

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated financial statements as of March 31, 2014 and
for the three-month periods ended March 31, 2014 and 2013



Building a better
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Independent auditors' review report

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

Introduction

We have reviewed the accompanying interim consolidated financial statements of InRetail Real Estate Corp. and Subsidiaries (together "InRetail Real Estate") as of March 31, 2014, which comprise the interim consolidated statement of financial position as of March 31, 2014 and the related interim consolidated statements of income and other comprehensive income, changes in equity, and cash flows for the three-month periods ended March 31, 2014 and 2013, and explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

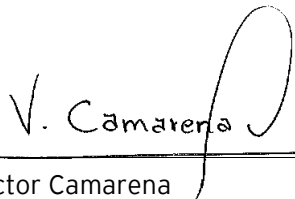
Independent auditors' review report (continued)

Other matter

Additionally, we have previously audited, in accordance with International Financial Reporting Standards, the accompanying consolidated statement of financial position of InRetail Real Estate Corp. and Subsidiaries as of December 31, 2013, and the related consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended. We conducted our audit on those consolidated financial statements in accordance with Auditing Standards generally accepted in Peru. Our report dated June 19, 2014, expressed an unmodified opinion on those consolidated financial statements.

Lima, Peru,
June 19, 2014

Countersigned by:



Víctor Camarena
C.P.C.C. Registration No.22566

Medina, Zaldívar, Paredes & Asociados

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of financial position

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

	Note	March 31, 2014 S/.(000)	December 31, 2013 S/.(000)
Assets			
Current assets			
Cash and cash equivalent	5	40,465	80,819
Trade receivables	6	19,055	19,111
Accounts receivable to related parties	25(b)	77,401	74,713
Other receivables	7	9,456	6,475
Prepaid expenses	8	4,121	4,882
Recoverable taxes	9	35,669	27,459
Total current assets		<u>186,167</u>	<u>213,459</u>
Recoverable taxes	9	101,606	101,674
Facilities, furniture and equipment, net	10	3,121	3,428
Investment properties	11	2,143,795	2,052,896
Other assets		12,105	9,302
Deferred Income tax asset	15(a)	323	323
Total assets		<u>2,447,117</u>	<u>2,381,082</u>
Liabilities and equity			
Current liabilities			
Trade payables	12	44,121	51,666
Accounts payable to related parties	25(b)	2,126	1,246
Other liabilities	13	45,315	29,613
Current portion of long-term financial obligations	14	14,178	14,977
Total current liabilities		<u>105,740</u>	<u>97,502</u>
Other long-term liabilities	13	28,109	16,322
Long-term financial obligations	14	633,316	608,889
Deferred Income tax liability	15(a)	91,765	85,300
Total liabilities		<u>858,930</u>	<u>808,013</u>
Equity			
	17		
Capital stock		1,475,706	1,475,706
Retained earnings		107,931	92,859
		<u>1,583,637</u>	<u>1,568,565</u>
Non-controlling interest		<u>4,550</u>	<u>4,504</u>
Total equity		<u>1,588,187</u>	<u>1,573,069</u>
Total liabilities and equity		<u>2,447,117</u>	<u>2,381,082</u>

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of income and other comprehensive income (unaudited)

For the three-month periods ended March 31, 2014 and 2013

	Note	2014 \$/(,000)	2013 \$/(,000)
Rental income	18	41,405	29,364
Income from management services	18	24,632	17,848
Cost related to income from management services	19	<u>(19,101)</u>	<u>(13,560)</u>
Net rental income		46,936	33,652
Cost of rental income	19	<u>(4,587)</u>	<u>(2,687)</u>
Gross profit		42,349	30,965
Fair value adjustment for investment properties	11(d)	4,171	1,131
Selling and administrative expenses	20	(6,560)	(5,810)
Other income (expenses), net	22	<u>68</u>	<u>1,056</u>
Operating profit		40,028	27,342
Financial income	23	1,064	5,349
Financial expenses	23	(16,650)	(16,794)
Exchange difference, net	26(a)(ii)	<u>(2,497)</u>	<u>(9,915)</u>
Profit before Income Tax		21,945	5,982
Income tax	15(c)	<u>(6,827)</u>	<u>(2,330)</u>
Net profit		<u>15,118</u>	<u>3,652</u>
Attributable to:			
InRetail Real Estate Corp. shareholders		15,072	3,652
Non-controlling interest		<u>46</u>	<u>-</u>
Net profit		15,118	3,652
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>15,118</u>	<u>3,652</u>
Earnings per share:	17(b)		
Basic and diluted profit per share attributable to InRetail Real Estate Corp. shareholders		<u>0.0266</u>	<u>0.0071</u>

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of changes in equity (unaudited)

For the three-month periods ended March 31, 2014 and 2013

	Attributable to owners of the Parent			Non-controlling interest \$/.(000)	Total equity \$/.(000)
	Capital stock \$/.(000)	Retained earnings \$/.(000)	Total \$/.(000)		
Balance as of January 1, 2013	1,315,706	54,574	1,370,280	2,665	1,372,945
Net income	-	3,652	3,652	-	3,652
Total comprehensive income	1,315,706	58,226	1,373,932	2,665	1,376,597
Cash contributions, Note 17(a)	160,000	-	160,000	1,329	161,329
Balance as of March 31, 2013	1,475,706	58,226	1,533,932	3,994	1,537,926
Balance as of January 1, 2014	1,475,706	92,859	1,568,565	4,504	1,573,069
Net income	-	15,072	15,072	46	15,118
Total comprehensive income	1,475,706	107,931	1,583,637	4,550	1,588,187
Balance as of March 31, 2014	1,475,706	107,931	1,583,637	4,550	1,588,187

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of cash flows (unaudited)

For the three-month periods ended March 31, 2014 and 2013

	2014 S/.(000)	2013 S/.(000)
Operating activities		
Net profit	15,118	3,652
Non-cash adjustment to reconcile profit before tax to net cash flow		
Allowance for doubtful accounts receivable	295	357
Depreciation of facilities, furniture and equipment	392	170
Amortization of intangible assets	22	18
Fair value adjustment for investment properties	(4,171)	(1,131)
Exchange difference	2,497	9,915
Investment in associate	(68)	-
Deferred income tax	6,465	1,855
Working capital adjustments		
(Decrease) increase in trade accounts receivable	(239)	932
(Decrease) increase in other accounts receivable	(2,981)	910
(Decrease) in trade accounts receivable from related parties	(2,688)	(5,467)
Increase (decrease) in prepaid expenses	761	(4,677)
(Decrease) increase in other assets	(1,959)	1,856
Increase in recoverable taxes	3,081	1,519
Increase in deferred income	11,787	670
(Decrease) in trade accounts payable	(1,697)	(3,459)
Increase in other liabilities	15,702	24,792
Increase (decrease) in accounts payable to related parties	179	(7,113)
Net cash provided by operating activities	<u>42,496</u>	<u>24,799</u>
Investing activities		
Loans granted	-	213,240
Purchase or facilities, furniture and equipment, net of acquisitions through leasing contracts	(85)	(182)
Purchase and development of intangible assets	(11)	(75)
Purchase of investment properties	(92,576)	(208,615)
Value added tax payment corresponding to work in progress	(11,223)	(20,448)
Net cash used in investing activities	<u>(103,895)</u>	<u>(16,080)</u>

Consolidated statements of cash flows (unaudited) (continued)

	2014 S/.(000)	2013 S/.(000)
Financing activities		
Increase (decrease) in borrowings	22,451	(11,937)
Amortization of leasing installments	(1,406)	(858)
Capital contribution	-	160,000
Net cash provided by financing activities	<u>21,045</u>	<u>147,205</u>
Net (decrease) increase of cash and short-term deposits	(40,354)	155,924
Cash and short-term deposits at the beginning of year	<u>80,819</u>	<u>215,724</u>
Cash and short-term deposits at the end of year	<u>40,465</u>	<u>371,648</u>
Non cash transactions		
Increase in investment properties	15,833	-
Leasing contract	-	6,520

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

InRetail Real Estate Corp. and Subsidiaries

Notes to the interim consolidated financial statements (unaudited)

As of March 31, 2014 and for the three-month periods ended March 31, 2014 and 2013

1. Business activity -

(a) Identification -

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

As of March 31, 2014 and December 31, 2013 Intercorp Perú holds directly and indirectly 71.45 percent of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

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

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

The consolidated financial statements as of December 31, 2013 and for the year then ended were approved by Management on May 20, 2014 and the interim consolidated financial statements as of March 31, 2014 and for the three-month periods ended March 31, 2014 and 2013 have been approved by Management on April 30, 2014. These financial statements will be submitted for their approval by the Board of Directors and the General Shareholders' Meeting that will occur within the period established by Law. In Management's opinion, they will be approved without modifications.

