14	25,059	30,414
Available for-sale-investments	5	47,222	13,521	Other liabilities	15	55,435	53,647
Investment at fair value through profit or loss	6	34,896	23	Accounts payable to related parties	25	4,139	212
Trade receivables, net	7	34,842	24,741	Current income tax		-	-
Other receivables	8	2,662	1,689	Current portion financial obligations	16	43,702	9,767
Accounts receivables from related parties	25	42,311	61,422	Total current liabilities		128,335	94,040
Prepaid expenses	9	456	7,320	Other long-term liabilities	15	149,016	146,639
Recoverable taxes	10	38,734	47,806	Long-term financial obligations	16	1,203,846	1,101,620
Total current assets		246,908	267,291	Deferred income tax liabilities, net	17	17,717	13,644
Non-current assets				Total non-current liabilities		1,370,579	1,261,903
Other receivables	8	-	1,934	Total liabilities		1,498,914	1,355,943
Deferred income tax liability	17	798	281	Equity			
Recoverable taxes	10	77,609	104,957	Capital stock	19	1,475,706	1,475,706
Facilities, furniture and equipment, net	11	11,041	9,195	Unrealized results on financial instruments		(32,171)	330
Investment properties	12	2,923,490	2,719,800	Retained earnings		375,467	266,410
Intangible assets		1,629	-	Equity attributable to owners of the parent		1,819,002	1,742,446
Derivative financial instrument	13	62,498	-	Non-controlling interests		6,419	6,043
Other assets	-	362	974	Total equity		1,825,421	1,748,489
Total non-current assets		3,077,427	2,837,141	Total liabilities and equity		3,324,335	3,104,432
Total assets		3,324,335	3,104,432				

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of income and other comprehensive income (unaudited)

For the twelve-month periods ended as of December 31, 2015 and 2014

	Note	2015 S/(000)	2014 S/(000)
Rental income	20	295,935	231,453
Cost of rental income	21	(28,023)	(20,979)
Net rental income		<u>267,912</u>	<u>210,474</u>
Income from management services	20	139,196	117,937
Cost related to income from management services	21	(106,528)	(97,369)
Net management service		<u>32,668</u>	<u>20,568</u>
Gross profit		<u>300,580</u>	<u>231,042</u>
Fair value adjustment for investment properties	12(b)	37,569	150,021
Administrative expenses	22	(25,158)	(22,944)
Selling expenses	22	(7,857)	(6,633)
Other operating income (expenses)		(3,789)	(851)
Operating profit		<u>301,345</u>	<u>350,635</u>
Financial income	23	4,352	8,492
Financial expenses	23	(107,868)	(89,302)
Net exchange difference	26 (a)(ii)	(80,968)	(54,850)
Profit before income tax		<u>116,861</u>	<u>214,975</u>
Income tax	17(a)	(7,221)	(39,885)
Net profit		<u>109,640</u>	<u>175,090</u>
Attributable to:			
InRetail Real Estate Shareholders		109,057	173,551
Non-controlling interests		583	1,539
		<u>109,640</u>	<u>175,090</u>
Earnings per share:	19(b)		
Basic and diluted profit for the period attributable to ordinary equity holders of the parent		<u>0.1930</u>	<u>0.3081</u>

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of other comprehensive income (unaudited)

For the twelve-month periods ended as of December 31, 2015 and 2014

	Note	2015	2014
		S/(000)	S/(000)
Profit for the period		109,640	175,090
Other comprehensive income			
Unrealized gain (loss) on available-for-sale investments		(2,616)	330
Transfer of the realized gain on available-for-sale investments to the profit for the period		(330)	-
Income tax effect		783	-
		<u>(2,163)</u>	<u>330</u>
Loss on hedging derivative financial instrument		(29,112)	-
Income tax effect		(1,226)	-
		<u>(30,338)</u>	<u>-</u>
Other comprehensive income for the period, net of income tax effects		<u>(32,501)</u>	<u>330</u>
Total comprehensive income for the period		<u>77,139</u>	<u>175,420</u>
Attributable to:			
InRetail Real Estate Shareholders		76,556	173,881
Non-controlling interests		583	1,539
		<u>77,139</u>	<u>175,420</u>

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of changes in equity (unaudited)

For the twelve-month periods ended as of December 31, 2015 and 2014

	Attributable to owners of InRetail Real Estate Corp.				Non-controlling interest	Total equity
	Capital stock	Unrealized results on financial instruments	Retained earnings	Total		
	S/(000)	S/(000)	S/(000)	S/(000)		
Balance as of January 1, 2014	1,475,706	-	92,859	1,568,565	4,504	1,573,069
Net profit	-	-	173,551	173,551	1,539	175,090
Other comprehensive income	-	330	-	330	-	330
Total comprehensive income	-	330	173,551	173,881	1,539	175,420
Capital contribution	-	-	-	-	-	-
	-	-	-	-	-	-
Balance as of december 31, 2014	1,475,706	330	266,410	1,742,446	6,043	1,748,489
Balance as of January 1, 2015	1,475,706	330	266,410	1,742,446	6,043	1,748,489
Profit for the period	-	-	109,057	109,057	583	109,640
Other comprehensive income	-	(32,501)	-	(32,501)	-	(32,501)
	-	(32,501)	109,057	76,556	583	77,139
Expenses related to the share issuance	-	-	-	-	-	-
Dividends	-	-	-	-	(207)	(207)
Others	-	-	-	-	-	-
Balance as of December 31, 2015	1,475,706	(32,171)	375,467	1,819,002	6,419	1,825,421

