InRetail Perú Corp. and Subsidiaries

Consolidated financial statements as of December 31, 2013 and 2012, together with the independent auditor's report

Building a better working world

InRetail Perú Corp. and Subsidiaries

Consolidated financial statements as of December 31, 2013 and 2012, together with Report of the independent auditor's report

Contents

Independent auditors' report

To the Board of Directors and shareholders of InRetail Perú Corp. and Subsidiaries

We have audited the accompanying consolidated financial statements of InRetail Perú Corp. and Subsidiaries (together the "InRetail Group"), which comprise the consolidated statement of financial position as of December 31, 2013, and 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the years ended December 31, 2013 and 2012, and the summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Auditing Standards Generally Accepted in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

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

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Independent Auditors' Report (continued)

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of InRetail Perú Corp. and Subsidiaries as of December 31, 2013, and 2012, and their consolidated results of operations and their cash flows for the years ended December 31, 2013 and 2012, in accordance with International Financial Reporting Standards.

Lima, Peru,
March 24, 2014

Medina, Zaldívar, Paredes & Asociados

Countersigned by:

Cristian Emmerich
C.P.C.C. Registration No. 19-289

InRetail Perú Corp. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2013, and 2012

	Note	2013 S/.(000)	2012 S/.(000)
Assets			
Current assets			
Cash and short-term deposits	5	282,571	541,864
Investments at fair value through profit or loss	6	-	555,023
Trade receivable, net	7	82,155	72,313
Other receivables, net	8	32,742	32,431
Accounts receivable to related parties	26(b)	86,048	104,477
Inventories, net	9	778,988	601,962
Available-for-sale investment	10	17,171	28,319
Prepayments	11	23,371	30,942
Taxes recoverable	12	158,721	48,456
Total current assets		1,461,767	2,015,787
Non-current assets			
Other receivables, net	8	7,027	7,430
Prepayments	11	21,637	20,669
Recoverable taxes	12	390	-
Property, furniture and equipment, net	13	2,106,565	1,763,538
Investment properties	14	1,695,897	1,104,261
Intangible assets, net	15	1,155,774	1,136,720
Other assets		353	1,970
Total non-current assets		4,987,643	4,034,588
Total assets		6,449,410	6,050,375

	Note	2013 S/.(000)	2012 S/.(000)
Liabilities and equity			
Current liabilities			
Trade payables	16	1,287,351	1,035,307
Other payables	17	203,480	162,642
Interest-bearing loans and borrowings	18	77,755	73,938
Accounts payable to related parties	26(b)	30,893	33,828
Current income tax, net	21(d)	416	25,122
Bonds payable	19	84,449	9,771
Deferred revenue	27	3,557	2,989
Total current liabilities		1,687,901	1,343,597
Interest-bearing loans and borrowings	18	1,522,798	1,319,417
Accounts payable to related parties	26(b)	3,642	3,157
Bonds payable	19	36,670	264,422
Derivative financial instrument	20	2,747	4,995
Deferred revenue	27	30,253	20,908
Deferred income tax liabilities, net	21	213,485	193,258
Total non-current liabilities		1,809,595	1,806,157
Total liabilities		3,497,496	3,149,754
Equity	22		
Equity Attributable to Inretail Perú Corp:			
Capital stock		2,138,566	2,138,566
Capital premium		549,793	551,209
Unrealized results on financial instruments		(2,737)	374
Retained earnings		266,172	210,353
		2,951,794	2,900,502
Non- controlling interests		120	119
Total equity		2,951,914	2,900,621
Total liabilities and equity		6,449,410	6,050,375

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

InRetail Perú Corp. and Subsidiaries

Consolidated income statements

For the years ended December 31, 2013 and 2012

	Note	2013 S/.(000)	2012 S/.(000)
Net sales of goods		5,077,293	4,598,092
Rental income		142,504	111,635
Rendering of services		104,606	74,606
Revenue		5,324,403	4,784,333
Cost of sales	24(a)	(3,805,289)	(3,437,761)
Gross profit		1,519,114	1,346,572
Gain on valuation at fair value of investment properties	14(a)	44,595	53,724
End of contract compensation	26(d)	30,000	-
Other operating income		2,273	487
Selling expenses	24(a)	(1,010,308)	(888,979)
Administrative expenses	24(a)	(173,958)	(138,728)
Other operating expenses		(2,330)	(3,363)
Operating profit		409,386	369,713
Finance income	25	24,549	21,278
Finance costs	25	(173,164)	(156,065)
Exchange difference		(125,170)	76,816
Profit before income tax		135,601	311,742
Income tax expense	21(c)	(79,780)	(93,431)
Net profit		55,821	218,311
Attributable to:			
InRetail Perú Corp. shareholders		55,819	218,300
Non-controlling interests		2	11
		55,821	218,311
Earnings per share:	28		
Basic and diluted profit for the year attributable to InRetail Perú Corp. shareholders		0.54	2.62

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

InRetail Perú Corp. and Subsidiaries

Consolidated statements of comprehensive income

For the years ended December 31, 2013 and 2012

	Note	2013 S/.(000)	2012 S/.(000)
Net profit		55,821	218,311
Other comprehensive income			
Update of the fair value of derivative financial instruments	20	530	70
Update of the fair value of available-for-sale investments	10	(3,158)	3,664
Transfer of realized gain on available-for-sale investments to the profit for the year	10	(754)	(3,226)
Deferred income tax related to other comprehensive income	21(b)	270	175
Other comprehensive income for the year, net of income tax effects		(3,112)	683
Total comprehensive income for the year		52,709	218,994
Attributable to:			
InRetail Perú Corp. shareholders		52,708	218,982
Non-controlling interests		1	12
		52,709	218,994

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

InRetail Perú Corp. and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2013 and 2012

	Attributable to owners of the parent							
	Capital stock S/.(000)	Additional paid in capital S/.(000)	Capital premium S/.(000)	Unrealized results on financial instruments S/.(000)	Retained earnings S/.(000)	Total S/.(000)	Non-controlling interests S/.(000)	Total net equity S/.(000)
Balance as of December 31, 2012	1,306,455	122,019	-	2,117	299,468	1,730,059	1,771	1,731,830
Net income	-	-	-	-	218,300	218,300	11	218,311
Other comprehensive income	-	-	-	682	-	682	1	683
Total comprehensive income	-	-	-	682	218,300	218,982	12	218,994
Capital contribution	2,902	9,666	-	-	-	12,568	-	12,568
Capitalization	37,209	(17,927)	-	-	(19,282)	-	-	-
Deemed distribution	-	(113,758)	-	-	(91,047)	(204,805)	-	(204,805)
Dividends	-	-	-	-	(1,950)	(1,950)	-	(1,950)
Restructuring adjustments	197,540	-	-	(2,425)	(193,372)	1,743	(1,743)	-
Cash contribution, Note 1(b.2)	594,460	-	551,209	-	-	1,145,669	-	1,145,669
Other	-	-	-	-	(1,764)	(1,764)	79	(1,685)
Balance as of December 31, 2012	2,138,566	-	551,209	374	210,353	2,900,502	119	2,900,621
Net income	-	-	-	-	55,819	55,819	2	55,821
Other comprehensive income	-	-	-	(3,111)	-	(3,111)	(1)	(3,112)
Total comprehensive income	-	-	-	(3,111)	55,819	52,708	1	52,709
Shares issuance cost, Note 1(b.2)	-	-	(1,416)	-	-	(1,416)	-	(1,416)
Balances as of December 31, 2013	2,138,566	-	549,793	(2,737)	266,172	2,951,794	120	2,951,914

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

InRetail Perú Corp. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2013 and 2012

	2013 S/.(000)	2012 S/.(000)
Operating activities		
Net income	55,821	218,311
Non-cash adjustment to reconcile profit before tax to net cash flows		
Allowance for doubtful accounts receivable	1,702	1,180
Depreciation of property, furniture and equipment	100,622	91,602
Amortization of intangible assets	8,371	6,684
Provision for inventory impairment, net of recoveries	6,179	3,813
Loss on disposal of property, furniture and equipment and intangible assets	1,985	235
Gain on valuation of investment properties	(44,595)	(53,724)
Finance costs	298,334	156,066
Finance income	(24,549)	(98,094)
Deferred income tax	20,496	26,480
Other	2,833	1,588
Working capital adjustments		
Increase in trade receivables	(11,348)	(27,007)
Decrease (increase) in other receivables	322	(16,079)
(Increase) decrease in inventory	(183,205)	9,047
Decrease (increase) in prepayments	7,771	(12,797)
Increase in taxes recoverable	(110,655)	(6,817)
Increase in trade payables	247,369	73,008
Increase of deferred revenue	9,913	2,848
Increase in other payables	6,733	78,400
Net cash flows from operating activities	394,099	454,744
Investing activities		
Gain on sale of property, furniture and equipment	1,110	1,926
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(314,653)	(298,515)
Purchase of investment properties, net of acquisitions through leasing contracts	(470,053)	(263,743)
Purchase of investments at fair value through profit or loss	(167,000)	(640,404)
Sale of investments at fair value through profit or loss	746,986	79,356
Sale of available for sale investment	11,518	40,645
Purchase and development of intangible assets	(28,076)	(26,850)
Decrease (increase) in other receivables from related parties	19,196	(84,487)
Net cash flows used in investing activities	(200,972)	(1,192,072)

Consolidated statements of cash flows (continued)

	2013 S/.(000)	2012 S/.(000)
Financing activities		
Proceeds from interest-bearing loans and borrowings	66,280	512,997
Issuance of bonds	-	147,958
Capital contribution and issue premium	-	1,158,237
Prepayment of interest-bearing loans and borrowings	(120,974)	(532,990)
Shares issuance cost	(1,416)	-
Deemed distribution	-	(204,805)
Prepayment of bonds payable	(171,940)	(16,370)
Interest paid	(207,397)	(143,753)
Dividends	-	(1,950)
Increase in other accounts payable to related parties	8,714	8,969
Net cash flows (used in) from financing activities	(426,733)	928,293
Net increase (decrease) of cash and short-term deposits	(233,606)	190,965
Net foreign exchange difference	813	(1,323)
Cash and short – term deposits at the beginning of the year	515,364	325,722
Cash and short – term deposits at the end of the year	282,571	515,364
Additional information on cash flow:		
Cash paid and/or received in the year for		
Interest received	23,877	17,006
Income tax paid	(83,990)	(45,845)
Other finance expenses paid	(11,944)	(8,327)
Non-cash transactions		
Fixed assets purchased through leasing and other financial obligations	119,408	43,627
Investment properties purchased through leasing and other financial obligations	100,738	25,725

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

1. Business activity and group reorganization

(a) Business activity -

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

As of December 31, 2013 and 2012, the percentages of ownership are:

Owner	%
Intercorp Retail Inc.	58.04
Intercorp Perú Ltd. (*)	12.00
NG Pharma Corp.	6.30
Others	23.66
	100.00

(*) All these companies are controlled by Intercorp Perú directly and indirectly.

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 Morelli street 181, San Borja, Lima, Peru.

The Company and its subsidiaries Supermercados Peruanos S.A., Eckerd Group and InRetail Real Estate Corp. (hereinafter and together "the InRetail Group"), are dedicated to operate supermarkets, hypermarkets, pharmacies and shopping centers, as well as real estate development. The InRetail Group's operations are concentrated in Peru.

The financial statements of 2012, were approved by the General Shareholders Meeting held on April 12, 2013. The financial statements of 2013 were approved by Management on March 24, 2014, and will be submitted for approval by the Board of Directors and the General Shareholders' Meeting that will be held within the deadline established by law. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors and the General Shareholders' Meeting without modifications.

(b) Reorganization of Subsidiaries and Initial Public Offering -

(b.1) Reorganization of Intercorp Peru's Subsidiaries -

Intercorp Perú and its Subsidiaries ("Intercorp Perú Group"), which comprises several companies operating in Peru and other countries, completed in 2012 the reorganization of its Subsidiaries in the retail and shopping center businesses. In order to have a more organized and effective structure in which the Company operates as a holding company that owns the majority shareholdings in the subsidiaries of Intercorp Perú that operates in said businesses.