Notes to the interim consolidated financial statements (continued)

2. Subsidiaries activities

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

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

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

- (b) Real Plaza S.R.L. (hereinafter "Real Plaza")
An entity focused on operating the shopping malls (18 as of March 31, 2014 and December 31, 2013) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of "Real Plaza Shopping Mall".

As of March 31, 2014, Real Plaza manages shopping malls in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca and Lima.

- (c) InRetail Properties Management S.R.L. (formerly Interproperties Perú S.A., hereinafter "InRetail Properties Management")
An entity focused on securing new locations and developing shopping malls. Additionally provides the staff which manages and operates Interproperties Holding and Interproperties Holding II.

Notes to the interim consolidated financial statements (continued)

A summary of the main data of the audited separate financial statements of the Company, its Subsidiaries and its special purpose entities (SPE) as of March 31, 2014 (unaudited) and December 31, 2013, (audited) and for the three-month periods ended March 31, 2014 and 2013 (unaudited) is presented below:

	As of March 31, 2014			For the three-month period ended March 31, 2014
	Assets S/.(000)	Liabilities S/.(000)	Equity S/.(000)	Profit (loss) S/.(000)
Company				
InRetail Real Estate Corp.	1,485,279	10	1,485,269	57
Real Plaza S.R.L.	22,481	18,533	3,948	888
InRetail Properties Management S.R.L	2,763	2,356	407	(738)
Special purpose entities (SPE)				
Patrimonio en Fideicomiso - D.S.N°093-2002 - EF - Interproperties Holding	1,388,603	637,063	751,540	6,546
Patrimonio en Fideicomiso - D.S. N°093-2002-EF-Interproperties Holding II	995,353	209,622	785,731	8,737
				For the three-month period ended March 31, 2013
	As of December 31, 2013			
	Assets S/.(000)	Liabilities S/.(000)	Equity S/.(000)	Profit(loss) S/.(000)
Company				
InRetail Real Estate Corp.	1,483,138	47	1,483,091	(723)
Real Plaza S.R.L.	17,897	14,837	3,060	(12)
InRetail Properties Management S.R.L	3,599	2,454	1,145	607
Special purpose entities (SPE)				
Patrimonio en Fideicomiso - D.S.N°093-2002 - EF - Interproperties Holding	1,325,940	620,746	705,194	(4,630)
Patrimonio en Fideicomiso - D.S. N°093-2002-EF-Interproperties Holding II	966,066	189,072	776,994	7,082

Notes to the interim consolidated financial statements (continued)

3. Summary of significant accounting policies

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

3.1 Basis of preparation and presentation

The interim consolidated financial statements of InRetail Real Estate have been prepared in accordance with the International Accounting Standard 34 "Interim financial reporting". Also, the accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the InRetail Real Estate's annual consolidated financial statements for the year ended December 31, 2013 which were audited. Therefore, these interim consolidated financial statements should be read in conjunction with such audited consolidated financial statements.

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

The interim consolidated financial statements do not include all information and disclosures required for annual consolidated financial statements and should be read together with consolidated financial statements as of December 31, 2013.

3.2 New standards and interpretations adopted by InRetail Real Estate-

Several standards and amendments have come into effect from January 1, 2014; however, in the opinion of InRetail Real Estate's Management, they have no impact on the accompanying unaudited consolidated financial statements as of March 31, 2014.

3.3 Significant estimations and assumptions

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

4. Seasonality of operations

Due to the seasonal nature of shopping malls segment, higher revenues and operating profits are usually expected in the second half of the year rather than the first three months due to in those months there is a decrease in revenues influenced by the summer vacation months. Higher sales during the period July to August are mainly attributed to the increased in consumer's purchasing power in Peru for legal and other bonuses to the workers, as well as in December, due to increased demand for retail products during the peak of the Christmas season. This information is provided to allow for a proper appreciation of the results; however, except for what it is mentioned above, InRetail Real Estate Management has concluded that this does not constitute "Highly seasonal" as considered by IAS 34 "Interim Financial Reporting".

Notes to the interim consolidated financial statements (continued)

5. Cash and cash equivalent

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Time deposits (b)	22,100	71,094
Current accounts (c)	12,714	5,254
Management and security trust current accounts (d)	5,354	3,996
Escrow account	184	447
Cash and petty cash	113	28
	<u>40,465</u>	<u>80,819</u>

(b) As of March 31, 2014, time deposits are unrestricted, maintained in Nuevos Soles in local financial institutions, have maturities of up to one month since its inception and bear annual interests of 4.25 percent annual (between 4.10 and 4.15 as of December 31, 2013).

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

(d) Corresponds to the bank accounts, which serve as means of payment of the guaranteed obligations with regard to the leasing granted by Banco de Crédito del Perú in favor of Interproperties Holding and Interproperties Holding II, Note 14, in compliance with the contract of management and security trust.

6. Trade receivables

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Bills receivable (b)	16,679	13,983
Unbilled services (c)	5,161	7,616
	<u>21,840</u>	<u>21,599</u>
Minus -		
Allowance for doubtful accounts	(2,785)	(2,488)
	<u>19,055</u>	<u>19,111</u>

(b) As of March 31, 2014 and December 31, 2013, trade accounts receivable are denominated in Nuevos Soles and US dollars, have current maturities and do not accrue interests.

(c) As of March 31, 2014 and December 31, 2013, mainly corresponds to unbilled lease services for variable and fixed rents, which are billed during the following quarter.

Notes to the interim consolidated financial statements (continued)

(d) As of March 31, 2014 and December 31, 2013, the analysis of trade receivables is as follows:

	As of March 31, 2014		
	Non-impaired S/.(000)	Impaired S/.(000)	Total S/.(000)
Unbilled services	4,710	-	4,710
About to mature			
Past-due			
From 1 to 90 days	8,927	-	8,927
From 91 to 120 days	2,549	-	2,549
From 121 to 180 days	1,821	77	1,898
From 181 to 270 days	602	560	1,162
More than 271 days	446	2,148	2,594
	<u>19,055</u>	<u>2,785</u>	<u>21,840</u>
	As of December 31, 2013		
	Non-impaired S/.(000)	Impaired S/.(000)	Total S/.(000)
Unbilled services	7,616	-	7,616
About to mature	16	-	16
Past-due			
From 1 to 90 days	9,890	-	9,890
From 91 to 120 days	733	112	845
From 121 to 180 days	226	175	401
From 181 to 270 days	153	245	398
More than 271 days	477	1,956	2,433
	<u>19,111</u>	<u>2,488</u>	<u>21,599</u>

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

Notes to the interim consolidated financial statements (continued)

- (e) The movement of the provision for impairment as of March 31, 2014 and December 31, 2013 is as follows:

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Balance as of January 1	2,488	1,882
Additions	295	594
Exchange difference	<u>2</u>	<u>12</u>
Final balance as of	<u>2,785</u>	<u>2,488</u>

In the opinion of InRetail Real Estate Management, the provision for impairment appropriately covers the credit risk as of March 31, 2014 and December 31, 2013.

7. Other receivables

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Third - party guarantee	2,750	2,750
Claims (c)	2,389	2,060
Fund retained - SUNAT	605	-
Other	<u>3,712</u>	<u>1,665</u>
	<u>9,456</u>	<u>6,475</u>

- (b) Corresponds to the guarantee provided to a third party for the acquisition of the landlord leases of a land lot in the city of Chiclayo, which will be returned when the InRetail Real Estate makes the first payment of variable rent when operations start on said land.
- (c) Mainly corresponds to the property sales tax (Alcabala Tax) paid in excess to a Municipality amounting to S/.1,934,000 for the purchase of a land lot in the city of Piura, for which Interproperties Holding II has filed a complaint to the Tax Administration Service ("SAT", by its Spanish acronym). In the opinion of InRetail Real Estate's management and its legal advisor's this claim will be resolved in the short term.
- (d) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of March 31, 2014 and December 31, 2013, as no credit risk has been identified.

Notes to the interim consolidated financial statements (continued)

8. Prepaid expenses

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Rents paid in advance (b)	2,414	3,013
Insurances	1,426	1,829
Other	281	40
	<u>4,121</u>	<u>4,882</u>

(b) Mainly corresponds to rental payments made in advance in compliance with surface rights contract for land lots located in the department of Cusco where a real estate project was being developed. The advance corresponds to the payment of 360 months of rent and started accruing from the completion date of the project.

