Board of Directors' Report on the State of the Company's Affairs

For the Six-Month Period Ended

June 30, 2016

Shufersal Ltd.

Contents

Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the six months ended June 30, 2016 (hereinafter **- "the reporting period"**)[1] in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

1. Explanations of the Board to the State of the Company's Affairs

1.1 Principal data regarding the business affairs of the Company

Shufersal is the owner of the largest supermarket chain in Israel, which operates 270 branches throughout the country in the framework of a few formats over a total area of approximately 503 thousand square meters. The Company employs about 12.3 thousand employees (calculated positions) and has annual sales of about NIS 12 billion. As at June 30, 2016 and the date of this report, the controlling shareholder of the Company is Discount Investment Corporation Ltd.

1.1.1 Description of operating segments reported as business segments in the consolidated financial statements of the Company

The Company operates in three operating segments that are reported as business segments in the Company's financial statements, the retail segment, the real estate segment and the credit card customers' club management segment.

For details regarding the aforesaid operating segments, see Note 6 to the Company's consolidated financial statements as at June 30, 2016 (hereinafter – "**the financial statements**").

1.1.2 Management's discussion of the principal results for the first half of 2016

The Company's results for the first half of 2016 were affected by several matters:

- Seasonality (see Paragraph 1.2 hereunder).
- The continuing increase in real estate efficiency.
- Gradual operation of the new logistics center in Shoham that began operating in February 2016.
- The Company continued to monitor and prepare various scenarios regarding the change in ownership in the Mega retail chain in city centers ("Mega in the City" format).
- The Company continued to accelerate the development of its digital platform, mainly being the "Shufersal Online" system, and to open special warehouses. In the first half of 2016 the sales of "Shufersal Online" constituted about 8.6% of the Company's total sales.

[1] For the purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (June 30, 2016) unless stated otherwise or implied otherwise by the context of the matter.

- The continued strengthening of the private label. In the first half of 2016 the Company’s sales of private label products constituted about 19% of total retail sales. It is noted that about half of the increase in the private label sales is due to the classification of various product categories as private label.

1.1.3 Significant events that occurred in the reporting period

- On May 26, 2016 Maalot published an updated rating report for the Company that affirmed the Company’s “ilA” rating and changed the rating outlook to positive because of an improvement in the financial ratios. See also Paragraph 5 hereunder.
- Further to that mentioned in Paragraph 14.4.1 of Part A (Description of the Entity’s Business) in the Company’s periodic report for 2015 (“the periodic report”) regarding extension of the collective agreements, on April 5, 2016 the Company and the employees’ representatives signed an agreement extending the period of the aforesaid collective agreements until December 31, 2017.
- On April 4, 2016 the Company paid a dividend to its shareholders in the amount of NIS 100 million further to approval of the distribution on February 28, 2016 by the Board of Directors.

1.2 Analysis of results of operations

In 2016, the eve of Passover fell on April 22, as compared to 2015 in which the eve of Passover took place on April 3. The timing of the holiday affects balance sheet items such as trade receivables, inventories, trade payables as well as sales and the intensity of special offers made in the second quarter of this year as compared to the previous year. The effect of Passover is greater in the second quarter of this year than its effect in the corresponding quarter last year.

1.2.1 Analysis of results for the three months ended June 30, 2016 as compared to the corresponding period last year

	Results of operations for the three months ended June 30			
	2016		2015	
	%	NIS millions	%	NIS millions
Revenues		3,072		2,758
Gross profit	24.9%	765	24.4%	674
Selling, marketing, administrative and general expenses	21.1%	(649)	21.8%	(602)
Operating profit before other income	**3.8%**	**116**	**2.6%**	**72**
Increase in fair value and gain on sale of investment property, net		1		-
Operating profit after other income		**117**		**72**
Financing expenses, net		(35)		*(50)
Profit before taxes on income		82		22
Taxes on income		(20)		(6)
Profit for the period		**62**		**16**

* See Note 2.C to the financial statements regarding reclassification.

Retail segment revenues[2] amounted to NIS 3,062 million in the second quarter of the year, compared with NIS 2,746 million in the corresponding quarter last year, an increase of 11.5% that is mainly due to the timing of the Passover holiday and the Company dealing with the changes taking place in the retail food market. The Company's turnover in the second quarter of the year increased by 13.0% as compared with the corresponding quarter last year. Excluding the seasonality effect (the timing of the Passover holiday) there was an increase of 6.8%.

In same store sales[3] with respect to stores that operated fully in the second quarter of the year and in the corresponding quarter last year, there was an increase of 14.2% in sales. The increase is mainly due to the timing of the Passover holiday, changes in basket components and in the mixes of campaigns. Excluding the seasonality effect (the timing of the Passover holiday) there was an increase of 7.9%.

[2] See Note 6 to the financial statements.
[3] Same store sales – gross sales of active branches that were opened before January 2015.

The sales per square meter[4] in the Company's stores amounted to NIS 6,211 in the second quarter of the year compared with NIS 5,324 in the corresponding quarter last year, an increase of 16.6% that is mainly due to the timing of the holiday as aforesaid, an increase in sales and a reduction in selling areas.

Real estate segment revenues amounted to NIS 41 million in the second quarter of the year, compared with NIS 44 million in the corresponding quarter last year, as a result of a decrease in the number of properties and tenants.

Revenues from the credit card customers' club management segment[5] amounted to NIS 18 million in the second quarter of the year, compared with NIS 16 million in the corresponding quarter last year, an increase of 12.5%, which is mainly due to fees on credit spreads.

The Company's revenues amounted to NIS 3,072 million in the second quarter of the year, compared with NIS 2,758 million in the corresponding quarter last year, an increase of 11.4%.

The gross profit amounted to NIS 765 million in the second quarter of the year, compared with NIS 674 million in the corresponding quarter last year, an increase of NIS 91 million. The gross profit rate was 24.9%, compared with 24.4% in the corresponding quarter last year. The increase in the gross profit and in its rate is mainly due to an increase in the Company's franchisers[6], an increase in the share of the private label, an improvement in trade agreements, basket components, the campaigns' mix and an increase in efficiency following implementation of the business plan (see Note 5.A to the financial statements).

Selling, marketing, administrative and general expenses amounted to NIS 649 million in the second quarter of the year, compared with NIS 602 million in the corresponding quarter last year. The ratio of expenses to revenues was 21.1% compared with 21.8% in the corresponding quarter last year. The increase in expenses is due to an increase in activity and to an increase in payroll expenses including in minimum wages and to closing down and reducing branches.

Operating profit in the retail segment amounted to NIS 88 million in the second quarter of the year, a rate of 2.9%, compared with NIS 42 million and a rate of 1.5% in the corresponding quarter last year, an increase of NIS 46 million that is due to the aforesaid.

---

[4] The areas of the new branches are calculated proportionately from the opening date of the branch. The area of the branch is the gross area including selling areas and other operating areas.

[5] The comparative data for the second quarter of 2015 were reclassified so as to reflect the credit card customers' club management segment.

[6] See Paragraph 3.1 of Part A (Description of the Entity's Business) in the periodic report.

Operating profit before other income in the real estate segment amounted to NIS 34 million in the second quarter of the year, compared with NIS 37 million in the corresponding quarter last year. The decrease in profit is mainly due to a decrease in revenues as aforesaid.

Operating profit in the credit card club customers' management segment amounted to NIS 12 million in the second quarter of the year compared with NIS 11 million in the corresponding quarter last year.

The Company's operating profit after other income amounted to NIS 117 million and a rate of 3.8% of revenues in the second quarter of the year, compared with NIS 72 million and a rate of 2.6% of revenues in the corresponding quarter last year, an increase of NIS 45 million that is mainly due to the retail segment.

Operating profit before depreciation and amortization (EBITDA) amounted to NIS 186 million and a rate of 6.1% of revenues in the second quarter of the year, compared with NIS 148 million and a rate of 5.4% of revenues in the corresponding quarter last year. The increase is mainly due to the improvement in operating profit as aforesaid.

Financing expenses, net amounted to NIS 35 million in the second quarter of the year, compared with NIS 50 million in the corresponding quarter last year. The decrease in financing expenses, net, is mainly due to the CPI increasing at a lower rate in the second quarter of 2016 than in the corresponding quarter last year.

Tax expenses amounted to NIS 20 million in the second quarter of the year, compared with NIS 6 million in the corresponding quarter last year. The increase is mainly due to the improvement in pre-tax profit as a result of the aforesaid.

Profit for the period amounted to NIS 62 million in the second quarter of the year, compared with NIS 16 million in the corresponding quarter last year.

