Translation of independent auditors' report and financial statements originally issued in Spanish - Note 30

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

Combined financial statements as of December 31, 2015 and 2014, together with the Independent Auditor's Report

Building a better working world

# Translation of independent auditors' report and financial statements originally issued in Spanish - Note 30

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

# Combined financial statements as of December 31, 2015 and 2014, together with Report of the independent auditor's report

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# Independent auditor's report

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

We have audited the accompanying combined financial statements of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries (together the "Companies"), which comprise the combined statements of financial position as of December 31, 2015 and 2014, and the related combined income statements, other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information (notes 1 to 30).

*Management's responsibility for the combined financial statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control that Management determines is necessary to enable the preparation of combined 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 combined financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing as adopted for Application in Peru by The Board of Deans of Colleges of Public Accountants of Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain paragraph reasonable assurance about whether the combined financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making this risk assessments, the auditor considers internal control relevant to the Companies in the preparation and fair presentation of the combined 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 Companies 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 combined financial statements.

## 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 combined financial statements present fairly, in all material respects, the combined financial position of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries as of December 31, 2015 and 2014, and their combined results of operations and their cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Lima, Peru,
March 10, 2016

Paredes, Zaldívar, Burga & Asociados

Countersigned by:

Manuel Díaz
C.P.C.C. Registration No. 30296

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

# Combined statements of financial position

As of December 31, 2015 and 2014

| | Note | 2015 S/(000) | 2014 S/(000) |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and short-term deposits | 4 | 188,235 | 168,209 |
| Trade receivables, net | 5 | 63,472 | 58,410 |
| Other receivables, net | 6 | 78,773 | 76,530 |
| Accounts receivable to related parties | 23(b) | 23,363 | 40,774 |
| Inventories, net | 7 | 891,355 | 803,821 |
| Investments at fair value through other comprehensive income | 8 | 13,873 | - |
| Prepayments | 9 | 18,256 | 15,389 |
| **Total current assets** | | 1,277,327 | 1,163,133 |
| **Non-current assets** | | | |
| Other receivables, net | 6 | 14,374 | 8,758 |
| Prepayments | 9 | 26,270 | 22,541 |
| Derivative financial instrument – "Call Spread" | 10 | 32,692 | - |
| Property, furniture and equipment, net | 11 | 2,014,053 | 1,873,599 |
| Investment properties, net | 12 | 17,224 | 17,729 |
| Intangible assets, net | 13 | 1,184,081 | 1,175,874 |
| **Total non-current assets** | | 3,288,694 | 3,098,501 |
| **Total assets** | | 4,566,021 | 4,261,634 |

| | Note | 2015 S/(000) | 2014 S/(000) |
|---|---|---|---|
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade payables | 14 | 1,424,541 | 1,239,906 |
| Other payables | 15 | 158,543 | 156,196 |
| Interest-bearing loans and borrowings | 16 | 134,932 | 65,671 |
| Accounts payable to related parties | 23(b) | 32,635 | 29,372 |
| Current income tax, net | 18(d) | 1,846 | 2,545 |
| Deferred revenue | 24 | 4,326 | 3,950 |
| **Total current liabilities** | | 1,756,823 | 1,497,640 |
| Interest-bearing loans and borrowings | 16 | 455,945 | 182,137 |
| Accounts payable to related parties | 23(b) | 5,188 | 4,242 |
| Senior notes issued | 17 | 831,319 | 1,099,499 |
| Deferred revenue | 24 | 17,341 | 16,744 |
| Deferred income tax liabilities, net | 18(a) and (b) | 145,773 | 119,257 |
| **Total non-current liabilities** | | 1,455,566 | 1,421,879 |
| **Total liabilities** | | 3,212,389 | 2,919,519 |
| **Equity** | 19 | | |
| Capital stock | | 369,607 | 369,607 |
| Capital premium | | 181,603 | 181,603 |
| Additional paid - in capital | | 706,427 | 704,392 |
| Other equity reserves | | 17,689 | 16,229 |
| Unrealized results on derivative financial instruments | | (13,582) | - |
| Unrealized income on investments at fair value through other comprehensive income | | 768 | - |
| Retained earnings | | 91,120 | 70,284 |
| **Total equity** | | 1,353,632 | 1,342,115 |
| **Total liabilities and equity** | | 4,566,021 | 4,261,634 |

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

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

# Combined income statements

For the years ended December 31, 2015 and 2014

| | Note | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|---|
| Net sales of goods | | 6,326,564 | 5,771,044 |
| Rental income | | 39,219 | 34,999 |
| Rendering of services | | 39,983 | 26,458 |
| **Revenue** | 26 | 6,405,766 | 5,832,501 |
| Cost of sales and services | 21(a) | (4,611,267) | (4,224,586) |
| **Gross profit** | | 1,794,499 | 1,607,915 |
| Selling expenses | 21(a) | (1,340,202) | (1,193,894) |
| Administrative expenses | 21(a) | (150,445) | (141,175) |
| Other operating income, net | | 11,458 | 19,815 |
| **Operating profit** | | 315,310 | 292,661 |
| Finance income | 22 | 6,019 | 10,860 |
| Finance costs | 22 | (117,921) | (227,331) |
| Exchange difference, net | 3 | (88,465) | (58,374) |
| **Profit before income tax** | | 114,943 | 17,816 |
| Income tax expense | 18(c) | (89,087) | (49,850) |
| **Net profit** | | 25,856 | (32,034) |

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

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

# Combined statements of comprehensive income

For the years ended December 31, 2015 and 2014

| | Note | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|---|
| **Net profit** | | 25,856 | (32,034) |
| **Other comprehensive income** | | | |
| Derivative financial instrument hedging | 10(b) | (13,582) | 619 |
| Update on the fair value of financial investments at fair value through other comprehensive income | 8 | 768 | 1,426 |
| Transfer of realized gain on available-for-sale investments to the profit for the year | 8 | - | (2,104) |
| Settlement of derivative financial instruments | 22 | - | (547) |
| Deferred income tax related to other comprehensive income | 18(b) | - | (389) |
| **Other comprehensive income for the year, net of income tax effects** | | (12,814) | (995) |
| **Total comprehensive income for the year** | | 13,042 | (33,029) |

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

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

# Combined statements of changes in equity

For the years ended December 31, 2015 and 2014

| | Capital stock | | | | Other equity reserves | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued S/(000) | Pending to issue S/(000) | Capital premium S/(000) | Additional paid - in capital S/(000) | Legal reserve S/(000) | Unrealized results on derivative financial instruments S/(000) | Unrealized income on investments at fair value through other comprehensive income S/(000) | Retained earnings S/(000) | Total S/(000) |
| **Balance as of December 31, 2013** | 350,133 | 10,656 | 142,470 | 687,749 | 15,279 | 276 | 719 | 188,268 | 1,395,550 |
| Cash contributions, Note 19(a) | - | 8,818 | 39,133 | - | - | - | - | - | 47,951 |
| Transfer to legal reserve, Note 19(e) | - | - | - | - | 950 | - | - | (950) | - |
| Dividends paid, Note 19(c) | - | - | - | - | - | - | - | (85,000) | (85,000) |
| Net income | - | - | - | - | - | - | - | (32,034) | (32,034) |
| Movements in additional paid - in capital | - | - | - | 16,643 | - | - | - | - | 16,643 |
| Other comprehensive income | - | - | - | - | - | (276) | (719) | - | (995) |
| **Balance as of December 31, 2014** | 350,133 | 19,474 | 181,603 | 704,392 | 16,229 | - | - | 70,284 | 1,342,115 |
| Transfer to legal reserve, Note 19(e) | - | - | - | - | 1,460 | - | - | (1,460) | - |
| Yields prepayments, Note 19(d) | - | - | - | - | - | - | - | (3,560) | (3,560) |
| Net income | - | - | - | - | - | - | - | 25,856 | 25,856 |
| Movements in additional paid - in capital | - | - | - | 2,035 | - | - | - | - | 2,035 |
| Other comprehensive income | - | - | - | - | - | (13,582) | 768 | - | (12,814) |
| **Balance as of December 31, 2015** | 350,133 | 19,474 | 181,603 | 706,427 | 17,689 | (13,582) | 768 | 91,120 | 1,353,632 |

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

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

# Combined statements of cash flows

For the years ended December 31, 2015 and 2014

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Operating activities** | | |
| Revenue | 6,400,244 | 5,840,346 |
| Payments to suppliers of goods and services | (5,226,775) | (4,782,731) |
| Payments to employees for salaries and social benefits | (592,453) | (555,705) |
| Taxes paid | (94,360) | (99,440) |
| Revenues related to contract between Supermercados Peruanos S.A. and FUNO, Note 23(b) | 13,843 | - |
| Other collections (payments), net | 53,145 | (161,294) |
| **Net cash flows from operating activities** | 553,644 | 241,176 |
| **Investing activities** | | |
| Collection of loan to related parties | 19,652 | - |
| Sale of property, furniture and equipment | - | 53,477 |
| Purchase of property, furniture and equipment, net of acquisition through leasing contracts | (263,422) | (220,969) |
| Purchase and development of intangibles assets | (19,555) | (15,193) |
| Purchase of investments at fair value through other comprehensive income | (12,286) | - |
| Settlement of senior notes | - | 347,726 |
| Refund from purchasing of senior notes on behalf of shareholders | - | 95,947 |
| Sale of available for sale investment | - | 16,144 |
| Bonds repurchase (including nominal and repurchase premium) | - | (917,905) |
| **Net cash flows used in investing activities** | (275,611) | (640,773) |

# Combined statements of cash flows (continued)

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Financing activities** | | |
| Senior notes issued net of up-front fees and notes acquired by the Company itself | 356,800 | 1,076,938 |
| Capital contribution | - | 47,951 |
| Additional paid in capital | - | 29,370 |
| Payment of bonds issued | (408,994) | (121,119) |
| Payment of financial obligations | (99,851) | (482,593) |
| Interest paid | (95,956) | (95,654) |
| Deposits in guarantee related to derivative financial instrument | (6,446) | - |
| Dividends paid and yields prepayments | (3,560) | (85,000) |
| **Net cash flows (used in) from financing activities** | (258,007) | 369,893 |
| | | |
| Net increase (decrease) of cash and short-term deposits | 20,026 | (29,704) |
| Cash and short – term deposits at the beginning of the year | 168,209 | 197,913 |
| **Cash and short – term deposits at the end of the year** | 188,235 | 168,209 |
| | | |
| **Non-cash transactions** | | |
| Fixed assets acquired through leasing and other financial obligations | 54,551 | 63,655 |
| Offsetting of loan | - | 379,340 |

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

1. **Identification and business activities and reorganization and issuance process**

(a) Identification -

Patrimonio en Fideicomiso D.S. N ° 093-2002-EF-InRetailConsumer (a Special Purpose Entity – SPE, hereinafter "InRetail Consumer"), was incorporated in August 2014 by InRetail Perú Corp. only for the purpose to issue an offering in the local market and abroad (see paragraph (c) below and Note 17(b)). As of December 31, 2015 and 2014, the representative shares of capital stock of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries were transferred in trust to this entity.

Supermercados Peruanos S.A. and Eckerd Perú S.A. (hereinafter "the Companies") were incorporated in June 1979 and August 1996, respectively, in Lima, Peru. As of December 31, 2015 and 2014, those companies are subsidiaries of InRetail Perú Corp., which is a subsidiary of Intercorp Retail Inc., a subsidiary of Intercorp Perú Ltd. (holding company incorporated in The Bahamas, hereinafter "Intercorp Perú"), which is the ultimate parent and holds 100 percent of Intercorp Retail Inc.'s capital stock. As of those dates, InRetail Perú Corp. owns directly and indirectly the following percentages of ownership in these Companies:

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

(b) Business activities -

The following is a description of the Companies' activities:

- Supermercados Peruanos S.A. is dedicated to retail. As of December 31, 2015 and 2014, has a chain of stores operating under the "Plaza Vea", "Plaza Vea Super", "Vivanda" and "Mass" brands, which are located in Lima and provinces, such as Trujillo, Chimbote, Piura, Cusco, Arequipa, Huancayo, and others. Supermercados Peruanos S.A. holds 100 percent of: (i) Dedarrolladora de Strip Center S.A.C. (before Peruana de Tiquetes S.A.C.), and (ii) Plaza Vea Sur S.A.C.