9. Recoverable taxes

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

By type:	As of March 2014 S/.(000)	As of December 2013 S/.(000)
Tax credit recoverable for value-added-tax (b)	123,407	123,325
Funds held in Banco de la Nación (c)	13,582	5,706
Income Tax payment	286	12
Tax credit	-	90
	<u>137,275</u>	<u>129,133</u>
By term:		
Current	35,669	27,459
Non-current	101,606	101,674
	<u>137,275</u>	<u>129,133</u>

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

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

Notes to the interim consolidated financial statements (continued)

10. Facilities, furniture and equipment, net

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

	Facilities S/.(000)	Furniture and fixtures S/.(000)	Transport units S/.(000)	Computer equipment and miscellaneous S/.(000).	Work in progress S/.(000)	Total S/.(000)
Cost						
Balance as of January 1, 2014	959	2,212	263	2,100	300	5,834
Additions	-	1	-	83	-	84
Balance as of March 31, 2014	<u>959</u>	<u>2,213</u>	<u>263</u>	<u>2,183</u>	<u>300</u>	<u>5,918</u>
Accumulated depreciation						
Balance as of January 1, 2014	416	951	93	946	-	2,406
Depreciation of the year, Note 20 (b)	212	64	10	105	-	391
Balance as of March 31, 2014	<u>628</u>	<u>1,015</u>	<u>103</u>	<u>1,051</u>	<u>-</u>	<u>2,797</u>
Net cost as of March 31, 2014	<u>331</u>	<u>1,198</u>	<u>160</u>	<u>1,132</u>	<u>300</u>	<u>3,121</u>
Net cost as of January 1, 2014	<u>543</u>	<u>1,261</u>	<u>170</u>	<u>1,154</u>	<u>300</u>	<u>3,428</u>

(b) As of March 31, 2014 and December 31, 2013, there are not pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.

(c) As of March 31, 2014 and December 31, 2013, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on said assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.

Notes to the interim consolidated financial statements (continued)

11. Investment properties

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)	Valuation methodology	
			As of March 31, 2014	As of December 31, 2013
Built on owned land				
Real Plaza Chiclayo Shopping Mall (ii)	221,595	216,291	DCF	DCF
Real Plaza Primavera Shopping Mall (ii)	197,075	195,687	DCF	DCF
Real Plaza Piura Shopping Mall (ii)	158,294	155,794	DCF	DCF
Real Plaza Trujillo Shopping Mall (ii)	145,961	145,993	DCF and Appraisal	DCF and Appraisal
Real Plaza Cajamarca Shopping Mall (ii)	131,202	128,253	DCF	DCF
Real Plaza Santa Clara Shopping Mall (ii)	89,212	87,404	DCF and Appraisal	DCF and Appraisal
Real Plaza Pro Shopping Mall (ii)	78,735	78,232	DCF	DCF
Real Plaza Chorrillos Shopping Mall (ii)	44,083	46,053	DCF	DCF
Real Plaza Nuevo Chimbote Shopping Mall (ii)	27,340	27,091	DCF	DCF
Jirón de la Unión-Stores	23,568	23,375	DCF	DCF
Chacarilla	22,054	-	(iv)	-
Carabayllo	18,966	18,943	(iii)	(iii)
Tarapoto	13,786	14,289	(iii)	(iii)
Zapallal	12,254	12,254	(iii)	(iii)
Cañete Valley land	11,536	11,536	Appraisal	Appraisal
Property in San Juan de Lurigancho	8,567	8,449	DCF	DCF
Pisco	2,811	2,811	(iii)	(iii)
Pueblo Joven Miramar Bajo Mz A Lt 16 - Chimbote - Santa - Ancash (iii)	1,404	1,641	DCF and Appraisal	DCF and Appraisal
Built on surface or usufruct rights				
Real Plaza Salaverry Shopping Mall (i)	326,506	289,783	DCF	DCF
Real Plaza "San Antonio" Cusco Shopping Mall (i), (ii), (f)	189,105	176,901	DCF	DCF
Real Plaza Huancayo Shopping Mall (i) y (ii)	125,841	118,823	DCF	DCF
Real Plaza Huánuco Shopping Mall (i) y (ii)	110,672	110,585	DCF	DCF
Real Plaza Arequipa Shopping Mall (i) y (ii)	95,204	94,809	DCF	DCF
Real Plaza Juliaca Shopping Mall (i) y (ii)	81,769	82,471	DCF	DCF
Usufruct rights				
Peramás (i)	3,788	3,528	Cost	Cost
La Curva (i)	851	851	Cost	Cost
Moquegua (i)	747	428	Cost	Cost
Others	869	621	Cost	Cost
	<u>2,143,795</u>	<u>2,052,896</u>		

DCF: Discounted cash flow

- (i) For the construction of these shopping malls and properties, surface rights contracts were subscribed with the Arzobispado de Cuzco (on land in Cusco "San Antonio"), Municipalidad provincial de Huánuco (on land of "Real Plaza Huánuco" shopping mall), Despensa Peruana S.A. and Mercantil Inca S.A. (Peramás), Inmobiliaria Pazos S.A.C. (La Curva), Gobierno Regional de Moquegua (Moquegua), Ferrovías Central Andina S.A.(Huancayo); the Association denominated "Religiosas del Sagrado Corazón de Jesús" (Arequipa), Ferrocarril Trasandino S.A.(Juliaca), and the Marina de Guerra del Perú (Salaverry). These contracts have terms for periods between 20 to 70 years.
- (ii) Correspond to the "Real Plaza" shopping malls, which comprise a hypermarket, department store, commercial premises, a cinema complex and entertainment zone for which there have been subscribed contracts that include minimum monthly fixed rental payments and variable payments based on the retail sales of the tenants.
- (iii) Correspond to lands on which real estate projects will be developed, mainly shopping malls branded "Real Plaza". In the opinion of InRetail Real Estate's Management the book value of these investment properties does not differ significantly from their fair value as of March 31, 2013 and December 31, 2013 since Management has been managing the related licenses for their development.
- (iv) Incorporated in March 2014, Note 11(c).

Notes to the interim consolidated financial statements (continued)

- (b) The movement of this caption for the three-month periods ended March 31, 2014 is as follows:

	2014 S/.(000)
Balance as of January 1,	2,052,896
Additions (c)	86,728
Fair value adjustment (*)	<u>4,171</u>
Final balance as of March 31,	<u>2,143,795</u>

(*) The fair value adjustment for the three-month period ended March 31, 2013 amounted to S/.1,131,000.

- (c) As of March 31, 2014, correspond mainly to enlargements and/or refurbishing of the following shopping malls and properties:

Shopping mall	Description
Real Plaza Chiclayo	Expansion of the shopping mall including an anchor store (Oeschle), as well as the enlargement of the parking lot for customers.
Real Plaza Cajamarca	Construction of premises for anchor stores where Plaza Veá, Promart, Oeschle and Ripley are operating.
Real Plaza Salaverry	Construction of 70,000 m2 of leasable area, including anchor stores (Promart, Oeschle, Saga Falabella, Ripley, Zara and Plaza Veá), as well as cinema and restaurants zone.
Chacarilla	In March 2014, the subsidiary Interproperties Holding II acquired from a related entity a land in Surco, Lima, and disbursed an amount S/.22,054,000. The ownership of the property is pending to be subscribed in the Public Registry Superintendence. In the opinion of InRetail Real Estate's Management the book value as of March 31, 2014, does not differ significantly from its fair value.

Notes to the interim consolidated financial statements (continued)

(d) The following table presents the valuation analysis of investment properties recognized in the consolidated statements of financial position by fair value hierarchy level, as of March 31, 2014 and December 31, 2013:

