

**Supermercados Peruanos S.A. and Subsidiaries and
Eckerd Perú S.A. and Subsidiaries**

Interim unaudited combined financial statements as of June 30,
2014 and for the six-month periods ended June 30, 2014 and
2013



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Independent auditors' review report

To the Shareholders of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries.

Introduction

We have reviewed the accompanying interim condensed combined financial statements of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries (the "Companies"), as of June 30, 2014, comprised of the interim combined statement of financial position as of June 30, 2014, and the related interim combined statements of income, comprehensive income, changes in equity, and cash flows for the six-month periods then ended, and the explanatory notes. Management is responsible for the preparation and presentation of these interim condensed combined financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed combined financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially narrower in scope than an audit conducted in accordance with generally accepted auditing standards in Peru. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed combined financial statements are not prepared, in all material respects, in accordance with IAS 34.

Lima, Peru
September 18, 2014

Countersigned by:



Manuel Diaz
C.P.C.C. Registration No.30296

Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of financial position

As of June 30, 2014 (unaudited) and December 31, 2013 (audited)

	Note	As of June 30, 2014 (unaudited) S/.(000)	As of December 31, 2013 (audited) S/.(000)		Note	As of June 30, 2014 (unaudited) S/.(000)	As of December 31, 2013 (audited) S/.(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	3	112,877	197,913	Trade payables	12	1,202,567	1,255,664
Trade receivables, net	4	59,545	58,675	Other payables	13	169,560	170,268
Other receivables, net	5	72,522	52,894	Interest-bearing loans and borrowings	14	98,018	66,954
Accounts receivable to related parties	21(b)	29,446	22,942	Accounts payable to related parties	21(b)	52,771	30,686
Inventories, net	6	809,006	778,988	Bonds payable	15	79,564	84,449
Available-for-sale investment	7	17,747	17,171	Deferred revenue	22	3,770	3,550
Prepayments	8	28,180	18,194				
Total current assets		<u>1,129,323</u>	<u>1,146,777</u>	Total current liabilities		<u>1,606,250</u>	<u>1,611,571</u>
Non-current assets				Interest-bearing loans and borrowings	14	897,247	906,966
Other receivables, net	5	7,438	7,417	Accounts payable to related parties	21(b)	3,835	3,642
Prepayments	8	19,897	19,358	Bonds payable	15	36,670	36,670
Property, furniture and equipment, net	9	1,787,174	1,737,864	Derivative financial instrument		2,192	2,747
Investment properties	10	17,979	18,229	Deferred revenue	22	15,482	9,432
Intangible assets, net	11	1,172,750	1,170,314	Deferred income tax liabilities, net	16(a)	140,371	133,381
Total non-current assets		<u>3,005,238</u>	<u>2,953,182</u>	Total non-current liabilities		<u>1,095,797</u>	<u>1,092,838</u>
Total assets		<u>4,134,561</u>	<u>4,099,959</u>	Total liabilities		<u>2,702,047</u>	<u>2,704,409</u>
				Equity	17		
				Capital stock		369,607	360,789
				Capital premium		181,602	142,470
				Additional paid - in capital		702,891	687,749
				Other equity reserves		18,182	16,274
				Retained earnings		160,232	188,268
				Total equity		<u>1,432,514</u>	<u>1,395,550</u>
				Total liabilities and equity		<u>4,134,561</u>	<u>4,099,959</u>

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

Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined income statements (unaudited)

For the six-month periods ended June 30, 2014 and 2013

	Note	2014 (unaudited) S/.(000)	2013 (unaudited) S/.(000)
Net sales of goods		2,708,218	2,382,484
Rental income		15,757	14,092
Rendering of services		15,368	14,111
Revenue		<u>2,739,343</u>	<u>2,410,687</u>
Cost of sales and services	19(a)	<u>(1,983,886)</u>	<u>(1,766,754)</u>
Gross profit		755,457	643,933
Other operating income		23,385	30,330
Selling expenses	19(a)	(573,411)	(496,111)
Administrative expenses	19(a)	(68,716)	(67,921)
Other operating expenses		(12,403)	(628)
Operating profit		<u>124,312</u>	<u>109,603</u>
Finance income	20	2,687	4,582
Finance costs	20	(55,764)	(50,115)
Exchange difference		333	(69,002)
Profit before income tax		<u>71,568</u>	<u>(4,932)</u>
Income tax expense	16	<u>(28,654)</u>	<u>(12,129)</u>
Net profit (loss)		<u>42,914</u>	<u>(17,061)</u>

All items above related to continuing operations.

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

Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of comprehensive income (unaudited)

For the six-month periods ended June 30, 2014 and 2013

	Note	2014 (unaudited) S/.(000)	2013 (unaudited) S/.(000)
Net profit (loss)		42,914	(17,061)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Update of the fair value of derivative financial instruments	7	554	552
Update of the fair value of available-for-sale investments		576	(1,605)
Deferred income tax related to other comprehensive income		<u>(172)</u>	<u>481</u>
Other comprehensive income (expenses) for the year, net of income tax effects		<u>958</u>	<u>(572)</u>
Total comprehensive income (loss) for the period		<u>43,872</u>	<u>(17,633)</u>

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

Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of changes in equity (unaudited)

As of June 30, 2014 (unaudited) and December 31, 2013 (audited)

	Stock				Other equity reserves			Retained earnings S/.(000)	Total S/.(000)
	Issued S/.(000)	Pending to issue S/.(000)	Capital premium S/.(000)	Additional paid in capital S/.(000)	Legal reserve S/.(000)	Unrealized results on financial instruments S/.(000)	Reserve update available for sale investments S/.(000)		
As of January 1, 2013 (audited)	350,133	-	95,175	657,371	9,511	260	2,548	260,575	1,375,573
Transfer to legal reserve	-	-	-	-	5,768	-	-	(5,768)	-
Dividends paid, Note 17(d)	-	-	-	-	-	-	-	(20,000)	(20,000)
Net loss	-	-	-	-	-	-	-	(17,061)	(17,061)
Movements in additional paid in capital	-	-	-	18,468	-	-	-	-	18,468
Other comprehensive income	-	-	-	-	-	(1,124)	552	-	(572)
As of June 30, 2013 (unaudited)	<u>350,133</u>	<u>-</u>	<u>95,175</u>	<u>675,839</u>	<u>15,279</u>	<u>(864)</u>	<u>3,100</u>	<u>217,746</u>	<u>1,356,408</u>
As of January 1, 2014 (audited)	350,133	10,656	142,470	687,749	15,279	276	719	188,268	1,395,550
Cash contributions, Note 17(a)	8,818	-	39,132	-	-	-	-	-	47,950
Transfer to legal reserve	-	-	-	-	950	-	-	(950)	-
Dividends paid, Note 17(d)	-	-	-	-	-	-	-	(70,000)	(70,000)
Net income	-	-	-	-	-	-	-	42,914	42,914
Movements in additional paid in capital	-	-	-	15,142	-	-	-	-	15,142
Other comprehensive income	-	-	-	-	-	555	403	-	958
Balance as of June 30, 2014 (unaudited)	<u>358,951</u>	<u>10,656</u>	<u>181,602</u>	<u>702,891</u>	<u>16,229</u>	<u>831</u>	<u>1,122</u>	<u>160,232</u>	<u>1,432,514</u>

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

Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries

Interim combined statements of cash flows (unaudited)

For the six-month periods ended June 30, 2014 and 2013

	2014 (unaudited) S/.(000)	2013 (unaudited) S/.(000)
Operating activities		
Net income (loss)	42,914	(17,061)
Non-cash adjustment to reconcile profit before tax to net cash flows		
Allowance for doubtful accounts receivable	24	122
Depreciation of property, furniture and equipment	52,290	43,497
Amortization of intangible assets	4,890	3,641
Amortization of key money	463	398
Provision for inventory impairment, net of recoveries	3,063	2,642
Loss on disposal of property, furniture and equipment and intangible assets	720	495
Finance costs	47,797	45,017
Deferred income tax	6,817	(4,808)
Exchange difference	(333)	69,002
Increase of deferred revenue	8,193	687
Other	(1,674)	4,194
Working capital adjustments		
(Increase) decrease in trade receivables	(894)	4,350
Increase in other receivables	(19,649)	(22,070)
Decrease (increase) in accounts receivable and payable to related parties	37,828	(24,705)
Increase in inventories	(33,081)	(93,232)
(Increase) decrease in prepayments	(10,988)	1,094
(Decrease) increase in trade payables	(50,055)	8,425
Decrease in other payables	(5,027)	(19,039)
Net cash flows from operating activities	<u>83,298</u>	<u>2,649</u>
Investing activities		
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(98,969)	(108,153)
Purchase and development of intangible assets	(7,326)	(1,146)
Investments at fair value through profit or loss	-	115,052
Loans to related	-	(29,552)
Time deposits over three months maturity	-	26,500
Net cash flows (used in) from investing activities	<u>(106,295)</u>	<u>2,701</u>