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of cash flows (unaudited)

For the twelve-month periods ended as of December 31, 2015 and 2014

	2015 S/(000)	2014 S/(000)
Operating activities		
Revenue	307,618	295,963
Payments of goods and services to suppliers	(29,861)	(24,311)
Payments of salaries and social benefits to employees	(31,294)	(15,754)
Interest paid	(80,042)	(53,209)
Taxes paid	(12,288)	-
Recovery of taxes	42,567	17,720
Other payments	(6,497)	(10,716)
Net cash flows from operating activities	190,203	209,693
Investing activities		
Purchase of certificates in mutual funds	-	(23)
Purchase of certificates of participation in associated companies	-	(290,765)
Purchase of investments measure at fair value	-	(11,313)
Mutual funds investment	(34,873)	-
Purchase of available for sale investments	(31,958)	(12,857)
Loan collected (granted to) from related parties	37,315	-
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(5,666)	(4,861)
Purchase and development of intangible assets	(1,268)	(60)
Purchase of investment properties, net of acquisitions through leasing contracts	(156,776)	(237,457)
Sale of Subsidiary	3,159	-
Value Added tax payment related to Investment Properties	(8,199)	(40,507)
Net cash flows used in investing activities	(198,266)	(597,843)
Financing activities		
Proceeds from interest-bearing loans and borrowings	100,000	51,362
Bonds issued	-	976,996
Payment of interest-bearing loans and borrowings	(9,199)	(150,307)
Structuring costs	(1,089)	-
Dividends paid	(207)	-
Repurchase of own bonds	(146,426)	(459,951)
Net cash flows used in financing activities	(56,921)	418,100
Net (decrease) increase of cash and short-term deposits	(64,984)	29,950
Cash and short-term deposits at the beginning of the period	110,769	80,819
Cash and short-term deposits at the end of the period	45,785	110,769
Non-cash transactions		
Fixed assets purchased through leasing and other financial obligations	-	-

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

InRetail Real Estate Corp. and Subsidiaries

Notes to the interim consolidated financial statements (unaudited)

Interim unaudited consolidated financial statements as of December 31, 2015 and December 31, 2014 and for the twelve-month period ended as of December 31, 2015 and 2014.

1. Business activity

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

As of December 31, 2015 and December 31, 2014 Intercorp Perú holds directly and indirectly 70.38 percent of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

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

The Company and its Subsidiaries, Patrimonio en Fideicomiso – D.S.N° 093-2002-EF-Inretail Shopping Malls, Patrimonio en Fideicomiso – D.S.N° 093-2002-EF-Interproperties Holding, Patrimonio en Fideicomiso –D.S.N° 093-2002-EF-Interproperties Holding II, Real Plaza S.R.L., and InRetail Properties Management 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 Perú.

In September 2015, the Company sold its 100 percent stake in InRetail Properties Management S.R.L. to InRetail Perú Corp., a related company.

The consolidated financial statements as of December 31, 2015, were approved by the Board of Directors on February 29, 2016.

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

Notes to the interim consolidated financial statements (continued)

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

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

Additionally, Interproperties Holding II owns 95 percent of participation in the assets of Patrimonio Fideicometido – D.S. N° 093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own and handle Real Plaza Cusco “San Antonio” Shopping Mall.

- (c) Real Plaza S.R.L. (hereinafter “Real Plaza”)
An entity focused on operating the shopping malls (20 as of December 31, 2015 and December 31, 2014) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of “Real Plaza Shopping Mall”.

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

3. Summary of significant accounting policies

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

3.1 Basis of preparation and presentation

The interim consolidated financial statements of InRetail Real Estate have been prepared in accordance with the International Accounting Standard 34 “Interim financial reporting”. Also, the accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the InRetail Real Estate’s annual consolidated financial statements for the year ended December 31, 2014 which were audited. Therefore, these interim consolidated financial statements should be read in conjunction with such audited consolidated financial statements.

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

The interim consolidated financial statements do not include all information and disclosures required for annual consolidated financial statements and should be read together with consolidated financial statements as of December 31, 2014.

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

Notes to the interim consolidated financial statements (continued)

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

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

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

3.2 New standards and interpretations adopted by InRetail Real Estate-

Several standards and amendments have come into effect from January 1, 2015; however, in the opinion of InRetail Real Estate's Management, they have no impact on the accompanying unaudited consolidated financial statements as of December 31, 2015.

IFRS 9 early implementation

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

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

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

3.3 Significant estimations and assumptions

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

Notes to the interim consolidated financial statements (continued)

4. Cash and cash equivalent

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

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
Cash	34	33
Current accounts (b)	24,152	38,791
Time deposits (c)	12,579	62,945
Management and security trust current accounts (e)	7,927	7,973
Restricted funds	1,093	1,027
Total	45,785	110,769

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

(c) As of December 31, 2015, time deposits are unrestricted, maintained in US dollars and Soles in local financial institutions, have maturities of up to one month since its inception and bear annual interests of 0.20 and 4.00 percent annual, respectively. (between 3.80 and 3.95 percent annually as of December 31, 2014 for local currency).

(d) As of December 31, 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 in favor of Interproperties Holding II, see note 16 (b), in compliance with the contract of management and security trust.