	As of March 31, 2014				As of December 31, 2013				Total gains (losses) for the three-month periods ended March 31, 2014 and 2013	
	Level 1 S/.(000)	Level 2(*) S/.(000)	Level 3(**) S/.(000)	Total S/.(000)	Level 1 S/.(000)	Level 2(*) S/.(000)	Level 3(**) S/.(000)	Total S/.(000)	2014 S/.(000)	2013 S/.(000)
Built on owned land										
Real Plaza Chiclayo Shopping Mall	-	-	221,595	221,595	-	-	216,291	216,291	(728)	955
Real Plaza Primavera Shopping mall (ii)	-	-	197,075	197,075	-	-	195,687	195,687	1,313	1,697
Real Plaza Piura Shopping Mall	-	-	158,294	158,294	-	-	155,794	155,794	1,125	537
Real Plaza Trujillo Shopping Mall	-	23,165	122,796	145,961	-	23,165	122,828	145,993	(209)	134
Real Plaza Cajamarca Shopping Mall	-	-	131,202	131,202	-	-	128,253	128,253	(863)	-
Real Plaza Santa Clara Shopping Mall	-	8,292	80,920	89,212	-	8,292	79,112	87,404	1,789	2,143
Real Plaza Pro Shopping Mall	-	-	78,735	78,735	-	-	78,232	78,232	215	473
Real Plaza Chorrillos Shopping Mall	-	-	44,083	44,083	-	-	46,053	46,053	(2,345)	642
Real Plaza Nuevo Chimbote Shopping Mall	-	-	27,340	27,340	-	-	27,091	27,091	237	(839)
Jirón de la Unión Stores	-	-	23,568	23,568	-	-	23,375	23,375	195	(4,810)
Chacarilla (***)	-	-	22,054	22,054	-	-	-	-	-	-
Cañete Valley land	-	11,536	-	11,536	-	11,536	-	11,536	(8)	-
Property in San Juan de Lurigancho	-	-	8,567	8,567	-	-	8,449	8,449	118	68
Pueblo Joven Miramar Bajo Mz A Lt 16 - Chimbote - Santa Ancash	-	1,404	-	1,404	-	1,404	237	1,641	(237)	-
Built on surface or usufruct rights										
Real Plaza Salaverry Shopping Mall	-	-	326,506	326,506	-	-	289,783	289,783	3,644	-
Real Plaza Cusco "San Antonio" Shopping Mall	-	-	189,105	189,105	-	-	176,901	176,901	70	-
Real Plaza Huancayo Shopping Mall	-	-	125,841	125,841	-	-	118,823	118,823	430	33
Real Plaza Huánuco Shopping Mall	-	-	110,672	110,672	-	-	110,585	110,585	88	416
Real Plaza Arequipa Shopping Mall	-	-	95,204	95,204	-	-	94,809	94,809	380	(786)
Real Plaza Juliaca Shopping Mall	-	-	81,769	81,769	-	-	82,471	82,471	(1,043)	468
	-	44,397	2,045,326	2,089,723	-	44,397	1,954,774	1,999,171	4,171	1,131

(*) The fair value of the assets classified as Level 2 has been determined through an appraisal formulated by an independent professional who is provided with the authorizations of the respective regulating entities.

(**) The fair value of the assets classified as Level 3 has been determined through the discounted cash flow methodology.

(***) Incorporated in March 2014, Note 11(c).

Notes to the interim consolidated financial statements (continued)

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

A brief description of the cash flow assumptions used as of March 31, 2014 and December 2013, is presented below:

- Long-term inflation -
It is the increase of the general level of prices expected in Peru for the long term.
- Long-term average occupancy rate -
It is the expected occupancy level of tenants in the leased properties.
- Average growth rate of rental income -
It is the index that expresses the rental income growth and includes growth factors of the industry, inflation rates, stable exchange rate, per capita income and increasing expenses.
- Average NOI margin -
It is projected from the rental income from leasable areas by property and marketing income, less costs related to administration fees, other administrative expenses, insurance, taxes and other expenses.
- Discount rate -
It reflects the current market risk and the uncertainty associated to the obtaining of cash flows.

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

	Percentage	
	As of March 31, 2014 %	As of March 31, 2013 %
Long-term inflation	2.50	2.50
Long-term average occupancy rate	99.00	99.00
Average growth rate of rental income	2.50	2.50
Average NOI margin	84.00-91.00	90.00-93.00
Discount rate	9.60	9.60

Notes to the interim consolidated financial statements (continued)

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

	Rates change	As of March 31, 2014 S/.(000)	As of March 31, 2013 S/.(000)
Average growth rate of rents (basis) - 2.50%			
Increase	+0.25%	56,887	39,050
Decrease	-0.25%	(53,632)	(36,559)
Discount rate (basis) - 9.60%			
Increase	+0.5%	(115,630)	(80,502)
Decrease	-0.5%	129,742	91,496

- (g) As of March 31, 2014 and December 2013, the properties of Santa Clara, Chimbote, Cajamarca, Cañete and Pro, whose book value amounts to approximately S/338,025,000 and S/332,516,000, respectively, are part of the asset trust that guarantees the debt with a foreign entity, Note 14.

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

Year	Related parties		Third-parties		Total	
	US\$(000)	S/.(000)	US\$(000)	S/.(000)	US\$(000)	S/.(000)
2014	4,466	32,999	2,258	51,252	6,724	84,251
2015	5,948	43,711	2,797	56,389	8,745	100,100
2016	5,880	42,423	2,398	44,358	8,278	86,781
2017	5,820	40,786	2,110	29,468	7,930	70,254
2018	5,693	39,359	1,707	22,974	7,400	62,333
2019-2044	106,086	617,543	29,856	83,385	135,942	700,928
Total	133,893	816,821	41,126	287,826	175,019	1,104,647

Notes to the interim consolidated financial statements (continued)

12. Trade payables

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Third parties (b)	28,281	26,669
Provisions for unbilled services but received (c)	15,840	24,997
	<u>44,121</u>	<u>51,666</u>

(b) As of March 31, 2014 and December 31, 2013, trade payables mainly comprise the liabilities with contractors for the construction works and/or refurbishing of shopping malls. Bills payable are denominated in Nuevos Soles and US dollars, do not accrue interests and their maturities are in the current period.

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

13. Other liabilities

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Deferred income (b)	28,109	16,329
Interests payable (c)	16,432	6,706
Land purchase (d)	8,879	8,879
Deposits from third parties (e)	2,871	2,255
Taxes payable	530	1,129
Workers' profit sharing	626	1,732
Other payable	15,977	8,905
	<u>73,424</u>	<u>45,935</u>

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
By term:		
Current	45,315	29,613
Non-current	28,109	16,322
	<u>73,424</u>	<u>45,935</u>

Notes to the interim consolidated financial statements (continued)

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

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Key money (b.1)	24,690	12,767
Advanced rents (b.2)	3,419	3,555
Others	<u>-</u>	<u>7</u>
	<u>28,109</u>	<u>16,329</u>

- (b.1) As of March 31, 2014 and December 31, 2013, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.

The movement of the deferred income of key money for the three-month period ended March 31, 2014 is as follows:

	2014 S/.(000)
Balance as of January 1,	12,767
Additions	12,714
Accrued key money	<u>(791)</u>
Balance as of March 31,	<u>24,690</u>

- (b.2) As of March 31, 2014 and December 31, 2013, corresponds mainly to advanced rents made by Cineplex S.A. (a related entity) for the premises it operates in Real Plaza Pro Shopping Mall.
- (c) Mainly correspond to interest payable originated by the long-term bank loan subscribed with foreign entities, Note 14.
- (d) As of March 31, 2014 and December 31, 2013, correspond to the balance payable from the acquisition of land lots located in Carabayllo and Tarapoto. These accounts will be cancelled during the next quarter, in compliance with the purchase contracts, and do not accrue interests.
- (e) As of March 31, 2014 and December 31, 2013 it mainly correspond to cash deliveries from the tenants of the Real Plaza shopping malls Arequipa, Primavera, Pro, Santa Clara, Huancayo, Trujillo, Juliaca and Nuevo Chimbote.

These deposits do not accrue interests and will be refunded in the original currency at the end of the lease contract.

Notes to the interim consolidated financial statements (continued)

14. Financial obligations

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

Type of obligation	Original currency	Interest rate %	Maturity	Original amount in thousands	As of March 31, 2014			As of December 31, 2013		
					Total S/.(000)	Current S/.(000)	Non-current S/.(000)	Total S/.(000)	Current S/.(000)	Non-current S/.(000)
Leasing										
Related parties										
Banco Internacional del Perú S.A.A - Interbank, Real Plaza San Antonio del Cusco Shopping Mall (b)	S/.	8.90	2026	70,000	65,214	3,411	61,803	55,715	2,454	53,261
Banco Internacional del Perú S.A.A - Interbank, purchase of property of Real Plaza Santa Clara Shopping Mall (c)	S/.	8.25	2016	7,401	3,695	1,697	1,998	4,068	1,664	2,404
Banco Internacional del Perú S.A.A - Interbank, purchase of equipment	S/.	8.25	2015	588	211	155	56	247	152	95
Banco Internacional del Perú S.A.A - Interbank, purchase of transport units	US\$	6.45	2016	35	56	15	41	61	20	41
Unrelated parties										
Banco de Crédito del Perú S.A., purchase of property of Real Plaza Chiclayo Shopping Mall (d)	S/.	9.02	2019	54,748	23,580	3,236	20,344	24,629	3,393	21,236
Banco de Crédito del Perú S.A., enlargement of Section 2A of Real Plaza Chiclayo Shopping Mall (e)	US\$	7.62	2023	12,500	34,139	1,604	32,535	34,354	2,497	31,857
Banco de Crédito del Perú S.A., enlargement of Section 2B of Real Plaza Chiclayo Shopping Mall (f)	US\$	7.62	2023	7,500	21,350	952	20,398	21,484	1,481	20,003
IBM Perú S.A.C.	US\$	3.10	2016	100	196	61	135	218	92	126
Promissory notes										
Unrelated parties										
Banco de Crédito del Perú S.A., loan for the refurbishing of Real Plaza Primavera Shopping Mall (g)	US\$	6.60	2021	12,000	27,144	3,031	24,113	27,990	3,201	24,789
Scotiabank del Perú S.A.A.	S/.	7.45	2016	86	61	16	45	68	23	45
Loans from foreign entities										
Deutsche Bank AG (h)	US\$	8.75	2023	185,000	471,848	-	471,848	455,032	-	455,032
Total					<u>647,494</u>	<u>14,178</u>	<u>633,316</u>	<u>623,866</u>	<u>14,977</u>	<u>608,889</u>