The Company's basic and diluted earnings per share amounted to NIS 0.29 in the second quarter of the year, compared with NIS 0.08 in the corresponding quarter last year.

1.2.2 Analysis of results for the six months ended June 30, 2016 as compared to the corresponding period last year

	Results of operations for the six months ended June 30			
	2016		2015	
	%	NIS millions	%	NIS millions
Revenues		5,932		5,594
Gross profit	25.4%	1,509	23.3%	1,304
Selling, marketing, administrative and general expenses	21.9%	(1,299)	21.5%	(1,204)
Operating profit before other income	**3.5%**	**210**	**1.8%**	**100**
Increase in fair value and gain on sale of investment property, net		2		-
Operating profit after other income		**212**		**100**
Financing expenses, net		(56)		*(57)
Profit before taxes on income		156		43
Taxes on income		(41)		(14)
Profit for the period		**115**		**29**

* See Note 2.C to the financial statements regarding reclassification.

Retail segment revenues[7] amounted to NIS 5,911 million in the first half of the year, compared with NIS 5,570 million in the corresponding half last year, an increase of 6.1% that is mainly due to the Company dealing with the changes taking place in the retail food market. The Company's turnover in the first half of the year increased by 8.0% as compared with the corresponding half last year.

In same store sales[8] with respect to stores that operated fully in the first half of the year and in the corresponding half last year, there was an increase of 8.8% in sales. The increase is also due to, among other things, to changes in basket components and in the mixes of campaigns.

The sales per square meter[9] in the Company's stores amounted to NIS 11,939 in the first half of the year compared with NIS 10,706 in the corresponding half last year, an increase of 11.5% that is mainly due to an increase in sales and a reduction in selling areas.

Real estate segment revenues amounted to NIS 84 million in the first half of the year, compared with NIS 88 million in the corresponding half last year, as a result of a decrease in the number of properties and tenants.

[7] See Note 6 to the financial statements.

[8] Same store sales – gross sales of active branches that were opened before January 2015.

[9] The areas of the new branches are calculated proportionately from the opening date of the branch. The area of the branch is the gross area including selling areas and other operating areas.

Revenues from the credit card customers' club management segment[10] amounted to NIS 36 million in the first half of the year, compared with NIS 32 million in the corresponding half last year, an increase of 12.5%, which is mainly due to fees on credit spreads.

The Company's revenues amounted to NIS 5,932 million in the first half of the year, compared with NIS 5,594 million in the corresponding half last year, an increase of 6.0% hat is mainly due to the retail segment.

The gross profit amounted to NIS 1,509 million in the first half of the year, compared with NIS 1,304 million in the corresponding half last year, an increase of NIS 205 million. The gross profit rate was 25.4%, compared with 23.3% in the corresponding half last year. The increase in the gross profit and in its rate is mainly due to an increase in the Company's franchisers[11], an increase in the share of the private label, an improvement in trade agreements, basket components, the campaigns' mix and an increase in efficiency following implementation of the business plan (see Note 5.A to the financial statements).

Selling, marketing, administrative and general expenses amounted to NIS 1,299 million in the first half of the year, compared with NIS 1,204 million in the corresponding half last year. The ratio of expenses to revenues was 21.9% compared with 21.5% in the corresponding half last year. The increase in expenses is due to an increase in activity and to an increase in payroll expenses including in minimum wages and to closing down and reducing branches.

Operating profit before other expenses in the retail segment amounted to NIS 154 million in the first half of the year, a rate of 2.6% of revenues, compared with NIS 39 million and a rate of 0.7% of revenues in the corresponding half last year, an increase of NIS 115 million that is due to the aforesaid.

Operating profit before other income in the real estate segment amounted to NIS 67 million in the first half of the year, compared with NIS 74 million in the corresponding half last year. The decrease in profit is mainly due to a decrease in revenues and an increase of NIS 3 million in maintenance expenses.

Operating profit in the credit card club customers' management segment amounted to NIS 23 million in the first half of the year compared with NIS 21 million in the corresponding half last year.

[10] The comparative data for the second quarter of 2015 were reclassified so as to reflect the credit card customers' club management segment.

[11] See Paragraph 3.1 of Part A (Description of the Entity's Business) in the periodic report.

The Company's operating profit after other income amounted to NIS 212 million and a rate of 3.6% of revenues in the first half of the year, compared with NIS 100 million and a rate of 1.8% of revenues in the corresponding half last year, an increase of NIS 112 million that is mainly due to the retail segment.

Operating profit before depreciation and amortization (EBITDA) amounted to NIS 354 million and a rate of 6.0% of revenues in the first half of the year, compared with NIS 237 million and a rate of 4.2% of revenues in the corresponding half last year. The increase is mainly due to the improvement in operating profit as aforesaid.

Financing expenses, net amounted to NIS 56 million in the first half of the year, compared with NIS 57 million in the corresponding half last year.

Tax expenses amounted to NIS 41 million in the first half of the year, compared with NIS 14 million in the corresponding half last year. The increase is mainly due to the improvement in pre-tax profit as a result of the aforesaid.

Profit for the period amounted to NIS 115 million in the first half of the year, compared with NIS 29 million in the corresponding half last year.

The Company's basic and diluted earnings per share amounted to NIS 0.54 in the first half of the year, compared with NIS 0.14 in the corresponding half last year.

1.3 Financial position, liquidity and financing sources

1.3.1 Cash flow - Analysis of results for the second quarter of 2016 as compared with the corresponding quarter last year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 253 million in the second quarter of 2016, compared with NIS 71 million in the corresponding quarter last year. The increase in cash flow from operating activities stemmed mainly from the increase in working capital that is mostly due to the timing of the Passover holiday and the increase in profit.

Cash flow used in investing activities

Net cash used in investing activities amounted to NIS 105 million in the second quarter of 2016, compared with NIS 110 million in the corresponding quarter last year. The cash used in investing activities in the second quarter of 2016 included mainly the purchase of fixed assets in the amount of NIS 86 million.
The cash used in investing activities in the second quarter of 2015 included mainly the purchase of fixed assets in the amount of NIS 108 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 107 million in the second quarter of 2016, compared with NIS 7 million in the corresponding quarter last year. The cash used in financing activities in the second quarter of 2016 included mainly the payment of a dividend in the amount of NIS 100 million.

1.3.2 Cash flow - Analysis of results for the first half of 2016 as compared with the corresponding half last year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 481 million in the first half of 2016, compared with NIS 540 million in the corresponding half last year. The decrease in cash flow from operating activities stemmed mainly from the decrease in working capital and the effect of the Food Law.

Cash flow from investing activities

Net cash from investing activities amounted to NIS 86 million in the first half of 2016, compared with NIS 438 million in the corresponding half last year. The cash from investing activities in the first half of 2016 included mainly proceeds from the withdrawal of deposits in the amount of NIS 270 million and on the other hand the purchase of fixed assets in the amount of NIS 166 million.

The cash from investing activities in the first half of 2015 included mainly proceeds from the sale of marketable securities in the amount of NIS 696 million and on the other hand the acquisition of marketable securities in the amount of NIS 51 million and the purchase of fixed assets in the amount of NIS 209 million.

<u>Cash flow used in financing activities</u>

Net cash used in financing activities amounted to NIS 766 million in the first half of 2016, compared with NIS 665 million in the corresponding half last year. The cash used in financing activities in the first half of 2016 included mainly the redemption of debentures and interest payments in the amount of NIS 628 million, a dividend payment in the amount of NIS 100 million and acquisition (through Shufersal Real Estate Ltd.) of the entire interest of Bailsol Investments (1987) Ltd. in Shufersal Bailsol Investments Ltd. for an amount of NIS 30 million.

The cash used in financing activities in the first half of 2015 included mainly the redemption of debentures and interest payments in the amount of NIS 657 million.

1.3.3 Balances of liquid assets and financial ratios

As at the end of the second quarter of 2016, the net liquid assets (cash and cash equivalents and marketable securities) amounted to NIS 557 million, compared with NIS 564 million as at the end of the corresponding quarter last year. The decrease in net liquid assets was due to a decline in cash balances.

As at the end of 2015, the net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 1,026 million.

As at the end of the second quarter of 2016, the Company's liabilities to banks and to the holders of debentures, including interest payable (hereinafter – "**the financial debt**"), amounted to NIS 2,551 million, compared with NIS 2,850 million in the corresponding quarter last year.

The ratio of the Company's financial debt to its total assets was approximately 37.6% at the end of the second quarter of 2016, compared with approximately 43.4% in the corresponding quarter last year. Total financial debt at the end of 2015 amounted to NIS 3,129 million and the ratio of financial debt to total assets was approximately 43.3%.