As result of the reorganization, the Company owns directly and indirectly the following percentages of ownership as of December 31, 2013 and 2012:

- 99.98% of Supermercados Peruanos S.A.,
- 100.00% of Eckerd Peru S.A.
- 100.00% of InRetail Real Estate Corp.

The activities, main financial information and other relevant data of each Company's subsidiaries are explained in Note 2 below.

As the above-described reorganization of Intercorp Perú Group will not lead a change in Intercorp Perú's control of the Subsidiaries now grouped under the Company, according to International Financial Reporting Standards (see Note 3.2(b)), the transactions amount to a reorganization of entities under common control, therefore the reorganization was accounted for using the pooling-of-interest method. Therefore, these consolidated financial statements have been prepared under the assumption that the reorganization took place as of the beginning of the earliest year presented herein, and the Company was operating in each of the years presented.

(b.2) International share offering -

Subsequent to the reorganization explained in paragraph (b.1) above, and through General Shareholders' Meeting held on July 23, 2012, the performance of an international offering of new shares of the Company under Rule 144 - A of the Securities and Exchange Commission of United States of America and Regulation S of U. S. Securities Act was approved.

In this sense, through the Directive Meeting held on October 3, 2012 agreed to authorize the issuance of 20,000,000 common shares in the peruvian and international markets, being the set price US$20 per share. The issuance represented for the Company a cash contribution of approximately US$400,000,000 (equivalent to approximately S/.1,034,000,000, distributed S/.517,000,000 as an increase of capital stock and S/.517,000,000 as share premium).

Additionally, through the Directive Meeting held on October 22, 2012 agreed to authorize the issuance of 3,000,000 new common shares in the Peruvian and international markets, being the issue price of US$20 per share. The issuance represented for the company a cash contribution of approximately US$60,000,000 (equivalent to approximately S/.154,920,000, distributed S/.77,460,000 as an increase of capital stock and S/.77,460,000 as capital premium).

Capital premium recorded from the two issuances detailed above is presented in the consolidated statements of changes in equity, net of expenses incurred and related to the shares issuance, amounting to S/.43,251,000. During 2013, additional expenses were recorded, amounting to S/.1,416,000.

2. Subsidiaries activities

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

(a) Supermercados Peruanos S.A. is dedicated to retail. As of December 31, 2013, it owns a chain of 98 stores, composed by 55 hypermarkets that operate under the “Plaza Vea” brand, 35 supermarkets that operate under the “Vivanda” and “Plaza Vea Super” brands, and 8 discount stores that operate under the “Mass”, “Economax” and “Plaza Vea Express” commercial brand (49 hypermarkets, 26 supermarkets and 11 discount stores as of December 31, 2012). Supermercados Peruanos S.A. holds 100 percent of: (i) Peruana de Tiquetes S.A.C. and (ii) Plaza Vea Sur S.A.C.

(b) 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 December 31, 2013 and 2012, it operates 725 and 580 stores, respectively. Eckerd Perú S.A. holds 100 percent of: (i) Eckerd Amazonía S.A.C. and (ii) Boticas del Oriente S.A.C.

(c) InRetail Real Estate Corp. is a holding company incorporated in the Republic of Panama in April 2012 as part of the reorganization process described in Note 1(b). As December 31, 2013 and 2012, InRetail Real Estate Corp. owns 100 percent of the share capital of the following subsidiaries:

Entity	Activity
Real Plaza S.R.L.	Entity dedicated to the management and administration of shopping centers (17 and 14 as of December 31, 2013 and 2012) named "Centro Comercial Real Plaza" and located in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca and Lima.

Entity	Activity
Patrimonio en Fideicomiso – D.S.N°093-2002 – EF - Interproperties Holding and Patrimonio en Fideicomiso –D.S. N°093-2002-EF-Interproperties Holding II	Equity trust funds are Special Purpose Entities (SPE) formed in order to form independent entities trusts each of the originators, through which investments are made in real estate projects.
InRetail Properties Management S.R.L. (formerly Interproperties Perú S.A.)	Entity that provides the staff which manages and operates Interproperties Holding.

(d) A summary of the main data of the audited financial statements of the major subsidiaries as of December 31, 2013 and 2012, and for the years then ended:

	Supermercados Peruanos S.A.	
	2013 S/.(000)	2012 S/.(000)
Total assets	2,333,713	2,029,526
Total liabilities	1,671,966	1,433,423
Equity	661,747	596,103
Operating profit	127,755	122,397
Net profit	9,506	57,680

	Eckerd Peru S.A. and Subsidiarias	
	2013 S/.(000)	2012 S/.(000)
Total assets	708,127	611,927
Total liabilities	570,703	463,220
Equity	137,424	148,707
Operating profit	133,048	119,483
Net profit	88,717	84,698

	InRetail Real Estate Corp.	
	2013 S/.(000)	2012 S/.(000)
Total assets	2,395,741	2,193,947
Total liabilities	834,171	820,998
Equity	1,561,570	1,372,949
Operating profit	155,766	160,382
Net profit	29,920	112,931

3. **Summary of significant accounting policies**

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

3.1 **Basis of preparation and presentation**

The consolidated financial statements of the InRetail Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

The information contained in the consolidated financial statements is responsibility of Management of the Company and Subsidiaries, who expressly declares that have applied entirely the principles and criteria included in the International Financial Reporting Standards (IFRS) issued by IASB effective at the dates of the consolidated financial statements.

3.2 **Summary of significant accounting policies**

(a) Basis of consolidation -

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the InRetail Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

(b) Business combinations and goodwill -

Acquisitions are recorded using the purchase method of accounting, as defined in IFRS 3 "Business Combinations", applicable to the date of each transaction. Assets and liabilities are recorded at their estimated market values at the date of purchase, including identified intangible assets not recognized in the statements of financial position of each entity acquired. Acquisition costs incurred are expensed and included in administrative expenses.

When the InRetail Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated income statements as profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the InRetail Group's cash-generating units that are expected to benefit from the combination.

Business combinations and other sales of companies or businesses between entities under common control are recorded using the pooling-of-interest method, because there has been no effective change in control over the companies or business. In accordance with the pooling-of-interest method, the balances of the financial statements of the merged companies or business, both in the period in which the merger occurs as well as the other periods presented in comparative form, are presented as if they had merged since the beginning of the oldest period that is presented.

(c) Financial instruments - initial recognition and subsequent measurement -

(i) Financial assets

Initial recognition and measurement -

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The InRetail Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of financial assets which are not at fair value through profit or loss, attributable transaction costs directly.

Purchases or sales of financial assets that require the delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the InRetail Group commits to purchase or sell the asset.

The InRetail Group's financial assets include cash and short-term deposits, investments at fair value through profit or loss, trade and other receivables, accounts receivable to related entities and available-for-sale investment.

Subsequent measurement -
The subsequent measurement of financial assets depends on their classification applicable, as following:

Financial assets at fair value through profit or loss -
A financial asset is held at fair value through profit or loss when it is held for trading in short term or when it is designated upon initial recognition. The assets in this category are classified as current assets when they are maintained as negotiable or they are expected to be realized in the twelve following months since the date of the statement of financial position. Profits and losses from the financial assets classified in this category are recognized in the consolidated statement of comprehensive income.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. Any losses arising from impairment are recognized in the income statement as finance costs. Losses resulting from impairment are recognized in the consolidated income statements in the "financial expenses" caption.

The InRetail Group records the following accounts in this category: cash and short-term deposits, trade and other receivables, and accounts receivable to related parties.

Available-for-sale investments
Available-for-sale investments are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale investments are subsequently measured at fair value and unrealized gains or losses are recognized as other comprehensive income in the equity consolidated as part of "unrealized gain or losses in financial instruments" until the investment is derecognized, at which time the cumulative gain or loss is recognized in "financial expenses", or determined to be impaired, at which time the cumulative loss is reclassified to the "financial expenses" of the income statement and removed from equity consolidated. Interest earned of available–for-sale investments is reported as interest income using the EIR method.

Derecognition -
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired

- The InRetail Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the InRetail Group has transferred substantially all the risks and rewards of the asset, or (b) the InRetail Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the InRetail Group has transferred the rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the InRetail Group's continuing involvement in it. In that case, the InRetail Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the InRetail Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the InRetail Group could be required to repay.

(ii) Impairment of financial assets
Management assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the InRetail Group of financial assets that can be reliably estimated. Evidence of

impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost -
For financial assets carried at amortized cost, the InRetail Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the InRetail Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The amount of the loss is recognized in the consolidated income statement.

Available-for-sale investments -
For available-for-sale investments, the InRetail Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

For debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. The amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(iii) Financial liabilities

Initial recognition and measurement -

Financial liabilities (within the scope of IAS 39) are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The InRetail Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings carried at amortized cost, this includes directly attributable transaction costs.

The InRetail Group's financial liabilities include trade and other payables, accounts payable to related entities, bonds issued and interest-bearing loans and borrowings.

As of December 31, 2013 and 2012, the InRetail Group has no financial liabilities at fair value through profit or loss.

Subsequent measurement -

The measurement of financial liabilities depends on their classification applicable to the InRetail Group as described below.

Debts and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the consolidated income statement.

Derecognition –

A financial liability is derecognized when the obligation specified in the contract is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

(iv) Offsetting of financial instruments

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

(d) Derivative financial instruments and hedge accounting –

At the inception of a hedge relationship, the InRetail Group formally designates and documents the hedge relationship to which the InRetail Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The only derivative financial instrument held by the InRetail Group is a currency swap contract. This derivative financial instrument was initially recognized at fair value on the date on which a derivative contract was entered into and is subsequently remeasured at fair value. This derivative is carried as a financial asset when the fair value is positive and as a financial liability when the fair value is negative.

Any gains or losses arising from changes in the fair value are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in unrealized result of financial instruments.

Cash flow hedges which meet the criteria for hedge accounting are accounted for as described below:

- The effective portion of the gain or loss on the hedging instrument is recognized directly as unrealized results on financial instruments by cash flows hedge in the equity consolidated, while any ineffective portion is recognized immediately in the consolidated income statement in other operating expenses.

- Amounts recognized as unrealized results of financial instruments are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial costs is recognized or when a forecast sale occurs.

- If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover by other hedging instrument, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in the other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

(e) Foreign currency transactions -

(i) Functional and presentation currency -
The InRetail Group's consolidated financial statements are presented in nuevos soles, which is also the functional currency of the Company and its Subsidiaries.

(ii) Transactions and balances in foreign currency –
Transactions in foreign currency are those that have been performed in currencies different than the functional currency. Transactions in foreign currencies are initially recorded by the entities at the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are retranslated at the functional currency using the spot rate of exchange prevailing at the reporting date. Exchange rate gains or losses resulting from restating the monetary assets and liabilities into foreign currency at the exchange rates prevailing at the consolidated statements of financial position date or at their settlement date are recorded in "Net exchange difference" of the consolidated statements of comprehensive income. Non-monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate prevailing at the transaction date.

(f) Cash and short-term deposits -
Cash and short-term deposits in the consolidated statement of financial position comprise cash in banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement cash flows, cash consists of cash and short-term deposits as defined above.

(g) Inventories -
Inventories are valued at the lower of cost and net realizable value. Commercial discounts, price reductions and other similar items decrease the acquisition cost. Cost is determined by applying the average cost method, except in the case of inventory in transit, which is presented at its specific acquisition cost.
Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Reductions in cost of inventories to its net realizable value are recorded as a provision for impairment of inventories, in the caption "Cost of sales" in the consolidated income statement in the period in which such reductions occur.

(h) Prepayments -

The criteria adopted to record these items are the following:

- Operating lease payments made in advance are recorded as an asset and recognized as an expense over the rental period.

- The key money corresponding to the amounts paid by the InRetail Group for the rights for use of certain commercial stores are amortized during the term of the respective contracts.

- Insurance are recorded as the value of the premium paid for the coverage of the different assets and are amortized by applying the straight line method during the term of the policies.

- Payments in advance for advertising are recorded as an asset and are recognized as expenses when the service is accrued.