Interim combined statements of cash flows (unaudited) (continued)

	2014 (unaudited) S/.(000)	2013 (unaudited) S/.(000)
Financing activities		
Capital contribution	47,950	-
Interest- bearing loans and borrowings	38,924	34,361
Additional paid in capital	15,143	18,468
Dividends	(70,000)	(20,000)
Payment Interest- bearing loans and borrowings	(45,693)	(28,516)
Interest paid	(43,478)	(45,404)
Release Bonds	(4,885)	-
	<u>(62,039)</u>	<u>(41,091)</u>
Net cash flows used in financing activities		
Net decrease of cash and short-term deposits	(85,036)	(35,741)
Cash and short - term deposits at the beginning of the year	<u>197,913</u>	<u>136,390</u>
Cash and short - term deposits at the end of the period	<u>112,877</u>	<u>100,649</u>

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

InRetail Perú Corp. and Subsidiaries

Notes to the interim condensed combined financial statements

As of June 30, 2014 (unaudited), December 31, 2013 (audited) and June 30, 2013 (unaudited)

1. Identification and business activities

(a) Identification -

On August 21, 2014, InRetail Consumer, a Peruvian financial trust, was formed as a special purpose entity (SPE), for the purpose of issuing Senior Notes (see additionally Note 2.2 (a)). This entity owns no assets other than substantially all of the common shares of Supermercados Peruanos S.A. and Eckerd Peru S.A.

Supermercados Peruanos S.A. and Eckerd Perú S.A. were incorporated in June 1979 and August 1996, respectively, in Lima, Peru. As of June 30, 2014 and December 31, 2013, those companies are subsidiaries of InRetail Perú Corp., which is part of the Intercorp Perú Corp., group of companies in Peru. As of those dates, InRetail Perú Corp. owns directly and indirectly the following percentages of ownership in these companies:

- 99.98% of Supermercados Peruanos S.A.,
- 100% of Eckerd Peru S.A.

(b) Business activities -

The following is a description of the Companies' activities:

- Supermercados Peruanos S.A. is dedicated to retail. As of June 30, 2014, it owns a chain of 98 stores, composed of 57 hypermarkets that operate under the "Plaza Vea" brand, 37 supermarkets that operate under the "Vivanda", "Plaza Vea Super" and "Plaza Vea Express" brands, and 4 stores that operate under other legacy brands (55 hypermarkets, 37 supermarkets and 6 stores that operate under other legacy brands as of December 31, 2013). Supermercados Peruanos S.A. holds 100 percent of: (i) Peruana de Tiquetes S.A.C. (dedicated to the commercialization of tickets for concerts and shows in Lima and provinces), and (ii) Plaza Vea Sur S.A.C.
- Eckerd Peru S.A. is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements aimed for health protection and recovery through its "Inkafarma" pharmacy chain. As of June 30, 2014 and December 31, 2013 it operates 754 and 725 stores, respectively. Eckerd Perú S.A. holds 100 percent of: (i) Eckerd Amazonía S.A.C. and (ii) Boticas del Oriente S.A.C. These subsidiaries are dedicated to the commercialization of pharmaceutical and cosmetic products, food for medical use and other elements aimed for health protection and recovery through the "Inkafarma" brand in certain provinces of Peru.

Notes to the Combined financial statements (continued)

The following is a summary of the main data of the financial statements of Supermercados Peruanos S.A. and Eckerd Perú S.A. and Subsidiaries as of June 30, 2014, and 2013, and for the years then ended:

	Supermercados Peruanos S.A.		Eckerd Peru S.A. and Subsidiaries	
	As of June 30, 2014 (unaudited) S/.(000)	As of December 31, 2013 (audited) S/.(000)	As of June 30, 2014 (unaudited) S/.(000)	As of December 31, 2013 (audited) S/.(000)
Combined statements of financial position-				
Total assets	2,388,318	2,333,713	711,453	707,737
Total liabilities	1,666,627	1,671,966	595,999	570,313
Equity	721,691	661,747	115,454	137,424
	As of June 30, 2014 (unaudited) S/.(000)	As of June 30, 2013 (audited) S/.(000)	As of June 30, 2014 (unaudited) S/.(000)	As of June 30, 2013 (audited) S/.(000)
Combined income statements -				
Operating profit	44,944	48,941	72,396	61,438
Net profit	11,037	12,413	48,030	41,839

The combined financial statements as of June 30, 2014 and as of December 31, 2013 were approved by Management of InRetail Perú Corp. on September 18, 2014.

2. Summary of significant accounting policies

The significant accounting policies used in the preparation and presentation of the Company's combined financial statements are described below:

(a) Basis of preparation and presentation -

The interim condensed combined financial statements of the Companies have been prepared and presented solely for purposes of an offering memorandum of InRetail Consumer (a SPE; see Note 1(a)), in accordance with IAS 34 "Interim Financial Reporting".

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

The interim condensed combined financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Companies' annual combined financial statements as of December 31, 2013.

Notes to the Combined financial statements (continued)

(b) Basis of combination -

The interim condensed combined financial statements comprise the consolidated financial statements of the Companies and their Subsidiaries, which have been prepared under IFRS; see Note 1. For purposes of these consolidated financial statements, subsidiaries are fully consolidated from the date of acquisition, being the date on which Supermercados Peruanos S.A. or Eckerd Peru S.A. obtained 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 combined financial statements result from the addition of the balances of all the accounts of the companies' consolidated financial statements; however, there is not any relationship as a parent and subsidiaries. The significant transactions among the Companies' balances and profit and losses have been eliminated. The combined financial statements are prepared using uniform accounting policies for similar transactions and events, which are described in the following notes to the combined financial statements.

Additionally, the combined financial statements include some assets, liabilities and results as a consequence of transactions made by InRetail Perú Corp., that are directly related to the Companies. The explanation of combined adjustments and intercompany eliminations is presented in the following charts:

Notes to the Combined financial statements (continued)

(b.1) The determination of the combined statement of financial position as of December 31, 2013 is presented below:

	Note	Balances of Supermercados Peruanos S.A. and Subsidiaries S/.(000)	Balances of Eckerd Perú S.A. and Subsidiaries S/.(000)	Agregated S/.(000)	Intercompany eliminations and reclassifications S/.(000)	Adjustments related to acquisition of Eckerd Perú S.A. and Subsidiaries S/.(000)	Combined as of 12.31.2013 S/.(000)
Assets							
Current assets							
Cash and short-term deposits		163,703	34,210	197,913	-	-	197,913
Trade receivable, net		42,894	15,781	58,675	-	-	58,675
Other receivables, net		40,594	12,300	52,894	-	-	52,894
Accounts receivable to related parties	(b.5) (i)	26,343	115	26,458	(3,516)	-	22,942
Inventories, net		367,181	411,807	778,988	-	-	778,988
Available-for-sale investment		17,171	-	17,171	-	-	17,171
Prepayments		14,040	4,154	18,194	-	-	18,194
Total current assets		671,926	478,367	1,150,293			1,146,777
Deferred income tax assets		-	14,732	14,732	(14,732)	-	-
Other receivables, net		762	6,655	7,417	-	-	7,417
Prepayments	(b.5) (i)	17,441	4,196	21,637	(2,279)	-	19,358
Property, furniture and equipment, net		1,551,427	186,437	1,737,864	-	-	1,737,864
Investment properties		18,229	-	18,229	-	-	18,229
Intangible assets, net	(b.5) (ii)	70,438	17,350	87,788	-	1,082,526	1,170,314
Total assets		2,330,223	707,737	3,037,960			4,099,959
Liabilities and equity							
Current liabilities							
Trade payables		766,171	489,493	1,255,664	-	-	1,255,664
Other payables	(b.5) (iii)	109,163	41,728	150,891	-	19,377	170,268
Interest-bearing loans and borrowings		49,419	17,535	66,954	-	-	66,954
Accounts payable to related parties	(b.5) (i)	18,264	2,693	20,957	(3,516)	13,245	30,686
Bonds payable		84,449	-	84,449	-	-	84,449
Deferred revenue		3,550	-	3,550	-	-	3,550
Total current liabilities		1,031,016	551,449	1,582,465			1,611,571
Interest-bearing loans and borrowings	(b.5) (iii)	550,166	18,864	569,030	-	337,936	906,966
Accounts payable to related parties		3,642	-	3,642	-	-	3,642
Bonds payable		36,670	-	36,670	-	-	36,670
Derivative financial instrument		2,747	-	2,747	-	-	2,747
Deferred revenue	(b.5) (i)	11,711	-	11,711	(2,279)	-	9,432
Deferred income tax liabilities, net	(b.5) (ii)	36,197	-	36,197	(14,732)	111,916	133,381
Total liabilities		1,672,149	570,313	2,242,462			2,704,409
Equity							
Capital stock		347,005	13,784	360,789	-	-	360,789
Capital premium		139,079	3,391	142,470	-	-	142,470
Additional paid - in capital		-	-	-	-	687,749	687,749
Other equity reserves		13,825	2,449	16,274	-	-	16,274
Retained earnings		158,165	117,800	275,965	-	(87,697)	188,268
Total equity		658,074	137,424	795,498			1,395,550
Total liabilities and equity		2,330,223	707,737	3,037,960			4,099,959