The Company's equity as at the end of the second quarter of 2016 amounted to NIS 1,161 million, compared with NIS 1,047 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 17% at the end of the second quarter of 2016, compared with 16% in the corresponding quarter last year.

As at the end of 2015 the Company's equity amounted to NIS 1,170 million and the ratio of the Company's equity to its total assets was approximately 16%.

1.3.4 Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as at June 30, 2016

As at June 30, 2016 the Company has a working capital deficit (on a consolidated basis) in the amount of NIS 779 million (compared with a working capital deficit of NIS 348 million as at December 31, 2015 and a working capital deficit of NIS 489 million as at June 30, 2015), and it has a working capital deficit (on a stand-alone basis) of NIS 699 million (compared with working capital deficit of NIS 253 million as at December 31, 2015 and a working capital deficit of NIS 459 million as at June 30, 2015). The working capital deficit as at June 30, 2016 is mainly due to the redemption of debentures and interest payments in the amount of NIS 628 million that were paid in the first quarter.

The Company concluded the first half of the year with a positive cash flow from operating activities (see Paragraph 1.3.2 above).

As stated in the Company's previous director' reports, the repayment structure of the Company's Series B, C, D and E debentures, and mainly the Company's Series B and C debentures, created a high burden of future payments between the years 2016 and 2019 (inclusive). On August 4, 2015 the Company's Board of Directors approved a plan for dealing with those payments ("**the plan**") by which the Company would issue debentures each year, in the years 2016 through 2019 (inclusive) or proximate to them, in an amount close to the amount of the payment required in that year in respect of those series of debentures or at least a significant part of it, which have a long average duration (in other words – issue long-term debentures with principal payments beginning only after 2019). In the third quarter of 2015 the Company began executing the aforesaid plan and issued to the public a new series of debentures (Series F) in an amount of NIS 317 million (gross) with a long average duration of 7.5, with principal payments beginning in 2020 (until 2028). In July 2016, subsequent to the date of the report, the Company continued to implement the plan, and in this framework it replaced 50% of the par value of the outstanding Series B debentures (about NIS 511 million par value of Series B debentures) with new Series F debentures that were issued to those holders, in the framework of a debenture exchange offer that was issued by the Company in accordance with a shelf registration statement. In total, the Series F was expanded by a par value of about NIS 601 million as a result of the debenture exchange offer. The replacement contributed to, inter alia, a "flattening" of the payments in the forthcoming years and an increase in average duration. The Company's payments in respect of all outstanding debentures, after the replacement, are expected to amount to NIS 489 million in 2017 (not including future linkage differences), and to NIS 350 million on average in 2018 and 2019 (not including future linkage differences). The Company may have to raise additional debt as a result of those payments, and according to the plan.

In view of the aforesaid plan, and taking into account the Company's accessibility to additional sources of credit and financing (as aforesaid), and in view of the Group's balances of cash and cash equivalents and the Group's cash flow forecast for the two year period beginning June 30, 2016, the Board of Directors decided that notwithstanding the working capital deficit as at June 30, 2016 the Company does not have a liquidity problem.

The assessment of the Company's accessibility to sources of credit (including issuing debentures as part of the plan) and the assessment of the Company's accessibility to possible additional sources of financing, took note of the yield to maturity at which the Company's debentures are traded, the Company's rating, the Company's ability to realize real estate and the fact that the Company and its subsidiaries own unencumbered real estate. It is noted that as at the date of the report, there is only a small number of liens of an insignificant amount on the assets of the Company and its subsidiaries, and the Company does not have any commitments to not create pledges on its assets other than the Company's commitment in the trust deeds of the Series D, E and F debentures to not create a current pledge with respect to its assets without obtaining the consent of the holders of the debentures from those series.
It is also noted that as at the date of the report, and according to the Company's assessment, the cash flow that will be generated for the Company from operating activities in the forthcoming years will meet the Company's operating activity requirements and investment needs.

It is emphasized that there is no certainty that the Company's business plan of issuing debentures as aforesaid will be completed or that it will be completed in the manner described above. Furthermore, the timing of the issuances, their structure, scope and terms will be subject to all the approvals required by law, including the approval of the Company's Board of Directors. It is further emphasized that the information on the Company's sources of financing and revenue as provided in the above paragraph, including the Company's ability to raise debt, is forward-looking information, within its meaning in the Securities Law – 1968, and is mainly based on the Company's forecasts. This assessment may not be realized or may be realized in a different manner than was assessed, including materially different, as a result of market behavior and realization of the risk factors mentioned in Paragraph 16 of Chapter A to the Company's periodic report.

2. Market Risk Exposure and Management

2.1 Company officer responsible for market risk management

The person who was in charge of the management of financial market risks in the Company is the Company's CFO, Ms. Talya Huber.

2.2 Description of market risks

No material changes have occurred during the reported period as regarding the exposure of the Company to market risks and the management thereof in relation to the Company's related reports in the directors' report for 2015 that was included in the Company's periodic report. Market risks include changes in the value of financial instruments that are caused by fluctuations in interest rates, the Consumer Price Index, foreign currency exchange rates and prices of securities

2.2.1 Consumer Price Index risks

The Company is exposed to changes in the Consumer Price Index, which relate primarily to the CPI-linked debentures that were issued by the Company, amounting to approximately NIS 2 billion as at June 30, 2016, and CPI-linked payments in an annual amount of NIS 385 million.

2.2.2 Foreign currency risks

The Company's policy is to hedge currency exchange rates in respect of import of goods from outside of Israel.

As at June 30, 2016, the Company has forward contracts on the rate of the dollar in the amount of US$ 12 million for settlement until October 2016 and forward contracts in the amount of € 7 million for settlement until November 2016.

In the second quarter of 2016, the Company incurred an immaterial amount of financing expenses in respect of these contracts, compared with NIS 1.5 million in the corresponding period last year.

The Company's exposure to foreign currency risks is immaterial.

2.2.3 Interest rate risks

The Company is exposed to fluctuations in interest rates on a small portion of the Company's total debt and on its short-term investments and deposits.

2.2.4 Risks related to prices of securities in Israel

The Company is exposed to changes in the prices of securities in Israel, since some of the Company's monetary balances are invested in government debentures and in corporate debentures that are linked to the Israeli CPI, and in corporate debentures bearing fixed shekel interest that are rated at least "A" and at least "A2" by Ma'alot and Midroog Ltd., respectively. As at the date of the statement of financial position this exposure is immaterial.

2.3 Linkage bases report

Presented below is the Company's linkage bases report as at June 30, 2016:

	June 30, 2016				
	Israeli currency		Foreign currency		
	Unlinked	Linked	Mainly dollar	Other items	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets:					
Cash and cash equivalents	**540**	**-**	**7**	**-**	**547**
Marketable securities	**6**	**4**	**-**	**-**	**10**
Trade receivables	**1,159**	**-**	**-**	**-**	**1,159**
Other receivables	**15**	**4**	**-**	**85**	**104**
Current taxes	**-**	**-**	**-**	**8**	**8**
Inventories	**-**	**-**	**-**	**625**	**625**
Non-current assets:					
Investment in an associated company	**-**	**-**	**-**	**69**	**69**
Other investments	**11**	**-**	**-**	**-**	**11**
Investment property	**-**	**-**	**-**	**504**	**504**
Fixed assets	**-**	**-**	**-**	**2,817**	**2,817**
Intangible assets and deferred expenses	-	**-**	**-**	**862**	**862**
Deferred taxes	**-**	**-**	**-**	**61**	**61**
	1,731	**8**	**7**	**5,031**	**6,777**
Current liabilities:					
Current maturities of long-term loans	**-**	**3**	**-**	**-**	**3**
Current maturities of debentures	**158**	**475**	**-**	**-**	**633**
Trade payables	**1,847**	**-**	**-**	**-**	**1,847**
Other payables	**262**	**-**	**-**	**430**	**692**
Provisions	**-**	**-**	**-**	**57**	**57**
Non-current liabilities:					
To banks and others	**-**	**1**	**-**	**-**	**1**
Debentures	**361**	**1,553**	**-**	**-**	**1,914**
Employee benefits	**-**	**-**	**-**	**147**	**147**
Provisions	**-**	**-**	**-**	**36**	**36**
Deferred taxes	**-**	**-**	**-**	**90**	**90**
Other	**4**	**-**	**-**	**54**	**58**
Liability in respect of option to acquire partnership	**138**	**-**	**-**	**-**	**138**
Equity	**-**	**-**	**-**	**1,161**	**1,161**
	2,770	**2,032**	**-**	**1,975**	**6,777**
Net exposure (*)	**(1,039)**	**(2,024)**	**7**	**3,056**	**-**

(*) The net exposure does not include off-balance sheet liabilities.