- Eckerd Peru S.A. is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements aimed for health protection and recovery through its "InkaFarma" pharmacy chain. As of December 31, 2015 and 2014, it mainly operates in Lima and provinces, such as Lambayeque, La Libertad, Piura, Arequipa, Loreto, San Martin, Ucayali, Madre de Dios, among others. Eckerd Perú S.A. holds 100 percent of: (i) Eckerd Amazonía S.A.C. and (ii) Boticas del Oriente S.A.C.

The following is the summary of the main data of the Companies' financial statements used in the preparation of the combined financial statements as of December 31, 2015, and 2014, and for the years then ended:

| | Supermercados Peruanos S.A. and Subsidiaries | | Eckerd Peru S.A. and Subsidiaries | |
|---|---|---|---|---|
| | **2015** S/(000) | **2014** S/(000) | **2015** S/(000) | **2014** S/(000) |
| Total assets | 2,701,169 | 2,526,580 | 792,122 | 650,241 |
| Total liabilities | 1,771,952 | 1,624,278 | 653,972 | 524,139 |
| Equity | 929,217 | 902,302 | 138,150 | 126,102 |
| Operating profit | 149,727 | 136,199 | 166,687 | 156,871 |
| Net profit | 26,915 | 14,436 | 116,400 | 98,678 |

The combined financial statements as of December 31, 2015 and 2014 were approved by Management of InRetail Perú Corp. on January 13, 2016 and March 12, 2015, respectively.

(c) Reorganization and issuance processes –
As indicated in paragraph (a) above and Note 17(a), during the year 2014 InRetail Consumer issued an offering of "Senior Notes Unsecured " for US$300,000,000 and S/250,000,000. The funding was mainly used for the restructuring of long-term liabilities and investments in new projects for the Companies.

## 2. Summary of significant accounting policies

The significant accounting policies used in the preparation and presentation of the Companies´ combined financial statements are described below:

### 2.1 Basis of preparation and presentation

The combined financial statements have been prepared and presented solely to comply with certain obligations as a result of the issuance made by InRetail Consumer (Notes 1(c) and 17(a)). Likewise, the combined financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective as of December 31,2015 and 2014.

The combined financial statements have been prepared on a historical cost basis, except for derivative financial instrument and investments at fair value through profit or loss and other comprehensive income,  that have been measured at fair value. The combined financial statements are presented in Soles and all values are rounded to the nearest thousand (S/(000)), except when otherwise indicated.

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

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

By other hand, IFRS 9 introduces changes in hedging accounting, which are mainly not to require a specific ratio for hedging effectiveness but instead a correlation with risk management of the entity. IFRS 9 also permits that derivatives time value which are designated as hedging accounting be amortized on a straight line basis during the period of the respective contracts; see note 2.2 (f).

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

**2.2 Summary of significant accounting policies**

(a) Basis of combination -

The combined financial statements comprise the consolidated financial statements of the Companies and their Subsidiaries, which have been prepared under IFRS; see Note 1. For purposes of these consolidated financial statements, subsidiaries are fully consolidated from the date of their acquisition; being the date on which Supermercados Peruanos S.A. or Eckerd Peru S.A. obtained control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The combined financial statements result from the addition of the balances of all the accounts of the Companies' consolidated financial statements; however, there is not any relationship as a parent and subsidiaries. The significant transactions among the Companies' balances and profit and losses have been eliminated. The combined financial statements are prepared using uniform accounting policies for similar transactions and events, which are described in the following notes to the combined financial statements.

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

(a.1) The determination of the combined statement of financial position as of December 31, 2015 is presented below:

| | Note | Balances of Supermercados Peruanos S.A. and Subsidiaries S/(000) | Balances of Eckerd Perú S.A. and Subsidiaries S/(000) | Aggregated S/(000) | Intercompany eliminations and reclassifications S/(000) | Combined adjustments (*) S/(000) | Combined as of 12.31.2015 S/(000) |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and short-term deposits | (i) | 110,684 | 23,830 | 134,514 | - | 53,721 | 188,235 |
| Trade receivables, net | | 34,985 | 28,487 | 63,472 | - | - | 63,472 |
| Other receivables, net | | 65,578 | 12,809 | 78,387 | - | 386 | 78,773 |
| Accounts receivable to related parties | (i) and (ii) | 24,898 | 617 | 25,515 | (3,844) | 1,692 | 23,363 |
| Inventories, net | | 482,442 | 408,913 | 891,355 | - | - | 891,355 |
| Investments at fair value through other comprehensive income | (iii) | - | 51,877 | 51,877 | - | (38,004) | 13,873 |
| Prepayments | | 8,447 | 9,809 | 18,256 | - | - | 18,256 |
| **Total current assets** | | 727,034 | 536,342 | 1,263,376 | | | 1,277,327 |
| Other receivables, net | | 2,578 | 11,796 | 14,374 | - | - | 14,374 |
| Prepayments | (ii) | 24,133 | 3,839 | 27,972 | (1,702) | - | 26,270 |
| Derivative financial instrument – "Call Spread" | (iv) | - | - | - | - | 32,692 | 32,692 |
| Property, furniture and equipment, net | | 1,815,658 | 198,395 | 2,014,053 | - | - | 2,014,053 |
| Investment properties, net | | 17,224 | - | 17,224 | - | - | 17,224 |
| Intangible assets, net | (v) | 80,555 | 20,936 | 101,491 | - | 1,082,590 | 1,184,081 |
| Deferred income tax assets | | 33,987 | 20,814 | 54,801 | (54,801) | - | - |
| **Total assets** | | 2,701,169 | 792,122 | 3,493,291 | | | 4,566,021 |
| **Liabilities and equity** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Trade payables | | 868,222 | 556,319 | 1,424,541 | - | - | 1,424,541 |
| Other payables | (ii) and (vi) | 97,959 | 50,595 | 148,554 | (537) | 10,526 | 158,543 |
| Interest-bearing loans and borrowings | | 116,987 | 13,070 | 130,057 | - | 4,875 | 134,932 |
| Accounts payable to related parties | (ii) | 33,957 | 1,951 | 35,908 | (3,307) | 34 | 32,635 |
| Current income tax, net | | - | 1,846 | 1,846 | - | - | 1,846 |
| Deferred revenue | | 4,326 | - | 4,326 | - | - | 4,326 |
| **Total current liabilities** | | 1,121,451 | 623,781 | 1,745,232 | | | 1,756,823 |
| Interest-bearing loans and borrowings | (iv) | 542,720 | 24,950 | 567,670 | | (111,725) | 455,945 |
| Accounts payable to related parties | | 5,188 | - | 5,188 | - | - | 5,188 |
| Senior notes issued | (vi) | - | - | - | - | 831,319 | 831,319 |
| Deferred revenue | (ii) | 19,043 | - | 19,043 | (1,702) | - | 17,341 |
| Deferred income tax liabilities, net | (v) | 83,550 | 5,241 | 88,791 | (54,801) | 111,783 | 145,773 |
| **Total liabilities** | | 1,771,952 | 653,972 | 2,425,924 | | | 3,212,389 |
| **Equity** | | | | | | | |
| Capital stock | (vii) | 389,445 | 13,784 | 403,229 | - | (33,622) | 369,607 |
| Capital premium | (vii) | 327,427 | 3,391 | 330,818 | - | (149,215) | 181,603 |
| Additional paid - in capital | | - | - | - | - | 706,427 | 706,427 |
| Other equity reserves | | 15,240 | 2,449 | 17,689 | - | - | 17,689 |
| Retained earnings | | 197,105 | 117,878 | 314,983 | - | (223,863) | 91,120 |
| Unrealized results on derivative financial instruments | (iv) | - | - | - | - | (13,582) | (13,582) |
| Unrealized income on investments at fair value through other comprehensive income | (iii) | - | 648 | 648 | - | 120 | 768 |
| **Total equity** | | 929,217 | 138,150 | 1,067,367 | | | 1,353,632 |
| **Total liabilities and equity** | | 2,701,169 | 792,122 | 3,493,291 | | | 4,566,021 |

(*) Include InRetail Consumer's balances.

(a.2) The determination of the combined statement of financial position as of December 31, 2014 is presented below:

| | Note | Balances of Supermercados Peruanos S.A. and Subsidiaries S/(000) | Balances of Eckerd Perú S.A. and Subsidiaries S/(000) | Aggregated S/(000) | Intercompany eliminations and reclassifications S/(000) | Combined adjustments (*) S/(000) | Combined as of 12.31.2014 S/(000) |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and short-term deposits | (i) | 122,662 | 32,681 | 155,343 | - | 12,866 | 168,209 |
| Trade receivables, net | | 39,871 | 18,539 | 58,410 | - | - | 58,410 |
| Other receivables, net | | 62,832 | 13,698 | 76,530 | - | - | 76,530 |
| Accounts receivable to related parties | (i) and (ii) | 31,243 | 43 | 31,286 | (2,449) | 11,937 | 40,774 |
| Inventories, net | | 466,411 | 337,410 | 803,821 | - | - | 803,821 |
| Prepayments | | 8,969 | 6,420 | 15,389 | - | - | 15,389 |
| **Total current assets** | | 731,988 | 408,791 | 1,140,779 | | | 1,163,133 |
| Deferred income tax assets | | - | 17,910 | 17,910 | (17,910) | - | - |
| Other receivables, net | | 186 | 8,572 | 8,758 | - | - | 8,758 |
| Prepayments | (ii) | 20,596 | 4,166 | 24,762 | (2,221) | - | 22,541 |
| Property, furniture and equipment, net | | 1,683,012 | 190,587 | 1,873,599 | - | - | 1,873,599 |
| Investment properties, net | | 17,729 | - | 17,729 | - | - | 17,729 |
| Intangible assets, net | (v) | 73,069 | 20,215 | 93,284 | - | 1,082,590 | 1,175,874 |
| **Total assets** | | 2,526,580 | 650,241 | 3,176,821 | | | 4,261,634 |
| **Liabilities and equity** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Trade payables | | 810,770 | 429,136 | 1,239,906 | - | - | 1,239,906 |
| Other payables | (vi) | 90,824 | 49,723 | 140,547 | - | 15,649 | 156,196 |
| Interest-bearing loans and borrowings | | 55,328 | 10,343 | 65,671 | - | - | 65,671 |
| Accounts payable to related parties | (ii) | 30,194 | 1,627 | 31,821 | (2,449) | - | 29,372 |
| Current income tax, net | | - | 2,545 | 2,545 | - | - | 2,545 |
| Deferred revenue | | 3,950 | - | 3,950 | - | - | 3,950 |
| **Total current liabilities** | | 991,066 | 493,374 | 1,484,440 | | | 1,497,640 |
| Accounts payable to related parties | | 4,242 | - | 4,242 | - | - | 4,242 |
| Interest-bearing loans and borrowings | | 572,225 | 28,372 | 600,597 | - | (418,460) | 182,137 |
| Senior notes issued | (vi) | - | - | - | - | 1,099,499 | 1,099,499 |
| Deferred revenue | (ii) | 18,965 | - | 18,965 | (2,221) | | 16,744 |
| Deferred income tax liabilities, net | (v) | 37,780 | 2,393 | 40,173 | (17,910) | 96,994 | 119,257 |
| **Total liabilities** | | 1,624,278 | 524,139 | 2,148,517 | | | 2,919,519 |
| **Equity** | | | | | | | |
| Capital stock | (vii) | 389,445 | 13,784 | 403,229 | - | (33,622) | 369,607 |
| Capital premium | (vii) | 327,427 | 3,391 | 330,818 | - | (149,215) | 181,603 |
| Additional paid - in capital | | - | - | - | - | 704,392 | 704,392 |
| Other equity reserves | | 13,780 | 2,449 | 16,229 | - | - | 16,229 |
| Retained earnings | | 171,650 | 106,478 | 278,128 | - | (207,844) | 70,284 |
| **Total equity** | | 902,302 | 126,102 | 1,028,404 | | | 1,342,115 |
| **Total liabilities and equity** | | 2,526,580 | 650,241 | 3,176,821 | | | 4,261,634 |

(*) Include InRetail Consumer's balances.