Notes to the combined financial statements (continued)

(b.2) The determination of the combined statement of financial position as of June 30, 2014 is presented below:

	Note	Balances of Supermercados Peruanos S.A. and Subsidiaries S/.(000)	Balances of Eckerd Perú S.A. and Subsidiaries S/.(000)	Agregated S/.(000)	Intercompany eliminations S/.(000)	Adjustments related to acquisition of Eckerd Perú S.A. and Subsidiaries S/.(000)	Combined as of June 30,2014 S/.(000)
Assets							
Current assets							
Cash and short-term deposits		80,128	32,749	112,877	-	-	112,877
Trade receivable, net		38,517	21,028	59,545	-	-	59,545
Other receivables, net		61,164	11,358	72,522	-	-	72,522
Accounts receivable to related parties		31,018	229	31,247	(1,801)	-	29,446
Inventories, net		408,510	400,496	809,006	-	-	809,006
Available-for-sale investment		17,747	-	17,747	-	-	17,747
Prepayments		21,724	6,456	28,180	-	-	28,180
Total current assets		658,808	472,316	1,131,124			1,129,323
Deferred income tax assets		-	14,360	14,360	(14,360)	-	-
Other receivables, net		57	7,381	7,438	-	-	7,438
Prepayments	(b.5) (i)	18,059	4,183	22,242	(2,345)	-	19,897
Property, furniture and equipment, net		1,592,065	195,109	1,787,174	-	-	1,787,174
Investment properties		17,979	-	17,979	-	-	17,979
Intangible assets, net	(b.5) (ii)	72,120	18,104	90,224	-	1,082,526	1,172,750
Total assets		2,359,088	711,453	3,070,541			4,134,561
Liabilities and equity							
Trade payables		717,409	485,158	1,202,567	-	-	1,202,567
Other payables	(b.5) (iii)	102,460	47,791	150,251	-	19,309	169,560
Interest-bearing loans and borrowings		54,794	43,224	98,018	-	-	98,018
Accounts payable to related parties		40,658	1,759	42,417	(1,801)	12,155	52,771
Bonds payable		79,564	-	79,564	-	-	79,564
Deferred revenue		3,770	-	3,770	-	-	3,770
Total current liabilities		998,655	577,932	1,576,587			1,606,250
Interest-bearing loans and borrowings	(b.5) (iii)	539,141	18,067	557,208	-	340,039	897,247
Accounts payable to related parties		3,835	-	3,835	-	-	3,835
Bonds payable		36,670	-	36,670	-	-	36,670
Derivative financial instrument		2,192	-	2,192	-	-	2,192
Deferred revenue	(b.5) (i)	17,827	-	17,827	(2,345)	-	15,482
Deferred income tax liabilities, net	(b.5) (ii)	42,815	-	42,815	(14,360)	111,916	140,371
Total liabilities		1,641,135	595,999	2,237,134			2,702,047
Equity							
Capital stock		355,823	13,784	369,607	-	-	369,607
Capital premium		178,211	3,391	181,602	-	-	181,602
Additional paid - in capital		-	-	-	-	702,891	702,891
Other equity reserves		15,734	2,448	18,182	-	-	18,182
Retained earnings		168,185	95,831	264,016	-	(103,784)	160,232
Total equity		717,953	115,454	833,407			1,432,514
Total liabilities and equity		2,359,088	711,453	3,070,541			4,134,561

Notes to the combined financial statements (continued)

(b.3) The determination of the combined income statement for the six-month period ended June 30, 2013 is presented below:

	Note	Balances of Supermercados Peruanos S.A. and Subsidiaries S/.(000)	Balances of Eckerd Perú S.A. and Subsidiaries S/.(000)	Agregated S/.(000)	Intercompany eliminations S/.(000)	Adjustments related to acquisition of Eckerd Perú S.A. and Subsidiaries S/.(000)	Combined for the six-month period ended June 30, 2013 S/.(000)
Net sales of goods	(b.5) (i)	1,541,974	840,510	2,382,484	-	-	2,382,484
Rental income	(b.5) (i)	17,552	-	17,552	(3,460)	-	14,092
Rendering of services	(b.5) (i)	2,252	13,058	15,310	(1,199)	-	14,111
Cost of sales		<u>(1,169,789)</u>	<u>(596,965)</u>	<u>(1,766,754)</u>	-	-	<u>(1,766,754)</u>
Gross profit		391,989	256,603	648,592			643,933
Other operating income		30,000	330	30,330	-	-	30,330
Selling expenses	(b.5) (i)	(328,695)	(171,873)	(500,568)	4,457	-	(496,111)
Administrative expenses	(b.5) (i)	(44,630)	(23,493)	(68,123)	202	-	(67,921)
Other operating expenses	(b.5) (i)	<u>(499)</u>	<u>(129)</u>	<u>(628)</u>	-	-	<u>(628)</u>
Operating profit		48,165	61,438	109,603			109,603
Finance income		3,380	1,202	4,582	-	-	4,582
Finance costs	(b.5) (iii)	(33,296)	(1,390)	(34,686)	-	(15,429)	(50,115)
Exchange difference		<u>(38,096)</u>	<u>(746)</u>	<u>(38,842)</u>	-	(30,160)	<u>(69,002)</u>
Profit before income tax		(19,847)	60,504	40,657			(4,932)
Income tax expense		<u>6,536</u>	<u>(18,665)</u>	<u>(12,129)</u>	-	-	<u>(12,129)</u>
Net loss		<u>(13,311)</u>	<u>41,839</u>	<u>28,528</u>			<u>(17,061)</u>

Notes to the combined financial statements (continued)

(b.4) The determination of the combined income statement for the six-month period ended June 30, 2014 is presented below:

	Note	Balances of Supermercados Peruanos S.A. and Subsidiaries S/.(000)	Balances of Eckerd Perú S.A. and Subsidiaries S/.(000)	Agregated S/.(000)	Intercompany eliminations S/.(000)	Adjustments related to acquisition of Eckerd Perú S.A. and Subsidiaries S/.(000)	Combined for the six-month period ended June 30, 2014 S/.(000)
Net sales of goods	(b.5) (i)	1,728,661	979,557	2,708,218	-	-	2,708,218
Rental income	(b.5) (i)	19,823	-	19,823	(4,066)	-	15,757
Rendering of services	(b.5) (i)	958	15,723	16,681	(1,313)	-	15,368
Cost of sales	(b.5) (i)	(1,301,848)	(682,038)	(1,983,886)	-	-	(1,983,886)
Gross profit		<u>447,594</u>	<u>313,242</u>	<u>760,836</u>			<u>755,457</u>
Other operating income		2,2789	596	23,385	-	-	23,385
Selling expenses	(b.5) (i)	(363,336)	(215,454)	(578,790)	5,379	-	(573,411)
Administrative expenses	(b.5) (i)	(42,733)	(25,983)	(68,716)	-	-	(68,716)
Other operating expenses		(12,398)	(5)	(12,403)	-	-	(12,403)
Operating profit		<u>51,916</u>	<u>72,396</u>	<u>124,312</u>			<u>124,312</u>
Finance income		2,500	187	2,687	-	-	2,687
Finance costs	(b.5) (iii)	(37,648)	(2,028)	(39,676)	-	(16,088)	(55,764)
Exchange difference		<u>363</u>	<u>(30)</u>	<u>333</u>	-	-	<u>333</u>
Profit before income tax		<u>17,131</u>	<u>70,525</u>	<u>87,656</u>			<u>71,568</u>
Income tax expense		(6,159)	(22,495)	(28,654)	-	-	(28,654)
Net profit		<u>10,972</u>	<u>48,030</u>	<u>59,002</u>			<u>42,914</u>

(b.5) Notes to the determination of combined financial statements are presented below:

- (i) Intercompany eliminations of balances and transactions, that mainly correspond to commercial transactions between the Companies (rental and/or rights of use of property, sale of merchandise vouchers, key money, etc.).
- (ii) Correspond to the "InkaFarma" commercial brand and goodwill recorded in the consolidated financial statements of InRetail Perú Corp. and Subsidiaries as a consequence of the acquisition of Eckerd Perú S.A. and Subsidiaries in January 2011 for approximately S/.373,054,000 and S/.709,472,000, respectively; see Note 11(b). Likewise, the deferred tax liability related to this commercial brand amounts to approximately S/.111,916,000.
- (iii) Corresponds to the debt obtained by InRetail Perú Corp. for the acquisition of Eckerd Peru S.A. and Subsidiaries (Senior Guaranteed Notes for US\$130,000,000 as of June 30, 2014 and December 31, 2013; see Note 14 (d)). Likewise, interests payable related to this debt amount to approximately S/.3,635,000, as of June 30, 2014 (approximately S/.4,188,000 as of December 31, 2013), and the accrued interests during the six-month period ended at said date amount to approximately S/.16,088,000 (approximately S/.15,429,000 for the six-month period ended June 30, 2013). Likewise, for the six - month period ended June 30,2014, there is not any impact related to exchange difference from this debt (loss for approximately S/.30,160,000 during the six-month period ended June 30,2013).