(i) Property, furniture and equipment -

Property, furniture and equipment are stated at cost, net of the accumulated depreciation and/or accumulated impairment losses, if any. The historical acquisition cost includes expenses that are directly attributable to the acquisition of assets. Such cost includes the cost of replacing component parts of the property, furniture and equipment and borrowing costs for long-term construction projects if the recognition criteria are met, as indicated in paragraph (r) below.

When significant parts of property, furniture and equipment are required to be replaced at intervals, the InRetail Group derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lifes described in Note 13.

An item of property, furniture and equipment and any significant part initially recognized is derecognized when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Work in progress represents buildings in construction and is recorded at cost. This includes the construction cost and other direct costs. Work in progress does not depreciate until relevant assets are concluded and operative.

The transfers of investment properties to property, plant and equipment are carried at cost, eliminating any gains from valuation at fair value.

(j) Leases -

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

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

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

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

Group as a lessor

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

(k) Investment properties -

Investment property comprises completed property and property under construction or redevelopment held to earn rentals or for capital appreciation or both.

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

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included as "Other income" in the income statement in the period in which they arise. Fair values are evaluated periodically by Management, based on discounted cash flows over the benefits that are expected to be obtained from these investments. Fair values of investment property under construction or investment property held to operate in the future are evaluated periodically by an accredited external independent value applying a recognized valuation model.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to component of property, furniture and equipment, the deemed cost for subsequent accounting is the fair value at the date of change. If a component of property, furniture and equipment becomes an investment property, the InRetail Group accounts such property in accordance with the policy stated under property, furniture and equipment up to the date of change in use.

(l) Intangible assets -

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding development costs capitalized, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense for intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

(m) Impairment of non-financial assets -
The InRetail Group, assesses at each end of year, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required (goodwill and intangible assets with indefinite useful lives), the InRetail Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate any cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable value, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. In determining fair value less costs of disposal, are taken into account recent market transactions, if any. If you can identify this type of transaction, using a valuation model is appropriate.

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

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

(n) Defined contribution pension plans -
The InRetail Group only operates a defined contribution pension plan. The contribution payable to a defined contribution pension plan is in proportion to the services rendered to the InRetail Group by the employees and it is recorded as administrative and selling expenses in the consolidated statement of comprehensive income. Unpaid contributions are recorded as a liability.

According to Peruvian legislation, employees profit sharing is calculated on the basis of the taxable income determined for tax purposes.

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

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

(p) Contingencies -
A contingent liability is disclosed when the existence of an obligation shall only be confirmed by future events or when the amount of the obligation cannot be measured with sufficient reliability. Contingent assets are not recognized but are nonetheless disclosed when it is probable that generates an income of economic benefits to the InRetail Group.

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

(q) Revenue recognition -

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

- Sales of goods: Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Retail sales are generally paid in cash or through credit card, so the revenue is recorded at the gross amount of the sale at the moment when the goods are delivered to the client and commissions of the transactions with the credit card are recognized as selling expense at the same time the sale is recorded.

- Rendering of services: Revenue from rendering of management services are billed on a monthly basis in accordance to the contracts subscribed with the owners of the shopping centers and are recognized in the period in which the services are rendered.

- Rental income: Rental income arising from operating leases, less the InRetail Group's initial direct costs of entering into the leases, is accounted for on a straight-line basis over the term of the lease, except for contingent rental income which is recognized when it arises.

- Key money: the incentives for lessees to enter into lease agreements are recognized into income evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease.

  Amounts received from tenants to terminate leases or to compensate for wear and tear are recognized in the consolidated income statement when they arise.

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

(r) Borrowing costs -

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

(s) Taxes -

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

Current income tax -

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are approved.

Current income tax relating to items recognized directly in consolidated equity is recognized in consolidated equity and consolidated statement of comprehensive income and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax -

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

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

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

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

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

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

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

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

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

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

(t) Earnings per share -

Basic and diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. As of December 31, 2013 and 2012, the Company does not have financial instruments with dilutive effect, therefore basic and diluted earnings per share are identical for the years reported.

(u) Segment reporting –
The Group reports financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are a component of an entity for which separate financial information is available that is evaluated regularly by the entity's Chief Operating Decision Maker ("CODM") in making decisions about how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to segments, Note 30.

(v) Capital Premium -
Corresponds to the difference between the nominal value and the issuance price in the market of each share. The share premium is presented net of the expenses incurred in the shares' issuance.

(w) Consolidated financial statements as of December 31, 2012 -
Some items in the consolidated statements of comprehensive income as of December 31, 2012, have been reclassified to make them comparative with the balance of the current year. Inretail Group's Management considers that reclassifications performed in the consolidated financial statements of the Group as of December 31, 2012 are not significant, considering the consolidated financial statements taken as a whole.

3.3 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses for the years ended December 31, 2013 and 2012.

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

In the process of applying the InRetail Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(i) Operating lease contracts – the InRetail Group as lessor -
The InRetail Group has entered into commercial property leases on its investment property portfolio. The InRetail Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and

rewards of ownership of these property and so accounts for the leases as operating leases.

(ii) Tax judgements-
The InRetail Group is subject to income and capital gains taxes. Significant judgment is required to determine the total provision for current and deferred taxes.

There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. In particular, when calculating deferred taxation, the effective tax rate applicable on the temporary differences, mainly in investment properties, depends on the method by which the carrying amount of the assets or liabilities will be realized.

The InRetail Group recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognized on a net basis to the extent they are relating to the same fiscal unity and fall due in approximately the same period.

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

(i) Provision for inventory losses (see Note 3.2(g))
This provision is calculated considering the average historic values of losses incurred throughout the year and until the last physical inventory conducted before the year end. This provision is recorded as provision for inventory devaluation with charge to the consolidated income statement.

(ii) Discounts, price reductions and others obtained by purchasing volumes of goods (see Note 3.2(g))
Discounts, price reduction and others obtained by purchasing volumes of goods are deducted from inventory at the date the discount is granted by suppliers and from cost of sales when the related items are sold.

The different forms of such discounts require that the InRetail Group estimates its distribution between the inventory that has been sold and the inventory remaining in stock at the date of the consolidated statements of financial position. Management performs such estimation on the basis of the daily discounts actually granted by suppliers and the rotation rates per item.

(iii) Depreciation method, estimated useful lives and residual value of property, plant and equipment (see Note 3.2(i)).
The determination of the depreciation method, the estimated useful lives and the residual value of property, plant and equipment involves judgments and assumptions that could be affected if the circumstances change. Management reviews periodically these assumptions and adjusts then in a prospective manner in case any changes are identified.

(iv) Fair value of investment properties (see Note 3.2(k))
The fair value of completed investment property is determined by Management of the InRetail Group using the Discounted Cash Flow Method.

Investment property under construction and investment property held to operate in the future is also valued at fair value as determined through appraisals performed by an accredited external independent value, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as leases, tenants sales, fixed rents to be charged to different types of tenants, variable rent as a percentage of sales, operating costs, building costs (CAPEX), maintenance CAPEX and discount rates applicable to those assets). In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction.

Volatility in the financial system is reflected in commercial real estate markets. Therefore, in arriving at their estimates of market values as of the statements of financial position, the Management and appraisers used their market knowledge and professional judgement and did not rely solely on historical transactional comparable. In these circumstances, there was a greater degree of uncertainty than which exists in a more active market in estimating the market values of investment property.

The significant methods and assumptions used in estimating the fair value of investment property are set out in Note 14.

Techniques used for valuing investment property -
The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either from an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as net rental income less operating expenses/outgoings. A series of periodic net operating

incomes, along with an estimate of the terminal value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

(v) Impairment of non-financial assets (see Note 3.2(m))
At the end of each year, InRetail Group assesses whether there exist evidence that the value of its assets has deteriorated. If said evidence exists, InRetail Group performs an estimation of the recoverable amount of the asset.

As of the date of the consolidated financial statements, the available projections of these indicators show trends favorable to the interests of InRetail Group which support the recovery of its non-financial assets.

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

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

(vii) Taxes estimation (see Note 23)
Uncertainty exists with regard to the interpretation of complex tax regulations, the changes in the tax norms and the amount and opportunity in which future taxable income is generated. The subsidiaries of the Company calculate provisions, on the basis of reasonable estimations for the possible consequences derived from the inspections performed by the Tax Authority. The amount of these provisions is based on several factors such as the experience in previous tax examinations, and on the different interpretations about the tax regulations made by the Subsidiaries of the Company and their advisers. These differences in interpretation can arise in a great variety of questions, depending on the circumstances and existing conditions in the place of domicile of the InRetail Group.

3.4 Standards issued but not yet effective

The InRetail Group decided not to early adopt the following standards and interpretations that have been issued but are not effective at December 31, 2013:

- IAS 32 "Financial Instruments: Presentation – Offsetting of financial assets and liabilities (amendment)".
  In effect for periods starting on or since January 1, 2014. The amendment specifies the meaning of "account with a currently enforceable legal right to offset" and the criteria and mechanisms for non-simultaneous settlements of the clearing houses in order to have the right to the offset.

  Moreover, this amendment clarifies that in order to offset two or more financial instruments, the entities must have a right to offset that cannot be conditioned to a future event, and the following circumstances must be of mandatory compliance: (i) the ordinary course of its operations; (ii) a non-compliance event; and (iii) in case of insolvency or bankruptcy of the entity or any of the counterparties.

- IAS 39 "Novation of derivatives and continuation of hedge accounting (amendments)"
  In effect for periods starting on or since January 1, 2014. These amendments provide with an exception in order to avoid the suspension of the hedge accounting when occurs the novation of a derivative designed as hedging instrument that complies with certain criteria.

- IFRS 9 "Financial Instruments"
  In effect for periods starting on or since January 1, 2018.
  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces new requirements related to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting which align said accounting more closely to risk management. Likewise, said requirements also establish an approach based on accounting principles of hedging that address inconsistencies and weaknesses in the hedge accounting model set by IAS 39. Currently, the International Accounting Standards Board (IASB) has a project aimed to amend certain requirements of classification and measurement of IFRS 9 and to include new requirements for the treatment of financial assets impairment.

- "Investment Entities" (amendments to IFRS 10, IFRS 12 and IAS 27)
  In effect for periods starting on or since January 1, 2014. These amendments establish an exception to the requirement of consolidation for entities that qualify as investment entities under the criteria set by IFRS 10. The exception of consolidation requires that investment entities are recorded as subsidiaries at their fair value through profit or loss.

- IFRIC 21 "Levies"
  In effect for periods starting on or since January 1, 2014. IFRIC 21 clarifies that an entity recognizes a levy liability when the activity that generates the payment, as identified by the relevant legislation, is made. For a levy to be originated when reaching a minimum threshold, the interpretation makes it clear that none liability must be recognized before it reaches the specified minimum threshold.

- Improvements to IFRS (cycles 2010-2012 and 2011-2013)
  IASB published improvements to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 2 "Share-based Payments", IFRS 3 "Business Combinations", IFRS 8 "Operating Segments", IFRS 13 "Fair Value Measurement", IAS 16 "Property, Plant and Equipment", IAS 24 "Related Party Disclosures", IAS 38 "Intangible Assets" and IAS 40 "Investment Properties", in effect for periods starting on or since July 1, 2014.

InRetail Group is assessing the possible impact of the application of these standards on its consolidated financial statements.

4. Transactions in foreign currency

Transactions in foreign currency are carried out using exchange rates prevailing in the market as published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of December 31, 2013, the weighted average exchange rates in the market for transactions in US Dollars were S/.2.794 per US$1.00 bid and S/.2.796 per US$1.00 ask (S/.2.549 and S/.2.551 per US$1.00 for bid and ask as of December 31, 2012).