Notes to the interim consolidated financial statements (continued)

- (b) Inmobiliaria Puerta del Sol S.A. (IPS) entered into a leaseback agreement with Banco Internacional del Perú S.A.A. - Interbank for the construction of the building where Real Plaza San Antonio shopping mall operates, which accrues an interest rate of 8.90 percent. This leaseback was agreed for a former amount of S/.108,300,000, with a term of 144 months and a grace period of 6 months, which will be computed from the date the asset is finished. As of March 31, 2014, the Bank disbursed S/.70,000,000 and as of the date of this report, the Bank has disbursed the remaining balance amounted to S/.38,300,000. In order to secure the payment of this funding, IPS subscribed a cash flow trust contract with La Fiduciaria S.A., through which the former binds to channel all the future cash flows from the credit rights derived, generated or caused, as consequence of each and every asset comprised in the Real Plaza San Antonio project to the escrow accounts so that these assets serve as security for the guaranteed obligations. This transaction generated a structuring commission of S/.1,354,000 which will start to accrue when the shopping mall begins operation.

For the three-month period ended March 31, 2014, this loan accrued interests for S/.1,340,000, which are presented in the "Financial expenses" caption of the consolidated statements of income and other comprehensive income, Note 23.

- (c) Corresponds to a leasing agreement with a purchase option subscribed with Banco Internacional del Perú S.A.A - Interbank for S/.7,401,000 and a term of 60 months, for the construction of Real Plaza Santa Clara shopping mall. According to said contract, the Bank is the owner of such property in its condition of holder of the right of use contracts constituted over the land where this shopping mall has been built.

In order to secure the payment of this funding, Interproperties Peru subscribed an escrow account contract with Interbank, through which it binds to channel all the future cash flows originated from the credit rights derived, generated or caused, as consequence of each and every asset comprised in the Real Plaza Santa Clara shopping mall, with the exception of power and water supply, air conditioning, maintenance expenses and remaining ordinary expenses, and promotional funds, to the current accounts that comprise the escrow account so that these assets serve as security for the guaranteed obligations, Note 5 (d).

As of March 31, 2014 and 2013, Interproperties Holding (SPE) has disbursed and recorded interest expenses for an approximate amount of S/.83,000 and S/.114,000, respectively, which are recorded in the "Financial expenses" caption of the consolidated statements of income and other comprehensive income, Note 23.

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

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

Notes to the interim consolidated financial statements (continued)

This obligation is associated solely with the Real Plaza Chiclayo shopping mall project and is provided with a guarantee and management trust through La Fiduciaria S.A., which securitized the future cash flows of the collection rights of the contracts of lease, sublease, usufruct and any other type of contract that the tenants of Real Plaza Chiclayo shopping mall must pay for: (a) rent (fixed and/or variable), use, penalties, indemnifications, key right and/or any type of consideration for the use or enjoyment of said premises; (b) commissions on events and sponsorships or the leases of spaces for advertisement; and, (c) in a general way, any type of collection related to the activity of Real Plaza Chiclayo shopping mall, which constitute the assets in trust that have been transferred to the trust managed by La Fiduciaria S.A. In order to secure this funding, a new guarantee called "Reserve account" has been constituted, which as of March 31, 2014 and December 31, 2013, amounted to approximately S/.1,605,000, Note 5(d).

The main obligations assumed by Interproperties Perú according to the contract and related only to the Real Plaza Chiclayo shopping mall's net assets are the following:

- The net assets related to Real Plaza Chiclayo shopping mall that the Equity Trust as guarantee during the term of the contract must have a value of at least S/.32,000,000.
- The Equity Trust will refrain from maintaining short-term obligations greater than US\$1,000,000.
- The Equity Trust will refrain from obtaining, during the term of the contract, new long-term loans related to Class 6, without prior authorization by BCP.
- The Equity Trust holds during the term of the contract, the following financial ratios which must be calculated based upon the financial performance of the related assets:
 1. Cash flow coverage ratio for debt service higher than 1.25.
 2. Cash flow ratio not lower than 1.5.
 3. Maintain in-force contracted fixed income which in aggregate represents an annual income of not less than US\$2,200,000.

For the three-month periods ended as March 31, 2014 and 2013, this loan accrued interests amounted to S/.528,000 and S/.596,000, respectively, Note 23.

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

Notes to the interim consolidated financial statements (continued)

- (e) During 2012, Interproperties Holding II (SPE), decided to enlarge Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2A"), for which on December 26, 2012, signed an addendum to the Framework Contract with BCP, which committed to finance the project up to US\$12,500,000. As of March 31, 2014 and December 31, 2013, it is already operating; therefore, Interproperties Holding II has recorded the corresponding liabilities at such dates.

For the three-month period ended as March 31, 2014, this loan accrued interests amounted to S/.639,000, Note 23.

- (f) During 2013, Interproperties Holding II (SPE) continued the enlargement of Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2B"), for which it signed an addendum to the leasing agreement with BCP, which committed to finance the project for up to US\$7,500,000. As of March 31, 2014 and December 31, 2013, the expansion of Section 2B is under construction; however, Interproperties Holding II (SPE) has recorded the corresponding liabilities at such dates.

For the three-month period ended as March 31, 2014, this loan accrued interests amounted to S/.393,000, Note 23.

- (g) Corresponds to a medium-term loan contract with BCP, for an amount of US\$12,000,000, with a term of 116 months, disbursed in October 2011. This loan was used mainly to complete the investment required to refurbish Real Plaza Primavera shopping mall.

In order to underwrite this financing, the following guarantees have been constituted: (i) a cash flow trust, as detailed in Note 5(d), as of March 31, 2014 and December 31, 2013, the Company and its Subsidiaries maintains S/.2,008,000 and S/.1,322,000, respectively, in fulfillment of this guarantee, (ii) an asset trust and (iii) a fixed income payment bond.

For the cash flow trust, the Administrative Entity subscribed with charge to Interproperties Perú, a guarantee trust with La Fiduciaria S.A., which securitized the future cash flows of the collection rights of: (a) the contracts of lease, sublease, usufruct and any other type of contract that the tenants of Real Plaza Primavera shopping mall must pay for: (i) rent (fixed and/or variable), use, penalties, indemnifications, key right and/or any type of consideration for the use or enjoyment of said premises; (ii) commissions on events and sponsorships or the leases of spaces for advertisement; and, (iii) in a general way, any type of collection related to the activity of Real Plaza Primavera shopping mall related to the premises of its central and southern zones; and (b) contract of works, which constitute the trusted assets that have been ceded to the Equity trust fund managed by La Fiduciaria S.A.

As described in the paragraph above, the main obligations assumed by Interproperties Perú and related during of the Real Plaza Primavera shopping mall's net assets according to what is established in the guarantee trust contract, are the following:

- Interproperties Perú shall maintain starting the closing date and during the term of the contract, a debt ratio not higher than 1.00.

Notes to the interim consolidated financial statements (continued)

- Interproperties Perú must maintain during the term of the contract the following financial ratios:
 1. Cash flow coverage ratio for debt service higher than 1.20.
 2. Cash flow coverage ratio not lower than 1.50.
 3. To maintain in force agreed fixed income corresponding to all premises of the central and southern zones which together represent annual income of not less than US\$180,300 per month during the following 12 months.
 4. Debt coverage ratio not higher than 0.50.

In Management's opinion, these obligations have been complied satisfactorily and are within the established limits.

For the three-month periods ended March 31, 2014 and 2013 Equity Trust fund made interest disbursements of S/.443,000 and S/.450,000, respectively, and accrued interest expenses for an approximate amount of S/.445,000 and S/.447,000, respectively, which are presented in the "Financial expenses" caption of the consolidated statements of income and other comprehensive income, Note 23.

- (h) In November 2011, Interproperties Holding (SPE) issued through Interproperties Holding Trust, a trust in the Cayman Islands with the purpose of performing this issuance, an offering of US\$185,000,000 in Senior guaranteed notes with a maturity in November 2023, at an annual nominal interest rate of 8.75 percent. This issuance was allocated to Interproperties Holding through a loan agreement with Deutsche Bank AG, London Branch. The funds from this financing were used in the purchase of properties, investments in new real estate projects and debt payment, including the professional fees and expenses related to the issuance. In order to back this financing, the following guarantees were constituted: (i) assets trust and (ii) mortgage guarantee.