(a.3) The determination of the combined income statement for the year ended December 31, 2015 is presented below:

| | Note | Balances of Supermercados Peruanos S.A. and Subsidiaries S/(000) | Balances of Eckerd Perú S.A. and Subsidiaries S/(000) | Aggregated S/(000) | Intercompany eliminations and reclassifications S/(000) | Combined adjustments(*) S/(000) | Combined as of 12.31.2015 S/(000) |
|---|---|---|---|---|---|---|---|
| Net sales of goods | (ii) | 4,025,136 | 2,301,428 | 6,326,564 | - | - | 6,326,564 |
| Rental income | (ii) | 48,634 | - | 48,634 | (9,415) | - | 39,219 |
| Rendering of services | (ii) | 3,272 | 37,647 | 40,919 | (936) | - | 39,983 |
| Cost of sales and services | (ii) | (3,012,534) | (1,598,733) | (4,611,267) | - | - | (4,611,267) |
| **Gross profit** | | 1,064,508 | 740,342 | 1,804,850 | (10,351) | - | 1,794,499 |
| Selling expenses | (ii) | (830,350) | (520,203) | (1,350,553) | 10,351 | - | (1,340,202) |
| Administrative expenses | (ii) | (94,736) | (54,605) | (149,341) | - | (1,104) | (150,445) |
| Other operating income, net | | 10,305 | 1,153 | 11,458 | - | - | 11,458 |
| **Operating profit** | | 149,727 | 166,687 | 316,414 | - | (1,104) | 315,310 |
| Finance income | | 2,720 | 2,526 | 5,246 | (18,839) | 19,612 | 6,019 |
| Finance costs | (vi) | (53,501) | (2,901) | (56,402) | 18,839 | (80,358) | (117,921) |
| Exchange difference, net | (vi) | (48,483) | 705 | (47,778) | - | (40,687) | (88,465) |
| **Profit before income tax** | | 50,463 | 167,017 | 217,480 | - | (102,537) | 114,943 |
| Income tax expense | | (23,548) | (50,617) | (74,165) | - | (14,922) | (89,087) |
| **Net profit** | | 26,915 | 116,400 | 143,315 | - | (117,459) | 25,856 |

(a.4) The determination of the combined income statement for the year ended December 31, 2014 is presented below:

| | Note | Balances of Supermercados Peruanos S.A. and Subsidiaries S/(000) | Balances of Eckerd Perú S.A. and Subsidiaries S/(000) | Aggregated S/(000) | Intercompany eliminations S/(000) | Combined adjustments (*) S/(000) | Combined as of 12.31.2014 S/(000) |
|---|---|---|---|---|---|---|---|
| Net sales of goods | (ii) | 3,711,750 | 2,059,294 | 5,771,044 | - | - | 5,771,044 |
| Rental income | (ii) | 42,757 | - | 42,757 | (7,758) | - | 34,999 |
| Rendering of services | (ii) | 2,146 | 26,793 | 28,939 | (2,481) | - | 26,458 |
| Cost of sales and services | (ii) | (2,794,066) | (1,430,520) | (4,224,586) | - | - | (4,224,586) |
| **Gross profit** | | 962,587 | 655,567 | 1,618,154 | (10,239) | - | 1,607,915 |
| Selling expenses | (ii) | (753,843) | (450,290) | (1,204,133) | 10,239 | - | (1,193,894) |
| Administrative expenses | (ii) | (83,972) | (56,794) | (140,766) | - | (409) | (141,175) |
| Other operating income, net | | 11,427 | 8,388 | 19,815 | - | - | 19,815 |
| **Operating profit** | | 136,199 | 156,871 | 293,070 | - | (409) | 292,661 |
| Finance income | | 5,933 | 756 | 6,689 | (2,894) | 7,065 | 10,860 |
| Finance costs | (vi) | (83,915) | (5,261) | (89,176) | 2,894 | (141,049) | (227,331) |
| Exchange difference, net | (vi) | (32,108) | (589) | (32,697) | - | (25,677) | (58,374) |
| **Profit before income tax** | | 26,109 | 151,777 | 177,886 | - | (160,070) | 17,816 |
| Income tax expense | | (11,673) | (53,099) | (64,772) | - | 14,922 | (49,850) |
| **Net profit** | | 14,436 | 98,678 | 113,114 | - | (145,148) | (32,034) |

(*) Include InRetail Consumer's balances.

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

(i) As of December 31, 2015 and 2014, correspond to current accounts and time deposits owned by InRetail Consumer for S/53,721,000 and S/12,866,000, respectively, and trade receivables to related parties for S/1,692,000 and S/11,937,000, respectively.

(ii) Intercompany eliminations of balances and transactions, which mainly correspond to commercial transactions between the Companies (rental and/or rights of use of property, sale of merchandise vouchers, key money, etc.).

(iii) Elimination of senior notes issued by InRetail Consumer and acquired by the Companies.

(iv) Corresponds to the fair value of "Call Spread" signed by InRetail Consumer during 2015; Note 10.

(v) Correspond to the "InkaFarma" commercial brand and goodwill recorded in the consolidated financial statements of InRetail Perú Corp. and Subsidiaries as a consequence of the acquisition of Eckerd Perú S.A. and Subsidiaries for approximately S/373,054,000 and S/709,472,000, respectively (approximately S/1,082,590 as of December 31, 2014). Likewise, the deferred tax liability related to this commercial brand amounts to approximately S/111,916,000 as of December 31, 2015 (approximately S/96,994,000 as of December 31, 2014). The "InkaFarma" commercial brand is considered as an intangible with indefinite useful live.

(vi) As of December 31, 2014, correspond to the issuance of Senior Notes Unsecured made by InRetail Consumer; see Note 17(b). Interest payable related to such debts amounted to approximately S/10,176,000 and S/13,439,000 as of December 31, 2015 and 2014, respectively; and the accrued interests during said years amounted to approximately S/67,198,000 and S/44,495,000, respectively; Likewise, during 2015 and 2014 the exchange difference (loss) related to this debts amounted to approximately S/40,687,000 and S/25,677,000, respectively. As of December 31, 2015 and 2014, include the repurchase premium for S/13,160,000 and S/96,554,000, respectively.

(vii) As of December 31, 2015 and 2014, correspond to the cash contributions made by InRetail Consumer to Supermercados Peruanos S.A. for a total amount of approximately S/182,837,000; Note 19(a), which has been eliminated for the purposes of these combined financial statements.

(b) Business combinations and goodwill -
Goodwill generated as a consequence of the acquisition of Eckerd Perú S.A. and Subsidiaries; see paragraph (a) before, 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 combined 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 Companies cash-generating units that are expected to benefit from the combination.

(c) Financial instruments - initial recognition and subsequent measurement –
As of the date of combined financial statements, the Companies classify their financial instruments in the following categories defined on IFRS 9 (2014 version): (i) assets at amortized cost, at fair value through other comprehensive income or profit or loss, (ii) financial liabilities at amortized cost or at fair value through profit or loss.

(i) Financial assets
The Companies, considering their operations, have as unique business model to maintain financial assets with the purpose to obtain contractual cash flows. The contractual conditions of the financial asset give rise to cash flows in specific dates which are uniquely payments of principal and interests over the main outstanding principal; in consequence, the Companies measure their financial assets at the amortized cost.

The Companies maintain in this category: Cash and short-term deposits, investments at fair value through profit or loss and other comprehensive income, trade receivables, other receivables and accounts receivable to related parties which are expressed at the value of the transaction, less the provision for doubtful accounts when it is applicable.

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

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

(ii) Financial liabilities-
The financial liabilities are recognized when the Companies are part of contractual agreements of the instrument. Initially, financial liabilities are recognized at fair value through profit or loss. In the case of financial liabilities carried at amortized cost, the direct costs attributable to the transaction are included.

The financial liabilities include: trade accounts payable, other payable, accounts payable to related parties, Interest-bearing loans and borrowings and senior notes issued.

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

(d) Derecognition of financial assets and liabilities -
Financial assets:
A financial asset (or, when it's applicable, part of an asset or part of a group of similar financial assets) is derecognized when:

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

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

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

(e) Offsetting of financial instruments -

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

(f) Derivative financial instruments and hedging accounting –

Negotiation –

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

As of December 31, 2015 and 2014, the Companies do not maintain derivatives financial instruments classified as negotiation.

Hedging -

The Companies use derivatives instruments in order to manage its exposure to the fluctuation of the interest rates and exchange rates. With the purpose of managing particular risks, the Companies apply hedging accounting for transactions that imply with specific criteria for it.

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

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

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

(i) Cash flow hedges -
The Companies enter into cash flow hedging contracts for exchange rate risk and interest rate risks. The ineffective portion related to the exchange rate and interest rate contracts are recognized as financial cost.

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

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

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

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

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

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

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

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

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

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

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

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

(h) Foreign currency transactions -

(i) Functional and presentation currency -
The Companies' combined financial statements are presented in Soles, which is also the functional currency of the Companies.

(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 "Exchange difference, net" of the combined 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.

(i) Cash and short-term deposits -
Cash and short-term deposits in the combined 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 combined statement cash flows, cash consists of cash and short-term deposits as defined above.

(j) 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 combined income statement in the period in which such reductions occur.

(k) 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 Companies for the rights for use of certain commercial stores are amortized during the term of the respective contracts.
- Insurances 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.

(l) 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 Companies derecognize the replaced part, and recognize 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.

Lands are not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives described in Note 11.

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 combined 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.

(m) 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.

*The Companies as lessees*

Finance leases which transfer to the Companies 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 combined income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Companies 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 combined income statement on a straight-line basis over the lease term.

*The Companies as lessors*

Leases in which the Companies do 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.

(n) Investment properties -

Investment properties are presented at their acquisition or capitalization cost, according to IAS 40 "Investment properties" and the historical cost basis; consequently, are recognized according to IAS 16 "Property, plant and equipment". Investment properties mainly comprise the historical acquisition cost of lands and the related cost to complete property to rentals or for capital appreciation or both. See Note 12.

Buildings, infrastructure and facilities that are considered as investment properties are depreciated on a straight line basis over the estimated useful lives. The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year and adjusted prospectively, if appropriated.

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 Companies account such property in accordance with the policy stated under property, furniture and equipment up to the date of change in use.

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 combined income statement in the period of derecognition.

(o) 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 are 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.

(p) Impairment of non-financial assets -

The Companies, assess 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 Companies estimate 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 Companies base their impairment calculations, if needed, on detailed budgets and forecast calculations which are prepared separately for each of the Companies' 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 combined income statement in those expense categories consistent with the function of the impaired asset.

# Notes to the consolidated financial statements (continued)

(q) Defined contribution pension plans -
The Companies only operate a defined contribution pension plan. The contribution payable to a defined contribution pension plan is in proportion to the services rendered to the Companies by the employees and it is recorded as administrative and selling expenses in the combined 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.

(r) Provisions -
Provisions are recognized when the Companies have 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 Companies expect 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 combined 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 combined income statement.

(s) 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 Companies.

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.

(t) Revenue recognition -

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Companies 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 Companies assess its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Companies have 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 sale of goods is recognized when all the risks and benefits inherent right of ownership of the asset is probable that the economic benefits associated with the transaction will flow to the Companies and the amount of revenue can be measured reliably. Retail sales are generally made in cash or by credit card, so that revenues are recorded at the gross amount of the sale at the time the goods are delivered to the customer, and fees for credit card transactions are recognized as selling expenses at the time the sale occurs.