As of December 31, 2013 and 2012, the InRetail Group held the following foreign currency assets and liabilities:

	2013 US$(000)	2012 US$(000)
Assets		
Cash and short-term deposits	2,041	4,594
Trade receivables, net	614	942
Other receivables, net	3,239	8,211
Accounts receivable to related parties	6,255	6
Available-for-sale investment	6,141	11,101
	18,290	24,854
Liability		
Trade payables	(17,603)	(20,558)
Other payables	(11,648)	(3,620)
Accounts payable to related parties	(4,851)	(2,194)
Interest - bearing loans and borrowings	(408,715)	(453,213)
Bonds payable	(77,005)	(77,005)
	(519,822)	(556,590)
Currency swap transactions –Short position	7,005	7,005
Net liability position	(494,527)	(524,731)

As of December 31, 2013 and 2012, the InRetail Group has decided to accept its exchange rate risk, so it has not performed, at these dates, any hedging of exchange rate risks with the exception of a hedging operation held by Supermercados Peruanos S.A. which relates to a currency swap written over its subordinated bonds ("Subordinated Bonds – Second Issuance"), which has qualified as an effective hedging instrument. The net position in derivatives related to the currency swap agreements corresponds to exchange operations (Nuevos Soles exchanged for US Dollars) with notional amounts of approximately US$7,005,000 equivalent to S/.21,540,000 and S/.17,870,000 as of December 31, 2013 and 2012, respectively. See further details in Note 20.

5. Cash and short-term deposits

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

	2013 S/.(000)	2012 S/.(000)
Cash	12,609	12,341
Current accounts (b)	60,999	449,589
Time deposits (c)	208,963	53,434
	282,571	515,364
Plus -		
Time deposits over three months maturity	-	26,500
	282,571	541,864

(b) The Group maintains current accounts in local banks in Nuevos Soles and US Dollars that do not accrue interests and they are freely available.

(c) As of December 31, 2013, time deposits in local currency are freely available and are kept in Nuevos Soles, in local banks, have maturities until a month since its inception and bear annual interest between 3.00 and 4.40 percent. As of December 31, 2012, this amount corresponded to time deposits of freely availability in nuevos soles in local financial institutions that generated interest between 3.80 and 4.20 annual percent and matured between 1 and 7 months, since their constitution.

6. Investments at fair value through profit or loss

(a) The composition of the caption is presented as follows:

Entity	2013 S/.(000)	2012 S/.(000)
Funds managed by Interfondos S.A. SAF	-	184,355
Funds managed by Credifondo S.A. SAF	-	138,744
Funds managed by Scotia Fondos SAF	-	132,115
Funds managed by BBVA Asset Management Continental S.A. SAF	-	99,809
	-	555,023

7. **Trade receivables, net**

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

	2013 S/.(000)	2012 S/.(000)
Trade accounts receivable (b)	21,766	38,846
Rent receivable (c)	6,386	12,792
Merchandise vouchers (d)	45,274	13,737
Provision for accrued revenue (e)	11,458	8,087
Others	1,778	1,963
	86,662	75,425
Provision for doubtful accounts (f)	(4,507)	(3,112)
	82,155	72,313

Trade receivables are denominated in Nuevos Soles and US Dollars, have current maturity and do not bear interest.

(b) 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.

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

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

(e) As of December 31, 2013 and 2012 relates to services unbilled at year end, mainly due to variable rentals. These amounts were billed in January of the next year.

(f) The movements in the provision for doubtful accounts receivable for the years ended on December 31, 2013 and 2012, were as follows:

	2013 S/.(000)	2012 S/.(000)
Balance at the beginning of the year	3,112	2,230
Provision recognized as year expense	1,697	1,128
Write-offs	(302)	(246)
Balance at the end of the year	4,507	3,112

As of December 31, 2013 and 2012, the amount of trade receivables past due but not impaired amounted to approximately S/.39,323,000 and S/.22,293,000, respectively. Is considered not impaired those overdue items which have a payment agreement by the customer, so no risk of bad debts.

In the opinion of Management of the InRetail Group, the provision for doubtful accounts receivable as of December 31, 2013 and 2012 appropriately covers the credit risk of this item at said dates.

8. Other receivables, net

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

	2013 S/.(000)	2012 S/.(000)
Funds held in the Banco de la Nación (b)	10,931	23,919
Deposits in guarantee	8,929	6,545
Rebates receivable from suppliers	5,958	946
Operating lease deposits	372	1,329
Employee loans	2,988	1,656
Claims and deliveries to be paid	5,140	1,628
Other receivables	6,929	5,314
	41,247	41,337
Minus -		
Provision for doubtful accounts (c)	(1,478)	(1,476)
Total	39,769	39,861
Current	32,742	32,431
Non-current	7,027	7,430
	39,769	39,861

(b) In accordance to Resolution of Superintendence N°183-2004/SUNAT, funds held on Banco de la Nación must be used exclusively for the payment of tax debts, or requested cash reimbursement. In the case of the Company and Subsidiaries, 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 of the InRetail Group, the provision for doubtful accounts receivable as of December 31, 2013 and 2012, appropriately covers the credit risk of this item at said dates.

9. Inventories, net

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

	2013 S/.(000)	2012 S/.(000)
Goods	773,151	591,800
In transit inventories (b)	10,539	8,038
Miscellaneous supplies	7,299	5,776
	790,989	605,614
Minus -		
Provision for impairment of inventories (c)	(12,001)	(3,652)
Total	778,988	601,962

(b) Correspond to goods and miscellaneous supplies imported by the InRetail Group.

(c) The movements in the provision for inventory impairment for the years 2013 and 2012 were as follows:

	2013 S/.(000)	2012 S/.(000)
Balance at the beginning of the year	3,652	4,020
Provision for the period, Note 24(a)	6,179	3,813
Write-off	(975)	(4,181)
Recovery	3,145	-
Balance at the end of the year	12,001	3,652

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

10. Available-for-sale investment

As of December 31, 2012 and 2013, available for sale investment correspond to notes of the issuance made abroad described in Note 18(d).

During 2013 and 2012, InRetail Group sold part of these notes to a non related entity for approximately US$4,173,000 and US$16,543,000, respectively. The realized gain from such transaction amounted to approximately S/.754,000 and S/.3,226,000, which is included in the caption "Financial income" in the consolidated statement of income; see Note 25. On the other side, unrealized loss, net of deferred taxes, from notes maintained as of December 31, 2013, amounted to approximately S/.2,739,000 (approximately S/.2,737,000 as of December 31, 2012).

11. Prepayments

The composition of this item is presented below:

	2013 S/.(000)	2012 S/.(000)
Prepaid rent	14,472	21,250
Insurance	5,389	5,232
Key money	18,469	16,192
Others	6,678	8,937
Total	45,008	51,611
Current	23,371	30,942
Non-current	21,637	20,669
Total	45,008	51,611

12. Taxes recoverable

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

	2013 S/.(000)	2012 S/.(000)
Tax credit for Valued Added-Tax (b)	120,467	45,034
Income tax payments (c)	30,965	3,422
Others	7,679	-
Total	159,111	48,456
Current	158,721	48,456
No-current	390	-
Total	159,111	48,456

(b) Corresponds to Valued Added-Tax ("VAT") credits generated mainly for the enlargement and construction of shopping centers in Lima and other cities that are in process (see Note 14), as well as other disbursements related to operations performed by Interproperties Holding and Interproperties Holding II. These tax credits will be recovered by setting off against VAT payable generated by future renting activities from Interproperties Holding and Interproperties Holding II uncompensated Group operations.

(c) As of December 31, 2013, the InRetail Group maintains a credit balance for income tax due to payments made during the period. As of December 31, 2012, the InRetail Group recovered approximately S/.5,773,000 of the credit held as of December 31, 2011. The Management of InRetail Group believes that this balance will be used during the year 2014.

13. Property, furniture and equipment, net

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

	Land S/.(000)	Buildings infrastructure and facilities S/.(000)	Miscellaneous equipment S/.(000)	Computer equipment S/.(000)	Vehicles S/.(000)	Furniture and fixtures S/.(000)	Works in progress S/.(000)	In transit assets S/.(000)	Total 2013 S/.(000)	Total 2012 S/.(000)
Useful lives (years)	-	20 - 50	4 - 10	4	5	2 - 10	-	-	-	-
Cost										
Balance as of January 1	434,331	1,050,819	516,045	80,277	1,896	42,332	110,666	-	2,236,366	1,906,989
Additions (c)	27,418	202,922	82,258	12,573	583	9,133	98,873	301	434,061	342,142
Disposals and/or sales	-	(1,015)	(13,601)	(641)	(419)	(243)	-	-	(15,919)	(12,765)
Transfers	-	42,373	(8,488)	8,114	-	3,045	(45,044)	-	-	-
Transfers from investment properties	-	11,759	-	-	-	-	-	-	11,759	-
Balance as of December 31	461,749	1,306,858	576,214	100,323	2,060	54,267	164,495	301	2,666,267	2,236,366
Accumulated depreciation										
Balance as of January 1	-	166,757	234,192	56,485	567	14,827	-	-	472,828	391,817
Additions, Note 24(a)	-	31,078	49,018	15,037	386	5,103	-	-	100,622	91,602
Disposals and/or sales	-	(355)	(12,334)	(597)	(264)	(180)	-	-	(13,730)	(10,591)
Transfers	-	(1,327)	1,038	109	-	180	-	-	-	-
Transfers from to investment properties	-	(18)	-	-	-	-	-	-	(18)	-
Balance as of December 31	-	196,135	271,914	71,034	689	19,930	-	-	559,702	472,828
Net book value of December 31	461,749	1,110,723	304,300	29,289	1,371	34,337	164,495	301	2,106,565	1,763,538

(b) As of December 31, 2013, Supermercados Peruanos S.A. maintains mortgaged certain lands, buildings and facilities for a net book value of approximately S/.285, 115,000 (approximately S/.247, 762,000 as of December 31, 2012), as guarantee for financial liabilities (see Note 18).

(c) Additions in 2013 and 2012 correspond mainly to the construction and equipment of new stores for Supermercados Peruanos S.A. and Eckerd Group, the construction of Eckerd distribution center and the construction of new shopping centers.

(d) As of December 31, 2013 and 2012, the cost and corresponding accumulated depreciation of assets acquired through finance leases are the following:

	December 31, 2013			December 31, 2012		
	Cost S/.(000)	Accumulated depreciation S/.(000)	Net cost S/.(000)	Cost S/.(000)	Accumulated depreciation S/.(000)	Net cost S/.(000)
Buildings and facilities	237,258	(14,563)	222,695	166,886	(8,627)	158,259
Miscellaneous equipment	146,681	(30,068)	116,613	97,645	(20,460)	77,185
Total	383,939	(44,631)	339,308	264,531	(29,087)	235,444

(e) As of December 31, 2013 and 2012 Management of the Subsidiaries performed an evaluation of its property, furniture and equipment, and has not found any indicator of impairment.

14. Investment properties

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

	2013 S/.(000)	2012 S/.(000)
Real Plaza Salaverry Project	265,834	25,460
Real Plaza Primavera shopping center (ii)	195,685	207,558
Real Plaza Chiclayo shopping center (ii)	176,635	140,613
Real Plaza Cuzco shopping center (ii)	141,202	61,441
Real Plaza Piura shopping center (ii)	129,553	-
Real Plaza Trujillo shopping center (ii)	121,664	124,665
Real Plaza Cajamarca shopping center (ii)	111,160	31,599
Real Plaza Huancayo shopping center (i) and (ii)	87,890	85,874
Real Plaza Huánuco shopping center (ii)	84,464	57,532
Real Plaza Arequipa shopping center (i) and (ii)	67,855	67,173
Real Plaza Juliaca shopping center (i) and (ii)	59,682	59,110
Real Plaza Pro shopping center (ii)	41,636	43,533
Real Plaza Santa Clara Altamirano shopping center (ii)	37,244	36,584
Real Plaza Chorrillos shopping center (ii)	35,202	42,502
Real Plaza Santa Clara shopping center (ii)	19,927	19,074
Real Plaza Nuevo Chimbote shopping center (i) and (ii)	19,051	5,516
Jr. de la Unión stores	16,616	21,579
Others	84,597	74,448
Total	1,695,897	1,104,261

(i) For the construction of these shopping centers, right of use contracts (contractual agreement between the owner of the land and the Company, which allows the Company to construct the shopping centers) were subscribed with Ferrovías Central Andina S.A., the Association named "Religiosas del Sagrado Corazón de Jesús", Ferrocarril Trasandino S.A., Interseguro Compañía de Seguros S.A. (a related entity) and natural people respectively, for periods ranging between 20 and 70 years.