This loan was recorded in the consolidated financial statements at amortized cost at an annual effective interest rate of 9.426 percent after considering the respective up-front charges that amounted to S/.18,227,000 (equivalent to US\$6,784,000). The recorded amortized cost of these structuring costs as of March 31, 2014 and 2013 amounted to S/.337,000 and S/.434,000, respectively, Note 23.

Notes to the interim consolidated financial statements (continued)

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

- Comply with certain financial ratios, such as:
 1. Financial debt/equity ratio, not higher than 2 to 1 for each quarter.
 2. The Equity trust fund and Interproperties Perú or any covered asset, shall not be able to enter into new debt unless that at the date of acquisition and afterwards, the leverage ratio is not higher than 10 to 1 during the year ending December 31, 2012, not higher than 8 to 1 for the period ending December 31, 2013, not higher than 5.5 to 1 during the year ending December 31, 2014 and thereafter.
- The Equity Trust Fund and Interproperties Perú will not be able to enter into debt additional to the existing one by providing the real estate investments as guarantee.
- The financial obligation to BCP cannot exceed US\$12,000,000.

In the opinion of InRetail Real Estate's Management, these clauses do not limit its operations and are being fulfilled with the usual practices at international level for these types of transactions.

For the three-month periods ended March 31, 2014 and 2013 there were accrued interest expenses for approximately S/.10,537,000 and S/.10,369,000, respectively, which are presented in the caption "Financial expenses" of the consolidated statements of income and other comprehensive income, Note 23.

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

	Related parties		Total	
	Minimum payments S/.(000)	Present value of the leasing installments S/.(000)	Minimum payments S/.(000)	Present value of the leasing installments S/.(000)
Up to 1 year	10,510	5,278	21,901	11,131
Between 1 and 5 years	93,409	63,898	189,820	137,310
Total minimum payments	103,919	69,176	211,721	148,441
Minus- amounts representing finance charges	(34,743)	-	(63,280)	-
Present value of future minimum payments	69,176	69,176	148,441	148,441

Notes to the interim consolidated financial statements (continued)

(k) Financial obligations are payable as follows:

	As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
2014	14,178	14,977
2015	42,851	42,851
2016 onwards	590,465	566,038
	<u>647,494</u>	<u>623,866</u>

Notes to the interim consolidated financial statements (continued)

15. Income Tax

(a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as March 31, 2014 and December 31, 2013 is detailed as follows:

	As of March 31, 2014		As of December 31, 2013	
	Deferred asset, net S/.(000)	Deferred liability, net S/.(000)	Deferred asset, net S/.(000)	Deferred liability, net S/.(000)
Patrimonio en Fideicomiso - D.S.N°093-2002 - EF - Interproperties Holding	-	69,954	-	67,111
Patrimonio en Fideicomiso - D.S. N°093-2002-EF- Interproperties Holding II	-	21,811	-	18,189
Real Plaza S.R.L.	177	-	177	-
InRetail Properties Management S.R.L.	146	-	146	-
Total	323	91,765	323	85,300

(b) Following is the detail of the deferred Income Tax asset and liability as of March 31, 2014 and 2013:

	Balance as of	Effect in	Balance as of	Balance as of	Effect in	Balance as of
	January 1, 2013 S/.(000)	consolidated statements of comprehensive income S/.(000)	March 31, 2013 S/.(000)	January 31, 2014 S/.(000)	consolidated statements of comprehensive income S/.(000)	March 31, 2014 S/.(000)
Deferred asset						
Provision for unpaid vacations	220	-	220	205	-	205
Provision for doubtful accounts	41	-	41	29	-	29
Depreciation	56	-	56	81	-	81
Others	14	-	14	8	-	8
	<u>331</u>	<u>-</u>	<u>331</u>	<u>323</u>	<u>-</u>	<u>323</u>
Deferred liability, net						
Fair value adjustment for -investment properties	48,236	339	48,575	60,971	1,251	62,222
Tax depreciation of investment properties	12,290	2,755	15,045	24,026	3,634	27,660
Income Tax attributed to trust participants (c)	10,101	(1,239)	8,862	303	1,580	1,883
	<u>70,627</u>	<u>1,855</u>	<u>72,482</u>	<u>85,300</u>	<u>6,465</u>	<u>91,765</u>

Notes to the interim consolidated financial statements (continued)

- (c) The Income Tax expense presented in the consolidated statements of income and other comprehensive income for the three-month periods ended March 31, 2014 and March 31, 2013 is comprised as follows:

	2014 S/.(000)	2013 S/.(000)
Current	(362)	(475)
Deferred	<u>(6,465)</u>	<u>(1,855)</u>
Total	<u>(6,827)</u>	<u>(2,330)</u>

16. Commitments

As of March 31, 2014 and December 31, 2013, correspond to guarantee letters in favor of third parties for approximately S/.11,600,000 and S/.11,595,000, respectively, which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

17. Equity

- (a) Capital stock -

As of March 31, 2014 and December 31, 2013, the capital stock of InRetail Real Estate Corp. amounts to S/.1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US\$ 1.00 each.

In February 2013, the Board of Directors approved the issuance of 62,500,000 shares at a nominal value of US \$1 each, with a total amount of S/.160,000,000.

- (b) Earnings per share -

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

Notes to the interim consolidated financial statements (continued)

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

	Common shares		
	Shares outstanding (000)	Effective days	Weighted average of shares (000)
For the three-month period ended March 31, 2013			
As of January 1, 2013	505,701	90	505,701
Capital increase	<u>62,500</u>	58	<u>9,932</u>
As of March 31, 2013	<u>568,201</u>		<u>515,633</u>
For the three-month period ended March 31, 2014			
As of January 1, 2014	<u>568,201</u>	90	<u>568,201</u>
As of March 31, 2014	<u>568,201</u>		<u>568,201</u>
As of March 31, 2014			
	Net income (numerator) S/.(000)	Shares (denominator) (000)	Earnings per share S/.(000)
Basic and diluted earnings per share	<u>15,118</u>	<u>568,201</u>	<u>0.0266</u>
As of March 31, 2013			
	Net income (numerator) S/.(000)	Shares (denominator) (000)	Earnings per share S/.(000)
Basic and diluted earnings per share	<u>3,652</u>	<u>515,633</u>	<u>0.0071</u>

Notes to the interim consolidated financial statements (continued)

18. Income from real estate service

- (a) The composition of the balance for the three-month periods ended March 31, 2014 and 2013 is presented below:

	2014 S/.(000)	2013 S/.(000)
Rental income		
Rental income (b)	39,423	27,941
Rent of space for publicity	1,191	914
Key money	791	509
	<u>41,405</u>	<u>29,364</u>
Income from management services		
Common expenses (c)	10,252	6,897
Electricity and water (d)	8,802	5,351
Promotion and advertisement fund (e)	2,390	1,708
Advisory and supervision	1,607	1,403
Management services	426	256
Negotiations of land and buildings	37	1,455
Other	1,118	778
	<u>24,632</u>	<u>17,848</u>
	<u>66,037</u>	<u>47,212</u>

- (b) As of March 31, 2014 and 2013, corresponds to rental income from the economic exploitation of the "Real Plaza" Shopping Malls.

For the three-month periods ended March 31, 2014 and 2013, corresponds to rental income from the economic exploitation of the "Real Plaza" shopping malls.

The composition of the rental income is presented below:

	2014 S/.(000)	2013 S/.(000)
Fixed rental income	35,945	24,441
Variable rental income	3,478	3,500
	<u>39,423</u>	<u>27,941</u>

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

Notes to the interim consolidated financial statements (continued)

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

19. Operating costs

- (a) The composition of this caption for the three-month periods ended March 31, 2014 and 2013 is presented below:

	2014 S/.(000)	2013 S/.(000)
Cost of rental income		
Property Tax and duties	2,072	1,113
Landlord leases (b)	1,777	1,123
Property insurance costs	738	451
	<u>4,587</u>	<u>2,687</u>
Cost related to income from management services		
Electricity and water	8,457	5,204
Personnel expenses, Note 21(b)	3,737	3,158
Safety services	1,601	1,312
Cleaning	1,590	1,096
Advertising and marketing	1,556	1,329
Maintenance and administration of parking lot	570	343
Leases, professional fees and communications	269	159
Other costs	1,321	959
	<u>19,101</u>	<u>13,560</u>

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

20. Selling and administrative expenses

- (a) The composition of this caption for the three-month periods ended March 31, 2014 and 2013 is presented below:

	2014 S/.(000)	2013 S/.(000)
Administrative expenses	5,046	4,416
Selling expenses	1,514	1,394
	<u>6,560</u>	<u>5,810</u>

Notes to the interim consolidated financial statements (continued)

