

**Board of Directors' Report on the State of the Company's
Affairs
For the Nine-Month Period Ended
September 30, 2016**

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Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – "Shufersal" or "the Company") for the nine months ended September 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 271 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 12.7 thousand employees (calculated positions) and has annual sales of about NIS 12 billion. As at September 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 September 30, 2016 (hereinafter – "the financial statements").

1.1.2 Management's discussion of the principal results for the nine months ended September 30, 2016

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

- 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 nine months of 2016 the sales of "Shufersal Online" constituted about 8.6% of the Company's total sales.
- The continued strengthening of the private label. In the first nine months of 2016, the Company's sales of private label products constituted about 19% of total retail sales².
- The continuing increase in real estate efficiency.
- Gradual operation of the new logistics center in Shoham that began operating in February 2016.

The company adjusted its operations to changes in the food retail market

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 (September 30, 2016) unless stated otherwise or implied otherwise by the context of the matter.

² Note that approximately half of the increase in private label sales, is due to a classification of the different product groups as a private label.

1.1.3 Significant events that occurred in the reporting period

- Following the discussion in section 7.4 in Part A (Description of the Entity's Business) of the Company's 2015 financial statements ("the periodic report") on a notice from the Israel Antitrust Authority ("the Antitrust Authority") on "demand areas" of the Company's larger stores ("the original demand area notice"), an updated notice was received from the Antitrust Authority in September 2016, in which the authority revised the number of large stores that has a calculated ratio of 30%-50% to 132 (instead of 152 large stores in the original demand area notice), and the number of stores with a calculated ratio of over 50% to 38 large stores (instead of 48 large stores in the original demand area notice). In addition, the Company informs that stores that might be exposed to the temporary provision detailed in that section to the reported period are: 17 stores in Haifa and 3 stores in Zefat. For more information about the rules that guide geographical competition between retailers in the Law for Promotion of Competition in the Food Industry, 2014 and its implications, see section 7.4 to the periodic report.
- For information about a share purchase agreement that was signed between DIC, the controlling shareholder of the Company, and Bronfman Fischer (B.F.) Commerce Limited Partnership ("Bronfman Fischer"), dated September 12, 2016, whereby Bronfman Fischer sold DIC 4.25% of its holdings in the Company, and gave an option to sell additional 4.25%, see immediate report dated September 12, 2016 (reference no: 2016-01-121711) and correction immediate report dated September 15, 2016 (reference no: 2016-01-123829). Note in addition that DIC and Bronfman Fischer agreed that the shareholders' agreement between them in relation to their holdings in the Company ended in September on the date of selling the shares as above, and following that, Mr. Yakov Shalom Fischer and Mr. Ron Hadassi filed their resignation from the Company's board. As of the date of issuing this report, Bronfman Fischer holds 6.39% of the Company's share capital less dormant shares (6.22% fully diluted), while DIC holds 58.17% of the Company's share capital less dormant shares (56.61% fully diluted).
- On September 20, 2016, Maalot upgraded the Company from ilA to ilA+ and changed its outlook to stable, following improvement in financial ratios. See also paragraph 5 below.
- On July 11, 2016, Maalot gave a rating of ilA to the Series F bond issue of up to \$620 million par value, which were issued to the Company under an exchange offer. See also paragraph 5 below.
- 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.

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- 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

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

	<u>Results of operations for the three months ended September 30</u>			
	<u>2016</u>			<u>2015</u>
	<u>%</u>	<u>NIS millions</u>	<u>%</u>	<u>NIS millions</u>
Revenues		3,042		2,988
Gross profit	25.3%	771	24.7%	739
Selling, marketing, administrative and general expenses	21.9%	(667)	22.0%	(657)
<u>Operating profit before other income</u>	<u>3.4%</u>	<u>104</u>	<u>2.7%</u>	<u>82</u>
Increase in fair value and gain on sale of investment property, net		-		5
<u>Operating profit after other income</u>		<u>104</u>		<u>87</u>
Financing expenses, net		(39)		*(28)
<u>Profit before taxes on income</u>		<u>65</u>		<u>59</u>
Taxes on income		(14)		(12)
<u>Profit for the period</u>		<u>51</u>		<u>47</u>

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

Retail segment revenue³ was NIS 3,029 million in the third quarter of the year, compared with NIS 2,975 million in the corresponding quarter last year, a 1.8% increase.

The Company's turnover in the third quarter of the year increased by 2.0% as compared with the corresponding quarter last year.

Same store sales⁴ for stores that operated throughout the third quarter of the year and the corresponding quarter last year increased by 3.3%. The increase is mainly attributed to changes in grocery basket composition and in mix of special offers.

Sales per square meter⁵ in the Company's stores was NIS 6,174 in the third quarter of the year compared with NIS 5,836 in the corresponding quarter last year, an increase of 5.8% that is mainly attributed to an increase in sales and a reduction in commercial space.

Real estate segment revenue was NIS 44 million in the third quarter of the year, compared with NIS 45 million in the corresponding quarter last year.

³ See Note 6 to the financial statements.