- Rental income: Rental income arising from operating leases, less the Companies 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.

- Rendering of services: It mainly corresponds to revenue from advertising in the Companies' stores and is recognized in the period in which the services are rendered.

- 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 combined 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 combined income statement.

(u) 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.

(v) Taxes -

The income tax of the Companies is determined based on the non-combined financial statements of each 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 combined equity is recognized in combined equity and combined 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 recognized 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 combined 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) Segment reporting –

The Companies report financial and descriptive information about their 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 26.

### 2.3 Significant accounting judgments, estimates and assumptions

The preparation of the combined 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 combined financial statements, as well as the reported amounts of revenues and expenses for the years ended December 31, 2015 and 2014.

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

(i) Provision for inventory losses (see Note 2.2(j)) -
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 combined income statement.

(ii) Discounts, price reductions and others obtained by purchasing volumes of goods (see Note 2.2(j)) -
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 Companies estimate its distribution between the inventory that has been sold and the inventory remaining in stock at the date of the combined 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 and investment properties (see Notes 2.2(l) and 2.2(n)) -
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) Impairment of non-financial assets (see Note 2.2(p)) -
At the end of each year, the Companies assess whether there is existent evidence that the value of its assets has deteriorated. If said evidence exists, Companies perform an estimation of the recoverable amount of the asset.

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

(v) Recovery of deferred tax assets (see Note 2.2(v)) -
Deferred tax assets require Management to evaluate the probability that the Companies generate 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 Companies to realize the net deferred tax assets recorded at the reporting date.

Additionally, future changes in tax legislation might limit the capability of the Companies 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) Fair value measurement of derivative financial instruments (see note 13) -
When the fair values of financial assets and financial liabilities recorded in the combined statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Note 28.

(vii) Taxes estimation (see Note 18) -
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 Companies 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 Companies 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 Companies.

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

**2.4 New accounting standards -**

The standards and amendments and improvements to the standards that are issued, but not yet effective, up to the date of issuance of the Companies' combined financial statements are disclosed below. The Companies intend to adopt these standards and amendments and improvements to the standards, if applicable, when they become effective.

- IFRS 14 "Regulatory Deferral Accounts", effective for annual periods beginning on or after 1 January, 2016.
- IFRS 15 "Revenue from Contracts with Customers", effective for annual periods beginning on or after 1 January, 2018.
- Amendments to IFRS 11 "Joint Arrangements", effective for annual periods beginning on or after 1 January, 2016.
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets", effective for annual periods beginning on or after 1 January, 2016.
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture", effective for annual periods beginning on or after 1 January, 2016.
- Amendments to IAS 27 "Separate Financial Statements", effective for annual periods beginning on or after 1 January, 2016.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", effective for annual periods beginning on or after 1 January, 2016.
- Annual Improvements 2012 – 2014 Cycle, include improvements to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IAS 34 "Interim Financial Reporting". These improvements are effective for annual periods beginning on or after 1 January, 2016.
- Amendments to IAS 1 "Presentation of Financial Statements", effective for annual periods beginning on or after 1 January, 2016.
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures", effective for annual periods beginning on or after 1 January, 2016.

As of the date of this report, the Companies are assessing the possible impact of the application of these standards and amendments and improvements to the standards on their combined financial statements when they are effective.

3. **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, 2015, the weighted average exchange rates in the market for transactions in US Dollars were S/3.408 per US$1.00 bid and S/3.413 per US$1.00 ask (S/2.981 per US$1.00 bid and S/2.989 per US$1.00 ask as of December 31, 2014).

As of December 31, 2015 and 2014, the Companies held the following foreign currency assets and liabilities:

| | 2015<br>US$(000) | 2014<br>US$(000) |
|---|---|---|
| **Assets** | | |
| Cash and short-term deposits | 14,313 | 4,133 |
| Trade receivables, net | 4 | 426 |
| Other receivables, net | 4,574 | 2,826 |
| Accounts receivable to related parties | 1,336 | 5,806 |
| Investments at fair value through other comprehensive income | 4,065 | - |
| | 24,292 | 13,191 |
| **Liabilities** | | |
| Trade payables | (15,565) | (20,464) |
| Other payables | (14,521) | (8,483) |
| Accounts payable to related parties | (217) | (1,486) |
| Senior notes issued and Interest-bearing loans an borrowings | (188,612) | (287,008) |
| | (218,915) | (317,441) |
| **"Call Spread" – Short position** | 100,000 | - |
| **Net liability position** | (94,623) | (304,250) |

As of December 31, 2015, InRetail Consumer signed a "Call Spread" agreement with a notional amount of US$100,000,000 to reduce its foreign currency risk related to a part of the senior notes issued. The derivative financial instrument has been qualified as effective hedging instruments; see note 10. During 2015, InRetail Consumer has recorded a net loss from exchange difference for approximately S/88,465,000 (approximately S/58,374,000 during the year 2014), which is presented into the caption "Exchange difference, net" in the combined income statement.

**4. Cash and short-term deposits**

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

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Cash | 9,152 | 4,754 |
| Current accounts (b) | 76,246 | 63,353 |
| Time deposits (c) | 102,837 | 100,102 |
| | 188,235 | 168,209 |

(b) The Companies maintain current accounts in local banks in Soles and US Dollars that do not accrue interests and are freely available.

(c) As of December 31, 2015, time deposits in local currency are freely available and are kept in Soles, in local banks, have maturities until a month since its inception and bear interest rates between 4.00 annual percent in Soles and of 0.20 annual percent in US Dollars. As of December 31, 2014, these amounts corresponded to time deposits of freely availability in Soles in local financial institutions which generated interest between 3.95 and 6.29 annual percent and matured between 1 and 3 months, respectively, since their constitution.

**5. Trade receivables, net**

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

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Invoices (c) | 27,167 | 30,118 |
| Credit card operations (d) | 33,634 | 22,083 |
| Rent receivable (e) | 8,161 | 8,974 |
| Other | - | 5 |
| | 68,962 | 61,180 |
| Provision for doubtful accounts (f) | (5,490) | (2,770) |
| **Total** | 63,472 | 58,410 |

(b) Trade receivables are denominated in Soles and US Dollars, have current maturities and do not bear interest.

(c) Correspond mainly to trade receivable from sales of inventories and from the sale of merchandise vouchers to various companies and public institutions. At the date of this report, these balances were mostly collected.

(d) Correspond mainly to pending deposits for the last day of the month, held by credit card operators and originated from the sales of goods with credit cards in the different stores of the Companies.

(e) Correspond to accounts receivable for the lease of commercial premises to concession holders inside the stores of Supermercados Peruanos S.A.

(f) The movements in the provision for doubtful accounts receivable for the years ended on December 31, 2015 and 2014, were as follows:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Balance at the beginning of the year** | 2,770 | 2,018 |
| Provision recognized as year expense, note 21(a) | 2,724 | 753 |
| Exchange difference | (4) | - |
| Write-offs | - | (1) |
| **Balance at the end of the year** | 5,490 | 2,770 |

As of December 31, 2015 and 2014, the amount of trade receivables past due but not impaired (mainly between 1 to 60 days), amounted to approximately S/39,518,000 and S/29,561,000, respectively. Receivables which are not impaired are overdue items which have a payment agreement by the customer; consequently, these items are not subject to credit risk.

In the opinion of Management of the Companies, the provision for doubtful accounts receivable as of December 31, 2015 and 2014 appropriately covers the credit risk of this item at said dates.

## 6. Other receivables, net

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

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Income tax credit, Note 18 (d) | 36,061 | 35,412 |
| Funds held in Banco de la Nación (b) | 13,736 | 14,218 |
| Deposits in guarantee | 13,807 | 11,143 |
| Employee loans | 9,743 | 6,327 |
| VAT credit | 7,530 | 6,158 |
| Claims and deliveries to be paid | 2,077 | 1,915 |
| Rebates receivable from suppliers | 329 | 2,883 |
| Other receivables | 12,029 | 9,226 |
| | 95,312 | 87,282 |

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Provision for doubtful accounts (c) | (2,165) | (1,994) |
| **Total** | 93,147 | 85,288 |
| Current | 78,773 | 76,530 |
| Non-current | 14,374 | 8,758 |
| **Total** | 93,147 | 85,288 |

(b) In accordance to Resolution of Superintendence N°183-2004/SUNAT, funds held in Banco de la Nación must be used exclusively for the payment of tax debts, or requested cash reimbursement. In the case of the Companies, these funds have been used entirely for tax payments during the months of January and February 2016 and 2015, respectively.

(c) The movements in the provision for doubtful accounts receivable for the years ended on December 31, 2015 and 2014, were as follows:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Balance at the beginning of the year** | 1,994 | 1,478 |
| Provision recognized as year expense, note 21(a) | 171 | 516 |
| **Balance at the end of the year** | 2,165 | 1,994 |

In the opinion of Management, the provision for doubtful accounts receivable as of December 31, 2015 and 2014, appropriately covers the credit risk of this item at said dates.

## 7. Inventories, net

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

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Goods | 876,298 | 777,051 |
| In-transit inventories (b) | 9,599 | 27,942 |
| Miscellaneous supplies | 15,055 | 7,829 |
| | 900,952 | 812,822 |
| **Minus -** | | |
| Provision for impairment of inventories (c) | (9,597) | (9,001) |
| **Total** | 891,355 | 803,821 |

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

(c) The movements in the provision for inventory impairment for the years 2015 and 2014 were as follows:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Balance at the beginning of the year** | 9,001 | 12,001 |
| Provision for the period, Note 21(a) | 5,934 | 5,526 |
| Write-off | (5,338) | (8,526) |
| **Balance at the end of the year** | 9,597 | 9,001 |

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.

## 8. Investments at fair value through other comprehensive income

As of December 31, 2015, investments at fair value through other comprehensive income correspond to senior notes issued by a related party, which are recorded at fair value for approximately S/13,873,000. Since their acquisition, these instruments have generated an unrealized loss for approximately S/768,000, which is included into the caption "Unrealized income on investments at fair value through other comprehensive income" in the combined statement of changes in equity.

In previous years, the Companies have acquired bonds issued abroad by an unrelated entity, which were sold in full during 2014, generating a gain on the sale for approximately S/2,104,000; additionally, during that year these instruments generated an unrealized gain for approximately S/1,426,000, which is presented into the caption "Investments at fair value through other comprehensive income" in the combined statements of changes in equity.

## 9. Prepayments

The composition of this item is presented below:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Key money | 16,452 | 17,532 |
| Prepaid rent | 19,048 | 12,550 |
| Insurance | 272 | 293 |
| Other | 8,754 | 7,555 |
| **Total** | 44,526 | 37,930 |

| | 2015 S/(000) | 2014 S/(000) |
|---|---|---|
| Current | 18,256 | 15,389 |
| Non-current | 26,270 | 22,541 |
| **Total** | 44,526 | 37,930 |

## 10. Derivative financial instrument – "Call Spread"

(a) As of December 31, 2015, derivative financial instrument has been qualified as effective hedged instrument and is as follows:

| Entity | Notional amount US$(000) | Maturity / Settlement | Book value of the covered part S/(000) | Fair value S/(000) |
|---|---|---|---|---|
| **"Call Spread" contract** | | | | |
| Deustche Bank A.G. (b) | 100,000 | October, 2021 | 341,300 | 32,692 |
| **Total** | | | | 32,692 |

(b) During 2015, InRetail Consumer signed a "Call Spread" for a total notional amount of US$100,000,000 in order to reduce its foreign currency risk related to a part of the senior notes issued in July and October, 2014 in foreign currency (see notes 1(c) and 17(a)). The price paid for such derivative financial instrument (premium) was financed, generating a liability for approximately S/29,670,000 as of December 31, 2015 (see note 16). According to IFRS 9, this premium was recorded into the non-current asset and it is recognized in profit and losses on straight-line basis over the hedging term; consequently, approximately S/3,185,000 were recorded in profit and losses during 2015; see note 22. Additionally, approximately S/13,582,000 were charged into the caption "Unrealized results on derivative financial instruments" in the consolidated statement of changes in equity during 2015.