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

	<u>For the three-month period ended March 31, 2014</u>		
	Administrative expenses S/.(000)	Sales expenses S/.(000)	Total S/.(000)
Personnel expenses	3,177	1,092	4,269
Professional fees	460	-	460
Depreciation	391	-	391
Amortization	22	-	22
Other expenses	996	422	1,418
	<u>5,046</u>	<u>1,514</u>	<u>6,560</u>

	<u>For the three-month period ended March 31, 2013</u>		
	Administrative expenses S/.(000)	Sales expenses S/.(000)	Total S/.(000)
Personnel expenses	2,627	898	3,525
Professional fees	462	-	462
Depreciation	170	-	170
Amortization	18	-	18
Other expenses	1,139	496	1,635
	<u>4,416</u>	<u>1,394</u>	<u>5,810</u>

21. Personnel expenses

- (a) The composition of this caption for the three-month periods ended March 31, 2014 and 2013 is presented below:

	2014 S/.(000)	2013 S/.(000)
Salaries	5,401	4,268
Regular bonuses	943	1,078
Workers' profit sharing	524	426
Vacations	447	391
Social security	301	483
Other personnel expenses	390	37
	<u>8,006</u>	<u>6,683</u>

Notes to the interim consolidated financial statements (continued)

- (b) The distribution of personnel expenses for the three-month periods ended March 31, 2014 and 2013 is presented below:

	2014 S/.(000)	2013 S/.(000)
Operating costs, Note 19	3,737	3,158
Administrative expenses, Note 20	3,177	2,627
Selling expenses, Note 20	1,092	898
	<u>8,006</u>	<u>6,683</u>

22. Other income (expenses), net

During 2013 it mainly corresponds to the collection of the execution of the guarantee letter received by Masterwall for nonperformance of work in Huánuco realized in March, 2013 by an amount of S/.1,534,000.

23. Financial income and expenses

The composition of this caption for the three-month periods ended March 31, 2014 and 2013 is presented below:

	2014 S/.(000)	2013 S/.(000)
Income		
Interests on deposits	386	1,126
Interests from granted loan	212	3,242
Others	466	981
	<u>1,064</u>	<u>5,349</u>
Expenses		
Interest expenses		
Interest long-term bank loan, Note 14(h)	(10,537)	(10,369)
Loss on sale of financial instruments	(1,496)	-
Leasing - Real Plaza San Antonio del Cusco, Note 14(b)	(1,340)	-
Leasing - enlargement of Section 2A of Real Plaza Chiclayo, Note 14(e)	(639)	-
Leasing - purchase of property of Real Plaza Chiclayo, Note 14(d)	(528)	(596)
Promissory notes - Real Plaza Primavera, Note 14(g)	(445)	(447)
Leasing - enlargement of Section 2B of Real Plaza Chiclayo, Note 14(f)	(393)	-
Debt structuring expenses, Note 14(h)	(337)	(434)
Leasing - Real Plaza Santa Clara, Note 14(c)	(83)	(114)
Interest on debt issuance (i)	-	(3,013)
Other financial expenses	(852)	(1,821)
	<u>(16,650)</u>	<u>(16,794)</u>

Notes to the interim consolidated financial statements (continued)

- (j) Corresponds to interest accrued and paid for corporate bond issued by InRetail Real Estate through a private offer. These bonds were issued in May 2012 in order to purchase properties and were entirely paid in advance in June 2013.

24. Tax situation

- (a) InRetail Real Estate Corp. has been constituted in Panama; therefore, it is not subject to any income tax.

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

- (b) Real Plaza and InRetail Properties Management are domiciled in Peru and are subject to the Peruvian tax regime and calculate their Income Tax on the basis of their separate financial statements. As of March 31, 2014 and December 2013, the statutory Income Tax rate was 30 percent on the taxable income.
- (c) According to the provisions of the Law No. 29663, subsequently amended by the Law No. 29757, capital gains derived from the indirect disposal of Peruvian shares are deemed to be sourced in Peru.

To this extent, an indirect disposal of Peruvian shares occurs when shares issued by non-Peruvian entities are transferred, provided that such entity holds, directly or indirectly, shares (or participation interests) of one or more Peruvian subsidiaries ("indirect transfer"), and:

- At least 50% of the fair market value of the non-resident corporation derives from the Peruvian shares held, at any time within the 12 months preceding the disposition.
 - At least 10% of the shares issued by the non-resident corporation are transferred.
- (d) Transactions entered into between related parties and/or with tax heaven residents fall into the scope of the Peruvian Transfer Pricing rules. Such rules are based on the application of the arm's length principle, as understood by the OECD. It is important to mention that Transfer Pricing rules are only applicable for Income Tax purposes, and adjustments are allowed under certain conditions only. Based on the analysis of operations of InRetail, its Management and legal advisors believe that the implementation of these standards does not generate any significant contingencies for InRetail Real Estate as of March 31, 2014 and December 31, 2013..

Notes to the interim consolidated financial statements (continued)

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

	Income Tax	Value added Tax
Real Plaza S.R.L.	From 2009 to 2013	From 2009 to 2013
InRetail Properties Management S.R.L.	From 2010 to 2013	From 2010 to 2013

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

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

In the opinion of Management of InRetail Real Estate and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of March 31, 2014 and December 2013.

25. Transactions with related companies

- (a) The main transactions with related parties recorded in the consolidated income statements for the three-month periods ended March 31, 2014 and 2013, as the following:

	2014 S/.(000)	2013 S/.(000)
Income		
Supermercados Peruanos S.A.	6,918	6,288
Tiendas Peruanas S.A.	5,728	3,716
Homecenters Peruanos S.A.	4,881	3,875
Cineplex S.A.	3,070	1,996
Banco Internacional del Perú S.A.A. - Interbank	2,099	1,050
Alert del Perú S.A.	405	233
Bembos S.A.C.	384	437
EP de Franquicias S.A.C.	369	134
Eckerd Perú S.A.	349	662
Other related companies	573	290
	24,776	18,681

Notes to the interim consolidated financial statements (continued)

	2014 S/.(000)	2013 S/.(000)
Administrative services expenses and other services		
Banco Internacional del Perú S.A.A.- Interbank	500	916
Interseguro Compañía de Seguros S.A.	506	255
Supermercados Peruanos S.A.	139	451
Other related companies	266	112
	<u>1,411</u>	<u>1,734</u>

- (b) As result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of March 31, 2014 and December 31, 2013:

	2014 S/.(000)	2013 S/.(000)
Trade and other receivable		
Intercorp Perú Ltd. (c)	24,808	24,394
Supermercados Peruanos S.A.	19,283	14,464
Tiendas Peruanas S.A (d)	12,764	1,638
Home Centers (e)	12,429	27,779
Inmobiliaria Puerta del Sol S.A.	2,265	2,047
Banco Internacional del Perú S.A.A.-Interbank	2,087	409
Cineplex S.A.	1,054	332
Bembos	430	110
Eckerd Perú S.A.	77	49
Interseguro Compañía de Seguros S.A.	37	1,344
Urbi Propiedades S.A.	17	-
Other related companies	2,150	2,147
	<u>77,401</u>	<u>74,713</u>
Trade and other payable		
Interseguro Compañía de Seguros S.A.	563	510
Supermercados Peruanos S.A.	182	235
Tiendas Peruanas S.A	-	137
Cineplex S.A.	-	27
Other related companies	1,381	337
	<u>2,126</u>	<u>1,246</u>
Financial obligations		
Leasing		
Banco Internacional del Perú S.A.A.-Interbank, note 14	69,176	60,091

Notes to the interim consolidated financial statements (continued)

- (c) It mainly corresponds to a loan provided in December 2013 which nominal value amounts to S/.24,394,000. This loan is denominated in Nuevos Soles and accrues annual interest rate equivalent to 7 percent. For the three-month period ended March 31, 2014, the interests accrued amounted to S/.413,000 and are presented in the caption "Finance income".
- (d) As of March 31, 2014, it mainly comprises a balance receivable of S/.4,968,000 (US\$1,500,000) corresponding to key money related to rented premises in Real Plaza Chiclayo, S/.5,157,000 corresponding to the rents of the last three months and S/.2,639,000 corresponding to reimbursement of costs related to income from management services such as electricity and water.
- (e) As of March 31, 2014 and December 31, 2013, includes receivables of the transfer of real estate located at Brasil Avenue and the city of Cusco, for an amount of S/.17,913,000 and S/.24,875,000, respectively from which 50 percent correspond to Supermercados Peruanos S.A. and Homecenters Peruanos S.A., each; to the date of this report, an amount of S/.6,962 has been cancelled.
- (f) As of March 31, 2014 and December 31, 2013, InRetail Real Estate holds balances with its related entity Banco Internacional del Perú S.A.A. - Interbank in the cash and cash equivalent caption for an amount of S/.37,054,000 and S/.39,877,000, respectively.
- (g) Transactions with related companies have been performed under normal market conditions. The taxes that these transactions generated, as well as the calculation bases for their determination, are the usual ones in the industry and they are settled in accordance with the current tax regulations.