Additionally, combined adjustments related to "Other payables" include approximately S/.15,189,000 which correspond to recoverable taxes from the Tax Authority maintained by Eckerd Peru S.A. to the date of its purchase. According to the Sale Agreement, if these taxes are recovered, these must be returned to the Eckerd Perú S.A.'s former shareholders by InRetail Perú Corp S.A. To the date of this report, Eckerd Peru S.A. has recovered approximately S/.13,000,000 of such taxes and, in Management opinion, these will be returned to its former shareholders in the second semester of 2014.

Notes to the Combined financial statements (continued)

(c) New standards, interpretations and amendments -

The accounting policies adopted in the preparation of the interim condensed combined financial statements are consistent with those followed in the preparation of the Companies' annual combined financial statements for the year ended December 31, 2013, except for the adoption of the new standards and interpretations as of January 1, 2014 noted below, which did not have any impact on the accounting policies, financial position or performance of the Companies:

The nature and impact of each new standard or amendment is described below:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Companies, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Companies.
- Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Companies as the Companies have not novated their derivatives during the current or prior periods.
- IFRIC 21 Levies
IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. The adoption of IFRIC 21 did not have a significant impact on the interim condensed combined financial statements of the Companies.

The Companies have not yet early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the combined financial statements (continued)

- (c) Seasonality of operations -
 As is indicated in Note 1(b), the Companies are organized into the supermarket and pharmacy segments. Due to the seasonal nature of these segments, higher revenues and operating profits are usually expected in the second half of the year rather than the first six months. Higher sales during the period from July to August are mainly attributed to the increase in consumers' purchasing power in Peru for legal and other bonuses to the workers, as well as in December, due to increased demand for retail products during the peak Christmas season. This information is provided to allow for a proper appreciation of the results; however, Management has concluded that these results are not "highly seasonal" as defined in IAS 34 "Interim Financial Reporting".

3. Cash and short-term deposits

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Cash and remittances in transit	9,864	12,583
Current accounts (b)	38,135	52,830
Time deposits (c)	<u>64,878</u>	<u>132,500</u>
	<u>112,877</u>	<u>197,913</u>

- (b) The Companies maintain current accounts in local banks in Nuevos Soles and US Dollars that do not accrue interest and are freely available.
- (c) As of June 30, 2014, time deposits in local currency are freely available and are kept in Nuevos Soles, in local banks, have maturities up to a month since inception and bear annual interest between 4.05 and 4.40 percent. As of December 31, 2013, this amount corresponded to time deposits freely available in Nuevos Soles in local financial institutions that generated interest between 3.00 and 4.40 annual percent and matured between 1 and 3 months since inception.

Notes to the combined financial statements (continued)

4. Trade receivables, net

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Invoices (c)	28,057	30,763
Credit card operations (d)	24,726	21,766
Rent receivable (e)	7,025	6,386
Doubtful accounts	1,774	1,774
Other	5	4
	<u>61,587</u>	<u>60,693</u>
Provision for doubtful accounts (f)	<u>(2,042)</u>	<u>(2,018)</u>
	<u>59,545</u>	<u>58,675</u>

- (b) Trade receivables are denominated in Nuevos Soles and US Dollars, have current maturities and do not bear interest.
- (c) Corresponds mainly to trade receivable from sales of inventories and from the sale of merchandise vouchers to various companies and public institutions. At the date of this report, these balances are mostly collected.
- (d) Corresponds mainly to pending deposits in favor of Supermercados Peruanos and Eckerd Group for the last day of the month, respectively, held by credit card operators and originated from the sales of goods with credit cards in the different stores of Supermercados Peruanos and Eckerd.
- (e) Corresponds to accounts receivable for the lease of commercial premises to concession holders inside the stores of Supermercados Peruanos S.A.
- (f) The movements in the provision for doubtful accounts receivable for the six-month periods ended on June 30, 2014 and 2013, were as follows:

	As of June 30, 2014 S/.(000)	As of June 30, 2013 S/.(000)
Balance at the beginning of the year	2,018	1,230
Provision recognized as year expense, Note 19(a)	24	122
Write-offs	-	(2)
	<u>2,042</u>	<u>1,350</u>
Balance at the end of the period	<u>2,042</u>	<u>1,350</u>

As of June 30, 2014 and December 31, 2013, the amount of trade receivables past due but not impaired amounted to approximately S/.16,967,000 and S/.26,079,000, respectively.

Notes to the combined financial statements (continued)

Are considered as not impaired, overdue items which have a payment agreement by the customer; consequently, these items are not subject to credit risk.

In the opinion of Management, the provision for doubtful accounts receivable as of June 30, 2014 and December 31, 2013 appropriately covers the credit risk of this item at said dates.

5. Other receivables, net

(a) The table below presents the components of other receivables:

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Income tax credit, Note 16(b)	35,145	23,387
Funds held in the Banco de la Nación (b)	11,575	11,518
Deposits in guarantee	9,949	8,929
Rebates receivable from suppliers	6,098	5,682
Credit taxes	5,563	4,751
Employee loans	5,403	2,956
Claims and deliveries to be paid	1,622	4,425
Advances to suppliers	2,332	-
Other receivables	3,719	141
	<u>81,406</u>	<u>61,789</u>
Minus -		
Provision for doubtful accounts (c)	(1,446)	(1,478)
	<u>79,960</u>	<u>60,311</u>
Total		
Current	72,522	52,894
Non-current	7,438	7,417
	<u>79,960</u>	<u>60,311</u>

(b) In accordance with Resolution of Superintendence N°183-2004/SUNAT, funds held in Banco de la Nación must be used exclusively for the payment of tax debts, or requested cash reimbursement. In the case of the Companies, these funds have been used entirely for tax payments during the months of January and February 2014 and 2013, respectively.

(c) In the opinion of Management, the provisions for doubtful accounts receivable as of June 30, 2014 and December 30, 2013, appropriately covers the credit risk of this item at said dates.

Notes to the combined financial statements (continued)

6. Inventories, net

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Goods	794,291	774,040
In-transit inventories (b)	13,992	6,410
Miscellaneous supplies	7,261	10,539
	<u>815,544</u>	<u>790,989</u>
Minus -		
Provision for impairment of inventories (c)	(6,538)	(12,001)
Total	<u>809,006</u>	<u>778,988</u>

(b) Corresponds to goods and miscellaneous supplies imported by the Companies.

(c) The changes in the provision for inventory impairment for the six-month periods ended as of June 30, 2014 and 2013 were as follows:

	As of June 30, 2014 S/.(000)	As of June 30, 2013 S/.(000)
Balance at the beginning of the year	12,001	3,652
Provision for the period, Note 19(a)	3,063	2,642
Write-off	(8,526)	49
Balance at the end of the period	<u>6,538</u>	<u>6,343</u>

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

7. Available-for-sale investment

As of June 30, 2014 and December 31, 2013, available for sale investment corresponds to notes of the issuance made abroad describe in Note 14(d). Unrealized gain, net of deferred taxes, from notes maintained for the six-month period ended June 30, 2014, amounted to approximately S/554,000 (unrealized loss, net deferred taxes for approximately S/552,000 for the six-month period ended June 30, 2013).

Notes to the combined financial statements (continued)

8. Prepayments

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Key money	16,781	18,469
Prepaid rent	11,979	10,394
Insurance	2,881	5,342
Others	16,436	3,347
Total	<u>48,077</u>	<u>37,552</u>
Current	28,180	18,194
Non-current	19,897	19,358
Total	<u>48,077</u>	<u>37,552</u>

9. Property, furniture and equipment, net

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Cost		
Initial balance	2,328,635	2,003,924
Additions (b)	117,400	341,203
Disposals and/or sales (c)	(25,132)	(15,832)
Transfer to investment properties, Note 10(b)	-	(660)
Final balance	<u>2,420,903</u>	<u>2,328,635</u>
Accumulated depreciation		
Initial balance	590,771	508,808
Additions (b)	52,290	95,149
Disposals and/or sales	(8,877)	(13,168)
Transfer to investment properties	(455)	(18)
Final balance	<u>633,729</u>	<u>590,771</u>
Net book value	<u>1,787,174</u>	<u>1,737,864</u>

(b) Additions for the six-month period ended June 30, 2014 and for the year ended December 31, 2013 correspond mainly to the construction of and equipment for new premises for Supermercados Peruanos S.A. and the Eckerd Group.