**11. Property, furniture and equipment, net**

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

| | 2015 | | | | | | | | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| | 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) | Total S/(000) | Total S/(000) |
| **Useful lives (years)** | | 20 - 50 | 4 - 10 | 4 | 5 | 2 - 10 | | | |
| **Cost** | | | | | | | | | |
| **Balance as of January 1** | 429,213 | 1,152,629 | 740,454 | 110,226 | 2,269 | 76,455 | 36,128 | 2,547,374 | 2,328,635 |
| Additions (c) | 12,426 | 170,574 | 86,549 | 17,300 | 328 | 10,086 | 20,710 | 317,973 | 284,624 |
| Disposals and/or sales (e) | (3,704) | (36,045) | (51,712) | (14,557) | (193) | (6,074) | (5,505) | (117,790) | (65,885) |
| Transfers | 3,090 | 26,574 | (3,685) | 410 | - | 1,560 | (27,949) | - | - |
| **Balance as of December 31** | 441,025 | 1,313,732 | 771,606 | 113,379 | 2,404 | 82,027 | 23,384 | 2,747,557 | 2,547,374 |
| **Accumulated depreciation** | | | | | | | | | |
| **Balance as of January 1** | - | 225,303 | 331,592 | 80,097 | 1,250 | 35,533 | - | 673,775 | 590,771 |
| Additions, Note 21(a) | - | 38,990 | 65,767 | 18,808 | 411 | 7,344 | - | 131,320 | 111,093 |
| Disposals and/or sales (e) | - | (5,589) | (46,644) | (13,906) | (131) | (5,321) | - | (71,591) | (28,089) |
| Transfers | - | (30) | 30 | - | - | - | - | - | - |
| **Balance as of December 31** | - | 258,674 | 350,745 | 84,999 | 1,530 | 37,556 | - | 733,504 | 673,775 |
| **Net book value as of December 31, 2015** | 441,025 | 1,055,058 | 420,861 | 28,380 | 874 | 44,471 | 23,384 | 2,014,053 | 1,873,599 |

(b) As of December 31, 2015, Supermercados Peruanos S.A. maintains mortgaged certain lands, buildings and facilities for a net book value of approximately S/402,391,000 (approximately S/331,856,000 as of December 31, 2014), as guarantee for financial liabilities (see Note16).

(c) Additions in 2015 and 2014 correspond mainly to the construction and equipment of new stores for Eckerd Perú S.A. and Supermercados Peruanos S.A.

(d) As of December 31, 2015 and 2014, the cost and corresponding accumulated depreciation of assets acquired through finance leases are the following:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | 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 | 234,292 | (21,723) | 212,569 | 225,227 | (17,196) | 208,031 |
| Miscellaneous equipment | 313,810 | (121,107) | 192,703 | 212,790 | (50,079) | 162,711 |
| **Total** | 548,102 | (142,830) | 405,272 | 438,017 | (67,275) | 370,742 |

(e) The net cost of retired and/or sold fixed assets during the years 2015 and 2014 is detailed as follows:

| | 2015 S/(000) | 2014 S/(000) |
|---|---|---|
| Assets sold (1) | 40,803 | 35,759 |
| Assets retired (2) | 5,396 | 2,037 |
| | 46,199 | 37,796 |

(1) During 2015, certain properties located in Lima were sold for approximately S/42,361,000, (approximately S/53,466,000 as of December 31, 2014), generating a net profit for approximately S/1,558,000 (approximately S/17,707,000 as of December 31, 2014), which is included into the caption "Other operating income, net" in the combined income statement.

(2) Corresponds to unusable assets as a result of improving process from some stores. During 2015, a discount store was converted into "Plaza Vea Express" (1 discount stores in 2014). These retirements are included into the caption “Other operating income, net" in the combined income statement.

(f) As of December 31, 2015 and 2014, the Management performed an evaluation of their property, furniture and equipment, and has not found any indicator of impairment.

**12. Investment properties, net**

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

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Cost of buildings | 19,567 | 19,567 |
| Less: Accumulated depreciation | (2,343) | (1,838) |
| **Total** | 17,224 | 17,729 |

(b) As of December 31, 2015 and 2014, investment properties include three properties located in Lima, Tacna and Puno held to earn rentals.

(c) As of December 31, 2015 and 2014 Management performed an evaluation of their investment properties, and has not found any indication of impairment. Likewise, Management considers that the book value of the investment properties at said dates is not significantly different to its corresponding fair value.

13. **Intangible assets, net**

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

| | 2015 | | | | | 2014 |
|---|---|---|---|---|---|---|
| | Software S/(000) | Brand (b) S/(000) | Goodwill (b) S/(000) | Works in progress S/(000) | Total S/(000) | Total S/(000) |
| **Cost** | | | | | | |
| **Balance as of January 1** | 125,824 | 373,054 | 709,472 | 20,436 | 1,228,786 | 1,222,602 |
| Additions (c) | 10,395 | - | - | 9,160 | 19,555 | 15,193 |
| Disposals and/or sales | (312) | - | - | - | (312) | (9,009) |
| Transfers | 4,161 | - | - | (4,161) | - | - |
| **Balance as of December 31** | 140,068 | 373,054 | 709,472 | 25,435 | 1,248,029 | 1,228,786 |
| **Accumulated amortization** | | | | | | |
| **Balance as of January 1** | 52,912 | - | - | - | 52,912 | 52,288 |
| Additions, Note 21(a) | 11,060 | - | - | - | 11,060 | 9,911 |
| Disposals and/or sales | (24) | - | - | - | (24) | (9,287) |
| **Balance as of December 31** | 63,948 | - | - | - | 63,948 | 52,912 |
| **Net book value as of December 31** | 76,120 | 373,054 | 709,472 | 25,435 | 1,184,081 | 1,175,874 |

(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, see note 2.2 (a.5). Both assets have been assigned to the cash generating unit "Pharmacies", which is an operating segment reportable for the impairment tests (see Paragraph (d) below). Management of the Companies estimated the fair value of the brand by applying the relief-from-royalty method. The principle behind relief from royalty method is that a brand holding company owns the brand avoiding payments of royalties for the use of the brand, to another hypothetical owner, therefore, the economic value of the brand is represented by the avoided royalties.

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

- History and expected use of the asset by the Company: this is the most important factor to consider in the definition of the useful life of the brand. InkaFarma is the most recognized brand in the pharmacy industry in Perú and the Company expects to further strengthen it in the market in the long term.

- Legal, regulatory or contractual limits to the useful life of the intangible asset: there are no legal regulatory or contractual limits linked to the brand. The brand is duly protected and the pertinent registrations remain current.

- 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, 2015 and 2014, additions mainly correspond to (i) disbursements for the acquisition of a commercial software, a planning system (ERP) and related licenses; and (ii) disbursements for implementation of the application "E3 InkaFarma". Such disbursements include licenses for use acquisition costs, development costs and other directly attributable costs.

(d) As of December 31, 2015 and 2014, in the opinion of Management, there is no indication of impairment of any intangible asset. Likewise, in compliance with the International Financial Reporting Standards (Note 2.2(o)) Management performs annually a test on the impairment of the goodwill and the brand, on the basis of the cash generating unity "Pharmacies".

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 10.4 percent to 11.6 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.

## 14. Trade payables

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

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Bills payable for purchase of goods (b) | 1,259,258 | 1,103,965 |
| Bills payable for commercial services | 165,283 | 135,941 |
| **Total** | 1,424,541 | 1,239,906 |

(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 Companies offer 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 Companies have no direct financial interest in these transactions. All of the Companies 'obligations, including amounts due, remain due to its suppliers as stated in the supplier agreements.

## 15. Other payables

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

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| VAT payable | 30,638 | 19,868 |
| Employees profit sharing | 23,975 | 20,359 |
| Vacations accrual | 22,756 | 22,189 |
| Salaries and social benefits | 11,960 | 8,066 |
| VAT withholdings in purchases | 11,284 | 10,515 |
| Interest payable, Note 17(c) | 10,821 | 19,689 |
| Events promoters | 6,990 | 3,396 |
| Provisions for unbilled services construction and maintenance (b) | 5,852 | 5,579 |
| Tax payables | 4,121 | 21,400 |
| Deposits to third parties | 2,111 | 1,930 |
| Rent payables | 1,135 | 1,566 |
| Account payable to the former shareholders of Eckerd Perú S.A. | - | 2,034 |
| Other | 26,900 | 19,605 |
| **Total** | 158,543 | 156,196 |

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

(b) Correspond 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 Management's opinion, said provisions are sufficient to comply with the liabilities once they are billed.

16. **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 | Total 2015 | Total 2014 |
|---|---|---|---|---|---|
| | | % | | S/(000) | S/(000) |
| **Leasing (b) and (c)** | | | | | |
| Banco International del Perú S.A.A.- Interbank, Note 23(b)- Construction of buildings and infrastructure and purchase of equipment | US$ / S/ | Between 7.85 and 11.43 | Monthly until 2020 | 95,710 | 110,560 |
| Other banks – Construction of Buildings infrastructure and facilities | US$ / S/ | Between 2.93 and 10.85 | Monthly until 2021 | 132,326 | 119,702 |
| | | | | 228,036 | 230,262 |
| **Promissory notes and loans (b)** | | | | | |
| Banco Internacional del Peru –Interbank, Note 23(b) | S/ | 6.35 | 2021 | 56,848 | - |
| Banco Scotiabank Perú S.A.A. | S/ | Between 6.35 and 6.95 | 2022 | 223,103 | - |
| Banco de Crédito del Peru S.A. | S/ | 6.35 | 2020 | 38,216 | - |
| | | | | 318,167 | - |
| **Financed premium "Call Spread", Note 10** | | | | | |
| Deutsche Bank AG | US$ | 1.56 | 2021 | 29,670 | - |
| | | | | 29,670 | - |
| **Other obligations to third parties (d)** | US$ | Between 2.23 and 8.00 | Monthly until 2017 | 15,004 | 17,546 |
| **Total** | | | | 590,877 | 247,808 |
| Current | | | | 134,932 | 65,671 |
| Non-current | | | | 455,945 | 182,137 |
| **Total** | | | | 590,877 | 247,808 |

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

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **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 | 78,719 | 71,596 | 71,299 | 58,741 |
| Between 1 and 5 years | 175,824 | 156,440 | 184,453 | 171,521 |
| **Total minimum payments** | 254,543 | 228,036 | 255,752 | 230,262 |
| Minus- amounts representing finance charges | (26,507) | - | (25,490) | - |
| **Present value of future minimum payments** | 228,036 | 228,036 | 230,262 | 230,262 |

(d) Corresponds to the debt related to the purchase and leasing of computers. These obligations do not have specific guarantees.

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

| | **2015** S/(000) | **2014** S/(000) |
|---|---|---|
| 2015 | - | 65,671 |
| 2016 | 134,932 | 61,905 |
| 2017 onwards | 455,945 | 120,232 |
| **Total** | 590,877 | 247,808 |

**17. Senior notes issued**

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

| Entity | Type of obligation | Original currency | Interest rate % | Maturity | Original amount US$(000) | Original amount S/(000) | Total 2015 S/(000) | Total 2014 S/(000) |
|---|---|---|---|---|---|---|---|---|
| **Senior Notes(*)** | | | | | | | | |
| InRetail Consumer(b) | Senior Notes Unsecured | US$ | 5.250 | 2021 | 300,000 | - | 582,122 | 850,411 |
| InRetail Consumer(b) | Senior Notes Unsecured | S/ | 6.8125 | 2021 | - | 250,000 | 249,197 | 249,088 |
| **Total** | | | | | 300,000 | 250,000 | 831,319 | 1,099,499 |

(*) The payment of the principal of the senior notes is at their maturity; consequently, balances as of December 31, 2015 and 2014, are presented in the long-term.