2.4 Sensitivity tests

Tables of sensitivity tests of sensitive instruments, in accordance with changes in market factors as at June 30, 2016 (NIS millions)

Interest rate sensitivity								
Sensitive instruments		**Gain (loss) from changes**			**Fair value as at June 30, 2016**	**Gain (loss) from changes**		
	Market interest rate at reporting date	**Change (increase) of 10% in interest**	**Change (increase) of 5% in interest**	**Increase of 2% in interest**		**Decrease of 2% in interest**	**Change (decrease) of 5% in interest**	**Change (decrease) of 10% in interest**
Loans received		0.0	0.0	0.0	**(4)**	(0.0)	(0.0)	(0.0)
Total debentures		21.5	10.8	185.6	**(2747)**	(217.0)	(10.9)	(22)
2005 issuance of Series B	0.75%	0.5	0.3	13.2	**(400)**	(14.0)	(0.3)	(0.6)
2005 issuance of Series B	0.75%	0.3	0.1	7.3	**(224)**	(7.8)	(0.2)	(0.3)
2006 issuance of Series B	0.75%	0.2	0.1	4.7	**(147)**	(5.2)	(0.1)	(0.2)
2007 issuance of Series B	0.75%	0.6	0.2	11.5	**(349)**	(12.3)	(0.2)	(0.5)
2009 issuance of Series C	0.98%	0.0	0.0	0.8	**(66)**	(0.8)	(0.0)	(0.0)
2010 issuance of Series B	0.75%	0.3	0.2	8.1	**(245)**	(8.6)	(0.2)	(0.3)
2010 issuance of Series C	0.98%	0.0	0.0	0.6	**(54)**	(0.6)	(0.0)	(0.0)
2013 issuance of Series D	2.37%	5.5	2.8	48.1	**(444)**	(58.1)	(2.8)	(5.6)
2013 issuance of Series E	3.35%	7.7	3.9	45.6	**(451)**	(54.7)	(3.9)	(7.9)
2015 issuance of Series F	2.95%	6.4	3.2	45.7	**(367)**	(54.9)	(3.2)	(6.6)
Loans granted		(0.0)	(0.0)	(0.1)	**1**	0.2	0.0	0.0
Deposits		(0.0)	(0.0)	(0.1)	**482**	0.1	0.0	0.0

CPI sensitivity						
Sensitive instruments	**Base index**	**Gain (loss) from changes**		**Fair value as at June 30, 2016**	**Gain (loss) from changes**	
		10% increase in CPI	**5% increase in CPI**		**5% decrease in CPI**	**10% decrease in CPI**
Bank loans received	88.8	(0.4)	(0.2)	**(4)**	0.2	0.4
Debentures	74.3	(217.6)	(108.8)	**(2176)**	108.8	217.6

Market price sensitivity					
Sensitive instruments	**Gain (loss) from changes**		**Fair value as at June 30, 2016**	**Gain (loss) from changes**	
	10% increase in market price	**5% increase in market price**		**5% decrease in market price**	**10% decrease in market price**
Marketable securities	1.0	0.5	**10**	(0.5)	(1.0)

3. Corporate Governance Aspects

3.1 Process of approval of the financial statements

The Company has a committee that examines its financial statements (hereinafter in this Section - "**the Committee**") which was appointed in accordance with the Companies Regulations (Directives and Conditions Concerning the Procedure for the Approval of the Financial Statements), 2010.

Committee members are – Mr. Michael Bar-Haim **(**Outside Director and Chairman of the Committee), Mr. Isaac Idan (Outside Director) and Mr. Tzvi Ben Porat (Outside Director).

On August 1, 2016, the Committee held a meeting for a fundamental and comprehensive discussion of the material reporting issues and for the discussion and formulation of the Committee’s recommendations to the Board with respect to the process of approval of the financial statements. All Committee members attended the meeting.

3.2 Board of Directors’ Meetings

In the first half of 2016, the Board of Directors held 7 meetings. The committees of the Board of Directors held additional meetings.

4. Disclosure Directives Pertaining to the Financial Reporting of the Company

4.1 Disclosure regarding events subsequent to the date of the statement of financial position

- For details regarding provisions and legal proceedings against the Company in the first half of 2016 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.
- For details regarding a debenture exchange offer of the Company’s Series B debentures in exchange for Series F debentures, which was concluded by the Company in July 2016, subsequent to the date of the statement of financial position, see Note 9 to the financial statements and Paragraph 5(11) hereunder.

5. Specific Disclosure for Holders of Debentures

Data as at June 30, 2016

Series	Date of issuance	Par value on date of issuance (NIS millions)	Total proceeds on date of issuance net of issuance expenses (NIS millions)	Carrying amount (NIS millions)*	Balance of par value (NIS millions)	Balance of par value, including linkage (NIS millions)	Accumulated interest (NIS millions)	Stock market/fair value (NIS millions)	Type of interest	Effective interest rate on date of issuance	Stated interest	Payment dates of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series B	April 2005	500	498	372	300	367	5	400	Fixed	5.24%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2006-2019	CPI
	November 2005	280	299	209	168	205	3	224	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2006-2019	CPI
	March 2006	184	200	137	110	135	2	147	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2006-2019	CPI
	February 2007	436	499	329	262	320	4	349	Fixed	4.30%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2007-2019	CPI
	December 2010	306	421	237	184	225	3	245	Fixed	2.81%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2011-2019	CPI
Series C	August 2009	500	496	63	63	63	1	66	Fixed	5.68%	5.45%	Feb. 3, 2010	Feb. 3, 2017	Annual interest on February 3 in each of the years 2010-2017	Unlinked
	December 2010	358	382	53	51	51	1	54	Fixed	4.82%	5.45%	Feb. 3, 2011	Feb. 3, 2017	Annual interest on February 3 in each of the years 2011-2017	Unlinked
Series D	October 2013	472	468	419	413	413	9	444	Fixed	3.12%	2.99%	Oct. 8, 2014	Oct. 8, 2029	Annual interest on Oct. 8 in each of the years 2014-2029	CPI
Series E	October 2013	448	444	403	392	392	14	451	Fixed	5.23%	5.09%	Oct. 8, 2014	Oct. 8, 2029	Annual interest on Oct. 8 in each of the years 2014-2029	Unlinked

Shufersal Ltd.

Series	Date of issuance	Par value on date of issuance (NIS millions)	Total proceeds on date of issuance net of issuance expenses (NIS millions)	Carrying amount (NIS millions)*	Balance of par value (NIS millions)	Balance of par value, including linkage (NIS millions)	Accumulated interest (NIS millions)	Stock market/fair value (NIS millions)	Type of interest	Effective interest rate on date of issuance	Stated interest	Payment dates of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series F	September 2015	317	313	325	317	317	11	367	Fixed	4.44%	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 in each of the years 2016-2028	CPI
Total		**3,801**	**4,020**	**2,547**	**2,260**	**2,488**	**53**	**2,747**							

* Carrying amount – The carrying amount of the principal plus interest is discounted at the effective interest rate on the date of issuance and linked to the CPI at the reporting date (Series C and Series E debentures are not linked to the CPI).

Notes:

1. The principal payments of the debentures are annual.
2. The trustee of the Series B debentures is Hermetic Trust (1975) Ltd., from 113 Hayarkon St., Tel Aviv (tel. 03-5274867, fax. 03-5271736). The contact person at the trustee for the Series B debentures is Mr. Dan Avnon, Adv., e-mail: hermetic@hermetic.co.il

   The trustee of the Series C debentures is Strauss Lazar Trust Company (1992) Ltd., from 17 Yitzhak Sadeh St., Tel Aviv (tel. 03-6237777, fax. 03-5613824). The contact person at the trustee for the Series C debentures is Mr. Ori Lazer, e-mail: ori@slcpa.co.il

   The trustee of the Series D debentures and Series E debentures is Reznik Paz Nevo Trustees Ltd., from 14 Yad Haroutzim St. Tel-Aviv (tel. 03-6389200, fax. 03-6389222). The contact person at the trustee for the Series D debentures and Series E debentures is Mr. Yossi Reznik, CPA, e-mail: Trust@rpn.co.il. The trustee of the Series F debentures is Strauss Lazar Trust Company (1992) Ltd., from 17 Yitzhak Sadeh St., Tel Aviv (tel. 03-6237777, fax. 03-5613824). The contact person at the trustee for the Series F debentures is Mr. Ori Lazer, e-mail: ori@slcpa.co.il
3. In the first half of 2016 through to the date of this report, the Company is in compliance with all the conditions and obligations under the trust deeds and there is no cause for demanding immediate repayment of the Company’s outstanding debentures.
4. All of the Company’s outstanding series of debentures, as detailed in the table above, are material. All the series of debentures are listed for trade on the Tel Aviv Stock Exchange.
5. Among the causes for immediate repayment of the Series B debentures is also the event of another series of the Company’s debentures being called for immediate repayment, all according to the terms provided in the trust deed. The Series C debentures do not include a similar cause. Among the causes for immediate repayment of the Series D and E debentures is also the event of another debt of the Company to a bank and/or other financial institution (other than a debt that is non-recourse to the Company) being called for immediate repayment, providing that the total amount called for immediate repayment is higher than NIS 300 million, or another outstanding series of the Company’s debentures being called for immediate repayment (not by the Company) providing that the total amount called for immediate repayment is higher than NIS 40 million, all according to that provided in the trust deeds. The Series F debentures include a cause similar to that of Series D and E, but unlike Series D and E there is no minimum amount that has to be called for immediate repayment in the event of another series of debentures being called for immediate repayment (unlike the amount of NIS 40 million in Series D and E).
6. The Company’s Series B and Series C debentures do not include financial covenants. The Series D, E and F debentures include financial covenants as stated hereunder.