Notes to the combined financial statements (continued)

- (c) Corresponds mainly to assets sold and to the disposal of unusable assets as a result of the process of changing formats in some premises. The resulting income or expense had been included in the "Other operating income" or "Other operating expenses" caption of the combined income statement, respectively.
- (d) As of June 30, 2014, Supermercados Peruanos S.A. maintains mortgages on certain lands, buildings and facilities with a collective net book value of approximately S/.308,831,000 (S/.258,115,000 as of December 31,2013), as guarantee for financial liabilities, see Note 14 (b).
- (e) As of June 30, 2014, the cost and corresponding accumulated depreciation of assets acquired through finance leases was approximately S/.404,540,000 and S/.54,211,000 respectively (S/.383,939,000 and S/.44,631,000 respectively, as of December 31, 2013).
- (f) The Companies maintain insurance policies on their main assets in accordance with policies established by Management.

10. Investment properties

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Cost of buildings	19,567	19,567
Less: Accumulated depreciation	(1,588)	(1,338)
Total	<u>17,979</u>	<u>18,229</u>

- (b) As of June 30, 2014 and December 31,2013, investment properties include three properties located in Lima, Tacna and Puno held to earn rental income. As indicated in note 9(a), during 2013 approximately S/.660.000 was transferred from the caption "Property, furniture and equipment" to this caption as a consequence of work on these properties.
- (c) In Management´s opinion, the book value of investment properties as of June 30, 2014 and December 30, 2013 is not significantly different from its corresponding fair value since these properties were acquired, completed or implemented during 2014 and 2013.
- (d) As of June 30, 2014 and 2013, Management of the Companies performed an evaluation of their investment properties, and has not found any indication of impairment.

Notes to the combined financial statements (continued)

11. Intangible assets, net

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Cost		
Initial balance	1,222,602	1,193,665
Additions (c)	7,317	29,587
Disposals and/or sales	<u>(8,036)</u>	<u>(650)</u>
Final balance	<u>1,221,883</u>	<u>1,222,602</u>
Acumulated amortization		
Initial balance	52,288	42,447
Additions, Note 19(a)	4,890	9,854
Disposals and/or sales	<u>(8,045)</u>	<u>(13)</u>
Final balance	<u>49,133</u>	<u>52,288</u>
Net book value	<u>1,172,750</u>	<u>1,170,314</u>

(b) As of June 30, 2014 and December 31, 2013, this caption mainly includes approximately S/.373,054,000 and S/.709,472,000 corresponding to the brand "InkaFarma" and goodwill respectively, resulting from applying the purchase method at the moment of the acquisition of Eckerd Peru S.A. in 2011, see Note 2 (b.5). Both assets have been assigned to the cash generating unit "Pharmacies", which is an operating segment reportable for the impairment tests.

Management of the Companies estimated the fair value of the brand by applying the relief-from-royalty method. The principle behind relief from royalty method is that a brand holding company owns the brand avoiding payments of royalties for the use of the brand, to another hypothetical owner, therefore, the economic value of the brand is represented by the avoided royalties.

The factors for assessing the brand as having an indefinite useful life are the following:

- History and expected use of the asset by the Company: this is the most important factor to consider in the definition of the useful life of the brand. Inkafarma is the most recognized brand in the pharmacy industry in Perú. And the Company expects to further strengthen it in the market in the long term.
- Legal, regulatory or contractual limits to the useful life of the intangible asset: there are no legal, regulatory or contractual limits linked to the brand. The brand is duly protected and the pertinent registrations remain current.

Notes to the combined financial statements (continued)

- Effect of obsolescence, demand, competition and other economic factors: Inkafarma is the most recognized brand in the pharmacy industry in Perú for nearly 15 years. This implies a low risk of obsolescence.
- Maintenance of the necessary investment levels to produce the projected future cash flows for the brand are based on investments in marketing, technology and the growth and revamping of the pharmacy chain infrastructure. Furthermore, efficiencies are expected as a result of synergies and the growth in scale of the operations, which are compatible and realistic for the industry. Notwithstanding this, an increase in general administration expenses is also contemplated to sustain the projected increase in sales.
- Relationship of the useful life of an asset or group of assets with the useful life of an intangible asset: The brand does not depend on the useful life of any asset or group of assets as they existed independently and it is not related to sectors subject to technological obsolescence or other causes.

Goodwill and "Inkafarma" brand are tested for impairment annually (as December 31) and when circumstances indicate that the carrying value may be impaired. The Companies' impairment test for goodwill and intangible assets with indefinite useful lives is based on value-in-use calculations which use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual financial statements for the year ended as of December 31, 2013.

- (c) As of June 30, 2014 and of December 31, 2013, additions mainly correspond to disbursements made in the purchase of a commercial software program, a general planning system (ERP) and the corresponding licenses of use.

12. Trade payables

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Bills payable for purchase of goods (b)	1,074,547	1,151,112
Bills payable for commercial services	<u>128,020</u>	<u>104,552</u>
	<u>1,202,567</u>	<u>1,255,664</u>

- (b) This caption mainly includes obligations to non-related local and foreign suppliers, denominated in local currency and US Dollars, with current maturities and that do not bear any interest. There have been no liens granted on these obligations.

The Companies' offer to their suppliers' access to an accounts payable services arrangement provided by third-party financial institutions. This service allows the suppliers to sell their receivables to the financial institutions in an arrangement separately negotiated by the supplier

Notes to the combined financial statements (continued)

and the financial institution, enabling suppliers to better manage their cash flow and reduce payment processing costs. The Companies have no direct financial interest in these transactions. All of the Companies obligations, including amounts due, remain due to its suppliers as stated in the supplier agreements.

13. Other payables

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Salaries and social benefits	36,978	10,390
Vacations accrual	19,913	18,579
Account payable to the Eckerd Perú S.A.'s former shareholders; Note 2(b.5)	15,189	15,189
VAT withholdings in purchases	11,386	8,756
Employes profit sharing	10,937	18,295
Worth of merchandise	10,724	13,845
Sale of land	9,979	-
Interest payable	9,301	9,102
Provision for servicing	7,166	9,739
Deposits to third parties	7,042	22,997
VAT payable	6,017	20,622
Taxes payable	5,442	4,171
Rentals payable	2,471	3,366
Event promoters	1,512	4,584
Others	15,503	10,633
Total	<u>169,560</u>	<u>170,268</u>

14. Interest-bearing loans and borrowings

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

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
By type:		
Leasings (b) -		
Related entities	119,775	124,305
Non-related entities	113,148	110,573
Foreign loans (c) and (d)	726,760	724,051
Promissory notes	21,900	-
Other obligations to third parties (e)	13,682	14,991
Total	<u>995,265</u>	<u>973,920</u>
By term:		

Notes to the combined financial statements (continued)

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Current portion	98,018	66,954
Non - current portion	<u>897,247</u>	<u>906,966</u>
	<u>995,265</u>	<u>973,920</u>

- (b) Promissory notes and bank loans are used to fund working capital and do not have any specific guarantee. Leasing operations are guaranteed by the assets related to them; see Note 9(d). Such obligations do not have any special conditions that must be complied with covenants or restrictions affecting the operations of the Companies.
- (c) Future minimum payments for the leasing described in subsection (a) of this Note, net of future financial charges, are as follows:

	As of June 30, 2014		As of December 31, 2013	
	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	83,549	72,206	83,421	72,078
Between 1 and 5 years	<u>171,318</u>	<u>160,717</u>	<u>173,401</u>	<u>162,800</u>
Total minimum payments	254,867	232,923	256,822	234,878
Minus- amounts representing finance charges	<u>(21,944)</u>	<u>-</u>	<u>(21,944)</u>	<u>-</u>
Present value of future minimum payments	<u>232,923</u>	<u>232,923</u>	<u>234,878</u>	<u>234,878</u>

- (d) In November 2011, Intercorp Retail Inc. issued through Intercorp Retail Trust, a financial trust incorporated in the Cayman Islands with the purpose of performing this issuance, an offering of US\$300,000,000 in Senior Guaranteed Notes due in November 2018 at an 8.875 percent nominal annual interest rate. From this issuance, US\$270,000,000 was channelled to the Company through a promissory note in favor of Intercorp Retail Trust subscribed by the Company and to Supermercados Peruanos S.A. through a Loan Agreement in favor of Bank of America subscribed by Supermercados Peruanos S.A. The consolidated amount of said loans amounted to \$270,000,000 (equivalent to S/.754,920,000 as of June 30, 2014 and December 31, 2013), which accrue interests at an 8.875 percent nominal annual interest rate. Said loans were recorded in the consolidated financial statements at their amortized cost and at a 10.134 percent effective interest rate after considering the respective up-front fees that amounted to S/.9,293,000 and a guarantee deposit of S/.35,997,000 (equivalent to US\$13,312,000), which is not refundable and will be applied to the principal related to Bank of America at the maturity date. InRetail Group allocated the funding, mainly, to the cancellation of a loan previously

Notes to the combined financial statements (continued)

obtained for the acquisition of Eckerd Perú S.A., promissory notes and commercial paper, as well as to the payment for the acquisition of land lots and the construction of new commercial premises for its Subsidiaries.