(b) As indicated in Notes 1(c), in October 2014, InRetail Consumer issued in the local market and abroad the "Senior Notes Unsecured" for US$300,000,000 and S/250,000,000, due in 2021 at an 5.250 and 6.8125 percent nominal interest rate, respectively. These borrowings were recorded in the combined financial statements at their amortized cost at an 5.5869 and 6.8805 percent effective interest rate for issuance in Dollars and Soles, respectively, after considering the respective up-front fees for approximately US$4,933,000 and S/803,000 (equivalent to a total amount of approximately S/17,639,000 as of December 31, 2015 and S/17,525,000 as of December 31, 2014). Additionally, as of December 31, 2015, the balance is presented net of US$124,507,000 (equivalent to a total amount of approximately S/424,942,000), corresponding to notes of these issuances acquired by the Companies (as of December 31, 2014, balances of senior notes held by the Companies amounted to approximately S/29,675,000).

The funding was mainly used to repay certain debts obtained in previous years, property purchases and investments in new projects for the Companies. Likewise, 100 percent of the "Senior Unsecured Notes" is guaranteed by the Supermercados Peruanos S.A. and Eckerd Perú S.A.'s shares.

As a result of these issuances certain obligations and restrictive clauses must be complied until their maturity or cancellation. The financial ratio required to the issuer and to the companies that guarantee these borrowings is "Financial debt, net of cash / EBITDA," which presents the following limits:

- No greater than 3.75 times until September 2015
- No greater than 3.25 times between October 2015 and September 2016; y,
- No greater than 2.75 times after October 2017

In Management's opinion, these clauses do not limit the operations of the Companies and have been complied as of December 31, 2015.

(c) During 2015 and 2014, the accrued interests related to interests-bearing loans and borrowings (Note 16), and senior notes issued amounts to approximately S/83,665,000 and S/102,696,000, respectively, which are presented into the caption "Finance costs" in the combined income statements; Note 22; additionally, interest payable related to such debts amounts to S/10,821,000 and S/19,689,000 as of December 31,2015 and 2014, respectively; Note 15.

## 18. Deferred income tax

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

| | Deferred liability, net | |
|---|---|---|
| | 2015<br>S/(000) | 2014<br>S/(000) |
| Supermercados Peruanos S.A. and Subsidiaries | (49,563) | (35,387) |
| Eckerd Peru S.A. and Subsidiaries | (96,210) | (83,870) |
| **Deferred liability, net** | (145,773) | (119,257) |

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

| | Balance as of December 31, 2013<br>S/(000) | Income (expense)<br>S/(000) | Equity<br>S/(000) | Balance as of December 31, 2014<br>S/(000) | Income (expense)<br>S/(000) | Balance as of December 31, 2015<br>S/(000) |
|---|---|---|---|---|---|---|
| **Deferred asset -** | | | | | | |
| Losses due to theft of goods | 13,441 | 4,560 | - | 18,001 | 2,188 | 20,189 |
| Provision for impairment of inventories | 9,650 | (698) | - | 8,952 | 358 | 9,310 |
| Estimate for trade discounts | 4,598 | 178 | - | 4,776 | 521 | 5,297 |
| Difference in amortization rates for tax purposes | 1,450 | (924) | - | 526 | 1,097 | 1,623 |
| Vacation provision and other | 12,516 | 3,098 | - | 15,614 | 3,497 | 19,111 |
| **Total** | 41,655 | 6,214 | - | 47,869 | 7,661 | 55,530 |
| **Deferred liability -** | | | | | | |
| Brand value – InkaFarma, Note 2.2.(a.5) | (111,916) | 14,922 | - | (96,994) | (14,922) | (111,916) |
| Increased tax depreciation for leasing | (42,025) | (10,081) | - | (52,106) | (15,557) | (67,663) |
| Deemed cost of property, furniture and equipment (IFRS 1) | (17,211) | 2,295 | - | (14,916) | 236 | (14,680) |
| Update on the fair value of investments at fair value through other comprehensive income | (308) | - | 308 | - | - | - |
| Other | (3,576) | 1,163 | (697) | (3,110) | (3,934) | (7,044) |
| **Total** | (175,036) | 8,299 | (389) | (167,126) | (34,177) | (201,303) |
| **Deferred liability, net** | (133,381) | 14,513 | (389) | (119,257) | (26,516) | (145,773) |

Due to decrease in the income tax rate as indicated in Note 20, during 2014 a net income for approximately S/17,861,000 was include into the caption "Income tax" in the combined income statement.

(c) The table below presents the Income Tax expense reported in the combined income statements as of December 31, 2015 and 2014:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Current | (62,841) | (64,363) |
| Deferred | (26,246) | 14,513 |
| **Total** | (89,087) | (49,850) |

(d) As of December 31, 2015, the provision for current income tax payable, net of advanced payments, amounts to approximately S /1,846,000 (approximately S/2,545,000 as December 31,2014). Likewise, the income tax credit amounts to approximately S/35,412,000 and 23,387,000, as of December 31, 2015 and 2014, respectively, Note 6.

**19. Equity**

(a) Capital stock–

It is represented as follow:

| | | Nº issued common shares | | 2015 | | 2014 |
|---|---|---|---|---|---|---|
| Company | Country | As of December 31, 2015 | As of December 31, 2014 | Nominal value | Accounting balance of issued capital stock S/(000) | Accounting balance of issued capital stock S/(000) |
| Supermercados Peruanos S.A. and Subsidiaries | Peru | 320,332,671 | 320,332,671 | 1.05 | 336,349 | 336,349 |
| Eckerd Perú S.A. and Subsidiaries | Peru | 13,783,428 | 13,783,428 | 1.00 | 13,784 | 13,784 |
| | | | | | 350,133 | 350,133 |

During 2014 cash contributions were made (to Supermercados Peruanos S.A.) for a total amount of approximately S/230,788,000 (during 2015 no cash contributions have been made to the Companies). Approximately, S/182,837,000 of these contributions were made by InRetail Consumer and S/47,951,000 by InRetail Perú Corp.; consequently, only contributions made by InRetail Perú Corp. are considered as cash contributions for purposes of these combined financial statements. At the date of this report, Supermercados Peruanos S.A. is in the process of formalizing these contributions by the agreement of the respective Shareholders' General Meeting, and the issuance of the shares corresponding capital, which, in the Management's opinion, will be during the year 2016. As of December 31, 2014, cash contributions received by InRetail Perú Corp. were recorded as capital stock pending to issue for approximately S/8,818,000, and as capital premium for approximately S/39,133,000.

(b) Additional paid-in capital –

As of December 31, 2015 and 2014, "Additional paid-in capital" caption includes the net effect of combined adjustments at said dates, which mainly represent the highest value of Eckerd Perú S.A. and subsidiaries since its acquisition, net of debts that are directly related to the Companies.

(c) Dividends declared and paid by Eckerd Perú S.A. -

During 2015, dividends declared amounted to approximately S/105,000,000, which were paid in full during such year to InRetail Consumer (S/100,000,000 during 2014, of which S/25,000,000 were paid to InRetail Consumer and S/85,000,000 to InRetail Perú Corp. during such year).

(d) Yields prepayments -

During 2015, the yields prepayments to InRetail Peru Corp. amount to approximately S/3,650,000.

(e) Legal reserve -

As provided in the Corporations Act, it is required that a minimum of 10 percent of distributable income for each year is transferred to a legal reserve until such reserve equals 20 percent of the capital. The legal reserve can absorb losses or be capitalized, in both cases there must be replenished. The legal reserve is appropriated when the General Shareholders' Meeting approves the same. As of December 31, 2015, the Companies have transferred approximately S/1,460,000 to legal reserve (approximately S/950,000 as of December 31, 2014).

**20. Tax Situation**

(a) The Companies are subject to the Peruvian Tax System. As of December 31, 2014, the statutory Income Tax rate was 30 percent on taxable income after deducting the participation of workers is calculated at a rate of 8 percent on taxable income. Attention to Law No. 30296, published on December 31, 2014 and effective from January 1, 2015, the tax rate applicable income on taxable income, after deducting Worker Participation will be the following:

- For 2015 and 2016 will be 28 Percent.
- For 2017 and 2018 will be 27 Percent.
- For 2019 onwards will be 26 Percent.

Entities and individuals not domiciled in Peru are subject to retention of an additional tax on dividends received. In this regard, attention to Law 30296, the additional tax on dividend income generated is as follows:

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

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

(i) First, 10 percent or more of the shares of non-residents must be sold in any twelve month period (assumed effective from February 16, 2011); and,

(ii) Second, the market value of the shares of the Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months (of course in force since July 22 2011).

(c) In Peru, for purposes of determining income tax, transfer pricing transactions with related companies and companies resident in territories with low or no taxation, must be supported with documentation and information on the valuation methods used and the criteria considered in its determination. Based on the analysis of operations, Management and its legal advisors believe that, as a result of the application of the regulation in force, there will not emerge significant contingencies for the Companies as of December 31, 2015 and 2014.

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

| | **Years open to review** |
|---|---|
| Supermercados Peruanos S.A.(*) | From 2011 to 2015 |
| Eckerd Perú S.A. | From 2013 to 2015 |
| Eckerd Amazonía S.A.C. | From 2012 to 2015 |
| Boticas del Oriente S.A.C. | From 2012 to 2015 |

According to Peruvian law, InRetail Consumer is not considered as income taxpayers due to its status as a SPS's. Such entities attribute their generated results, the net losses and Income Tax credits on foreign source income, to the holders of its certificates of participation or whoever holds those rights.

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

In Management's opinion as well as its legal advisors opinion, any eventual additional tax settlement would not be significant to the combined financial statements as of December 31, 2015 and 2014, see Note 25.

## 21. Operating expenses

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

| | 2015 | | | |
|---|---|---|---|---|
| | Cost of sales and services S/(000) | Selling expenses S/(000) | Administrative expenses S/(000) | Total S/(000) |
| Initial balance of goods, Note 7(a) | 777,051 | - | - | 777,051 |
| Purchase of goods | 4,704,580 | - | - | 4,704,580 |
| Final balance of goods, Note 7(a) | (876,298) | - | - | (876,298) |
| Impairment of inventories, Note 7(c) | 5,934 | - | - | 5,934 |
| Packing and packaging | - | 42,228 | 228 | 42,456 |
| Personnel expenses | - | 508,317 | 84,136 | 592,453 |
| Depreciation, Note 11(a) | - | 117,789 | 13,531 | 131,320 |
| Amortization of intangible assets, Note 13(a) | - | 6,759 | 4,301 | 11,060 |
| Amortization of key money | - | 1,345 | - | 1,345 |
| Services provided by third parties (b) | - | 211,630 | 22,757 | 234,387 |
| Advertising | - | 82,347 | - | 82,347 |
| Rental of premises | - | 184,892 | 7,674 | 192,566 |
| Taxes | - | 26,468 | 2,601 | 29,069 |
| Provision for doubtful accounts, Note 5(f) y 6(c) | - | 2,895 | - | 2,895 |
| Insurance | - | 9,325 | 621 | 9,946 |
| Other charges (c) | - | 146,207 | 14,596 | 160,803 |
| **Total** | 4,611,267 | 1,340,202 | 150,445 | 6,101,914 |

## Notes to the consolidated financial statements (continued)

| | 2014 | | | |
|---|---|---|---|---|
| | **Cost of sales and services** S/(000) | **Selling expenses** S/(000) | **Administrative expenses** S/(000) | **Total** S/(000) |
| Initial balance of goods, Note 7(a) | 774,040 | - | - | 774,040 |
| Purchase of goods | 4,222,071 | - | - | 4,222,071 |
| Final balance of goods, Note 7(a) | (777,051) | - | - | (777,051) |
| Impairment of inventories, Note 7(c) | 5,526 | - | - | 5,526 |
| Packing and packaging | - | 39,272 | 1,124 | 40,396 |
| Personnel expenses | - | 472,059 | 83,646 | 555,705 |
| Depreciation, Note 11(a) | - | 97,522 | 13,571 | 111,093 |
| Amortization of intangible assets, Note 13(a) | - | 5,491 | 4,420 | 9,911 |
| Amortization of key money | - | 1,032 | - | 1,032 |
| Services provided by third parties (b) | - | 182,252 | 24,422 | 206,674 |
| Advertising | - | 77,386 | - | 77,386 |
| Rental of premises | - | 143,476 | 7,178 | 150,654 |
| Taxes | - | 24,502 | 3,107 | 27,609 |
| Provision for doubtful accounts, Note 5(f) y 6(c) | - | 1,269 | - | 1,269 |
| Insurance | - | 9,219 | 566 | 9,785 |
| Other charges (c) | - | 140,414 | 3,141 | 143,555 |
| **Total** | 4,224,586 | 1,193,894 | 141,175 | 5,559,655 |

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

(c) Mainly include general expenses in stores, such as transport and vigilance services as well as legal and financial services.