7. In accordance with the terms of the trust deeds of the Company's Series D, E and F debentures, the Company is permitted to early redeem (fully or partially) the Series D, E and F debentures. For additional details, see Paragraph 9.2 of the trust deed of the Series D debentures and Paragraph 9.2 of the trust deed of the Series E debentures (as detailed in the trust deeds annex of the Company's shelf prospectus dated May 30, 2012 and as amended on September 30, 2013) and Paragraph 9.2 of the trust deed of the Series F debentures as detailed in the trust deeds annex of the Company's shelf registration statement dated September 3, 2015 that was issued in accordance with the Company's shelf prospectus dated June 25, 2015.
8. See Note 17 to the Company's consolidated financial statements as at December 31, 2015, which are included in the periodic report, for further details regarding the terms of the Company's Series D, E and F debentures, including a commitment to comply with financial covenants, a commitment to not create a current pledge, and restrictions relating to dividend distribution.
9. See Paragraph 11 hereunder for details regarding replacement of 50% of the par value of outstanding debentures (Series B) with debentures from Series F which was expanded for that purpose, in the framework of a debenture exchange offer that was executed by the Company subsequent to the date of the statement of financial position in July 2016.

Presented hereunder are the results of calculating the financial covenants required from the Company in accordance with the terms of the Series D, E and F debentures as aforesaid, as at June 30, 2016 and proximate to the date of signing the financial statements:

Financial covenant	**Calculation results**	
	As at June 30, 2016	**Proximate to the date of signing the financial statements***
Ratio of net debt to total balance sheet shall not exceed 60%	29%	29%
The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,161 million	NIS 1,161 million

* It is clarified that the Company's commitment to comply with financial covenants relates to the results of the calculation at the end of each calendar quarter, based on the data included in the reviewed or audited financial statements of the Company at that date, and that the data included in the column "proximate to the date of signing the financial statements" is only an approximation, and have not been reviewed or audited.

Presented hereunder are the results of calculating the dividend distribution restrictions that apply to the Company in accordance with the terms of the Series D, E and F debentures as at June 30, 2016:

Restriction	**Calculation results as at June 30, 2016**
The Company’s total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,161 million
Ratio of the Company’s net debt to EBITDA shall not exceed 7	3.0 (*)

(*) Revenue in the amount of NIS 14 million that derives from a change in an onerous contract was deducted from the EBITDA in the calculation of the ratio of the Company’s net debt to EBITDA.

10. **Details regarding the credit rating of the Company**

On May 26, 2016 Maalot published an updated rating report for the Company that affirmed the Company’s “ilA” rating and changed the rating outlook to positive because of an improvement in the financial ratios. The rating report is attached to this report by way of reference to the Company’s immediate report dated May 26, 2016 (reference no. 2016-01-034851).

On July 11, 2016 Maalot announced that it is awarding a rating of ‘ilA’ to the Company’s issuance of Series F debentures of up to a par value of NIS 620 million that will be issued by the Company in the framework of a debenture exchange offer (see shelf registration statement dated July 11, 2016, reference no. 2016-01-079594).

11. Information on the rating of outstanding debentures

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between the original date of issuance and reporting date	
				Date	Rating
Series B debentures – listed for trading	Ma'alot	ilA Positive	AA Stable	November 8, 2005 (expansion of series)	ilAA Stable
				February 7, 2007 (expansion of series)	ilAA Stable
				May 11, 2009 (affirmation of rating)	ilAA Stable
				May 24, 2010 (affirmation of rating and lowering of Company rating outlook)	ilAA Negative
				December 21, 2010 and December 26, 2010 (lowering of rating and expansion of series, respectively)	ilAA- Stable
				October 4, 2011 (affirmation of rating)	ilAA- Stable
				March 5, 2012 (affirmation of rating and lowering of outlook)	ilAA- Negative
				September 20, 2012 (lowering of rating and affirmation of outlook)	ilA+ Negative
				December 2, 2012 (affirmation of rating and outlook)	ilA+ Negative
				September 16, 2013 (affirmation of rating)	ilA+ Negative
				October 3, 2013 (affirmation of rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of outlook)	ilA Positive

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between the original date of issuance and reporting date	
				Date	Rating
Series C debentures – listed for trading	Ma'alot	ilA Positive	AA Stable	July 27, 2009 (initial rating)	ilAA Stable
				May 24, 2010 (affirmation of rating and lowering of Company rating outlook)	ilAA Negative
				December 21, 2010 and December 26, 2010 (lowering of rating and expansion of series, respectively)	ilAA- Stable
				October 4, 2011 (affirmation of rating)	ilAA- Stable
				March 5, 2012 (affirmation of rating and lowering of outlook)	ilAA- Negative
				September 20, 2012 (lowering of rating and affirmation of outlook)	ilA+ Negative
				December 2, 2012 (affirmation of rating and outlook)	ilA+ Negative
				September 16, 2013 (affirmation of rating)	ilA+ Negative
				October 3, 2013 (affirmation of rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of outlook)	ilA Positive
Series D debentures – listed for trading	Ma'alot	ilA Positive	ilA+ Negative	October 3, 2013 (initial rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of outlook)	ilA Positive

Shufersal Ltd.

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between the original date of issuance and reporting date	
				Date	Rating
Series E debentures – listed for trading	Ma'alot	ilA Positive	ilA+ Negative	October 3, 2013 (initial rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of outlook)	ilA Positive
Series F debentures – listed for trading	Ma'alot	ilA Positive	ilA Stable	September 2, 2015 (initial rating)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of outlook)	ilA Positive
				July 11, 2016 (initial rating for series expansion)	ilA

Debentures issued subsequent to the date of the statement of financial position

In accordance with a shelf registration statement that was issued by the Company on July 6, 2016 and was amended on July 11, 2016, the Company offered to all the holders of the Company's debentures (Series B) to purchase from them up to NIS 511 million par value of the Company's debentures (Series B) held by them (constituting about 50% of the par value of the outstanding debentures (Series B)), by means of a partial debenture exchange offer, in consideration for an issuance of the Company's debentures (Series F) by means of expansion of a series, at a ratio of 1.175 for each NIS 1 of debentures (Series B) against an issuance of NIS 601 million par value of Company debentures (Series F). The debenture exchange offer was oversubscribed and in its framework the Company purchased NIS 511,626,735 par value of debentures (Series B) against an issuance (by expansion of a series) of NIS 601,161,414 par value of debentures (Series F). The debentures (Series B) that were purchased by the Company were cancelled and delisted.

12. Quarterly report of outstanding liabilities by maturity dates

For data regarding the outstanding liabilities of the Company, see the immediate report on outstanding liabilities by maturity dates that was published by the Company on the date of issuing the financial statements, the information included in which is presented in this report by way of reference.

Shufersal Ltd.

The Company's Board of Directors and Management wish to express their appreciation and thanks to the managers and employees of the Company for their professional and dedicated work and their contribution to the Company.