5. Available for-sale investments

As of December 31, 2015, corresponds to bonds issued by Intercorp Ltd., of US\$14,624,000 (equivalent to S/49,838,000), which mature in 2025, and accrue effective annual interests at a rate of 5.785 percent. The valuation results, amounted to S/2,616,000 as of December 31, 2015 and are presented, net of deferred income tax, in the "Unrealized results" caption of the consolidated statements of changes in equity.

The fair value is determined by price quotations published in an active market.

Notes to the interim consolidated financial statements (continued)

6. Investment at fair value through profit or loss

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

Entity	As of December 31, 2015 S/(000)	As of December 31, 2014 S/(000)
Mutual Funds managed by Interfondo SAF. S.A.	34,896	-
Others	-	23
Total	<u>34,896</u>	<u>23</u>

As of December 31, 2015 these mutual funds were comprised by a portfolio of financial instruments issued by renowned financial institutions on the local market. The results from this valuation are presented in the "Financial Income" caption of the consolidated statement of income.

7. Trade receivables

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

	As of December 31, 2015 S/(000)	As of December 31, 2014 S/(000)
Bills receivable (b)	26,852	19,342
Unbilled services (c)	13,482	9,262
Total	<u>40,334</u>	<u>28,604</u>
Allowance for doubtful accounts	<u>(5,492)</u>	<u>(3,863)</u>
	<u>34,842</u>	<u>24,741</u>

(b) As of December 31, 2015 and December 31, 2014, trade accounts receivable are denominated in Soles and US dollars, have current maturities and do not accrue interests.

(c) As of December 31, 2015 and December 31, 2014, mainly corresponds to unbilled lease services for variable and fixed rents, which are billed during the following month.

Notes to the interim consolidated financial statements (continued)

(d) As of December 31, 2015 and December 31, 2014 the analysis of trade receivables is as follows:

	Balance as of December 31, 2015		
	Non-impaired	Impaired	Total
	S/(000)	S/(000)	S/(000)
Unbilled services	13,482	-	13,482
Past-due			-
From 1 to 90 days	14,233	-	14,233
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
	<u>34,842</u>	<u>5,492</u>	<u>40,334</u>

	Balance as of December 31, 2014		
	Non-impaired	Impaired	Total
	S/(000)	S/(000)	S/(000)
Unbilled services	9,262	-	9,262
Past-due			-
From 1 to 90 days	12,878	6	12,884
From 91 to 120 days	977	17	994
From 121 to 180 days	914	262	1,176
From 181 to 270 days	550	856	1,406
More than 271 days	160	2,722	2,882
	<u>24,741</u>	<u>3,863</u>	<u>28,604</u>

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

(e) The movement of the provision for impairment as of December 31, 2015 and 2014 is as follows:

	2015	2014
	S/(000)	S/(000)
Balance at the beginning of the year	3,863	2,488
Provision recognized as period expense, Note 22(b)	1,619	1,366
Write offs and recovery's	-	-
Exchange difference	10	9
Balance at the end of the period	<u>5,492</u>	<u>3,863</u>

In the opinion of InRetail Real Estate Management, the provision for impairment appropriately covers the credit risk as of December 31, 2015 and December 31, 2014.

Notes to the interim consolidated financial statements (continued)

8. Other receivables

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

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
By type:		
Outstanding advances (b)	2,124	1,138
Claims (c)	-	1,934
Others	538	551
	<hr/>	<hr/>
Total	2,662	3,623
	<hr/>	<hr/>
By Term:		
Current	2,662	1,689
Non-current	-	1,934
	<hr/>	<hr/>
	2,662	3,623
	<hr/>	<hr/>

(b) As of December 31, 2015 and December 31, 2014, corresponds to advances realized to suppliers related to the Company activities, related to the projects in the investments properties.

(c) As of December 31, 2014, corresponds to the property sales tax (Alcabala) paid in excess to a municipality amounting to S/ 1,934,000 for the purchase of a land lot in the city of Piura, for which Interproperties Holding II has filed a complaint to the Tax Administration Service ("SAT", by its Spanish acronym).

(d) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of December 31, 2015 and December 31, 2014, as no credit risk has been identified.

9. Prepaid expenses

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

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
Rental paid in advance (b)	-	3,520
Payment from surface-right contract (c)	-	2,750
Insurances paid in advance	240	838
Others	216	212
	<hr/>	<hr/>
Total	456	7,320
	<hr/>	<hr/>

(b) As of December 31, 2015, corresponds to rental payments made in advance in compliance with a surface rights contract for land lots located in the department of Chiclayo and Cusco where a real estate project is being developed. The advance corresponds to the payment of 30 and 36 months of rent and started accruing from the completion date of the project, respectively. As of December 31, 2015, this item is fully accrued.

(c) Corresponds to the guarantee provided to a third party for the acquisition of the surface right of a land lot in the city of Chiclayo, which will be returned when InRetail Real Estate makes the first payment of variable rent when operations start on said land. As of December 31, 2015, the guarantee was fully returned.