Said financial obligations are presented net of the aforementioned initial charges and the guarantee deposit. The combined net balance of these borrowings as of June 30, 2014 and December 31, 2013, amounted to S/.726,760,000 and S/.724,051,000; respectively.

The 100 percent of the senior notes is guaranteed by Supermercados Peruanos S.A. and Eckerd Perú S.A., as well as other related entities which are subsidiaries of Intercorp Retail Inc.

Intercorp Retail Inc. and those Subsidiaries that guarantee these loans must comply, until the maturity and cancellation of the notes, with certain obligations and restrictive clauses that require compliance with financial ratios for the incurrence of additional debt, the use and application of funds, conditions on dividends distribution and other administrative matters. The main financial ratios required are as follows:

- At the level of the subsidiaries that guarantee these loans:
 - (i) Financial debt / Adjusted EBITDA ratio: Not higher than 4.5 times for 2012 and not higher than 3.5 times starting in November, 2013.
 - (ii) Adjusted EBITDA / Financial costs ratio: Not lower than 2.5 times.

- At the Intercorp Retail Inc. level, shareholder of the Company:
 - (i) Financial debt / (Financial debt + equity) ratio: Not higher than 65 percent.
 - (ii) Operating cash flow / Financial costs: Not lower than 2.0 times.

In opinion of Management of the InRetail Group, these clauses do not limit their operations and have been complied with as of June 30, 2014 and December 31, 2013.

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

Notes to the combined financial statements (continued)

- (f) Debts and interest - bearing loans payable are as follows:

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
2013	-	66,954
2014	98,018	57,984
2015	59,334	101,206
2016 onwards	<u>826,557</u>	<u>747,776</u>
Total	<u>983,909</u>	<u>973,920</u>

15. Bonds payable

- (a) The table below presents the composition of bonds issued:

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
By type:		
Subordinated bonds (c)	74,678	74,678
Corporate bonds (d)	<u>41,556</u>	<u>46,441</u>
	<u>116,234</u>	<u>121,119</u>
By term:		
Current portion	79,564	84,449
Non - current portion	<u>36,670</u>	<u>36,670</u>
	<u>116,234</u>	<u>121,119</u>

- (b) Supermercados Peruanos S.A. must comply, until maturity and cancellation of the aforementioned bonds, with certain obligations and restrictive clauses. The main obligations include the maintenance of the following financial ratios:

- Financial debt/EBITDA not higher than 3.0,
- Debt to equity ratio not higher than a 2.5,

The Subordinated Bonds are not subject to compliance with financial ratios.

Notes to the combined financial statements (continued)

Compliance with obligations and restrictive clauses is monitored by Management of Supermercados Peruanos S.A. If Supermercados Peruanos S.A. does not comply with the aforementioned obligations during the term established by the contract, upon alerting the lender, the latter shall have the right to declare that the terms of the obligations have terminated and demand the payment of part and/or the entirety of the indebted amounts. As of June 30, 2014 and December 31, 2013, Supermercados Peruanos S.A. has complied with all the described obligations and restrictive clauses.

- (c) The General Shareholders Meeting of Supermercados Peruanos S.A. held on March 28, 2007 approved the general terms and conditions of the issuance of the First Program of Subordinated Bonds of Supermercados Peruanos S.A., up to a maximum of US\$30,000,000 or its equivalent in Nuevos Soles. The maximum amount of the program is revolving, which means that the total amount of issuances approved can exceed the aforementioned amount as long as the total debit balance is lower than the amount of the program.

During 2007, Supermercados Peruanos S.A. conducted public auctions of its Subordinated Bonds for US\$12,000,000, US\$7,005,000 and S/.21,540,000, corresponding to the first, second and third issuances, respectively. The principal amounts of these issuances will be paid at maturity (2014).

These issuances are guaranteed by the equity of Supermercados Peruanos S.A. and do not have any other specific guarantees.

- (d) As of June 30, 2014 and December 31, 2013, Supermercados Peruanos S.A. has outstanding corporate bonds for S/.216,016,000 and S/.65,984,000, respectively, which accrue annual interest rates that fluctuate between 6.70 and 8.00 percent, and whose maturities are between 2015 and 2019.
- (e) During the six-month periods ended June 30, 2014 and 2013, these bonds issued accrued interest which is recorded in the "Financial costs" caption of the combined income statements. Also, as of June 30, 2014 and December 31, 2013, there is a balance of interest payable which is recorded in the "Other payables" caption of the combined statements of financial position; see Note 13.
- (f) Some of the bonds issued include standard clauses requiring the Companies to meet financial ratios, use of funds criteria and other administrative matters. In Management's opinion, as of June 30, 2014 and as of December 31, 2013, such standard clauses do not limit the normal operation of the Companies and have been fulfilled. These clauses were disclosed in detail in the annual financial statements for the year ended as of December 31, 2013.

Notes to the combined financial statements (continued)

16. Deferred income tax

- (a) The amounts presented in the statement of financial position as of June 30, 2014 and December 31, 2013, as well as the statements of comprehensive income for the six-month period ended June 30, 2014 and the year 2013 are shown below:

Statements of financial position	Deferred liability	
	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Deferred income tax asset	43,463	14,732
Deferred income tax liabilities	<u>(183,834)</u>	<u>(148,113)</u>
Deferred income tax liability, net	<u>(140,371)</u>	<u>(133,381)</u>

Statements of comprehensive income	Income tax for the six-month periods ended June 30, 2014 and 2013	
	2014 S/.(000)	2013 S/.(000)
Current	21,837	16,937
Deferred	<u>6,817</u>	<u>(4,808)</u>
	<u>28,654</u>	<u>12,129</u>

- (b) As of June 30, 2014 and December 31, 2013 the income credit tax, net of provision for current income tax payable, amounts to approximately S/. 35,145,000 and S/.23,387,000, respectively; see Note 5(a).

Notes to the combined financial statements (continued)

17. Equity

(a) Capital stock -
Is represented as follows:

Company	Country	N° issued common shares		Nominal value	2014	2013
		As of June 30, 2014	As of December 31, 2013		Accounting balance of issued capital stock S/.(000)	Accounting balance of issued capital stock S/.(000)
Supermercados Peruanos S.A. and Subsidiaries (*)	Peru	320,332,671	320,332,671	1.05	345,167	336,349
Eckerd Perú S.A. and Subsidiaries	Peru	13,783,428	13,783,428	1.00	13,784	13,784
					<u>358,951</u>	<u>350,133</u>

(*) From May to June 2014, a cash contribution by InRetail Peru Corp. (shareholder of this Company) was approved, for a total of approximately S/.47,950,000. Consequently, an increase in capital for approximately S/.8,818,000 and a capital premium of approximately S/.39,132,000 were recorded. At the date of this report is pending the issuance of 8,397,547 new shares in relation to this cash contribution.

Notes to the combined financial statements (continued)

(b) Additional paid-in capital -

As of June 30, 2014 and December 31, 2013, the "Additional paid-in capital" caption includes the net effect of the adjustments related to the acquisition of Eckerd Perú S.A. and Subsidiaries at said dates; see Note 2(b).

(c) Legal reserve -

As provided in the Corporations Act, it is required that a minimum of 10 percent of distributable income for each year is transferred to a legal reserve until such reserve equals 20 percent of the capital. The legal reserve can absorb losses or be capitalized, but in both cases it must be replenished. The legal reserve is appropriated when the General Shareholders' Meeting approves the same.

(d) Dividends declared and paid -

The Board of Shareholders on June 2014 agreed to distribute dividends from profits available of S/.70,000,000, which were paid during the first semester of the year.

The Board of Shareholders on April, 2013 and June, 2013 agreed to distribute dividends from profits available of S/.20,000,000, which was paid in full in 2013.

18. Tax Situation

(a) The Companies are subject to the Peruvian Tax System and they calculate their Income Tax on the basis of their individual financial statements. As of June 30, 2014 and December 31, 2013, the statutory Income Tax rate was 30 percent on taxable income.

(b) Law No. 29663, later amended by Law No. 29757, which are considered established Peruvian source income to those obtained by the indirect sale of shares representing the capital or of companies domiciled in the country.

To this end, consider an indirect sale occurs when shares or shares representing the capital of a legal person not domiciled in the country which, in turn, owns are sold - directly or through one or more other legal persons - shares representing the capital or of one or more legal persons domiciled in the country, provided certain conditions established by law occur. In this regard, it also defines the circumstances under which the issuer is jointly liable.

(c) For purposes of determining the Income Tax and Value Added Tax, transfer pricing of transactions with related companies and companies domiciled in territories with low or no taxation must be supported with documentation and information on assessment methods applied and criteria considered. As of August 2012, has eliminated the application of transfer pricing rules for purposes only of Value Added Tax. Based on the analysis of the operations of the Group, Management and its legal advisors consider that as consequence of the application of the regulation in force, there will not emerge any significant contingencies for the Companies as of June 30, 2014 and December 31, 2013.