**22. Finance income and cost**

The table below presents the components of this caption:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Finance income** | | |
| Interest and other | 6,019 | 10,313 |
| Settlement of derivative financial instruments | - | 547 |
| | 6,019 | 10,860 |
| **Finance cost** | | |
| Interest on loans, borrowings and senior notes issued, Note 17(e) | (83,655) | (102,696) |
| Other financial costs | (17,921) | (22,401) |
| Repurchase premium (b) | (13,160) | (96,554) |
| "Call Spread" premium, Note 10(b) | (3,185) | - |
| Effect of financial liabilities derecognition (c) | - | (4,453) |
| Interest from derivatives instruments | - | (1,227) |
| | (117,921) | (227,331) |

(b) During 2015, corresponds to premiums paid for approximately S/13,160,000 for the repurchase of senior notes issued. As is indicated in Note 17(b), during said year the Companies have repurchased these financial instruments for approximately US$111 million (during 2014 the Companies purchases certain debt instruments issued by itself for approximately US$324 million, generating a repurchase premium for approximately S/96,554,000).

(c) As indicated in Note 17(b), a part of funding proceeded from issuances made by InRetail Consumer was used to replace, under substantially different terms, certain obligations obtained in previous years; consequently, such exchanges or modifications have been treated as a derecognition of the original liabilities and the recognition of a new liability, and the difference in the respective carrying amounts for approximately S/4,453,000 was recorded in profit or loss.

**23. 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 2015 and 2014:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Income** | | |
| Rendering of services | 18,141 | 11,165 |
| Sale of goods | 5,331 | - |
| Revenues related to contract between Supermercados Peruanos S.A. and FUNO (d) | 13,843 | - |
| Reimbursement of expenses for promotion and sale of merchandise vouchers | - | 21,138 |
| Rent income | - | 12,619 |
| Other | 16,351 | 4,083 |
| | 53,666 | 49,005 |
| **Expenses** | | |
| Renting of premises and land | 36,769 | 10,511 |
| Reimbursements of expenses | 16,755 | 33,116 |
| Commissions | 150 | 196 |
| Other | 39,121 | 24,825 |
| | 92,795 | 68,648 |
| **Other transactions** | | |
| Purchase of own issue senior notes | 379,949 | - |
| Purchase of own shares | 4,791 | - |
| Offsetting of loan | - | 379,340 |
| Settlement of "Senior Secured Notes" | - | 347,726 |
| Refund from purchasing of "Senior Secured Notes" on behalf of Intercorp Retail Inc. | - | 95,947 |

(b) As a result of the transactions with related parties, the Companies recorded the following balances of receivables and payables as of December 31, 2015 and 2014:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| **Receivables** | | |
| Financiera Uno S.A. (f) | 3,701 | 4,964 |
| Banco Internacional del Perú S.A.A. (f) | 2,360 | 4,443 |
| Tiendas Peruanas S.A. | 1,359 | 3,227 |
| Bembos S.A.C. | 1,597 | 1,134 |
| Homecenter Peruanos S.A. | 1,157 | 2,724 |
| Cineplex S.A. | 230 | 746 |
| Intercorp Retail Inc.(e) | 44 | 17,934 |
| Other | 12,915 | 5,602 |
| | 23,363 | 40,774 |
| **Payables** | | |
| Financiera Uno S.A. (d) | 21,828 | 15,813 |
| Banco Interbank - | | |
| Deposit in guarantee (g) | 5,188 | 4,242 |
| Line of credit and other | 202 | 471 |
| Other | 10,605 | 13,088 |
| | 37,823 | 33,614 |
| Current portion | 32,635 | 29,372 |
| Non-current portion | 5,188 | 4,242 |
| **Total** | 37,823 | 33,614 |
| **Debts and loans bearing interest, Note 16** | | |
| Banco Internacional del Perú S.A.A. – Interbank | 152,558 | 110,560 |

The policy of the Companies 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 2015 and 2014, the Companies have not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

(d) On June 30, 2013, Supermercados Peruanos S.A. and Financiera Uno S.A. (FUNO), a related entity, signed the "Contract of Issuance and Administration of the "Oh!" credit card". Said contract established that FUNO can exclusively operate its "Oh!" credit card in the Supermercados Peruanos stores, instead of the "Vea" credit card of Banco Internacional del Perú S.A.A. - Interbank, which was operating until that moment. Also, as a result of this agreement, as of December 31, 2015 and 2014 the Companies hold accounts payable to FUNO for approximately S/21,828,000 and S./.15,813,000, respectively, which correspond mainly to the collection of installments to users of the "Oh!" credit card, which are normally transferred to FUNO the day after their collection.

Additionally, on April 27, 2015, Supermercados Peruanos S.A. and FUNO signed an agreement through both companies participate in the business related to consumer loans for customers who purchase with "Oh!" credit card goods and services in Supermercados Peruanos S.A.' stores. As a result, during 2015 the Companies have recognized approximately S/13,843,000, which are included into the caption "Other operating income, net" in the combined income statement.

(e) As of December 31, 2014, the balance receivable from Intercorp Perú Ltd. corresponded to a promissory note in Soles and included the accrued interests at market rates. This promissory note matured during 2015.

(f) 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.

(g) Supermercados Peruanos S.A. and Banco Internacional del Perú S.A.A.- Interbank, signed contracts on leases of financial stores for 15 and 7 years in October 2004 and September 2009, respectively. Said contracts amount to approximately S/27,212,000 (equivalent to approximately US$8,000,000) and S/14,788,000 (equivalent to approximately US$5,016,000) which were collected in advance by Supermercados Peruanos S.A. and are presented in the "Deferred revenue" caption in the combined statements of financial position. Additionally, and only in the case of the 2004 contract, Supermercados Peruanos S.A. received from Banco Internacional del Perú S.A.A.- Interbank US$2,000,000 as collateral for the contract. As of December 31, 2015 and 2013, Supermercados Peruanos S.A. has credited the update of the present value of this deposit in the "Financial income" caption. The net present value of the balances related to guarantee deposit amount to S/5,188,000 and S/4,242,000, respectively, as of December 31, 2015 and 2014, respectively.

In relation to said contracts, during 2015 Supermercados Peruanos S.A. recognized accrued renting revenue that amounted to approximately S/2,917,000, equivalent to US$971,000 (S/3,901,000, equivalent to approximately US$1,060,000, during 2014).

As of December 31, 2015, Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/4,551,000 (S/6,890,000 as of December 31, 2014) which will be recognized as income in upcoming periods, see Note 24.

(h) As of December, 31, 2015 and 2014, the Companies hold the following balances in the cash and cash equivalent captions:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Banco Internacional del Perú S.A.A.– Interbank S.A.A. | - | 23,356 |
| Inteligo Bank Ltd. | 15 | 1 |

## 24. Deferred revenue

The table below presents the components of this caption:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| Leases (related parties), Note 23(h) | 4,551 | 6,890 |
| Other operating leases as lessor | 17,116 | 13,804 |
| **Total** | 21,667 | 20,694 |
| Current portion | 4,326 | 3,950 |
| Non-current portion | 17,341 | 16,744 |
| **Total** | 21,667 | 20,694 |

## 25. Commitments and contingencies

Commitments -

The main commitments assumed are presented below:

(a) As of December 2015 and 2014, the Companies have signed rental contracts with third parties for the premises in which some of its stores operate. The assumed commitments correspond to fixed and/or variable monthly rents base on sales, whichever is highest.

The assumed commitments, calculated on the basis of the leasing fixed amounts will be paid until 2052. The total commitments assumed up until 2052, calculated on the basis of the fixed rental amounts, will be paid as follows:

| | 2015<br>S/(000) | 2014<br>S/(000) |
|---|---|---|
| 2015 | - | - |
| 2016 - 2019 | 446,061 | 387,549 |
| 2020 - 2024 | 402,607 | 317,981 |
| 2025 - 2029 | 388,402 | 328,697 |
| 2030 - 2034 | 373,251 | 325,703 |
| 2035 - 2052 | 549,469 | 512,680 |
| **Total** | 2,159,790 | 1,872,610 |

(b) As of December 31, 2015, the Companies agreed with several financial entities on the issuance joint by and severally irrevocable letters of guarantee for approximately S/21,496,000 and US$2,235,000 (S/15,458,000 and US$2,235,000 as of December 31, 2014), for compliance with the payment for purchase of goods to foreign suppliers.

(c) As indicated in Notes 1(c) and 17(b), during 2014 InRetail Consumer issued offerings in Senior Notes in the local market and abroad for US$300,000,000 and S/250,000,000, respectively, which are secured by the assets of the issuing companies.

Contingencies –

(a) 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 since 2004 to 2010. Said examinations resulted in Resolutions generating higher taxes, fines and interests for an approximate total of S/162 million to date. The resolutions issued by the years 2004 to 2009 have been challenged and are pending before the Tax Court. The resolutions issued by the year 2010 are still to be challenged to the Tax Administration, which, in the Management's opinion, take place since 2016. In the Management's opinion 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, 2015 and 2014, respectively.

(b) Eckerd Amazonia S.A.C. is in the process to claim against the Tax Authority for determinations of debts and fines related to VAT for the period between January 2003 and June 2005 for approximately S/32,507,000. In Management's opinion and its legal advisors, these contingencies are considered as "Possible" and significant liabilities will not arise as result of these as of December 31, 2015 and 2014.

(c) Eckerd Perú S.A. maintains the following processes:

(c.1) Legal process with its supplier Ekalmi S.A. as consequence of disagreements on the services that it provides. At the date of this report, Ekalmi S.A. has demanded Eckerd Peru S.A. a pending payment for approximately S/12,000,000. As of December 31, 2015 and 2014, Eckerd Perú S.A. holds liabilities with this supplier for approximately S/5,000,000; and, in Management's opinion, it would be the maximum amount that it would pay.

(c.2) Eckerd Perú S.A. has received a notification issued by Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (INDECOPI), in which INDECOPI imposed a 204 UIT's fine for alleged offenses committed in previous years. In Management's opinion and its legal advisors, this contingency is considered as "Possible" and no material liabilities will be generated as of December 31, 2015.

(c.3) Certain labor demands for approximately S/1,071,000. These claims are mainly related to compensation for arbitrary dismissal, non-payment of social benefits, and reinstatement in the workplace, among others. In the Management's opinion and its legal advisors, these must be resolved favorably for Eckerd Peru S.A.; consequently, it is not necessary to record additional liabilities for these items.