Notes to the interim consolidated financial statements (continued)

10. Recoverable taxes

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

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
By type:		
Tax credit for value-added-tax (b)	94,844	126,817
Funds held in Banco de la Nación (c)	17,094	24,670
Income tax payment	4,405	1,276
	<hr/>	<hr/>
Total	116,343	152,763
	<hr/>	<hr/>
By term:		
Current	38,734	47,806
Non-current	77,609	104,957
	<hr/>	<hr/>
	116,343	152,763
	<hr/>	<hr/>

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

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

Notes to the interim consolidated financial statements (continued)

11. Facilities, furniture and equipment, net

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

	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	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	5,504	1,743	74	1,811	2,238	11,370
Adjustment	0	0	0	0	0	-
Disposals	(1,039)	(336)	(185)	(587)	(5,861)	(8,008)
Balance as of December 31, 2015	<u>5,424</u>	<u>4,258</u>	<u>443</u>	<u>6,151</u>	<u>63</u>	<u>16,339</u>
Accumulated depreciation						
Balance as of January 1, 2015	708	1,206	177	1,691	-	3,782
Depreciation of the period	911	476	86	1,302	-	2,775
Adjustment	(719)	(85)	(114)	(341)	-	(1,259)
Balance as of December 31, 2015	<u>900</u>	<u>1,597</u>	<u>149</u>	<u>2,652</u>	<u>-</u>	<u>5,298</u>
Net cost as of December 31, 2015	<u>4,524</u>	<u>2,661</u>	<u>294</u>	<u>3,499</u>	<u>63</u>	<u>11,041</u>
Net cost as of December 31, 2014	<u>251</u>	<u>1,645</u>	<u>377</u>	<u>3,236</u>	<u>3,686</u>	<u>9,195</u>

(b) As of December 31, 2015 and December 31, 2014, 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, 2015 and 2014, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on said assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.

Notes to the interim consolidated financial statements (continued)

12. Investment properties

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

	As of December 31, 2015 S/(000)	As of December 31, 2014 S/(000)
Real Plaza Salaverry shopping center(i)	407,579	397,374
Real Plaza Primavera shopping center (ii)	250,379	212,800
Real Plaza Chiclayo shopping center (ii)	243,706	253,183
Real Plaza Cuzco shopping center	233,445	237,428
Real Plaza Piura shopping center	208,371	181,394
Real Plaza Trujillo shopping center (ii)	203,751	141,245
Real Plaza Cajamarca shopping center	164,003	117,268
Real Plaza Huancayo shopping center (i) and (ii)	161,768	150,597
Real Plaza Huanuco shopping center	124,978	117,335
Real Plaza Arequipa shopping center (i) and (ii)	119,301	90,695
Real Plaza Juliaca shopping center (i) and (ii)	112,589	90,422
Real Plaza Pro shopping center (ii)	106,890	90,678
Real Plaza Santa Clara - Altamirano shopping center	92,633	100,534
Real Plaza Chorrillos shopping center (ii)	90,411	58,839
Real Plaza Centro Civico shopping center (i) and (ii)	90,069	216,571
Real Plaza Puruchuco project (iii)	67,524	115,143
Real Plaza Nuevo Chimbote shopping center (i) and (ii)	23,616	25,335
Jr. de la Unión stores	21,713	23,579
Others	200,764	99,380
	2,923,490	2,719,800

- (i) For the construction of these shopping malls and properties, surface rights contracts were subscribed with the Arzobispado de Cuzco (on land in Cusco “San Antonio”), Municipalidad provincial de Huánuco (on land of “Real Plaza Huánuco” shopping mall), Oficina de Normalización Provisional – ONP (Centro Cívico), Despensa Peruana S.A. and Mercantil Inca S.A. (Peramás), Inmobiliaria Pazos S.A.C. (La Curva), Gobierno Regional de Moquegua (Moquegua), Ferrovías Central Andina S.A. (Huancayo); the Association denominated “Religiosas del Sagrado Corazón de Jesús” (Arequipa), Ferrocarril Trasandino S.A. (Juliaca), and the Marina de Guerra del Perú (Salaverry). These contracts have terms for periods between 20 to 70 years.
- (ii) Correspond 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 based on the retail sales of the tenants.
- (iii) Correspond to lands on which real estate projects will be developed, mainly shopping malls branded “Real Plaza”. In the opinion of InRetail Real Estate’s Management the book values of these investment properties do not differ significantly from their fair values as of December 31, 2015 and 2014 since Management has been managing the related licenses for their development.

Notes to the interim consolidated financial statements (continued)

(b) The movement of this caption for the twelve-month periods ended as of December 31, 2015 and December 31, 2014 is as follows:

	2015	2014
	S/(000)	S/(000)
Balance at the beginning of the year	2,719,800	2,062,084
Additions	174,043	507,695
Disposal	(7,922)	-
Fair value adjustment	37,569	150,021
Balance at the end of the period	<u>2,923,490</u>	<u>2,719,800</u>

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

13. Derivative financial instrument

As of December 31, 2015, this item comprises of a principal call spread contract designated to hedge cash flows and recorded at its fair value. The detail of this operation is as follows:

As of December 31, 2015						
Counterparty	Nominal value	Due	Pay fix at	Book value of	Fair value	Fair value
	US\$(000)		%	the hedged	asset	liability
				item	S/(000)	S/(000)
J.P. Morgan	200,000	jul-21	1.84	682,600	62,498	-
					<u>62,498</u>	<u>-</u>

The financial instrument covers 57 percent of the exposure to foreign currency risk arising from the international bond issue of July 2014, see note 16 (b). This call spread covers variations in the exchange rate between S/3.225 and S/3.75 per US\$1.00 and the price of the premium was funded in installments, generating a liability for the same. See Note 16.

Notes to the interim consolidated financial statements (continued)

14. Trade payables

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

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
Bills payable to third parties (b)	13,496	26,262
Provision of services unbilled (c)	11,563	4,152
Total	<u>25,059</u>	<u>30,414</u>

(b) As of December 31, 2015 and December 31, 2014, trade payables mainly comprise the liabilities with contractors for the construction works and/or refurbishing of shopping malls. Bills payable are denominated in Soles and US dollars, do not accrue interests and their maturities are in the current period.