(ii) Corresponds to "Real Plaza" shopping centers, consisting of department stores, shops, a cinema complex and an entertainment area which have executed contracts that provide a minimum monthly rent and a variable rent based on sales.

The movement of this account was as follows:

	2013 S/.(000)	2012 S/.(000)
Balance at the beginning of the year	1,104,261	761,069
Additions	571,523	289,468
Transfers to fixed assets	(11,759)	-
Sales, Note 26(e)	(12,723)	-
Fair value adjustment	44,595	53,724
Balance at the end of the year	1,695,897	1,104,261

The fair value of investment properties has been determined on a discounted cash flow method basis by the Management of the Group for completed investment properties and based on the value assigned by an independent appraiser for investment properties under construction and investment properties held to operate in the future. The valuation is prepared on an aggregated unleveraged basis.

Following is the detail of the main assumptions used in the valuation and the estimation of the market value of the investment properties:

	2013 %	2012 %
Long-term inflation	2.5	2.5
Long-term property vacancy rate (*)	2 - 3	1 - 2
Average growth rate of lease income	2.5	2.5
Average EBITDA margin	87	91
Discount rate	9.6	9.6

(*) Depending on the type and size of the store in the shopping center.

The table below presents the sensitivity of the fair values to changes in the most significant assumptions underlying the valuation of investment properties, maintaining the other variables constant:

	Rate change	2013 S/.(000)	2012 S/.(000)
Average growth rate of lease income (basis)	2.50%		
Increase	+0.25%	36,878	37,204
Decrease	-0.25%	(35,081)	(34,729)
Discount rate (basis)	9.60%		
Increase	+0.5 bp	(118,197)	(54,410)
Decrease	-0.5 bp	133,169	61,830

(b) As of December 31, 2013 and 2012, some of the investment properties guarantee the debt with Deutsche Bank AG, Note 18(e). At that date, the book value of these investment properties is approximately S/.1,226,765,000 and S/.866,573,000, respectively.

(c) The future amounts of the fixed minimum rents by currency corresponding to leases are as follows:

Year	Related parties		Third Parties		Total	
	US$(000)	S/.(000)	US$(000)	S/.(000)	US$(000)	S/.(000)
2014	923	15,107	5,093	79,475	6,016	94,582
2015	891	14,055	4,903	67,575	5,794	81,630
2016	842	12,732	4,449	57,777	5,291	70,509
2017	842	11,168	4,259	46,523	5,101	57,691
2018	767	10,069	3,784	42,118	4,551	52,187
2019-2042	4,384	153,419	63,815	429,567	68,199	582,986
Total	8,649	216,550	86,303	723,035	94,952	939,585

15. Intangible assets, net

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

	Software S/.(000)	Brand (b) S/.(000)	Goodwill S/.(000)	Works in progress S/.(000)	Total 2013 S/.(000)	Total 2012 S/.(000)
Cost						
Balance as of January 1	100,738	373,054	694,283	3,152	1,171,227	1,144,401
Additions (c)	22,503	-	-	5,573	28,076	26,826
Disposals and/or sales	(1,212)	-	-	-	(1,212)	-
Transfers	2,202	-	-	(2,202)	-	-
Balance as of December 31	124,231	373,054	694,283	6,523	1,198,091	1,171,227
Accumulated amortization						
Balance as of January 1	34,507	-	-	-	34,507	27,823
Additions (d), Note 24(a)	8,371	-	-	-	8,371	6,684
Disposals and/or sales	(561)	-	-	-	(561)	-
Balance as of December 31	42,317	-	-	-	42,317	34,507
Net book value as of December 31	81,914	373,054	694,283	6,523	1,155,774	1,136,720

(b) Corresponds to the "InkaFarma" commercial brand and goodwill, resulting from applying the purchase method at the moment of the acquisition of Eckerd Peru S.A. in 2011. Both assets have been assigned to the cash generating unit "Drugstores", which is an operating segment reportable for the impairment tests (see Paragraph (c) below). Management of InRetail Group 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.

- 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 reasonable 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.

(c) As of December 31, 2013 and 2012, additions mainly correspond to (i) disbursements for the acquisition of a commercial software, an application of general planification (ERP) and the corresponding licenses for use; and (ii) disbursements for implementation of the application "E3 InkaFarma", which will be used in the new distribution center. Such disbursements include licenses for use acquisition costs, development costs and other directly attributable costs.

(d) As of December 31, 2013 and 2012, in the opinion of Management of the Group, there is no indication of impairment of any intangible asset.

Likewise, in compliance with the International Financial Reporting Standards (Note 3(m)), Management performs annually a test on the impairment of the goodwill and the brand, on the basis of the cash generating unity "Drugstores".

The recoverable amount of the pharmacy chain cash-generating unit has been determined based on fair value less cost to sale calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using a 3 percent growth rate. As a result of this analysis, Management did not identify impairment for this cash-generating unit.

The calculation of fair value less cost to sale for pharmacy chain cash-generating unit is most sensitive to the following assumptions:

- EBITDA margin
- Same store sales growth
- Discount rate
- Growth rate of long-term

EBITDA margin — EBITDA margins are expected to increase from 7.1 percent to 7.8 percent in the long term.

Same store sales growth - Same store sales growth was assumed to be 4 percent in nominal terms for the projection period.

Discount rate — Discount rates represent the current market assessment of the risks specific to the cash-generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. WACC was estimated at 11.1 percent.

Long term growth rate – The long term growth rate represents the cash flow growth beyond the explicit forecast period (5 years) which was estimated at 3 percent in nominal terms.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the pharmacy chain unit to materially exceed its recoverable amount.

16. Trade payables

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

	2013 S/.(000)	2012 S/.(000)
Bills payable for purchase of goods (b)	1,121,720	886,865
Bills payable for commercial services	165,631	148,442
	1,287,351	1,035,307

(b) This caption mainly includes the 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 InRetail Group offers to its supplier's 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 and the financial institution, enabling suppliers to better manage their cash flow and reduce payment processing costs. The InRetail Group has no direct financial interest in these transactions. All of the InRetail Group's obligations, including amounts due, remain due to its suppliers as stated in the supplier agreements.

17. Other payables

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

	2013 S/.(000)	2012 S/.(000)
Provisions for unbilled services construction and maintenance (b)	26,528	9,895
Deposits from third parties	25,975	5,654
Employees profit sharing	20,269	21,175
Vacations accrual	19,260	17,582
Interest payable	19,023	18,913
VAT payable	15,319	27,853
Taxes payable	13,786	5,504
VAT withholdings in purchases	9,744	7,630
Land purchase	8,879	7,645
Salaries and social benefits	8,045	12,502
Event promoters	4,584	-
Rent payable	3,366	1,256
Others	28,702	27,033
Total	203,480	162,642

The above items have current maturity and do no bear interest. There have been no liens granted on them.

(b) Corresponds to provisions for non-billed services by suppliers, mainly for services from the construction companies that have been provided during the last quarter of the year. In the opinion of InRetail Group's Management, said provisions are sufficient to comply with the liabilities once they are billed.

18. Interest-bearing loans and borrowings

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

Type of obligation	Original currency	Interest rate %	Maturity final	Original amount US$(000)	Original amount S/.(000)	Total 2013 S/.(000)	Total 2012 S/.(000)
Leasing (b) and (c)							
Related entity							
Banco Internacional del Perú S.A.A.- Interbank	S/.	Between 11.24 and 11.43	2014	-	142,029	99,152	66,754
Banco Internacional del Perú S.A.A - Interbank	S/.	4.85	2014	-	25,153	25,153	25,710
Banco International del Perú S.A.A.- Interbank	S/.	8.25	2016	-	7,401	4,067	5,481
Banco International del Perú S.A.A.- Interbank	S/.	8.90	2026	-	57,000	57,000	-
Others	-	-	-	35	683	308	388
Non-related entities							
BBVA Continental S.A.	S/.	Between 5.96 and 10.85	2018	-	65,241	32,326	45,333
Banco de Crédito del Perú S.A.	S/.	6.97	2018	-	17,424	47,367	10,980
Banco de Crédito del Perú S.A.	S/.	9.02	2019	12,500	20,000	80,468	53,466
Scotiabank Perú S.A.A.	S/.	7.76	2018	-	21,864	19,122	18,828
Banco Interamericano de Finanzas	S/.	8.35	2014	-	12,748	512	3,447
Hewlett Packard S.R.L.	S/.	2.93	2017	3,678	-	7,485	2,570
Other	-	-	-	5,713	9,244	3,979	4,252
				21,926	378,787	376,939	237,209
Promissory Notes and loans(b)							
Non-related entities							
Banco de Crédito del Perú S.A.	US$	6.60	2021	12,000	-	28,173	27,856
				12,000	-	28,173	27,856
Foreign loans							
Bank of America (d)	US$	10.134	2018	140,000	-	372,870	337,218
Intercorp Retail Trust (d)	US$	10.134	2018	130,000	-	351,181	318,683
Deutsche Bank AG (e)	US$	9.426	2023	185,000	-	456,331	456,014
				455,000	-	1,180,382	1,111,915
Other obligations to third parties							
Hewlett Packard S.R.L.(f)	US$	Between 1.02 and 8.85	2014	11,549	-	11,465	7,858
IBM Peru S.A.C. (f)	US$	Between 5.32 and 11.19	2015	6,477	96	3,594	8,517
				18,026	96	15,059	16,375
Total				506,952	378,883	1,600,553	1,393,355
Current						77,755	73,938
Not current						1,522,798	1,319,417
Total						1,600,553	1,393,355

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

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

	2013		2012	
	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	93,262	79,784	72,666	63,932
Between 1 and 5 years	305,621	297,155	177,750	173,277
Total minimum payments	398,883	376,939	250,416	237,209
Minus- amounts representing finance charges	(21,944)	-	(13,207)	-
Present value of future minimum payments	376,939	376,939	237,209	237,209

(d) In November 2011, Intercorp Retail Inc. issued through Intercorp Retail Trust, a financial trust incorporated in the Cayman Islands with the purpose of perform this issuance, an offering of US$300,000,000 in Senior Guaranteed Notes due in November 2018 at an 8.875 percent nominal interest rate. From this issuance, US$270,000,000 were 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 and S/.688,770,000 as of December 31, 2013 and 2012, respectively), which accrue interests at an 8.875 percent nominal annual 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 obtained for the acquisition of Eckerd Perú S.A., promissory notes and commercial papers, 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 consolidated net balance of these borrowings as of December 31, 2013 and 2012, amounted S/.724,051,000 and S/.655,901,00; respectively.

The 100 percent of the senior notes is guaranteed by the Subsidiaries 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 their maturity and cancellation, 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 subsidiaries that guarantee these loans level:
  - (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 as of December 31, 2013 and 2012.

(e) In November 2011, Interproperties Holding issued through Interproperties Holding Trust, a financial trust incorporated in the Cayman Islands with the purpose of perform this issuance, an offering of US$185,000,000 in Senior Guaranteed Notes due in November 2023 at an 8.75 percent nominal interest rate. This issuance was channelled to Interproperties Holding through a "Loan agreement" in favor of Deutsche Bank AG, London Branch. The funds from this financing were used to purchase properties, invest in new building projects, to repay debts and payments, including fees and expenses, in connection with this transaction. Interproperties Holding has given certain investment properties in guarantee for this debt, see Note 14(c).

Said financial obligation was recorded in the consolidated financial statements at amortized cost at a 9.426 annual effective interest rate after considering the respective up-front fees that amounted to S/.18,227,000 (equivalent to US$6,783,984). Additionally, as of December 31, 2013, the balance is presented net of S/.44,960,000 corresponding to notes of this issuance held by InRetail Real Estate Corp., a Subsidiary of the Company.