Israel Berman Co-Chairman of the Board of Directors	Shalom Fisher Co-Chairman of the Board of Directors	Itzik Abercohen CEO

August 8, 2016

Shufersal Ltd

Condensed Consolidated Interim Financial Statements As at June 30, 2016

(Unaudited)

Condensed Consolidated Interim Financial Statements as at June 30, 2016 (unaudited)

Contents

Condensed Consolidated Interim Statements of Financial Position

	June 30 2016	June 30 2015	December 31 2015
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**547**	554	746
Short-term deposits	**-**	-	270
Marketable securities	**10**	10	10
Trade receivables	**1,159**	1,032	1,145
Other receivables	**104**	*87	82
Current taxes	**8**	32	32
Inventory	**625**	672	643
Total current assets	**2,453**	2,387	2,928
Investment in associate	**69**	44	69
Other investments	**11**	12	15
Investment property	**504**	471	468
Fixed assets	**2,817**	2,726	2,801
Intangible assets and deferred expenses	**862**	831	859
Deferred taxes	**61**	103	90
Total non-current assets	**4,324**	4,187	4,302
Total assets	**6,777**	6,574	7,230

* See Note 2.C regarding reclassification.

Signed on behalf of the Board of Directors:

Israel Berman	Shalom Fisher	Yitzak Aber-Cohen	Talya Huber
Co-Chairman of the Board of Directors	Co-Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval: August 8, 2016

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

Condensed Consolidated Interim Statements of Financial Position

	June 30 2016	June 30 2015	December 31 2015
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities of long-term loans	**3**	3	3
Current maturities in respect of debentures	**633**	631	674
Trade payables	**1,847**	* 1,663	1,814
Other payables	**692**	520	* 586
Liability in respect of option to acquire partnership	**-**	-	* 133
Provisions	**57**	59	66
Total current liabilities	**3,232**	2,876	3,276
To banks and others	**1**	11	10
Debentures	**1,914**	2,213	2,450
Employee benefits	**147**	124	131
Provisions	**36**	60	51
Liability in respect of option to acquire partnership	**138**	*112	-
Other	**58**	*48	54
Deferred taxes	**90**	83	88
Total non-current liabilities	**2,384**	2,651	2,784
Equity			
Share capital	**240**	240	240
Premium on shares	**560**	560	560
Capital reserves	**12**	7	7
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**434**	319	439
Total equity attributable to owners of the Company	**1,161**	1,041	1,161
Non-controlling interests	**-**	6	9
Total equity	**1,161**	1,047	1,170
Total liabilities and equity	**6,777**	6,574	7,230

* See Note 2.C regarding reclassification.

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

Condensed Consolidated Interim Statements of Income

	Six months ended		Three months ended		Year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales and rentals	**5,932**	5,594	**3,072**	2,758	11,505
Cost of sales and services	**4,423**	4,290	**2,307**	2,084	8,716
Gross profit	**1,509**	1,304	**765**	674	2,789
Selling and marketing expenses	**1,228**	1,142	**609**	570	2,385
General and administrative expenses	**71**	62	**40**	32	130
Total selling, marketing, general and administrative expenses	**1,299**	1,204	**649**	602	2,515
Operating profit before other income	**210**	100	**116**	72	274
Other income, net	**-**	-	**-**	-	3
Increase in fair value and gain on sale of investment property, net	**2**	-	**1**	-	9
Total other income, net	**2**	-	**1**	-	12
Operating profit after other income	**212**	100	**117**	72	286
Financing expenses	**(67)**	(72)	**(41)**	(57)	(139)
Financing income	**11**	*15	**6**	*7	52
Financing expenses, net	**(56)**	(57)	**(35)**	(50)	(87)
Profit before taxes on income	**156**	43	**82**	22	199
Taxes on income	**(41)**	(14)	**(20)**	(6)	(46)
Profit for the period	**115**	29	**62**	16	153
Attributable to:					
Owners of the Company	**115**	29	**62**	16	150
Non-controlling interests	**-**	-	**-**	-	3
Profit for the period	**115**	29	**62**	16	153
Basic and diluted earnings per share (in NIS)	**0.54**	0.14	**0.29**	0.08	0.71

* See Note 2.C regarding reclassification.

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

	Six months ended		Three months ended		Year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**115**	29	**62**	16	153
Other comprehensive income (loss) items that will not be transferred to profit or loss					
Remeasurement of defined benefit plan	**(13)**	12	**(6)**	28	9
Revaluation reserve for fixed assets	**6**	-	-	-	-
Taxes on other comprehensive income items that will not be transferred to profit or loss	**1**	(3)	**1**	(7)	(2)
Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax	**(6)**	9	**(5)**	21	7
Total comprehensive income for the period	**109**	38	**57**	37	160
Attributable to:					
Owners of the Company	**109**	38	**57**	37	157
Non-controlling interests	**-**		**-**		3
Total comprehensive income for the period	**109**	38	**57**	37	160

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

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the Company's owners							
	Share capital	Share premium	Revaluation reserve for fixed assets	Treasury shares	Retained earnings	Total	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the six months ended June 30, 2016 (unaudited)								
Balance as at January 1, 2016	**240**	**560**	**7**	**(85)**	**439**	**1,161**	**9**	**1,170**
Share based payment, net of tax	**-**	**-**	**-**	**-**	**4**	**4**	**-**	**4**
Dividend to shareholders	**-**	**-**	**-**	**-**	**(100)**	**(100)**	**-**	**(100)**
Acquisition of non-controlling interests	**-**	**-**	**-**	**-**	**(13)**	**(13)**	**(9)**	**(22)**
Profit for the period	**-**	**-**	**-**	**-**	**115**	**115**	**-**	**115**
Other comprehensive loss for the period, net of tax	**-**	**-**	**5**	**-**	**(11)**	**(6)**	**-**	**(6)**
Balance as at June 30, 2016	**240**	**560**	**12**	**(85)**	**434**	**1,161**	**-**	**1,161**
For the six months ended June 30, 2015 (unaudited)								
Balance as at January 1, 2015	240	560	7	(85)	281	1,003	6	1,009
Profit for the period	-	-	-	-	29	29	-	29
Other comprehensive income for the period, net of tax	-	-	-	-	9	9	-	9
Balance as at June 30, 2015	240	560	7	(85)	319	1,041	6	1,047

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

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the Company's owners							
	Share capital	Share premium	Revaluation reserve for fixed assets	Treasury shares	Retained earnings	Total	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three months ended June 30, 2016 (unaudited)								
Balance as at April 1, 2016	**240**	**560**	**12**	**(85)**	**375**	**1,102**	**-**	**1,102**
Share based payment, net of tax	**-**	**-**	**-**	**-**	**2**	**2**	**-**	**2**
Profit for the period	**-**	**-**	**-**	**-**	**62**	**62**	**-**	**62**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(5)**	**(5)**	**-**	**(5)**
Balance as at June 30, 2016	**240**	**560**	**12**	**(85)**	**434**	**1,161**	**-**	**1,161**
For the three months ended June 30, 2015 (unaudited)								
Balance as at April 1, 2015	240	560	7	(85)	282	1,004	6	1,010
Profit for the period	-	-	-	-	16	16	-	16
Other comprehensive income for the period, net of tax	-	-	-	-	21	21	-	21
Balance as at June 30, 2015	240	560	7	(85)	319	1,041	6	1,047
For the year ended December 31, 2015 (audited)								
Balance as at January 1, 2015	240	560	7	(85)	281	1,003	6	1,009
Share based payment, net of tax	-	-	-	-	1	1	-	1
Profit for the year	-	-	-	-	150	150	3	153
Other comprehensive profit for the year, net of tax	-	-	-	-	7	7	-	7
Balance as at December 31, 2015	240	560	7	(85)	439	1,161	9	1,170

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

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended		Three months ended		Year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit for the period	**115**	29	**62**	16	153
Adjustments for:					
Depreciation of fixed assets	**127**	121	**65**	63	236
Impairment losses on fixed assets	**12**	15	**1**	9	22
Amortization of intangible assets and deferred expenses	**13**	11	**8**	6	26
Taxes on income	**41**	14	**20**	6	46
Income tax paid	**(12)**	(9)	**(9)**	(3)	(23)
Income tax received	**29**	2	**29**	2	6
Financing expenses, net	**56**	*57	**35**	*50	87
Change in fair value and gain on sale of investment property, net	**(2)**	-	**(1)**	-	(9)
Change in employee benefits	**-**	(5)	**(2)**	(7)	(3)
Gain on sale of fixed assets	**-**	-	**-**	-	(3)
Share based payment	**4**	-	**2**	-	1
Change in provision for onerous contracts	**(22)**	(20)	**(18)**	(5)	(28)
Change in trade receivables	**(10)**	74	**5**	261	(35)
Change in other receivables	**(22)**	*9	**5**	*(29)	3
Change in inventory	**18**	81	**111**	167	110
Change in trade payables	**27**	*132	**(102)**	*(235)	268
Change in other payables, provisions and other liabilities	**107**	*29	**42**	*(230)	90
Net cash from operating activities	**481**	540	**253**	71	947

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

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended		Three months ended		Year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from investing activities					
Purchase of fixed assets	**(166)**	(209)	**(86)**	(108)	(384)
Proceeds from sale of fixed assets	**1**	5	**-**	4	16
Investment in deferred expenses and intangible assets	**(11)**	(9)	**(8)**	(5)	(25)
Investment in investment property	**(11)**	(4)	**(8)**	(2)	(6)
Proceeds from sale of investment property	-	-	-	-	
Taxes paid on sale of					21
investment property and fixed assets	**(2)**	-	**(2)**	-	(3)
Purchase of marketable securities	**(1)**	(51)	-	(2)	(52)
Proceeds from sale of marketable securities	**1**	696	-	2	697
Cash payments from futures transactions, net	**(1)**	(3)	**(1)**	(1)	(5)
Repayment of long-term loans	-	10	-	2	13
Interest received	**2**	4	-	-	8
Proceeds from withdrawal of (investment in) short-term deposits	**270**	-	-	-	
Dividend income from					(270)
other investments	**4**	-	-	-	3
Acquisition of operation	-	(1)	-	-	(1)
Net cash from (used in) investing activities	**86**	438	**(105)**	(110)	12

* See Note 2.C regarding reclassification.