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

15. Other liabilities

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

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
By type:		
Deferred income (b)	35,674	35,798
Interests payable (c)	36,750	34,741
Land purchase (d)	-	3,097
Deposits from third parties (e)	2,817	3,007
Tax payable	113,342	113,688
Workers' profit sharing	2,997	2,135
Vacations	686	1,212
Others payable	12,185	6,608
Total	<u>204,451</u>	<u>200,286</u>
By term:		
Current	55,435	53,647
Non-current	149,016	146,639
	<u>204,451</u>	<u>200,286</u>

Notes to the interim consolidated financial statements (continued)

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

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
Key money (b.1)	21,373	27,737
Advanced rents (b.2)	8,870	8,061
Others	5,431	-
Total	<u>35,674</u>	<u>35,798</u>

- (b.1) As of December 31, 2015 and December 31, 2014, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.
- (b.2) As of December 31, 2015 and 2014, corresponds mainly to advanced rents by Cineplex S.A. (a related entity) and Ripley (third-party entity) for the premises it operates in Real Plaza Shopping Mall and Salaverry Shopping Malls respectively.
- (c) As of December 31, 2015 corresponds mainly to interests payable originated from the private offering of "Senior Notes Unsecured ", maturing in 2021. Interest on the notes will accrue at a rate of 6.5% percent annual and will be semi-annually in arrears on January and July of each year.
- (d) As of December 31, 2014, correspond to the balance payable from the acquisition of land lots located in Carabayllo and Tarapoto. These accounts were cancelled during the year 2015, in compliance with the purchase contracts, and do not accrue interest.
- (e) As of December 31, 2015 and December 31, 2014 it mainly corresponds to deposits from the tenants of the Real Plaza shopping malls Arequipa, Primavera, Pro, Santa Clara, Huancayo, Huánuco, Trujillo, Cajamarca, Juliaca, Salaverry, Centro Cívico and Nuevo Chimbote. These deposits do not accrue interests and will be refunded in the original currency at the end of the lease contract.

Notes to the interim consolidated financial statements (continued)

16. Financial obligations

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

Type of Obligation	Original Currency	Interest Rate %	Maturity final	Original Amount		Total		Current		Non-current	
				US\$ (000)	S/(000)	2015 S/(000)	2014 S/(000)	2015 S/(000)	2014 S/(000)	2015 S/(000)	2014 S/(000)
Bonds issuance (b)											
Foreign currency bonds issuance	USD	6.5	2021	350,000	-	938,518	899,188	-	-	938,518	899,188
Local currency bonds issuance	PEN	7.875	2034	-	141,000	80,365	135,530	-	-	80,365	135,530
				<u>350,000</u>	<u>141,000</u>	<u>1,018,883</u>	<u>1,034,718</u>	<u>-</u>	<u>-</u>	<u>1,018,883</u>	<u>1,034,718</u>
Leasings											
Related entities											
Banco Internacional del Perú-Interbank (c)	PEN	8.90	2026	-	108,300	928	988	77	47	851	941
Banco Internacional del Perú-Interbank	USD	6.45	2016	113	-	184	219	124	102	60	117
Non-related entities											
Banco de Crédito del Perú (d)	PEN	8.02	2019	-	54,748	17,357	21,103	4,046	3,746	13,311	17,357
Banco de Crédito del Perú (e)	PEN	7.97	2023	-	32,926	28,876	31,489	2,819	2,614	26,057	28,875
Banco de Crédito del Perú (f)	PEN	8.06	2024	-	20,726	18,412	19,897	1,602	1,485	16,810	18,412
IBM Perú SAC	USD	3.10	2016	203	-	-	119	-	88	-	31
IBM Perú SAC	USD	1.92	2017	613	-	1,326	1,595	723	602	603	993
Hewlett Packard S.A.	USD	Between 1.82 and 4.94	2017	103	-	387	256	186	92	201	164
				<u>1,032</u>	<u>216,700</u>	<u>67,470</u>	<u>75,666</u>	<u>9,577</u>	<u>8,776</u>	<u>57,893</u>	<u>66,890</u>
Promissory notes and loans											
Related entities											
Banco Internacional del Perú-Interbank	PEN	7.45	2016	-	86	-	960	-	960	-	-
Non-related entities											
JP. Morgan	USD	6.7	2021	18,111	-	61,816	-	9,046	-	52,770	-
IBM Perú SAC	USD	3.1	2016	-	322	-	43	-	31	-	12
Scotiabank Perú S.A.A. (g)	PEN	6.7	2019	-	100,000	99,200	-	25,000	-	74,200	-
CSI Renting	USD	4.68	2018	-	217	179	-	79	-	100	-
				<u>18,111</u>	<u>100,625</u>	<u>161,195</u>	<u>1,003</u>	<u>34,125</u>	<u>991</u>	<u>127,070</u>	<u>12</u>
Total				<u>369,143</u>	<u>458,325</u>	<u>1,247,548</u>	<u>1,111,387</u>	<u>43,702</u>	<u>9,767</u>	<u>1,203,846</u>	<u>1,101,620</u>

Notes to the interim consolidated financial statements (continued)

- (b) As of July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for US\$350,000,000 equivalent to approximately S/1,194,550,000 as of December 31, 2015 (equivalent to approximately S/1,046,150,000 as of December 31, 2014), due in July 2021, at a 6.50 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.806 percent, after considering the respective up-front fees that amounted to US\$24,203,000 equivalent to approximately S/82,604,000 as of December 31, 2015 (US\$27,296,000 equivalent to approximately S/ 81,368,000 as of December 31, 2014). Additionally, as of December 31, 2015 the balance is presented net of US\$50,814,000 equivalent to S/173,428,000 (US\$22,004,000 equivalent to S/65,594,000 as of December 31 2014), corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2015 and December 31, 2014 the balance of this loan is S/938,518,000 and S/899,188,000, respectively.