26. Financial risks management

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

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

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

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

Notes to the interim consolidated financial statements (continued)

The sensitivity analysis shown in the following section relates to the position as of March 31, 2014 and December 31, 2013. The sensitivity analysis has been prepared considering that the total amount of the net debt and the proportion of financial instruments in foreign currency is constant.

(i) Interest rate risk -

It is the risk that the fair values or future cash flows of a financial instrument fluctuate due to changes in market interest rates. InRetail Real Estate manages its interest rate risk through the obtaining of debt with fixed interest rate. As of March 31, 2014 and December 2013, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.

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

	Fixed interest rate S/.(000)	No sensible to interest rate S/.(000)	Total S/.(000)	Average interest rate as of March 31, 2014 %
Financial assets				
Cash and cash equivalent	22,100	18,365	40,465	4.25
Trade receivable	-	19,055	19,055	-
Accounts receivable from related parties	24,808	52,593	77,401	7.00
Other accounts receivable	802	8,654	9,456	8.75
Financial liabilities				
Trade payable	-	44,121	44,121	-
Other liabilities	-	45,315	45,315	-
Accounts payable to related parties	-	2,126	2,126	-
Financial obligations	647,494	-	647,494	8.65
	Fixed interest rate S/.(000)	No sensible to interest rate S/.(000)	Total S/.(000)	Average interest rate as of December 31, 2013 %
Financial assets				
Cash and cash equivalent	71,094	9,725	80,819	4.13
Trade receivable	-	19,111	19,111	-
Accounts receivable from related parties	64,294	10,419	74,713	5.85
Other accounts receivable	253	6,222	6,475	8.75
Financial liabilities				
Trade payable	-	51,666	51,666	-
Accounts payable to related parties	-	1,246	1,246	-
Other payable	-	29,613	29,613	-
Financial obligations	623,866	-	623,866	8.64

Notes to the interim consolidated financial statements (continued)

As indicated in Note 14, InRetail Real Estate only has debt instruments with fixed interest rates, so Management considers that the fluctuations in the interest rates, which are at market rates, will not affect significantly the operations of InRetail Real Estate in the next 12 months.

(ii) Exchange rate risk -

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

As of March 31, 2014 and December 31, 2013, assets and liabilities by currency were the following (expressed in US\$ dollars):

	As of March 31, 2014 US\$(000)	As of December 31, 2013 US\$(000)
Assets		
Cash and cash equivalent	864	1,374
Trade receivables	203	920
Other receivables	454	4,607
Accounts receivable from related parties	2,839	198
	<u>4,360</u>	<u>7,099</u>
Liabilities		
Trade payable	163	205
Accounts payable from related parties	-	168
Other liabilities	9,711	622
Financial obligations	208,171	209,270
	<u>218,045</u>	<u>210,265</u>
Net liability position	<u>(213,685)</u>	<u>(203,166)</u>

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

Transactions in foreign currency are performed at free market exchange rates. As of March 31, 2014, the market weighted average exchange rate for transactions in US dollars was S/.2.807 per US\$1.00 bid and S/.2.809 per US\$1.00 ask (S/.2.794 per US\$1.00 bid and S/.2.796 for US\$1.00 ask as of December 31, 2013).

For the three-month periods ended March 31, 2014, InRetail Real Estate has incurred into a net loss for exchange difference of approximately S/.2,497,000 (S/.9,915,000 as of March 31, 2013), which is presented in the caption "Exchange difference, net" the consolidated statements of income and other comprehensive income.

Notes to the interim consolidated financial statements (continued)

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

The following table presents the sensitivity analysis of US dollars, the currency at which InRetail Real Estate has a significant exposure as of March 31, 2014 and December 31, 2013, in its monetary assets and liabilities and its estimated cash flows. The analysis determines the effect of a reasonably possible change of the US dollar exchange rate, considering other variables to be constant in the consolidated statement of income and other comprehensive income. Any negative amount shows a potential net decrease in the consolidated statement of income and other comprehensive income, while a positive amount reflects a net potential increase.

Sensitivity analysis	Change in exchange rates %	Income (expense)	
		As of March 31, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Devaluation -			
US dollars	5	30,012	28,403
US dollars	10	60,025	56,807
Revaluation -			
US dollars	5	(30,012)	(28,403)
US dollars	10	(60,025)	(56,807)

(b) Credit risk -

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

Credit risk related to accounts receivable -

The credit risk of clients is managed by Management, and it is subject to policies, procedures and controls properly established. The pending balances on accounts receivable are reviewed periodically to assure their recovery. As of March 31, 2014 and December 31, 2013, InRetail Real Estate has 438 and 521 clients, respectively. The maximum exposure to credit risk at the date of the consolidated statement of financial position is the book value of each class of financial asset, Note 6.

Notes to the interim consolidated financial statements (continued)

Credit risk related to financial instruments and bank deposits -

The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of March 31, 2014 and December 31, 2013, is the book value of the balances of cash and cash equivalent shown in Note 5.

(c) Liquidity risk -

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

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

Notes to the interim consolidated financial statements (continued)

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

	Less than 1 month S/.(000)	More than 1 month and less than 3 months S/.(000)	More than 3 months and less than 1 year S/.(000)	More than 1 year and less than 5 years S/.(000)	More than 5 years and less than 11 years S/.(000)	Total S/.(000)
As of March 31, 2014						
Financial obligations						
Capital amortization	659	1,353	12,166	210,518	422,798	647,494
Cash flow for interest payment	730	1,112	54,902	189,126	174,497	420,367
Trade payable	17,461	6,534	20,126	-	-	44,121
Accounts payable to related parties	112	94	1,920	-	-	2,126
Other liabilities	15,132	23,366	6,817	-	-	45,315
	<u>34,094</u>	<u>32,459</u>	<u>95,931</u>	<u>399,644</u>	<u>597,295</u>	<u>1,159,423</u>
As of December 31, 2013						
Financial obligations						
Capital amortization	1,323	1,732	11,922	152,148	456,741	623,866
Cash flow for interest payment	730	1,112	54,902	189,126	174,497	420,367
Trade payable	21,581	11,013	19,072	-	-	51,666
Accounts payable to related parties	-	1,217	29	-	-	1,246
Other liabilities	758	4,878	23,977	-	-	29,613
	<u>24,392</u>	<u>19,952</u>	<u>109,902</u>	<u>341,274</u>	<u>631,238</u>	<u>1,126,758</u>

Notes to the interim consolidated financial statements (continued)

(d) Real estate risk -

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

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

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

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

- The cost of the development projects can increase if there are delays in the planning process. InRetail Real Estate receives services from experts for the requirements of specific planning at the project's location in order to reduce the risks that could arise in the planning process.
- An important tenant can become insolvent, thus generating a significant loss in the rental income and a decrease in the value of the associated property. To reduce this risk, InRetail Real Estate reviews the financial situation of all the possible tenants and decides on the suitable level of security needed, such as lease deposits or guarantees.
- The exposure of the fair values of the real estate property portfolio, as well as the cash flows generated by occupants and/or tenants.

Notes to the interim consolidated financial statements (continued)

27. Fair value of financial instruments -

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

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

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

- (a) Financial Instruments whose fair value is similar to their book value -
For financial assets and liabilities that are liquid or have short-term maturities (less than three months), such as cash and cash equivalents, trade receivables, accounts receivable to related parties and other receivables, trade accounts payable and other current liabilities, it is deemed that their book values are similar to their fair values.
- (b) Financial instruments at fixed rate -
The fair value of the financial assets and liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. The estimated fair value of financial obligations that accrue interests is determined through discounted cash flows by using the currently available rates for debts with similar conditions, credit risk and maturities.

Notes to the interim consolidated financial statements (continued)

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

	As of March 31, 2014		As of December 31, 2013	
	Book value S/.(000)	Fair value S/.(000)	Book value S/.(000)	Fair value S/.(000)
Financial assets				
Cash and cash equivalents	40,465	40,465	80,819	80,819
Trade receivable	19,055	19,055	19,111	19,111
Accounts receivable from related parties	77,401	77,401	74,713	74,713
Other receivable, net	9,456	9,456	6,475	6,475
Financial liabilities				
Trade payable	44,121	44,121	51,666	51,666
Accounts payable to related parties	2,126	2,126	1,246	1,246
Other liabilities	45,315	45,315	29,613	29,613
Financial obligations with local entities	175,646	175,646	168,834	168,834
Financial obligation with foreign entities	471,848	497,152	455,032	445,005

28. Subsequent events

From March 31, 2014 until the date of the present report, there has not been any significant event affecting the interim consolidated financial statements.

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