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

Condensed Consolidated Interim Statements of Cash Flows (cont'd)

	Six months ended		Three months ended		Year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows used in financing activities					
Acquisition of non-controlling interests	**(22)**	**-**	-	-	-
Repayment of capital note	**(8)**	**-**	-	-	-
Proceeds from issuance of debentures, net	**-**	**-**	-	-	313
Repayment of debentures	**(529)**	(530)	-	-	(588)
Interest paid	**(99)**	(127)	-	-	(162)
Dividend paid	**(100)**	**-**	**(100)**	-	-
Repayment of long-term loans from banks	**(1)**	(1)	-	(1)	(2)
Partners' withdrawals from partnership	**(7)**	(7)	**(7)**	(6)	(15)
Net cash used in financing activities	**(766)**	(665)	**(107)**	(7)	(454)
Net increase (decrease) in cash and cash equivalents	**(199)**	313	**41**	(46)	505
Balance of cash and cash equivalents at the beginning of the period	**746**	241	**506**	600	241
Balance of cash and cash equivalents at the end of the period	**547**	554	**547**	554	746

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

Note 1 - General

A. The reporting entity

Shufersal Ltd. (hereinafter – the "Company" and/or "Shufersal") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 30 Benyamin Shmotkin Street, Rishon-Le-Zion. The condensed consolidated interim financial statements of the Group as at June 30, 2016 comprise the Company, its subsidiaries (hereinafter together – "the Group") and an investment in an associate. The Company is mainly held by Discount Investment Corporation Ltd., which is the Company's controlling shareholder (which is controlled by IDB Development Corporation Ltd.) and by Isralom Properties Ltd. The Group is involved in the operation of a chain of supermarkets in Israel. The Company also operates in the area of real estate (through Shufersal Real-Estate Ltd., a wholly owned subsidiary) and as part of this activity owns shopping centers and commercial centers, as well as manages a credit card customers' club (through Shufersal Finance Limited Partnership) through which it offers the Shufersal and Yesh credit cards. The securities of the Company are registered for trade on the Tel Aviv Stock Exchange.

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements as at and for the year ended December 31, 2015. Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on August 8, 2016.

B. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2015, other than that mentioned in Note 5.E.

C. Change in classification

(1) The Group reclassified part of the balance of advances to suppliers in the statement of financial position from other receivables to trade payables.
Comparative data as at June 30, 2015 were reclassified for consistency, so that an amount of NIS 32 million was classified from other receivables to trade payables.

Note 2 - Basis of Preparation (cont'd)

C. Change in classification (cont'd)

(2) Income in the amount of NIS 1 million for the six and three month periods ended June 30, 2015 from reversal of a decline in value of a loan to an associate company was reclassified from the Company's share of profits of equity accounted investees to financing income.

(3) The Group reclassified the balance in the statement of financial position of the liability in respect of an option to acquire a partnership from other payables to a liability in respect of an option to acquire a partnership in the category of current liabilities.
Comparative data as at December 31, 2015 were reclassified for consistency, so that an amount of NIS 133 million was reclassified from other payables to a liability in respect of an option to acquire a partnership in the category of current liabilities.
Furthermore, the Group reclassified the balance in the statement of financial position of the liability in respect of an option to acquire a partnership from the other item in the category of non-current liabilities to a liability in respect of an option to acquire a partnership in that same category.
Comparative data as at June 30, 2015 were reclassified for consistency, so that an amount of NIS 112 million was reclassified from the other item to a liability in respect of an option to acquire a partnership in the category of non-current liabilities.

Note 3 - Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements were applied consistently to their application in the annual financial statements that were issued by it as at and for the year ended December 31, 2015.

Note 4 - Seasonality

The business results and financial position of the Company's retail business segment are subject to seasonal fluctuations as a result of the consumption behavior of the population close to the holiday season in Israel.

Note 5 - Events in the Reporting Period

A. Further to that mentioned in Notes 1.B.(1) and 10.D to the financial statements as at December 31, 2015 and for the year then ended, in the reporting period the Company reexamined branches having operating and cash flow losses in the geographical locations and reached the conclusion that 7 branches (under an operating lease) of all the branches that were examined no longer provide an operating and/or strategic contribution to the geographical location (the cash-generating unit) they belong to and therefore it was decided to shut them down. Accordingly, the Company tests these branches for impairment separately from the cash-generating unit they belong to and calculates the recoverable amount for each branch in itself. In addition, in the reporting period a warehouse leased by the Company was closed and it was decided to reduce the size of 2 branches (under an operating lease).

Note 5 - Events in the Reporting Period (cont'd)

A. (cont'd)

As regards the 7 branches planned to be shut down and the aforesaid closed warehouse, the Company calculated the recoverable amount in accordance with IAS 36. The recoverable amount of the branches and warehouse was measured separately, on the basis of fair value (level 3) less costs of disposal. The key assumption in the calculation of the recoverable amount of the branches and warehouse is that they will not generate any economic benefits until they are shut down, and therefore equipment and leasehold improvements that are not expected to be sold or transferred to another branch/warehouse were fully written-off, whereas the other assets were tested on the basis of the economic benefits the Company expects they will generate in the other branches. As regards the branches that their size was reduced, the Company calculated the recoverable amount of the assets in those branches, on the basis of fair value less costs of disposal, with the key assumption in the calculation of the recoverable amount being that the leasehold improvements in the reduced areas of those branches will not generate any economic benefits after the reduction and therefore they were fully written-off.

The recoverable amount of the branches and warehouse, including the branches it was decided to reduce as mentioned above, is lower than their carrying amount and therefore an impairment loss in the amount of NIS 11 million and NIS 1 million, before tax, was recognized in selling and marketing expenses in the statement of income for the six and three months ended June 30, 2016, respectively, in respect of equipment and leasehold improvements in those properties.

Furthermore, a provision for onerous contracts in the amount of NIS 3 million and NIS 1 million, before tax, for the six and three month periods ended June 30, 2016, respectively, was recorded in accordance with the guidance of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

B. On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216), by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016. The effect of the change on the financial statements as at June 30, 2016 is immaterial.

C. On February 28, 2016, the Company's Board of Directors decided to distribute a dividend in the amount of NIS 100 million, constituting NIS 0.47 per share. The dividend was paid on April 4, 2016 to shareholders on record as at March 21, 2016.

D. Further to that mentioned in Note 34 to the annual financial statements as at December 31, 2015, in the first quarter of 2016 the Group acquired the rest of the shares of a third party in Shufersal Bailsol Investments Ltd., in which the Company held 50% of equity and 51% of voting power before the transaction, for the amount of NIS 30 million, so that after the acquisition the Group holds 100% of that company's shares. The transaction was accounted for as a transaction with non-controlling interests, and therefore the Group recognized a decrease of NIS 9 million in non-controlling interests and a decrease of NIS 13 million in retained earnings.

E. In the reporting period the Company updated the collective agreements, and on April 5, 2016 it signed on their extension until December 31, 2017. Updates were also made to personal employment contracts. Furthermore, in the reporting period there was a decrease in the yield rates of high quality corporate debentures in Israel that are used for discounting a defined benefit obligation and other long-term employee benefits.

The effects of the aforesaid changes are an increase in the defined benefit obligation for the six and three month periods in the amount of NIS 11 million and NIS 4 million, respectively, and an adjustment in deferred tax balances for the same periods in the amount of NIS 3 million and NIS 1 million, respectively, which were recognized against other comprehensive income.

Note 6 - Segment Reporting

The basis of segmentation and the measurement basis for the segment profit or loss are the same as that presented in Note 32 regarding operating segments in the annual financial statements.