Interproperties Holding must comply, until their maturity and cancellation, with certain obligations and restrictive clauses that require compliance of financial ratios, the use and application of funds, conditions on dividends distribution, reorganizations and other administrative matters. Following are the main financial ratios:

- Comply with certain financial covenants such as:

  1. Ratio of financial debt to equity, not greater than 2 to 1 for each quarter.
  2. Interproperties Holding and any covered party shall not incur any indebtedness unless, on the date of such incurrence and after giving effect thereto, the leverage ratio is no greater than 10.00:1.00, during the year ending December 31, 2012, 8.00:1.00, during the year ending December 31, 2013 and 5.50:1.00, during the years ending December 31, 2014 and thereafter.

- Interproperties Holding will not be able to acquire any debt additional to the existing one by providing as guarantees the real estate investments held at the date of this issuance.

- The financial obligation with Banco de Crédito del Perú could not exceed US$12,000,000.

In the opinion Management of the InRetail Grove, these clauses do not limit their operations and are being fulfilled as of December 31, 2013 and 2012.

(f) 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 indebted to SAP Andina del Caribe S.A. for the development of the SAP system. Said contracts do not have any specific guarantee.

(g) Debts and interest – bearing loans are payable as follow:

	2013 S/.(000)	2012 S/.(000)
2013	-	73,938
2014	77,755	49,033
2015	453,695	60,071
2016 onwards	1,069,103	1,210,313
Total	1,600,553	1,393,355

19. Bonds payable

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

Entity	Type of obligation	Original currency	Interest rate %		Original amount US$(000)	Original amount S/.(000)	Total 2013 S/.(000)	Total 2012 S/.(000)
	Subordinated Bonds (*)							
	Issued for the restructuring of the financial position							
Supermercados Peruanos S.A.	1st issuance	US$	7.50	2014	12,000	-	33,552	30,612
Supermercados Peruanos S.A.	2nd issuance	US$	8.04	2014	7,005	-	19,586	17,870
Supermercados Peruanos S.A.	3rd issuance	S/.	8.49	2014	-	21,540	21,540	21,540
					19,005	21,540	74,678	70,022
	Corporate Bonds (c)							
	Issued to fund expansion and working capital							
Supermercados Peruanos S.A.	1st issuance	S/.	6.70	2016	-	28,437	12,188	16,250
Supermercados Peruanos S.A.	2nd issuance	S/.	7.75	2019	-	57,090	34,253	39,963
InRetail Real estate Corp.	1st issuance	US$	8.00	2015	58,000	-	-	147,958
					58,000	85,527	46,441	204,171
Total					77,005	107,067	121,119	274,193
Current							84,449	9,771
Non-current							36,670	264,422
Total							121,119	274,193

(*) The subordinated bonds have no specific guarantees and the principal will be paid at its maturity date.

(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 the compliance with financial ratios.

Compliance with obligations and restrictive clauses is monitored by Management of Supermercados Peruanos S.A. Should Supermercados Peruanos S.A. 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 December 31, 2013 and 2012, Supermercados Peruanos S.A. has complied with all the described obligations and restrictive clauses.

(c) The payments of the principal amount of bonds issued are as follows:

	2013 S/.(000)	2012 S/.(000)
2013	-	9,771
2014	84,449	79,794
2015	9,771	157,729
2016 onwards	26,899	26,899
Total	121,119	274,193

20. Derivative financial instrument

As of December 31, 2013 and 2012, this item comprises a cross currency swap contract designated to hedge cash flows and recorded at its fair value. The detail of this operation is as follows:

	2013					2012
Counterparty	**Nominal amount** US$(000)	**Receive fixed at** %	**Pay fixed at** %	**Exchange rate**	**Fair value** S/.(000) Liability	**Fair value** S/.(000) Liability
BBVA – Banco Continental S.A.	7.005	8.04	11.20	3.128	2,747	4,995
					2,747	4,995

This financial instrument is aimed to reduce the exposure to exchange rate risk associated with the financial obligation of the Subordinated Bonds – Second Issuance, therefore, it has the same terms with maturity in July, 2014; see Note 19(c).

On a semiannual basis (at the date of the bonds' interest payment), Supermercados Peruanos S.A. receives and pays the agreed flows, at the annual interest rate and the flows established in the hedging contract. The flows effectively received or paid by Supermercados Peruanos S.A. are recognized as a correction of the financial cost in the period when the debt has been hedged. In 2013, Supermercados Peruanos S.A. recognized a higher financial cost for this financial derivative instrument that amounted to S/.2,454,000 (S/.1,226,000 during 2012), which has been effectively paid during the period and is recorded in the "Financial cost" caption of the consolidated income statements, see Note 25.

The effective portion of changes in fair value of the derivative financial instrument that qualifies as coverage is recognized as assets or liabilities, with effect on equity. In 2013, it has been recognized in the caption "Unrealized gains from derivative financial instruments" of the consolidated statement of changes in equity, gain of update in fair value, before deferred tax effect, for approximately S/.530,000 (loss for S/.70,000 as of December 31, 2012).

21. Deferred income tax

(a) The following is the detailed caption by Subsidiary:

	Deferred asset (liability), net	
	2013 S/.(000)	2012 S/.(000)
InRetail Perú Corp.	(111,916)	(111,916)
Supermercados Peruanos S.A.	(36,197)	(28,708)
Eckerd Peru S.A.	14,732	6,765
InRetail Real Estate Corp.	(80,104)	(59,399)
Deferred liability, net	(213,485)	(193,258)

(b) The table below presents the detail of the deferred Income tax assets and liabilities by nature:

	Balance as of January 1, 2012 S/.(000)	Income (expense) S/.(000)	Equity S/.(000)	Balance as of December 31, 2012 S/.(000)	Income (expense) S/.(000)	Equity S/.(000)	Balance as of December 31, 2013 S/.(000)
Deferred asset -							
Estimate for trade discounts	3,903	609	-	4,512	2,931	-	7,443
Vacation provision	4,684	586	-	5,270	977	-	6,247
Shortages of goods	8,151	1,536	-	9,687	4,220	-	13,907
Provision for impairment of inventories	1,267	1,859	-	3,126	1,952	-	5,078
Difference of amortization rates for tax purposes	1,395	23	-	1,418	32	-	1,450
Arrastrable tax loss	-	-	-	-	15,959	-	15,959
Others	3,643	2,664	307	6,614	5,863	(515)	11,962
Total	23,043	7,277	307	30,627	31,934	(515)	62,046
Deferred liability -							
Deemed cost of property, furniture and equipment (IFRS 1)	(20,765)	(521)	-	(21,286)	(222)	-	(21,508)
Increased tax depreciation for leasing	(15,271)	(9,959)	-	(25,230)	(7,867)	-	(33,097)
Update on the fair value of available for sale financial	(960)	-	(132)	(1,092)	-	784	(308)
Valuation of investment properties	(29,496)	(16,091)	-	(45,587)	(13,378)	-	(58,965)
Brand value - Inkafarma	(111,916)	-	-	(111,916)	-	-	(111,916)
Income (income tax provision)	-	-	-	-	(6,161)	-	(6,161)
Tax depreciation of Real Estate Investment	-	-	-	-	(17,111)	-	(17,111)
Others	(11,588)	(7,186)	-	(18,774)	(7,691)	-	(26,465)
Total	(189,996)	(33,757)	(132)	(223,885)	(52,430)	784	(275,531)
Liability deferred, net	(166,953)	(26,480)	175	(193,258)	(20,496)	269	(213,485)

(c) The table below presents the Income Tax expenses reported in the consolidated statements of income as of December, 2013 and 2012:

	2013 S/.(000)	2012 S/.(000)
Current	(59,284)	(66,951)
Deferred	(20,496)	(26,480)
Total	(79,780)	(93,431)

(d) As of December 31, 2013 and 2012 the provision for current income tax payable, net of advanced payments, amounts to approximately S/.416,000, S/.25,122,000, respectively.

(e) The table below presents the reconciliations of the effective tax rate to the legal tax rate:

	For year then ended December 31, 2013		For year then ended December 31, 2012	
	S/.(000)	%	S/.(000)	%
Profit before Income Tax	135,601	100.00	311,742	100.00
Theoretical tax	(40,680)	(30.00)	(93,523)	(30.00)
Net expenses of holding not domiciled in Peru	(20,010)	(14.76)	(5,852)	(1.89)
Effect of net income non subject to income tax	2,167	1.60	7,392	2.39
Non-deductible expenses	(21,257)	(15.68)	(1,448)	(0.47)
Expenses recognized for Income Tax	(79,780)	(58.84)	(93,431)	(29.97)

22. Equity

(a) Capital social –

As of December 31, 2013 and 2012, the capital stock of InRetail Perú Corp. is represented by 102,807,319 shares entirely subscribed and paid with an initial issuance value of US$10.00.

In August 2012, due to the reorganization of Intercorp Group explained in Note 1(b.1), there were received as contribution shares of InRetail Real Estate Corp. and Supermercados Peruanos S.A. amounting to S/.1,446,041,000, and as compensation there were issued 54,753,535 shares at an issuance value of US$10.00 per share. Said share exchange was performed having as reference the market value of the contributed shares; however, due that this reorganization was performed between entities under common control by using the pooling-of-interest method, the accounting recording of the operation for purposes of the consolidated financial statements was performed at their respective book value, which amounted to S/.844,893,000. Likewise, as explained in Note 1(b.1), said transaction is included in the initial balance as of January 1, 2012, in the accompanying consolidated financial statements.

Posteriorly to the reorganization, InRetail Perú Corp. registered its shares at the Public Registry of the Stock Market in Lima, and started a process of international offer of new shares at the national and international market; see Note 1(b.2). As part of this process, there were issued approximately 23,000,000 shares representing approximately 22 percent of the capital stock of InRetail Perú Corp. Said issuance represented a cash contribution which increased the capital stock by approximately S/.594,460,000.

(b) Additional paid in capital –
As consequence of the application of the pooling-of-interest method for the recording of the reorganization explained in Note 1(b.1), InRetail Group took into account the assumption that certain assets were recorded in the consolidated financial statements starting in the beginning of the first year presented, so they were considered as additional capital.

Likewise, given that during the period ended December 31, 2012, InRetail Group made a partial cash payment of said assets to related entities. The paid amount was presented as a distribution attributable to equity.

(c) Capital premium -
Corresponds to the difference between the initial issuance value (US$10.00) and the issuance value (US$20.00), which corresponds to their subscription value from the international offer of the new shares mentioned in (a) above, net of the expenses related to the issuance (professional fees to lawyers, investment bankers, transaction commissions, among others) for approximately S/.551,209,000. During 2013, there were recorded additional expenses related to the issuance for approximately S/.1,416,000.

23. Tax Situation

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

Entities and individuals not domiciled in Peru must pay an additional tax of 4.1 percent over dividends received from entities domiciled in Peru. The entity that distributes the dividends is responsible of performing the retention of the indicated tax.

(b) The Company's Subsidiaries domiciled in Peru are subject to the Peruvian Tax System and they calculate their Income Tax on the basis of their individual financial statements. As of December 31, 2013 and 2012, the statutory Income Tax rate was 30 percent on taxable income.

(c) 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.

(d) 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 Group as of December 31, 2013 and 2012.

(e) The tax authority is legally entitled to review and, if necessary, adjust the Income Tax computed during a term of four years following the year in which the tax declaration has been submitted. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Perú Corp. incorporated in Peru:

	Income tax	**Value added tax**
Supermercados Peruanos S.A.	From 2011 to 2013	From 2011 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
Real Plaza S.R.L.	From 2009 to 2013	From 2009 to 2013
InRetail Properties Management S.R.L.	From 2010 to 2013	From 2010 to 2013

According to Peruvian law, Interproperties Holding is not considered an income taxpayer due to its status as a trust. Interproperties Holding attributes its generated results, the net losses and Income Tax credits on foreign source income, to the holders of its certificates of participation or whoever holds those rights.

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

In opinion of Management of the InRetail Group as well as its legal advisors opinion, any eventual additional tax settlement would not be significant to the consolidated financial statements as of December 31, 2013 and 2012. (See Note29).