Also, In July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for S/141,000,000, due in July 2021, at a 7.875 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 8.012 percent, after considering the respective up-front fees that amounted to S/1,635,000 as of December 31, 2015 (S/ 1,470,000 as of December 31, 2014). Additionally, as of December 31, 2015, the balance is presented net of S/59,000,000 (S/4,000,000 as of December 31, 2014) corresponding to the notes of this issuance held by InRetail Shopping Mall. As of December 31, 2015 and December 31, 2014 the balance of this loan is S/80,365,000 and S/135,530,000, respectively.

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

As of December 31, 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 1.50 to 1.00.

Notes to the interim consolidated financial statements (continued)

Foreign currency debt:

- The Parent and its restricted subsidiaries will maintain at all times unencumbered assets of not less than 150 percent of the aggregate principal amount of the consolidated unsecured indebtedness of the parent and its restricted.
- Leverage Test: The aggregate principal amount of all outstanding indebtedness is not greater than 60 percent of the sum of total assets.
- Secured Debt Test: the aggregate principal amount of all outstanding secured indebtedness is not greater than 30 percent of the sum of total assets.
- Debt Service Test: The ratio of consolidated adjusted EBITDA to consolidated Interest Expense for the period consisting of the four consecutive fiscal quarters ending with the Latest Completed Quarter is greater than 2.00 to 1.00.

In the opinion of InRetail Real Estate's Management, these obligations have been complied satisfactorily and are within the agreed limits as of December 31, 2015 and December 31, 2014.

- (c) 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 malls operate. 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. 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 a result of this transaction, the debt balance amounted to S/1,000,000.

In order to secure the payment of 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.

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

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

Notes to the interim consolidated financial statements (continued)

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

- (e) 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, 2015 and 2014, it is already operating; therefore, Interproperties Holding II has recorded the corresponding liabilities at such dates.
- (f) During 2013, Interproperties Holding II (SPE) continued the enlargement of Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2B"), for which it signed an addendum to the leasing agreement with BCP, which committed to finance the project for up to US\$7,500,000. As of December 31, 2015 and December 31, 2014, the expansion of Section 2B is under construction; however, Interproperties Holding II (SPE) has recorded the corresponding liabilities at such dates.
- (g) Corresponds to a loan agreement with the Scotiabank Perú S.A.A. by amount of S/ 100,000,000, for a period of four years, payable in quarterly installments. This loan was used to repay debt and other corporate purposes.

This obligation was recorded in the consolidated financial statement as amortized cost at effective annual interest rate of 7.002 percent per annum after considering the respective initial charge of approximately S / 800.000 at December 31, 2015.

- (h) Financial obligations are payable as follows:

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
2015	-	9,767
2016	44,447	9,438
2017	44,833	9,438
2018 onwards	<u>1,158,268</u>	<u>1,082,744</u>
Total	<u>1,247,548</u>	<u>1,111,387</u>

Notes to the interim consolidated financial statements (continued)

17. Income tax

- (a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as December 31, 2015 and December 31, 2014 is detailed as follows:

Statements of financial position	Deferred liability, net	
	As of December 31, 2015 S/(000)	As of December 31, 2014 S/(000)
Deferred income tax asset	798	281
Deferred income tax liability	<u>(17,717)</u>	<u>(13,644)</u>
Deferred income tax liability, net	<u>(16,919)</u>	<u>(13,363)</u>

Statements of comprehensive income	Income tax for the twelve-month periods ended December 31, 2015 and 2014	
	2015 S/(000)	2014 S/(000)
Current	(3,665)	(880)
Deferred	<u>(3,556)</u>	<u>(39,005)</u>
	<u>(7,221)</u>	<u>(39,885)</u>

18. Commitments

As of December 31, 2015 and December 31, 2014, corresponds to guarantee letters in favor of third parties for approximately S/21,447,000 and S/22,417,000, respectively, which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

19. Equity

- (a) Capital stock –

As of December 31, 2015 and December 31, 2014, the capital stock of InRetail Real Estate Corp. amounts to S/1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US\$ 1.00 each.

- (b) Earnings per share –

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

Notes to the interim consolidated financial statements (continued)

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

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 31, 2014	568,201,039	365	568,201,039
Number as of December 31, 2014	568,201,039		568,201,039
Number as of January 31, 2015	568,201,039	365	568,201,039
Number as of December 31, 2015	568,201,039		568,201,039
For the twelve-month-periods ended December 31, 2015			
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	109,640,000	568,201,039	0.1930
For the twelve-month-periods ended December 31, 2014			
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	175,090,000	568,201,039	0.3081

Notes to the interim consolidated financial statements (continued)

20. Income from real estate service

(a) The composition of the balance for the twelve-month periods ended as of December 31, 2015 and 2014 is presented below:

	2015 S/(000)	2014 S/(000)
Rental income		
Rental income (b)	275,756	214,757
Rent of space for publicity	12,738	11,157
Rendering of services	7,441	5,539
	<hr/> 295,935	<hr/> 231,453
Income from management services		
Common expenses (c)	59,493	49,460
Electricity and water (d)	46,435	36,147
Promotion and advertisement (e)	15,869	12,287
Advisory and supervision	44	9,256
Parking	5,208	3,593
Management services	1,628	2,636
Negotiations of land and buildings	7,857	1,654
Others	2,662	2,904
	<hr/> 139,196	<hr/> 117,937

(b) As of December 31, 2015 and 2014, corresponds to rental income from the economic exploitation of the "Real Plaza" Shopping Malls.