Notes to the combined financial statements (continued)

- (d) The tax authority is legally entitled to review and, if necessary, adjust the Income Tax computed during a term of four years following the year in which the tax declaration has been submitted. Following are the years subject to review by the tax authority of the Companies:

	Income tax	Value added tax
Supermercados Peruanos S.A.	From 2009 to 2013	From 2009 to 2013
Eckerd Perú S.A.	2012 and 2013	2012 and 2013
Eckerd Amazonía S.A.C.	2010, 2012 and 2013	2010, 2012 and 2013
Boticas del Oriente S.A.C.	2009, 2010, 2012 and 2013	2009, 2010, 2012 and 2013

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

Management' s opinion as its legal advisors opinion, any eventual additional tax settlement would not be significant to the combined financial statements as of June 30, 2014 and December 31, 2013 (See Note23).

19. Operating expenses

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

	2014 S/.(000)	2013 S/.(000)
Cost of sales and services	1,983,886	1,766,754
Selling expenses	573,411	496,111
Administrative expenses	68,716	67,921
Total	<u>2,626,013</u>	<u>2,330,786</u>

Notes to the combined financial statements (continued)

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

	2014			
	Cost of sales and services S/.(000)	Selling expenses S/.(000)	Administrativ e expenses S/.(000)	Total S/.(000)
Initial balance of goods, Note 6(a)	774,040	-	-	774,040
Purchase of goods	2,001,074	-	-	2,001,074
Final balance of goods, Note 6(a)	(794,291)	-	-	(794,291)
Impairment of inventories, Note 6(c)	3,063	-	-	3,063
Packing and packaging	-	13,855	126	13,981
Personnel expenses	-	225,345	37,901	263,246
Depreciation, Note 9(a)	-	45,576	6,714	52,290
Amortization of intangible assets, Note 11(a)	-	2,957	1,933	4,890
Amortization of key money	-	463	-	463
Services provided by third parties (b)	-	89,233	12,082	101,315
Advertising	-	40,836	-	40,836
Provision for doubtful accounts, note 4(f)	-	-	24	24
Rental of premises,	-	68,005	3,102	71,107
Taxes	-	11,416	1,290	12,706
Insurance	-	4,312	404	4,716
Other charges (c)	-	71,413	5,140	76,553
Total	<u>1,983,886</u>	<u>573,411</u>	<u>68,716</u>	<u>2,626,013</u>

Notes to the combined financial statements (continued)

	2013			
	Cost of sales and services S/.(000)	Selling expenses S/.(000)	Administrativ e expense S/.(000)	Total S/.(000)
Initial balance of goods	594,605	-	-	594,605
Purchase of goods	1,841,796	-	-	1,841,796
Final balance of goods	(672,289)	-	-	(672,289)
Impairment of inventories, Note 6(c)	2,642	-	-	2,642
Packing and packaging	-	14,026	429	14,455
Personnel expenses	-	193,103	40,338	233,441
Depreciation	-	37,597	5,900	43,497
Amortization of intangible assets	-	2,360	1,281	3,641
Amortization of key money	-	398	-	398
Services provided by third parties (b)	-	83,365	11,323	94,688
Advertising	-	37,691	-	37,691
Rental of premises	-	53,577	2,925	56,502
Taxes	-	9,591	976	10,567
Provision for doubtful accounts, note 4(f)	-	-	122	122
Insurance	-	3,879	277	4,156
Other charges (c)	-	60,524	4,350	64,874
Total	<u>1,766,754</u>	<u>496,111</u>	<u>67,921</u>	<u>2,330,786</u>

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

(c) Mainly include general expenses in stores.

20. Finance costs

The table below presents the components of this caption:

	As of June 30, 2014 S/.(000)	As of June 30, 2013 S/.(000)
Finance income		
Interest and others	<u>2,687</u>	<u>4,582</u>
Total	<u>2,687</u>	<u>4,582</u>
Finance cost		
Interest on loans, borrowing and bonds payable, Note 14 and 15	(47,797)	(45,017)
Interest from derivatives instruments	(1,227)	(1,371)
Other financial costs	<u>(6,740)</u>	<u>(3,727)</u>
Total	<u>(55,764)</u>	<u>(50,115)</u>

Notes to the combined financial statements (continued)

21. Transactions with related parties

- (a) The following table provides the total amount of transactions that have been entered into with related parties for the six-month period ended 2014 and December 31, 2013:

	As of June 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Income		
Reimbursement of expenses for promotion and sale of merchandise vouchers	905	34,227
End of contract compensation (d)	-	30,000
Rent income	7,428	15,194
Rendering of services	7,359	23
Sale of goods	1,866	663
Others	9,144	2,467
	<u>26,702</u>	<u>82,574</u>
Expenses		
Renting of premises and land	15,998	25,544
Reimbursements of expenses	6,150	8,813
Commissions	183	420
Other services	-	250
Others	11,915	8,612
	<u>34,246</u>	<u>43,639</u>

- (b) As a result of the transactions with related companies, the Companies recorded the following balances of receivables and payables as of June 30, 2014 and December 31, 2013:

	As of June 30, 2014 S/.000	As of December 31, 2013 S/.000
Available -for -sale investment, Note 7	<u>17,747</u>	<u>17,171</u>
Other accounts receivable from related parties		
Financiera Uno S.A. (e)	8,981	976
Home Centers	6,402	1,494
Banco Internacional del Perú S.A.A.-Interbank	5,402	6,535
Tiendas Peruanas S.A	2,175	177
Otros	6,486	13,760
	<u>29,446</u>	<u>22,942</u>
Total	<u>29,446</u>	<u>22,942</u>

Notes to the combined financial statements (continued)

	As of June 30, 2014 S/.,000	As of December 31, 2013 S/.,000
Other accounts payable from related parties		
Financiera Uno S.A. (e)	14,745	9,021
Banco Interbank		
Deposito en garantía	3,835	3,642
Línea de crédito y otros	273	1,214
Others	<u>37,753</u>	<u>20,451</u>
Total	<u>56,606</u>	<u>34,328</u>
Current	52,771	30,686
Non-current	<u>3,835</u>	<u>3,642</u>
	<u>56,606</u>	<u>34,328</u>

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

- (c) Outstanding balances at the year-end are unsecured and interest free, except for the financial obligations explained in this note. There have been no guarantees provided or received for any related party receivables or payables. As of June 30, 2014 and December 31, 2013, the Companies have not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.
- (d) On June 30, 2013, Supermercados Peruanos S.A. and Financiera Uno S.A., a related entity, signed the "Contract of Issuance and Administration of the "Oh!" credit card". Said contract established that Financiera Uno S.A. would pay Supermercados Peruanos S.A. an amount of S/.,30,000,000 plus VAT, in order that Financiera Uno S.A. can exclusively operate its "Oh!" credit card in the Supermercados Peruanos stores, instead of the "Vea" credit card of Banco Internacional del Perú S.A.A. - Interbank, which was operating until that moment. Said amount was entirely collected by Supermercados Peruanos S.A. during 2013.

Likewise, as a consequence of such contract, as of December 31, 2013, Supermercados Peruanos holds accounts payable to Financiera Uno S.A. for approximately S/.,9,021,000, which corresponded mainly to the collection of installments to users of the "Oh!" credit card, which normally are transferred to Financiera Uno S.A. the day following of its collection.

- (e) Corresponds to revenues for reimbursements of the operating costs, promotions with credit cards of Interbank and Financiera Uno S.A., sales of fixed assets and commissions. Likewise, it includes the amounts billed to diverse related companies for the sale of merchandise coupons and diverse services provided.

Notes to the combined financial statements (continued)

- (f) Supermercados Peruanos S.A. and Banco Internacional del Perú S.A.A.- Interbank signed contracts on leases of financial stores for 15 and 7 years in October 2004 and September 2009, respectively. Said contracts amount to approximately S/.27,212,000 (equivalent to approximately US\$8,000,000) and S/.14,788,000 (equivalent to approximately US\$5,016,000) which were collected in advance by Supermercados Peruanos S.A. and are presented in the "Deferred revenue" caption in the Combined statements of financial position. Additionally, and only in the case of the 2004 contract, Supermercados Peruanos S.A. received from Banco Internacional del Perú S.A.A.- Interbank US\$2,000,000 as collateral for the contract. As of June 30, 2014 and December 31, 2013, Supermercados Peruanos S.A. has credited the update of the present value of this deposit in the "Financial income" caption. The net present value of the balances related to guarantee deposit amount to S/.3,835,000 and S/.3,642,000 respectively, as of June 30, 2014 and December 31, 2013, and is accounted for in the "Other Payable" in the Combined statement of financial position.