The accounting policies of the operating segments are the same as described in Note 3 regarding significant accounting policies.

Information regarding the results of each reportable segment is included below:

For the six months ended June 30, 2016 (unaudited):

	Retail segment	Real estate segment	Credit card customers' club management segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	**5,911**	**21**	**36**	**(36)**	**5,932**
Inter-segment rental revenues	**-**	**63**	**-**	**(63)**	**-**
Segment revenues	**5,911**	**84**	**36**	**(99)**	**5,932**
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	**131**	**67**	**-**	**(11)**	**187**
Operating profit from management of credit card customers' club	**23**	**-**	**23**	**(23)**	**23**
Operating profit before other income (expenses)	**154**	**67**	**23**	**(34)**	**210**
Other income (expenses), net	**(2)**	**6**	**-**	**(2)**	**2**
Operating profit after other income (expenses)	**152**	**73**	**23**	**(36)**	**212**
Financing expenses					**(67)**
Financing income					**11**
Taxes on income					**(41)**
Profit for the period					**115**

Note 6 - Segment Reporting (cont'd)

For the six months ended June 30, 2015 (unaudited):

	Retail segment	Real estate segment	Credit card customers' club management segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	5,570	24	32	(32)	5,594
Inter-segment rental revenues	-	64	-	(64)	-
Segment revenues	5,570	88	32	(96)	5,594
Operating profit before other expenses and excluding profit from management of the credit card customers' club	**18**	**74**	**-**	**(13)**	**79**
Operating profit from management of credit card customers' club	**21**	**-**	**21**	**(21)**	**21**
Operating profit before other expenses	**39**	**74**	**21**	**(34)**	**100**
Other expenses, net	**-**	**(1)**	**-**	**1**	**-**
Operating profit after other expenses	**39**	**73**	**21**	**(33)**	**100**
Financing expenses					**(72)**
Financing income					*** 15**
Taxes on income					**(14)**
Profit for the period					**29**

* Reclassified.

Note 6 - Segment Reporting (cont'd)

For the three months ended June 30, 2016 (unaudited):

	Retail segment	Real estate segment	Credit card customers' club management segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	3,062	10	18	(18)	3,072
Inter-segment rental revenues	-	31	-	(31)	-
Segment revenues	3,062	41	18	(49)	3,072
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	76	34	-	(6)	104
Operating profit from management of credit card customers' club	12	-	12	(12)	12
Operating profit before other income	88	34	12	(18)	116
Other income, net	-	3	-	(2)	1
Operating profit after other income	88	37	12	(20)	117
Financing expenses					(41)
Financing income					6
Taxes on income					(20)
Profit for the period					62

Note 6 - Segment Reporting (cont'd)

For the three months ended June 30, 2015 (unaudited):

	Retail segment	Real estate segment	Credit card customers' club management segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	2,746	12	16	(16)	2,758
Inter-segment rental revenues	-	32	-	(32)	-
Segment revenues	2,746	44	16	(48)	2,758
Operating profit before other expenses and excluding profit from management of the credit card customers' club	**31**	**37**	**-**	**(7)**	**61**
Operating profit from management of credit card customers' club	**11**	**-**	**11**	**(11)**	**11**
Operating profit before other expenses	**42**	**37**	**11**	**(18)**	**72**
Other expenses, net	**-**	**-**	**-**	**-**	**-**
Operating profit after other expenses	**42**	**37**	**11**	**(18)**	**72**
Financing expenses					**(57)**
Financing income					*** 7**
Taxes on income					**(6)**
Profit for the period					**16**

* Reclassified.

Note 6 - Segment Reporting (cont'd)

For the year ended December 31, 2015 (audited):

	Retail segment	Real estate segment	Credit card customers' club management segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	11,456	49	67	(67)	11,505
Inter-segment rental revenues	-	131	-	(131)	-
Segment revenues	11,456	180	67	(198)	11,505
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club*	107	149	-	(26)	230
Operating profit from management of credit card customers' club*	44	-	44	(44)	44
Operating profit before other income (expenses)	151	149	44	(70)	274
Other income (expenses), net	(4)	1	-	15	12
Operating profit after other income (expenses)	147	150	44	(55)	286
Financing expenses					(139)
Financing income					52
Taxes on income					(46)
Profit for the year					153

* Reclassified.

Note 7 - Claims and Legal Proceedings

A provision in the total amount of NIS 15 million is included in the financial statements in respect of all the claims against the Company.

See Note 15 to the annual financial statements regarding claims and legal proceedings pending against the Company as at December 31, 2015. Presented hereunder are changes in claims and legal proceedings pending against the Company in the first half of 2016 and subsequent to the date of the statement of financial position:

Consumer claims

In the reporting period nine motions to certify consumer claims as class action have been filed against the Company mainly containing allegations of illegal collection of funds, unlawful conduct or breach of license, or a breach of agreements with customers, causing monetary and non-monetary damages to them. A total amount of NIS 623 million is claimed from the Company in respect of these claims. At this early stage it is not yet possible to assess the outcome of eights of those claims in the amount of NIS 620 million.

In addition, in the reporting period two motions to certify consumer claims as class actions were filed against the Company and other defendants. A total amount of NIS 67 million is attributed to the Company in respect of these claims. At this early stage it is not yet possible to assess the outcome of the claims.

In the reporting period ten motions to certify consumer claims as class actions in the total amount of NIS 78 million have been dismissed and withdrawn at the approval of the court, at immaterial amounts. In addition, three motions to certify consumer claims as class actions against the Company and other defendants in the total amount of NIS 31 million have been dismissed and withdrawn at the approval of the court, at immaterial amounts.

Subsequent to the date of the report, four motions to certify consumer claims as class actions were filed against the Company that mainly contain allegations of unlawful conduct, while causing monetary and non-monetary damages to customers. A total amount of NIS 59 million is attributed to the Company in respect of these claims. At this early stage it is not yet possible to assess the outcome of the claims.

In addition, two motions to certify consumer claims as class actions in the total amount of NIS 11 million were filed against the Company and other defendants, without specifying the amount attributed to the Company. At this early stage it is not yet possible to assess the outcome of the claims.

In addition, two motions to certify consumer claims as class actions in the total amount of NIS 11 million have been dismissed at the approval of the court, without awarding expenses.

Note 8 - Financial Instruments

Financial instruments measured at fair value for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, other short-term investments, derivatives, trade and other payables, short and long-term loans and debt are equal or approximate to their fair value.

The fair value of the debentures and their carrying amount as presented in the statement of financial position are as follows:

	As at June 30, 2016		As at June 30, 2015		As at December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS millions		NIS millions		NIS millions	
Debentures (including accrued interest)						
Level 1	**2,547**	**2,747**	2,844	2,920	3,124	3,248

Fair value hierarchy of financial instruments measured at fair value

The table below presents an analysis of financial instruments measured at fair value, in accordance with a valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: inputs that are not based on observable market data.

	As at June 30, 2016				As at June 30, 2015				As at December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	Unaudited				Unaudited				Audited			
	NIS millions				NIS millions				NIS millions			
Financial assets												
Marketable securities	**10**	-	-	**10**	10	-	-	10	10	-	-	10
Investments*	-	-	**11**	**11**	-	-	12	12	-	-	15	15
	10	-	**11**	**21**	10	-	12	22	10	-	15	25
Financial liabilities												
Forward - hedge on transactions linked to foreign currency	-	-	-	-	-	(3)	-	(3)	-	-	-	-
	-	-	-	-	-	(3)	-	(3)	-	-	-	-
	10	-	**11**	**21**	10	(3)	12	19	10	-	15	25

* Investment in non-marketable shares of Wholesale Market for Agricultural Produce in Tel Aviv Ltd., which is accounted for as a financial asset measured at fair value through profit or loss. In the first quarter of 2016 the Company received a dividend in the amount of NIS 4 million.

Note 9 - Subsequent Events

In July 2016 the Company offered to all the holders of the Company's Series B debentures to purchase from them up to NIS 511 million par value of the Company's debentures (Series B) held by them (constituting 50% of the par value of the outstanding Series B debentures), by means of a partial debenture exchange offer, in consideration for an issuance of NIS 600 million par value of the Company's Series F debentures, by means of expansion of a series, at a ratio of 1.175 for each NIS 1 of Series B debentures. There was full subscription to the debenture exchange offer and the debentures (Series B) that were purchased by the Company were cancelled and delisted. The Company issued NIS 601 million par value of Series F debentures according to the aforesaid exchange ratio.

For details regarding the terms of the debentures, see Note 17 to the annual financial statements as at December 31, 2015.