The composition of the rental income is presented below:

	2015 S/(000)	2014 S/(000)
Fixed rental income	238,447	193,833
Variable rental income	37,309	20,924
	<hr/> 275,756	<hr/> 214,757

(c) Corresponds to income from common expenses including expenses of maintenance, safety management and supervision of shopping malls, which are billed to each tenant according to the terms established in the lease contract.

Notes to the interim consolidated financial statements (continued)

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

21. Operating costs

- (a) The composition of this caption for the twelve-month periods ended as of December 31, 2015 and 2014 is presented below:

	2015	2014
	S/(000)	S/(000)
Cost of rental income		
Property tax and duties	11,307	8,461
Landlord leases (b)	12,024	8,511
Property insurance costs	3,773	3,469
Others	919	538
	<u>28,023</u>	<u>20,979</u>
Cost related to income from management services		
Electricity and water	44,970	35,355
Personnel expenses	14,977	16,799
Safety services	6,774	6,929
Cleaning	8,615	7,617
Advertising and marketing	17,205	17,223
Maintenance and administration of parking lot	11,313	9,362
Leases, professional fees and communications	-	2,114
Other cost	2,674	1,970
	<u>106,528</u>	<u>97,369</u>

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

22. Selling and administrative expenses

- (a) The composition of this caption for the twelve-month periods ended as of December 31, 2015 and 2014 is presented below:

	2015	2014
	S/.(000)	S/.(000)
Administrative expenses	25,158	22,944
Selling expenses	<u>7,857</u>	<u>6,633</u>
	<u>33,015</u>	<u>29,577</u>

Notes to the interim consolidated financial statements (continued)

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

	2015		
	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)
Personnel expenses	5,532	12,910	18,442
Depreciation	-	2,775	2,775
Amortization	-	147	147
Services provided by third parties	-	1,991	1,991
Allowance for doubtful accounts	1,619	-	1,619
Other charges	706	7,335	8,041
	<u>7,857</u>	<u>25,158</u>	<u>33,015</u>
	2014		
	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)
Personnel expenses	4,440	14,020	18,460
Depreciation	-	1,376	1,376
Amortization	-	91	91
Services provided by third parties	-	1,498	1,498
Allowance for doubtful accounts, net	1,366	-	1,366
Other charges (c)	827	5,959	6,786
	<u>6,633</u>	<u>22,944</u>	<u>29,577</u>

Notes to the interim consolidated financial statements (continued)

23. Financial income and expenses

The composition of this caption for the twelve-month periods ended as of December 31, 2015 and 2014 is presented below:

	2015 S/(000)	2014 S/(000)
Income		
Gain from valuation of financial instruments	2,530	5,024
Interest on deposits	1,053	1,399
Interest from granted loans	402	1,586
Others	367	483
	<u>4,352</u>	<u>8,492</u>
	2015 S/(000)	2014 S/(000)
Expenses		
Bond interest expenses	74,861	33,734
Interest from leasing	5,525	9,943
Debt structuring expenses	10,302	8,058
Derivative financial instruments expenses	5,939	-
Interest from long-term loans	279	29,521
Loss on sale of financial instruments	-	1,496
Others	10,962	6,550
	<u>107,868</u>	<u>89,302</u>

24. Tax situation

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

Entities and individuals not domiciled in Peru are subject to retention of an additional tax on dividends received. In this regard, attention to Law 30296, published on December 3, 2014 and effective from January 1, 2015, the additional tax on dividend income generated is as follows:

- 4.1 percent of the profits generated until December 31, 2014
- For the profits generated from 2015, whose distribution is made after that date, shall be:
 - For 2015 and 2016 will be 6.8 percent.
 - For 2017 and 2018 will be 8 percent.
 - For 2019 onwards will be 9.3 percent.

(b) Real Plaza is domiciled in Perú and is subject to the Peruvian tax System and, in compliance with current Peruvian legislation calculate their income Tax on the basis of their separate financial statements. As of December 31, 2015, the statutory income tax rate was 28 percent on tax payable income (30 percent as of December 31, 2014), after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.

Notes to the interim consolidated financial statements (continued)

According to 30296 Act. the tax rate applicable on taxable income, after deducting the of workers profit sharing is as follows:

- Exercise 2016: 28 percent
 - Exercise 2017 and 2018: 27 percent
 - Exercise 2019 onward: 26 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) In First place, 10 percent or more of the shares of non-resident must be sold in any twelve month period; and,
 - (ii) In Second place, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months
- (d) Transactions entered into between related parties and/or with tax heaven residents fall into the scope of the Peruvian Transfer Pricing rules. Such rules are based on the application of the arm's length principle, as understood by the OECD. It is important to mention that Transfer Pricing rules are only applicable for Income Tax purposes, and adjustments are allowed under certain conditions only. Based on the analysis of operations of InRetail, its Management and legal advisors believe that the implementation of these standards does not generate any significant contingencies for InRetail Real Estate as of December 31, 2015 and 2014.
- (e) The Peruvian Tax Authority is legally entitled to perform tax audit procedures on local taxpayers for up to four years subsequent to the year of the presentation of the tax return. The Tax Authority is entitled to challenge the Income Tax calculation performed by such taxpayers. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Real estate Corp. incorporated in Perú:

	Income Tax	Value added tax
Real Plaza S.R.L.	From 2011 to 2015	From 2011 to 2015

In accordance with Peruvian law, InRetail Shopping Mall, Interproperties Holding and Interproperties Holding II are not considered to be taxpayers due to their conditions as trusts but they attribute their obtained income, net losses and tax credits on their foreign source income to the holders of their certificates of participation.