⁴ Same store sales – gross sales of active stores that were opened before January 2015.

⁵ The areas of the new stores 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.

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Revenue from the loyalty club credit card management segment⁶ was NIS 19 million in the third quarter of the year, compared with NIS 17 million in the corresponding quarter last year, an increase of 11.8%, which is mainly due to fees on credit spreads.

The Company's revenue was NIS 3,042 million in the third quarter of the year, compared with NIS 2,988 million in the corresponding quarter last year, an increase of 1.8%.

Gross profit was NIS 771 million in the third quarter of the year, compared with NIS 739 million in the corresponding quarter last year, an increase of NIS 32 million. Gross profit rate was 25.3%, compared with 24.7% in the corresponding quarter last year. The increase in gross profit and gross profit rate was mainly driven by an increase in the number of franchisers⁷, a larger share of the private label, improved trade agreements, change in grocery basket composition, special offer mix and cost cutting following implementation of the business plan (see note 5(a) to the financial statements).

Selling, marketing, administrative and general expenses were NIS 667 million in the third quarter of the year, compared with NIS 657 million in the corresponding quarter last year. The expenses to revenue ratio was 21.9% compared with 22.0% in the corresponding quarter last year. The increase in NIS expenses is due to stronger activity and higher payroll expenses including in minimum wages.

Operating profit in the retail segment was NIS 74 million in the third quarter of the year, or 2.4% of revenue, compared with NIS 52 million, or 1.7% of revenue, in the corresponding quarter last year, a NIS 22 million increase that is due to the aforesaid.

Operating profit before other income in the real estate segment was NIS 36 million in the third quarter of the year, compared with NIS 37 million in the corresponding quarter last year.

Operating profit of the loyalty club credit card management segment was NIS 12 million in the third quarter of the year, similar to the corresponding quarter last year.

The Company's operating profit after other income was NIS 104 million, or 3.4% of revenue, in the third quarter of the year, compared with NIS 87 million, or 2.9% of revenue, in the corresponding quarter last year, an increase of NIS 17 million that is mainly attributed to the retail segment.

⁶ The comparative data for the third quarter of 2015 were reclassified so as to reflect the credit card customers' club management segment.

⁷ See Paragraph 3.1 of Part A (Description of the Entity's Business) in the periodic report.

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Operating profit before depreciation and amortization (EBITDA) was NIS 171 million, or 5.6% of revenue, in the third quarter of the year, compared with NIS 141 million or 4.7% of revenue, in the corresponding quarter last year. The increase is mainly attributed to improved operating profit as discussed above.

Financing expenses, net were NIS 39 million in the third quarter of the year, compared with NIS 28 million in the corresponding quarter last year. The increase in net financing expenses is mainly driven by revenue recognition resulted by reversing impairment on a loan to an associate and discounting credit costs in the corresponding period last year. On the other hand, financing expenses fell due to a reduction of total debt of the Company.

Tax expenses were NIS 14 million in the third quarter of the year, compared with NIS 12 million in the corresponding quarter last year.

Profit for the period was NIS 51 million in the third quarter of the year, compared with NIS 47 million in the corresponding quarter last year.

The Company's basic and diluted earnings per share was NIS 0.24 in the third quarter of the year, compared with NIS 0.22 in the corresponding quarter last year.

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

	<u>Results of operations for the nine months ended September 30</u>			
	<u>2016</u>		<u>2015</u>	
	<u>%</u>	<u>NIS millions</u>	<u>%</u>	<u>NIS millions</u>
Revenues		8,974		8,582
Gross profit	25.4%	2,280	23.8%	2,043
Selling, marketing, administrative and general expenses	21.9%	(1,966)	21.7%	(1,861)
<u>Operating profit before other income</u>	<u>3.5%</u>	<u>314</u>	<u>2.1%</u>	<u>182</u>
Increase in fair value and gain on sale of investment property, net		2		5
<u>Operating profit after other income</u>		<u>316</u>		<u>187</u>
Financing expenses, net		(95)		*(85)
<u>Profit before taxes on income</u>		<u>221</u>		<u>102</u>
Taxes on income		(55)		(26)
<u>Profit for the period</u>		<u>166</u>		<u>76</u>

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

Retail segment revenue⁸ was NIS 8,940 million in the first nine months of the year, compared with NIS 8,545 million in the corresponding period last year, an increase of 4.6% that was mainly driven by the Company adjustments to changes in the retail food market. Turnover in the first nine months of the year increased by 5.9% as compared with the corresponding period last year.

Same store sales⁹ in stores that operated throughout the first nine months of the year and in the corresponding period last year, increased by 6.8% in sales. The increase is also due to, among other things, to changes in grocery basket composition and in special offer mix.

Sales per square meter¹⁰ in stores was NIS 18,111 in the first nine months of the year compared with NIS 16,527 in the corresponding period last year, a 9.6% increase that is mainly tanks to an increase in sales and a reduction in commercial space.

Real estate segment revenue was NIS 128 million in the first nine months of the year, compared with NIS 133 million in the corresponding period last year, as a result of a decrease in the number of properties and tenants.