In relation to said contracts, during 2014 Supermercados Peruanos S.A. recognized accrued rental income that amounted to approximately S/.1,626,000, equivalent to US\$541,000 (S/.1,774,000, equivalent to US\$591,000, during 2013), which are recorded in the "Rental income" caption in the Combined income statements .

As of June 30, 2014, Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/.7,893,000 (S/.9,407,000 as of December 31, 2013) which will be recognized as income in upcoming periods.

22. Deferred revenue

The table below presents the components of this caption:

	2014 S/.(000)	2013 S/.(000)
Leases to financial modules	16,797	7,128
Other leases	2,455	5,854
Total	<u>19,252</u>	<u>12,982</u>
Current portion	3,770	3,550
Non-current portion	15,482	9,432
Total	<u>19,252</u>	<u>12,982</u>

Notes to the combined financial statements (continued)

23. Commitments and contingencies

Commitments -

The main commitments assumed are presented below:

- (a) As of June 30, 2014 and 2013, the Companies have signed rental contracts with third parties for the premises in which some of its stores operate. The assumed commitments correspond to fixed and/or variable monthly rents base on sales, whichever is highest. The total commitments assumed up until 2043, calculated on the basis of the fixed rental amounts, were disclosed in the annual financial statements for the year ended as of December 31, 2013.
- (b) As of June 30, 2014, the Companies agreed with several financial entities on the issuance of jointly by and severally irrevocable letters of guarantee for compliance with the payment for purchase of goods to foreign suppliers.
- (c) During 2011, Intercorp Retail Inc. issued an US\$300,000,000 of "Senior Guaranteed Notes" which are guaranteed by the Companies' equity and other related parties.

Contingencies -

- (a) Eckerd Amazonia S.A.C. is in the process of claim against the Tax Authority for determinations of debts and fines related to VAT for the period between January 2003 and June 2005. In opinion of Management and its legal advisors these contingencies are stated as "Possible" and significant liabilities will not arise as result of this contingency as of June 30, 2014 and December 31, 2013.
- (b) Eckerd Perú S.A. has a legal process with its supplier Ekalmi S.A. as consequence of disagreements on the services it provides. At the date of this report, Ekalmi S.A. has demanded Eckerd Perú S.A. a pending payment for approximately S/.10,000,000. As of June 30, 2014 and December 31, 2013, Eckerd Perú S.A. holds liabilities with this supplier for approximately S/.5,000,000; and in its opinion de Eckerd Perú S.A., it would be the maximum amount it would pay.
- (c) Supermercados Peruanos S.A. has been examined by the Tax Authority on its Income Tax returns and its monthly Value Added Tax returns for the years 2004, 2005, 2006 and 2007. Said examinations resulted in Resolutions generating higher taxes, fines and interests for an approximate total of S/.3,155,000, S/.421,000, S/.6,653,000 and S/.15,486,000, respectively. Likewise, during 2013 the Tax Authority examined Income Tax returns and its monthly Value Added Tax returns of the Company for the year 2008. To the date of this report, the Tax Authority has finished the examination of the Income Tax return of the aforementioned year, determining higher taxes, fines and interests for an approximate total of S/.29,816,000; however, still in examination are the monthly Value Added Tax returns for that same year. As of June 30, 2014 and December 31, 2013, Supermercados Peruanos S.A. has appeals said Resolutions.

Notes to the combined financial statements (continued)

In the opinion of Management and its legal advisors, Supermercados Peruanos has sufficient grounds supporting its case; hence it expects favorable results on the contingent issues explained above, and therefore has not recorded any provision for these processes as of June 30, 2014 and December 31, 2013, respectively.

24. Business segments

For management purposes, the Companies are organized into business units based on their products and services and they two reportable segments i) supermarkets and ii) pharmacies.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the combined financial statements.

Transfer pricing between operating segments is on an arm's- length basis in a manner similar to all transactions with third parties.

Notes to the combined financial statements (continued)

The following table presents the financial information of Companies by business segments for the six-month periods ended June 30, 2014 and 2013:

	Supermarkets S./(000)	Pharmacies S./(000)	Total segments S./(000)	Intercompany eliminations S./(000)	Combined S./(000)
2014					
Revenue					
External income	1,744,063	995,280	2,739,343	-	2,739,343
Inter-segment	5,379	-	5,379	(5,379)	-
Total revenue	1,749,442	995,280	2,744,722	(5,379)	2,739,343
Cost of sales	(1,301,848)	(682,038)	(1,983,886)	-	(1,983,886)
Gross profit	447,594	313,242	760,836	(5,379)	755,457
Other operating income	22,789	596	23,385	-	23,385
Selling expenses	(363,336)	(215,454)	(578,790)	5,379	(573,411)
Administrative expenses	(42,733)	(25,983)	(68,716)	-	(68,716)
Other operating expenses	(12,398)	(5)	(12,403)	-	(12,403)
Operating profit	51,916	72,396	124,312	-	124,312
Finance income	2,500	187	2,687	-	2,687
Finance costs	(37,648)	(18,116)	(55,764)	-	(55,764)
Exchange difference	363	(30)	333	-	333
Profit before income tax	17,131	54,437	71,568	-	71,568
Income tax expense	(6,159)	(22,495)	(28,654)	-	(28,654)
Net profit	10,972	31,942	42,914	-	42,914
Other information					
Operating assets	2,359,088	711,453	3,070,541	1,082,526	4,153,067
Operating liabilities	1,641,135	595,999	2,237,134	449,908	2,687,042
Additions to non-current assets -					
Property, furniture and equipment	97,342	20,058	117,400	-	117,400
Intangible assets	5,654	1,663	7,317	-	7,317
Depreciation and amortization	45,656	11,524	57,180	-	57,180

Notes to the combined financial statements (continued)

	Supermarkets S./(000)	Pharmacies S./(000)	Total segments S./(000)	Intercompany eliminations S./(000)	Combined S./(000)
2013					
Revenue					
External income	1,558,359	852,328	2,410,687		2,410,687
Inter-segment	3,419	1,240	4,659	(4,659)	-
Total revenue	<u>1,561,778</u>	<u>853,568</u>	<u>2,415,346</u>	<u>(4,659)</u>	<u>2,410,687</u>
Cost of sales	(1,169,789)	(596,965)	(1,766,754)	-	(1,766,754)
Gross profit	<u>391,989</u>	<u>256,603</u>	<u>648,592</u>	<u>(4,659)</u>	<u>643,933</u>
Other operating income	30,000	330	30,330	-	30,330
Selling expenses	(328,695)	(171,873)	(500,568)	4,457	(496,111)
Administrative expenses	(44,630)	(23,493)	(68,123)	202	(67,921)
Other operating expenses	(499)	(129)	(628)	-	(628)
Operating profit	<u>48,165</u>	<u>61,438</u>	<u>109,603</u>	<u>-</u>	<u>109,603</u>
Finance income	3,380	1,202	4,582	-	4,582
Finance costs	(33,296)	(16,819)	(50,115)	-	(50,115)
Exchange difference	(38,096)	(30,906)	(69,002)	-	(69,002)
Profit before income tax	<u>(19,847)</u>	<u>14,915</u>	<u>(4,932)</u>	<u>-</u>	<u>(4,932)</u>
Income tax expense	6,536	(18,665)	(12,129)	-	(12,129)
Net loss	<u>(13,311)</u>	<u>(3,750)</u>	<u>(17,061)</u>	<u>-</u>	<u>(17,061)</u>

Notes to the combined financial statements (continued)

Geographic information -

As of June 30, 2014 and December 31, 2013, the operations of the Companies are concentrated in Peru, therefore, there are no revenues from external customers, or assets located in a foreign country as of those dates.

25. Fair value

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

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

- (a) Financial instruments whose fair value are similar to book value -
Assets and liabilities that are liquid or have short maturities (less than three months), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments.
- (b) Fixed-rate financial instruments -
The fair value of financial assets and liabilities at fixed interest rates and amortized cost is determined by comparing market interest rates at their initial recognition to current market rates related to similar financial instruments. The estimated fair value of interest-bearing deposits is determined through discounted cash flows by using market interest rates in the prevailing currency with similar maturities and credit risks.
- (c) Available-for-sale investment -
Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available. Fair value of unquoted available-for-sale financial assets is estimated using a discounted cash flow technique.

Notes to the combined financial statements (continued)

Fair value hierarchy -

The Companies use the following hierarchy to record or disclose, as required by the IFRS, the fair value of the financial instruments and investment properties recorded in the combined statements of financial position:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The Companies have not performed transfers of financial instruments from Level 3 to Level 1 or to Level 2 during the years 2014 and 2013. The financial instruments and its level of hierarchy for the determination of the fair value, to record or disclose, are the following:

- Available-for-sale investments which fair value was determined under level 1 hierarchy.
- Derivative instrument which fair value was determined under level 2 hierarchy.
- Bonds issued, and debts and loans that accrue interests, whose exposure fair values were determined through the Level 2 hierarchy.

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