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, 2015 and December 21, 2014.

Notes to the interim consolidated financial statements (continued)

25. Transactions with related companies

- (a) As a result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of December 31, 2015 and December 31, 2014:

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
Receivables		
Intercorp Perú Ltd (b)	2,652	37,457
Supermercados Peruanos S.A.	6,726	9,580
Tiendas Peruanas S.A.	8,085	2,945
Home Centers Peruanos S.A.	3,156	2,445
Banco Internacional del Perú - Interbank (c)	954	977
Cineplex S.A.	4,360	4,687
Bembos S.A.	3,245	839
Eckerd Perú S.A.	240	72
Interseguro Compañía de Seguros	1,764	-
Others	11,129	2,420
	<u>42,311</u>	<u>61,422</u>

	As of December 31, 2015	As of December 31, 2014
	S/(000)	S/(000)
Payables		
Supermercados Peruanos S.A.	1,606	28
Tiendas Peruanas S.A.	1,900	-
Interseguro Compañía de Seguros S.A.	-	55
Inteligo Bank	-	106
Others	633	23
	<u>4,139</u>	<u>212</u>
Financial Obligations		
Leasing		
Banco Internacional del Perú - Interbank	<u>1,112</u>	<u>988</u>

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

- (b) As of December 31, 2015 corresponds to bonds issued by Intercorp Perú Ltd. which accrue effective annual interests at a rate of 5.785 percent. As of December 31, 2014 corresponds to loans to Intercorp Perú Ltd.; which accrued interests at an annual interest rate of 6.625 percent.
- (c) As of December 31, 2015 and December 31, 2014, InRetail Real Estate holds balances with its related entity Banco Internacional del Perú S.A.A. – Interbank in the cash and cash equivalent caption for an amount of S/20,300,000 and S/ 92,726,000, respectively.

Notes to the interim consolidated financial statements (continued)

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

26. Financial risks management

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

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

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

(a) Market risk –

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

The sensitivity analysis shown in the following section relates to the position as of December 31, 2015 and December 31, 2014. 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, 2015 and December 2014, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.

(ii) Exchange rate risk –

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

Notes to the interim consolidated financial statements (continued)

As of December 31, 2015 and December 31, 2014, assets and liabilities by currency were the following (expressed in US\$ dollars):

	As of December 31, 2015	As of December 31, 2014
	US\$(000)	US\$(000)
Assets		
Cash and cash equivalents	2,362	1,227
Available-for-sale investments	13,836	4,536
Trade receivables, net	1,053	944
Other receivables, net	1,267	11
Accounts receivable from related parties	3,626	13,449
	<u>22,144</u>	<u>20,167</u>
Liability		
Trade payables	337	146
Other liabilities	10,748	11,949
Accounts payable to related parties	452	10
Financial obligations	293,703	301,784
	<u>305,240</u>	<u>313,889</u>
Call Spread	<u>200,000</u>	<u>-</u>
Net liability position	<u>(83,096)</u>	<u>(293,722)</u>

As of December 31, 2015, InRetail Real Estate and its Subsidiaries have decided to reduce its exchange rate risk by entering into a hedging operation through a call spread written over its "Senior Notes Unsecured", which is considered an effective hedging instrument. The call spread is written over a nominal amount of US\$200,000,000, protects it from exchange rate fluctuations between S/3.225 and S/3.750 and will be effective until maturity of the "Senior Notes Unsecured". The net position in the derivatives related to the currency call spread agreement corresponds to exchange rate operations (Soles exchanged for US\$ dollars) with notional of US\$200,000,000 equivalent to S/682,600,000 as of December 31, 2015. See further detail in Note 16.

Transactions in foreign currency are performed at free market exchange rates. As of December 31, 2015, the market weighted average exchange rate for transactions in US dollars was S/ 3.408 per US\$1.00 bid and S/3.413 per US\$1.00 ask (S/2.981 per US\$1.00 bid and S/2.989 per US\$1.00 ask as of December 31, 2014).

For the twelve-month period ended as of December 31, 2015, InRetail Real Estate incurred into a net loss for exchange difference of approximately S/80,968,000 (loss of S/ 54,850,000 as of December 31, 2014), which is presented in the caption "Exchange difference, net" the consolidated statements of income and other comprehensive income.

Notes to the interim consolidated financial statements (continued)

(b) Credit risk –

It is the risk that a counterparty can 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. The maximum exposure to credit risk at the date of the consolidated statement of financial position is the book value of each class of financial asset.

Credit risk related to financial instruments and bank deposits –

The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of December 31, 2015 and December 31, 2014, is the book value of the balances of cash and cash equivalent.

(c) Liquidity risk –

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

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

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

27. Fair value of financial instruments –

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

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

Notes to the interim consolidated financial statements (continued)

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

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

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

(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.