24. Operating expenses

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

	2013 S/.(000)	2012 S/.(000)
Cost of sales and services	3,805,289	3,437,761
Selling expenses	1,010,308	888,979
Administrative expenses	173,958	138,728
Total	4,989,555	4,465,468

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

	2013			
	Cost of sales and services S/.(000)	**Selling expenses** S/.(000)	**Administrative expenses** S/.(000)	**Total** S/.(000)
Initial balance of goods, Note 9(a)	591,800	-	-	591,800
Purchase of goods	3,922,451	-	-	3,922,451
Final balance of goods, Note 9(a)	(773,151)	-	-	(773,151)
Impairment of inventories, Note 9(c)	6,179	-	-	6,179
Cost of services	58,010	-	-	58,010
Packing and packaging	-	37,061	747	37,808
Personnel expenses	-	400,750	103,575	504,325
Depreciation, Note 13(a) and (e)	-	85,540	15,082	100,622
Amortization of intangible assets, Note 15(a) and (d)	-	5,285	3,086	8,371
Amortization of key money	-	1,412	-	1,412
Services provided by third parties (b)	-	148,706	27,389	176,095
Advertising	-	78,908	-	78,908
Rental of premises, Note 11	-	96,405	5,671	102,076
Taxes	-	20,853	9,453	30,306
Provision for doubtful accounts	-	1,699	3	1,702
Insurance	-	7,851	590	8,441
Other charges (c)	-	125,838	8,362	134,200
Total	3,805,289	1,010,308	173,958	4,989,555

	2012			
	Cost of sales and services S/.(000)	Selling expenses S/.(000)	Administrative expenses S/.(000)	Total S/.(000)
Initial balance of goods, Note 9(a)	593,289	-	-	593,289
Purchase of goods	3,387,527	-	-	3,387,527
Final balance of goods, Note 9(a)	(591,800)	-	-	(591,800)
Impairment of inventories, Note 9(c)	3,813	-	-	3,813
Cost of services	44,932	-	-	44,932
Packing and packaging	-	31,577	688	32,265
Personnel expenses	-	354,237	86,921	441,158
Depreciation, Note 13(a) and (e)	-	81,515	10,087	91,602
Amortization of intangible assets, Note 15(a) and (d)	-	4,228	2,456	6,684
Amortization of key money	-	1,125	-	1,125
Services provided by third parties (b)	-	130,035	18,637	148,672
Advertising	-	69,435	244	69,679
Rental of premises, Note 11	-	79,208	2,228	81,436
Taxes	-	18,241	7,507	25,748
Provision for doubtful accounts	-	1,180	-	1,180
Insurance	-	6,091	548	6,639
Other charges (c)	-	112,107	9,412	121,519
Total	3,437,761	888,979	138,728	4,465,468

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

(c) Mainly include general expenses in stores.

25. Finance income and cost

The table below presents the components of this caption:

	2013 S/.(000)	2012 S/.(000)
Finance income		
Gain on sale of corporative notes	2,053	3,672
Interest and others	22,496	17,606
	24,549	21,278
Finance cost		
Interest on loans, borrowing and bonds payable, Note 18 and 19	(153,896)	(140,380)
Interest from derivatives instruments, Note 20	(2,454)	(1,226)
Other financial costs	(16,814)	(14,459)
	(173,164)	(156,065)

26. Transactions with related parties

(a) The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year 2013 and 2012:

	2013 S/.(000)	2012 S/.(000)
Ingresos		
Reimbursement of expenses for promotion and sale of merchandise vouchers	8,282	26,885
End of contract compensation (d)	30,000	-
Rent income	42,963	31,465
Rendering of services	26,341	11,428
Sale of investment property (e)	12,348	-
Others	17,717	4,344
	137,651	74,122
Gastos		
Renting of premises and land	(7,572)	(7,118)
Reimbursements of expenses	(5,656)	(623)
Commissions	(594)	(1,077)
Other services	(13,150)	(3,297)
Interest	(8,488)	(2,455)
Others	-	(9,865)
	(35,460)	(24,435)

(b) As a result of the transactions with related companies, the Group recorded the following balances of receivables and payables as of December 31, 2013 and 2012:

	2013 S/.(000)	2012 S/.(000)
Receivables		
Homecenter Peruanos S.A. (e)	28,612	11,878
Intercorp Perú Ltd. (f)	24,394	78,479
Financiera Uno S.A. (g)	7,988	2
Banco Internacional del Perú S.A.A. – Interbank (g)	6,941	5,314
Tiendas Peruanas S.A.	2,661	632
Bembos S.A.C.	1,418	678
Cineplex S.A.	1,108	127
Others	12,926	7,367
	86,048	104,477
Payables		
Banco Internacional del Perú S.A.A. – Interbank:		
Líneas de crédito y otros (h)	1,236	170
Depósito en garantía (i)	3,642	3,157
Horizonte Global Opportunities Perú S.A. (j)	554	4,429
Intercorp Retail Inc. (k)	25,544	26,890
Others	3,438	839
	34,414	35,485
Remunerations payable to key management	121	1,500
	34,535	36,985
Current portion	30,893	33,828
Non – Current portion	3,642	3,157
Total	34,535	36,985
Debts and loans bearing interest, Note 18		
Banco Internacional del Perú S.A.A. – Interbank	185,372	97,945
Others	308	388

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. For the year ended 31 December 2013 and 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

(d) 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 consequence of said 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 following day of its collection.

(e) As of December 31, 2013, the balance receivable from Homecenter Peruanos S.A. corresponds to loans in dollars and soles for approximately US$4,406,000 (equivalent to S/.12,320,000) and S/.383,000, respectively. Such loans include interests accrued at market rates, present current maturity and have no specific guarantees. Additionally, includes S/.12,348,000 corresponding to the sale of two investment properties held in Lima and Cusco.

(f) As of December 31, 2013, the balance receivable from Intercorp Perú Ltd. corresponds to a promissory note in Nuevos Soles and includes the accrued interests at market rates of 7 percent annually and maturity in May 2014.

(g) 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.

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

(i) 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 consolidated 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 December 31, 2013 and 2012, 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/.3,642,000 and S/.3,157,000, respectively, as of December 31, 2013 and 2012, and is accounted for in the "other payable" in the consolidated statement of financial position.

In relation to said contracts, during 2013 Supermercados Peruanos S.A. recognized accrued renting revenue that amounted to approximately S/.3,473,000, equivalent to US$1,156,000 (S/.3,790,000, equivalent to approximately US$1,262,000, during 2012), which are recorded in the "Rental income" caption in the consolidated income statements .

As of December 31, 2013, Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/.9,407,000 (S/.11,532,000 as of December 31, 2012) which will be recognized as income in upcoming periods.

(j) Corresponds to balances payable by land and premises renting.

(k) As of December 31, 2013 and 2012, relate to accounts payable for certain expenses incurred by Intercorp Retail Inc. The balance payable to Intercorp Retail Inc. does not accrue interest, has kept current maturity.

(l) The compensation of key management personnel of the Group is detailed below:

	2013 S/.(000)	2012 S/.(000)
Short term employee benefits	16,825	15,633
Insurance and medical benefits	944	1,332
Other	15	765
Total	17,784	17,730

(m) As of December 31, 2013 and 2012, the Group maintains the following balances in the cash and cash equivalent captions:

	2013 S/.(000)	2012 S/.(000)
Banco Internacional del Perú S.A.A.- Interbank S.A.A.	180,476	407,523
Inteligo Bank Ltd.	348	80,566

Likewise, as of December 31, 2012, InRetail Group participated in various mutual funds managed by Interfondos S.A. Sociedad Administradora de Fondos, for an amount of approximately S/.184,355,000 recorded as investment at fair value through profit or loss, see Note 6(a).

27. Deferred revenue

The table below presents the components of this caption:

	2013 S/.(000)	2012 S/.(000)
Leases (related parties), see Note 26(h)	9,407	14,132
Other operating leases as lessor	9,416	5,198
Key money	14,987	4,567
Total	33,810	23,897
Current portion	3,557	2,989
Non-current portion	30,253	20,908
Total	33,810	23,897

28. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following reflects basic and diluted earnings per share computations, on a pro-forma basis, reflecting the reorganization described in Note 1 (b.1), as if the equity structure of the InRetail Group had been in place for all periods presented:

	Common shares		
	Outstanding shares	Effective days until year-end	Weighted average of shares
Period 2012 -			
Number as of January 1, 2012	79,248,094		79,248,094
Capital contribution	559,225	182	278,846
Capital contribution	23,000,000	60	3,780,822
Number as of December 31, 2012	102,807,319		83,307,762
Period 2013-			
Number as of January 1, 2013	102,807,319	365	102,807,319
Number as of December 31, 2013	102,807,319	365	102,807,319

	2013		
	Net profit (numerator) S/.	Shares (denominator)	Earnings per share S/.
Basic and diluted earnings per share	55,819,000	102,807,319	0.54

	2012		
	Net profit (numerator) S/.	Shares (denominator)	Earnings per share S/.
Basic and diluted earnings per share	218,300,000	83,307,762	2.62

29. **Commitments and contingencies**

Commitments -

The main commitments assumed are presented below:

(a) As of December 31, 2013 and 2012, the Company and its subsidiaries 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 assumed commitments, calculated on the basis of the leasing fixed amounts will be paid until 2043.

The total commitments assumed up until 2043, calculated on the basis of the fixed rental amounts, will be paid as follows:

	2013 S/.(000)	2012 S/.(000)
2013	-	46,115
2014 – 2018	207,026	167,396
2019 – 2023	153,300	117,762
2024 – 2028	145,782	110,895
2029 – 2033	127,180	93,386
2034 – 2043	143,497	90,421
Total	776,785	625,975

(b) As of December 31, 2013, the Company and its subsidiaries agreed with several financial entities on the issuance joint by and severally irrevocable letters of guarantee for approximately S/.17,826,000 (S/.8,834,000 as of December 31, 2012) for compliance with the payment for purchase of goods to foreign suppliers.

(c) During 2013 and 2012, Interproperties Holding holds a letter of guarantee, which guarantees the right and timely compliance of certain obligations related to shopping center projects.

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 December 31, 2013 and 2012.

(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 December 31, 2013 and 2012, 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 December 31, 2013, Supermercados Peruanos S.A. has appeals said Resolutions.

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 December 31, 2013 and 2012, respectively.

30. Business segments

For management purposes, the InRetail Group is organized into business units based on their products and services and has three reportable segments i) supermarkets, ii) drugstores and iii) shopping centers no operating segments have been aggregated to form the above reportable operating segments.

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

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

The following table presents the financial information of InRetail Perú Corp. and Subsidiaries by business segments for 2013 and 2012:

	Supermarkets S./(000)	Drugstores S./(000)	Shopping centers S./(000)	Total segments S./(000)	Holding accounts, combination adjustments and intercompany eliminations S./(000)	Consolidated S./(000)
2013						
Revenue						
External income	3,318,131	1,823,645	182,627	5,324,403	-	5,324,403
Inter-segment	10,656	234	33,641	44,531	(44,531)	-
Total revenue	3,328,787	1,823,879	216,268	5,368,934	(44,531)	5,324,403
Cost of sales	(2,480,034)	(1,267,479)	(58,010)	(3,805,523)	234	(3,805,289)
Gross profit	848,753	556,400	158,258	1,563,411	(44,297)	1,519,114
Other operating income	30,128	537	44,057	74,722	2,146	76,868
Selling expenses	(666,406)	(374,666)	(5,654)	(1,046,726)	36,418	(1,010,308)
Administrative expenses	(83,924)	(49,223)	(40,556)	(173,703)	(255)	(173,958)
Other operating expenses	(1,991)	-	(339)	(2,330)	-	(2,330)
Operating profit	126,560	133,048	155,766	415,374	(5,988)	409,386
Finance income	79,100	1,974	38,127	119,201	635	119,836
Finance costs	(186,160)	(5,187)	(138,654)	(330,001)	(63,620)	(393,621)
Profit before income tax	19,500	129,835	55,239	204,574	(68,973)	135,601
Income tax expense	(11,364)	(41,118)	(25,319)	(77,801)	(1,979)	(79,780)
Net profit	8,136	88,717	29,920	126,773	(70,952)	55,821
Attributable to :						
InRetail Perú Corp.	8,136	88,717	29,920	126,773	(70,954)	55,819
Non-controlling interests	-	-	-	-	2	2
	8,136	88,717	29,920	126,773	(70,952)	55,821
Other information						
Operating assets (*)	2,333,713	1,775,464	2,395,741	6,504,918	(55,508)	6,449,410
Operating liabilities	1,671,966	570,703	834,171	3,076,840	420,656	3,497,496
Additions to non-current assets -						
Property, furniture and equipment	382,035	50,472	-	432,507	1,554	434,061
Investment properties	-	-	573,077	573,077	(1,554)	571,523
Intangible assets	20,273	7,370	433	28,076	-	28,076
Increase on revaluation of investment properties	-	-	42,449	42,449	2,146	44,595
Depreciation and amortization	(83,167)	(20,821)	(1,085)	(105,073)	(3,920)	(108,993)

(*) As of December 31, 2013, the “pharmacies” segment includes approximately S/.373,054,000 and S/.694,283,000 corresponding to the brand “InkaFarma” and the goodwill, respectively, as a result of the acquisition of the Eckerd Group; see Note 15.