## 26. Business segments

For management purposes, the Companies are organized into business units based on their products and services and has two reportable segments i) supermarkets and ii) drugstores. 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 combined 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 the Companies by business segments for 2015 and 2014:

| | Supermarkets S./(000) | Drugstores S./(000) | Total Segments S./(000) | Combined adjustments and eliminations S./(000) | Combined S./(000) |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Revenue** | | | | | |
| External income | 4,066,705 | 2,339,061 | 6,405,766 | - | 6,405,766 |
| Inter-segment | 10,337 | 14 | 10,351 | (10,351) | - |
| **Total revenue** | 4,077,042 | 2,339,075 | 6,416,117 | (10,351) | 6,405,766 |
| Cost of sales | (3,012,534) | (1,598,733) | (4,611,267) | - | (4,611,267) |
| **Gross profit** | 1,064,508 | 740,342 | 1,804,850 | (10,351) | 1,794,499 |
| Selling expenses | (830,350) | (520,203) | (1,350,553) | 10,351 | (1,340,202) |
| Administrative expenses | (94,736) | (54,605) | (149,341) | (1,104) | (150,445) |
| Other operating income, net | 10,305 | 1,153 | 11,458 | - | 11,458 |
| **Operating profit** | 149,727 | 166,687 | 316,414 | (1,104) | 315,310 |
| Finance income | 2,720 | 2,526 | 5,246 | 773 | 6,019 |
| Finance costs | (53,501) | (2,901) | (56,402) | (61,519) | (117,921) |
| Exchange difference, net | (48,483) | 705 | (47,778) | (40,687) | (88,465) |
| **Profit before income tax** | 50,463 | 167,017 | 217,480 | (102,537) | 114,943 |
| Income tax expense | (23,548) | (50,617) | (74,165) | (14,922) | (89,087) |
| **Net profit** | 26,915 | 116,400 | 143,315 | (117,459) | 25,856 |
| **Other information** | | | | | |
| Operating assets (*) | 2,674,283 | 1,868,849 | 4,543,132 | 22,889 | 4,566,021 |
| Operating liabilities | 1,740,977 | 648,173 | 2,389,150 | 823,239 | 3,212,389 |
| **Additions to non-current assets -** | | | | | |
| Property, furniture and equipment | 274,192 | 43,426 | 317,618 | 355 | 317,973 |
| Intangible assets | 16,249 | 3,430 | 19,679 | (124) | 19,555 |
| Depreciation and amortization | (107,411) | (34,969) | (142,380) | - | (142,380) |

(*) As of December 31, 2015 and 2014, the "Drugstores" segment includes approximately S/373,054,000 and S/709,472,000 corresponding to the brand "InkaFarma" and the goodwill, respectively, as a result of the acquisition of the Eckerd Group; see Note 13(b).

| | Supermarkets S./(000) | Drugstores S./(000) | Total Segments S./(000) | Combined adjustments and eliminations S./(000) | Combined S./(000) |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **Revenue** | | | | | |
| External income | 3,746,426 | 2,086,075 | 5,832,501 | - | 5,832,501 |
| Inter-segment | 10,227 | 12 | 10,239 | (10,239) | - |
| **Total revenue** | 3,756,653 | 2,086,087 | 5,842,740 | (10,239) | 5,832,501 |
| Cost of sales | (2,794,066) | (1,430,520) | (4,224,586) | - | (4,224,586) |
| **Gross profit** | 962,587 | 655,567 | 1,618,154 | (10,239) | 1,607,915 |
| Selling expenses | (753,843) | (450,290) | (1,204,133) | 10,239 | (1,193,894) |
| Administrative expenses | (83,972) | (56,794) | (140,766) | (409) | (141,175) |
| Other operating income, net | 11,427 | 8,388 | 19,815 | - | 19,815 |
| **Operating profit** | 136,199 | 156,871 | 293,070 | (409) | 292,661 |
| Finance income | 5,933 | 756 | 6,689 | 4,171 | 10,860 |
| Finance costs | (83,915) | (5,261) | (89,176) | (138,155) | (227,331) |
| Exchange difference, net | (32,108) | (589) | (32,697) | (25,677) | (58,374) |
| **Profit before income tax** | 26,109 | 151,777 | 177,886 | (160,070) | 17,816 |
| Income tax expense | (11,673) | (53,099) | (64,772) | 14,922 | (49,850) |
| **Net profit** | 14,436 | 98,678 | 113,114 | (145,148) | (32,034) |
| **Other information** | | | | | |
| Operating assets (*) | 2,530,160 | 1,759,465 | 4,289,625 | (27,991) | 4,261,634 |
| Operating liabilities | 1,624,019 | 566,026 | 2,190,045 | 729,474 | 2,919,519 |
| Additions to non-current assets - | | | | | |
| Property, furniture and equipment | 239,129 | 42,898 | 282,027 | 2,597 | 284,624 |
| Intangible assets | 10,684 | 4,850 | 15,534 | 155 | 15,689 |
| Depreciation and amortization | (94,032) | (26,992) | (121,024) | 20 | (121,004) |

(*) As of December 31, 2015 and 2014, the "Drugstores" segment includes approximately S/373,054,000 and S/709,472,000 corresponding to the brand "InkaFarma" and the goodwill, respectively, as a result of the acquisition of the Eckerd Group; see Note 13(b).

Geographic information –
As of December 31, 2015 and 2014, the operations of the Companies are concentrated in Peru, therefore, there are no revenues from external customers, or assets located in a foreign country as of those dates.

## 27. Objectives and policies of financial risk management

The risk is inherent in the Companies' 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 Companies' continuing profitability and each individual within the Companies is accountable for the risk exposures relating to his or her responsibilities.

The companies are 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 Companies' strategic planning process.

(a) Risk management structure -
The Companies' Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies in the Companies responsible for managing and monitoring risks, as further explained bellow:

(i) Board of Directors
The Companies' 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 Companies 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 Companies' senior management oversees the management of the Companies' risks. The Finance Managers provide assurance to Companies' 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 Companies are 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 combined financial statements as of December 31, 2015 and 2014, comes from the captions "Cash and short-term deposits", "Accounts receivable", "Accounts receivable from related parties", "Investments at fair value through profit or loss and other comprehensive income" and "Derivative financial instruments". The maximum exposure to credit risk of the components of the combined financial statements as of December 31, 2015 and 2014, is their book value, net of the respective provisions for impairment.

(a) Credit risk associated with:

(a.1) Trade accounts receivable

Companies asses the risk concentration of the trade accounts receivable and other accounts receivable. In general, the Companies do not hold significant concentrations of accounts receivable with any entity in particular. The Companies assess 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, derivative financial instruments and instruments through profit or loss and comprehensive income and available-for-sale investments

The balances of cash and derivative financial instruments are held in top-level financial entities, including a related financial entity. In case of investments through profit or loss and other comprehensive income, as explained in Note 8, corresponding to senior notes issued by a related entity.

Market risk -
It is the risk of suffering losses in the combined 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 Companies 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, 2015 and 2014. 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 Companies are responsible for identifying, measuring, controlling and informing on the exposure to global exchange rate risk of the Companies. As of December 31, 2015, InRetail Consumer maintains a "Call Spread" contract for a total notional amount of US$100,000,000 to reduce its foreign currency risk related to a part of senior notes issued. This derivative financial instrument has been qualified as effective hedging instrument; see Note 10.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant in the combined income statements before income tax. A negative amount shows a potential net decrease in the combined 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 | |
|---|---|---|---|
| | % | 2015 S/(000) | 2014 S/(000) |
| **Devaluation** | | | |
| US Dollars | 5 | 16,154 | 45,475 |
| US Dollars | 10 | 32,307 | 90,951 |
| **Revaluation** | | | |
| US Dollars | 5 | (16,154) | (45,475) |
| US Dollars | 10 | (32,307) | (90,951) |

(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. The Companies manage the 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, 2015 and 2014 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 | |
|---|---|---|
| | 2015 S/(000) | 2014 S/(000) |
| + (-) 50 | 770 | 348 |
| + (-) 100 | 1,540 | 696 |
| + (-) 200 | 3,080 | 1,392 |

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 Companies 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 Companies focuses its efforts to maintain funding sources through the availability of credit lines.

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

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| | Less than 3 months<br>S/(000) | 3 to 12 months<br>S/(000) | More than 1 years<br>S/(000) | Total<br>S/(000) |
| Senior notes issued and interest-bearing loans and borrowings - | | | | |
| Capital amortization | 31,923 | 103,009 | 1,287,264 | 1,422,196 |
| Interest payments flow | 21,025 | 66,620 | 273,383 | 361,028 |
| Trade payables | 1,424,541 | - | - | 1,424,541 |
| Accounts payable to related parties | 32,635 | - | 5,188 | 37,823 |
| Other payables and current income tax | 160,389 | - | - | 160,389 |
| **Total liabilities** | 1,670,513 | 169,629 | 1,565,835 | 3,405,977 |

| | As of December 31, 2014 | | | |
|---|---|---|---|---|
| | Less than 3 months<br>S/(000) | 3 to 12 months<br>S/(000) | More than 1 years<br>S/(000) | Total<br>S/(000) |
| Senior notes issued and interest-bearing loans and borrowings - | | | | |
| Capital amortization | 17,739 | 47,932 | 1,281,636 | 1,347,307 |
| Interest payments flow | 3,596 | 73,194 | 403,746 | 480,536 |
| Trade payables | 1,239,906 | - | - | 1,239,906 |
| Accounts payable to related parties | 29,372 | - | 4,242 | 33,614 |
| Other payables and current income tax | 110,821 | 47,920 | - | 158,741 |
| **Total liabilities** | 1,401,434 | 169,046 | 1,689,624 | 3,260,104 |

Capital management risk -
The Companies actively manage a capital base in order to cover inherent risks to their activities. The capital adequacy of the Companies monitored using, among other measures, ratios established by Management.

The objectives of the Companies when managing capital is a concept broader than the "Combined equity" presented in the combined statements of financial position. Those objectives are: (i) to safeguard the ability of the Companies 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 31, 2015 and 2014.

## 28. 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) Investments at fair value through profit or loss and other comprehensive income -
Fair value of Investments at fair value through profit or loss and other comprehensive income is derived from quoted market prices in active markets, if available. Fair value of unquoted Investments at fair value through profit or loss and other comprehensive income 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 Companies' financial instruments as of December 31,2015 and 2014:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Book value** S/(000) | **Fair value** S/(000) | **Book value** S/(000) | **Fair value** S/(000) |
| **Assets** | | | | |
| Cash and short-term deposits | 188,235 | 188,235 | 168,209 | 168,209 |
| Trade receivables, net | 63,472 | 63,472 | 58,410 | 58,410 |
| Other receivables, net | 93,147 | 93,147 | 85,288 | 85,288 |
| Accounts receivable from related parties | 23,363 | 23,363 | 40,774 | 40,774 |
| Investments at fair value through other comprehensive income | 13,873 | 13,873 | - | - |
| Derivative financial instrument – "Call Spread" | 32,692 | 32,692 | - | - |
| **Liabilities** | | | | |
| Trade payables | 1,424,541 | 1,424,541 | 1,239,906 | 1,239,906 |
| Accounts payable to related parties | 37,823 | 37,823 | 33,614 | 33,614 |
| Other payables and current income tax | 160,389 | 160,389 | 158,741 | 158,741 |
| Senior notes issued and interest-bearing loans and borrowings | 1,422,196 | 1,501,906 | 1,347,307 | 1,438,755 |

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

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

The Companies have not performed transfers of financial instruments from Level 3 to Level 1 or to Level 2 during the years 2015 and 2014. The financial instruments and its level of hierarchy for the determination of the fair value, to record or disclose, are the following:

- Investments at fair value through other comprehensive income which fair value was determined under level 1 hierarchy.
- Derivative financial instrument which fair value was determined under level 2 hierarchy.
- Senior notes issued, and interest-bearing loans and borrowings, whose exposure fair values were determined through the Level 2 hierarchy.

**29. Subsequent events**

No events between December 31, 2015 and the date of this report, to be reported or disclosed into the combined financial as of such date, have occurred.

**30. Explanation added for English translation**

The accompanying combined financial statements were originally issued in Spanish and are presented on the basis of International Financial Reporting Standards, as described in Note 2. Certain accounting practices applied by the Company that conform to those accounting principles may not conform to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.

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