	Supermarkets S./(000)	Drugstores S./(000)	Shopping centers S./(000)	Total segments S./(000)	Holding accounts, combination adjustments and intercompany eliminations S./(000)	Consolidated S./(000)
2012						
Revenue						
External income	3,048,446	1,600,175	135,712	4,784,333	-	4,784,333
Inter-segment	10,912	398	19,517	30,827	(30,827)	-
Total revenue	3,059,358	1,600,573	155,229	4,815,160	(30,827)	4,784,333
Cost of sales	(2,254,289)	(1,138,540)	(44,932)	(3,437,761)	-	(3,437,761)
Gross profit	805,069	462,033	110,297	1,377,399	(30,827)	1,346,572
Other operating income	-	215	77,928	78,143	(23,932)	54,211
Selling expenses	(610,761)	(295,054)	(4,874)	(910,689)	21,710	(888,979)
Administrative expenses	(71,796)	(46,865)	(22,963)	(141,624)	2,896	(138,728)
Other operating expenses	(986)	(448)	(6)	(1,440)	(1,923)	(3,363)
Operating profit	121,526	119,881	160,382	401,789	(32,076)	369,713
Finance income	96,056	3,532	57,046	156,634	1,142	157,776
Finance costs	(129,230)	(2,512)	(73,537)	(205,279)	(10,468)	(215,747)
Profit before income tax	88,352	120,901	143,891	353,144	(41,402)	311,742
Income tax expense	(31,601)	(35,805)	(30,960)	(98,366)	4,935	(93,431)
Net profit	56,751	85,096	112,931	254,778	(36,467)	218,311
Attributable to :						
InRetail Perú Corp.	56,751	85,096	112,931	254,778	(36,478)	218,300
Non-controlling interests	-	-	-	-	11	11
	56,751	85,096	112,931	254,778	(36,467)	218,311
Other information						
Operating assets (*)	2,029,526	1,679,264	2,193,947	5,902,737	147,638	6,050,375
Operating liabilities	1,433,423	463,220	820,998	2,717,641	432,113	3,149,754
Additions to non-current assets -						
Property, furniture and equipment	239,935	78,497	-	318,432	23,710	342,142
Investment properties	-	-	313,178	313,178	(23,710)	289,468
Intangible assets	19,027	7,662	137	26,826	-	26,826
Increase on revaluation of investment properties	-	-	77,656	77,656	(23,932)	53,724
Depreciation and amortization	(75,880)	(15,492)	(643)	(92,015)	(6,271)	(98,286)

(*) As of December 31, 2012, the "pharmacies" segment includes approximately S/.373,054,000 and S/.694,283,000 corresponding to the brand "InkaFarma" and the goodwill, respectively, as a result of the acquisition of the Eckerd Peru S.A.; see Note 15.

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

31. Objectives and policies of financial risk management

The risk is inherent in the InRetail Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the InRetail Group's continuing profitability and each individual within the InRetail Group is accountable for the risk exposures relating to his or her responsibilities.

InRetail Group is exposed to market risk, credit risk and liquidity risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

(a) Risk management structure -

The Group's Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies in the subsidiaries responsible for managing and monitoring risks, as further explained bellow:

(i) Board of Directors

The Group'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, credit risk, use of derivative financial instruments and non-derivative financial instruments.

(ii) Internal Audit

Risk management processes throughout the InRetail Group are monitored by the internal audit functions, which examine both the adequacy of the procedures and the compliance of them. Internal Audit discusses the findings and recommendations to the top Management and Board of Directors.

(iii) Management

The InRetail Group's senior management oversees the management of the Company's risks. The Finance Managers provide assurance to the InRetail Group's senior management that the procedures and those financial risks are identified, measured and managed in accordance with the Board of Directors guidelines.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Credit risk -
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The InRetail Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks.

This risk is managed by the Finance Managers in accordance with the Board's principles to minimize risk concentration and, consequently, mitigate financial losses from potential defaults of the counterpart. The maximum exposure to credit risk of the components of the consolidated financial statements as of December 31, 2013 and 2012, comes from the captions "Cash and cash equivalent", "Accounts receivable", "Accounts receivable from related parties", "Available-for-sale investments" and "Derivative financial instruments". The maximum exposure to credit risk of the components of the consolidated financial statements as of December 31, 2013 and 2012, is their book value, net of the respective provisions for impairment.

(a) Credit risk associated with:

(a.1) Trade accounts receivable

InRetail Group assess the risk concentration of the trade accounts receivable and other accounts receivable. In general, the Company does not hold significant concentrations of accounts receivable with any entity in particular. The Company assesses the collectability risk of the accounts receivable in order to determine the respective provision.

In case of the trade accounts receivable for retail sales, which are mainly generated by sales with credit cards, the credit risk is minimal because they have a period from 2 to 7 days to become cash.

In case of leases receivable and merchandise coupons, payment contracts are maintained currently in force.

(a.2) Bank deposits and available-for-sale investments

The balances equivalent to cash are held in top-level financial entities, including a related financial entity. In case of available-for-sale investments, as explained in Note 10, they correspond to the notes issued by Intercorp Retail Trust.

Market risk -

It is the risk of suffering losses in the consolidated statements of financial positions due to fluctuations in market prices. These prices comprise three risk types: (i) exchange rate; (ii) interest rate; and (iii) commodity prices and others. The financial instruments of the Company and its Subsidiaries are affected by exchange rate risk and interest rate risk.

The sensitivity analysis in the following sections refers to the positions as of December 31, 2013 and 2012. Said analysis assumes that the net debt amount, the relation of fixed and floating interest rates, derivatives and the position in foreign currency instruments are constant.

(i) Foreign currency risk -

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Finance Managers of the Subsidiaries are responsible for identifying, measuring, controlling and informing on the exposure to global exchange rate risk of the Group. Management has decided to assume the exchange rate risk generated by its foreign currency position and has only performed one hedge operation through a swap operation for the financial obligations it maintains over the Subordinated Bonds – Second Issuance, which pursuant to IAS 39 was classified as an effective hedging financial instrument. See Note 4 and 20.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Group's profit before tax. A negative amount shows a potential net decrease in the consolidated statements of income and comprehensive income, whereas a positive amount reflects a potential net increase.

Sensitivity analysis	Change in exchange rates	Gain/(loss) before taxes	
	%	2013 S/.(000)	2012 S/.(000)
Devaluation			
US Dollars	5	74,196	73,212
US Dollars	10	148,391	146,425
Revaluation			
US Dollars	5	(74,196)	(73,212)
US Dollars	10	(148,391)	(146,425)

(ii) Interest rate risk -

The interest rate risk is the risk that the future fair values of cash flows of a financial instrument fluctuate due to changes of the market interest rates. InRetail Group manages its interest rate risk based on the Management's experience, balancing the asset and liable interest rates.

Following is the sensibility of the statements of comprehensive income to the possible effect of changes in the interest rate on the financial expenses for a year, before Income Tax, assuming that the financial liabilities as of December 31, 2013 and 2012, are renewed at their maturity and will be held for the rest of the following year:

Changes in basis points	Effect on profit before taxes		Effect on Other comprehensive income	
	2013 S/.(000)	2012 S/.(000)	2013 S/.(000)	2012 S/.(000)
+ (-) 50	687	274	16	5
+ (-) 100	1,374	548	32	10
+ (-) 200	2,749	1,096	64	20

The sensitivities of interest rates shown above are only for illustrative purposes and are based on simplified scenarios, the effect does not include the actions that Management would take to mitigate the impact of this type of risk.

Liquidity risk -

It is the risk that the InRetail Group could not comply with their payment obligations related to financial liabilities at maturity. The consequence would be the default in the payment of their obligations to third parties.

Liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit sources and the ability to settle transactions, mainly debt. To that respect, Management of the InRetail Group focuses its efforts to maintain funding sources through the availability of credit lines.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	As of December 31, 2013				
	Less than 3 months S/.(000)	3 to 12 months S/.(000)	1 to 5 years S/.(000)	More than 5 years S/.(000)	Total S/.(000)
Bonds issued and interest-bearing loans and borrowings					
Capital amortization	12,532	164,719	587,938	956,483	1,721,672
Interest payments flow	6,728	94,572	352,806	180,291	634,397
Trade payables	1,283,208	4,143	-	-	1,287,351
Accounts payable to related parties	14,459	16,434	3,642	-	34,535
Other payables and current income tax	95,948	107,948	-	-	203,896
Total liabilities	1,412,875	387,816	944,386	1,136,774	3,881,851

	As of December 31, 2012				
	Less than 3 months S/.(000)	3 to 12 months S/.(000)	1 to 5 years S/.(000)	More than 5 years S/.(000)	Total S/.(000)
Bonds issued and interest-bearing loans and borrowings					
Capital amortization	12,257	71,452	667,184	916,655	1,667,548
Interest payments flow	5,881	86,651	358,867	163,552	614,951
Trade payables	1,017,124	18,183	-	-	1,035,307
Accounts payable to related parties	29,860	3,968	3,157	-	36,985
Other payables and current income tax	89,517	98,247	-	-	187,764
Total liabilities	1,154,639	278,501	1,029,208	1,080,207	3,542,555

Capital management risk -

The InRetail Group actively manages a capital base in order to cover inherent risks to their activities. The capital adequacy of the InRetail Group is monitored using, among other measures, ratios established by Management.

The objectives of the InRetail Group when managing capital is a concept broader than the "Consolidated equity" presented in the consolidated statements of financial position. Those objectives are: (i) to safeguard the ability of the Group to continue operating in a way that continues to provide returns to shareholders and benefits to the rest of stakeholders; and (ii) to maintain a strong capital base to support the development and growth of its activities.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

32. 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 is similar to book value -

Assets and liabilities that are liquid or have short maturities (less than three months), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

(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.

On the basis of the aforementioned criteria's, set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instrument and investment properties as of December 31, 2013 and 2012:

	2013		2012	
	Book value S/.(000)	Fair value S/.(000)	Book value S/.(000)	Fair value S/.(000)
Assets				
Cash and short-term deposits	282,571	282,571	541,864	541,864
Investments at fair value through profit or loss	-	-	555,023	555,023
Trade receivables, net	82,155	82,155	72,313	72,313
Other receivables, net	43,965	43,965	42,889	42,889
Accounts receivable from related parties	86,048	86,048	104,477	104,477
Available-for sale investments	17,171	17,171	28,319	28,319
Investment properties	1,695,897	1,695,897	1,104,261	1,104,261
Liabilities				
Trade payables	1,287,351	1,287,351	1,035,307	1,035,307
Accounts payable to related parties	34,535	34,535	36,985	36,985
Other payables and current income tax	203,896	203,896	187,764	187,764
Bonds issued and interest-bearing loans and borrowings	1,721,672	1,840,953	1,667,548	1,710,675

Fair value hierarchy -

InRetail Group uses 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 consolidated 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 InRetail Group has not performed transfers of financial instruments from Level 3 to Level 1 or to Level 2 during the years 2013 and 2012. 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.

InRetail Group has determined the fair value of the investment properties through the Level 2 hierarchy for lands lots, and the Level 3 hierarchy for the shopping centers; see Note 14.

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