⁸ See Note 6 to the financial statements.

⁹ Same store sales – gross sales of active stores that were opened before January 2015.

¹⁰ The areas of the new stores 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.

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Revenue from the loyalty club credit card management segment¹¹ was NIS 55 million in the first nine months of the year, compared with NIS 49 million in the corresponding period last year, an increase of 12.2%, which is mainly due to fees on credit spreads.

The Company's revenue was NIS 8,974 million in the first nine months of the year, compared with NIS 8,582 million in the corresponding period last year, an increase of 4.6% that was mainly due to the retail segment.

The gross profit was NIS 2,280 million in the first nine months of the year, compared with NIS 2,043 million in the corresponding period last year, an increase of NIS 237 million. The gross profit rate was 25.4%, compared with 23.8% in the corresponding period last year. The increase in the gross profit and in its rate is mainly driven by an increase in the Company's franchisers¹², an increase in the share of the private label, improved trade agreements, grocery basket composition, the special offer mix and cost cutting following implementation of the business plan (see Note 5(a) to the financial statements).

Selling, marketing, administrative and general expenses were NIS 1,966 million in the first nine months of the year, compared with NIS 1,861 million in the corresponding period last year. The expenses to revenue ratio was 21.9% compared with 21.7% in the corresponding period 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 stores.

Operating profit before other expenses in the retail segment was NIS 228 million in the first nine months of the year, or 2.6% of revenue, compared with NIS 91 million, or 1.1% of revenue, in the corresponding period last year, an increase of NIS 137 million that is due to the aforesaid.

Operating profit before other income in the real estate segment was NIS 103 million in the first nine months of the year, compared with NIS 111 million in the corresponding period last year. The decrease in profit was mainly due to lower revenue and an increase of NIS 2 million in maintenance expenses.

Operating profit in the loyalty club credit card management segment was NIS 35 million in the first nine months of the year compared with NIS 33 million in the corresponding period last year.

¹¹ The comparative data for the third quarter of 2015 were reclassified so as to reflect the credit card customers' club management segment.

¹² See Paragraph 3.1 of Part A (Description of the Entity's Business) in the periodic report.

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The Company's operating profit after other income was NIS 316 million, or 3.5% of revenue, in the first nine months of the year, compared with NIS 187 million, or 2.2% of revenue, in the corresponding period last year, an increase of NIS 129 million that is mainly attributed to the retail segment.

Operating profit before income tax depreciation and amortization (EBITDA) was NIS 525 million, or 5.9% of revenue, in the first nine months of the year, compared with NIS 378 million, or 4.4% of revenue, in the corresponding period last year. The increase is mainly attributed to improved operating income, as discussed above.

Financing expenses, net amounted to NIS 95 million in the first nine months of the year, compared with NIS 85 million in the corresponding period last year. The increase in financing expenses was mainly driven by revenue recognized on reversal of impairment on a loan to an associate and recognizing credit costs in the corresponding period last year. Additionally, over the first nine months of the year, the CPI was unchanged compared to lower CPI in the corresponding period last year. Conversely, financing expenses decreased due to lower total debt of the Company.

Tax expenses was NIS 55 million in the first nine months of the year, compared with NIS 26 million in the corresponding period last year. The increase is mainly attributed to the improvement in pre-tax profit as a result of the aforesaid.

Profit for the period was NIS 166 million in the first nine months of the year, compared with NIS 76 million in the corresponding period last year.

The Company's basic and diluted earnings per share were NIS 0.78 in the first nine months of the year, compared with NIS 0.36 in the corresponding period last year.

1.3 Financial position, liquidity and financing sources

1.3.1 Cash flow - Analysis of results for the third quarter of 2016 compared to corresponding quarter

Cash flow from operating activities

Net cash from operating activities was NIS 257 million in the third quarter of 2016, compared with NIS 396 million in the corresponding quarter last year. The decrease in cash flow from operating activities stemmed mainly from lower working capital.

Cash flow used in investing activities

Net cash used in investing activities was NIS 210 million in the third quarter of 2016, compared with NIS 235 million in the corresponding quarter last year. The cash used in investing activities in the third quarter of 2016 included mainly investment in deposits at NIS 100 million and acquisition of property, plant and equipment at NIS 97 million.

The cash used in investing activities in the third quarter of 2015 included mainly investment in deposits at NIS 150 million and acquisition of property, plant and equipment at NIS 86 million.

Cash flow used in financing activities

Net cash used in financing activities was NIS 7 million in the third quarter of 2016, compared with NIS 309 million in the corresponding quarter last year. The cash provided by financing activities in the third quarter of 2016 included mainly bonds issue in exchange of NIS 313 million (net).

1.3.2 Cash flow - Analysis of results for the nine months ended September 30, 2016 compared to the corresponding period

Cash flow from operating activities

Net cash from operating activities was NIS 738 million in the first nine months of 2016, compared with NIS 936 million in the corresponding period last year. The decrease in cash flow from operating activities stemmed mainly from decrease in working capital items on the one hand, and increased profitability on the other hand.

Cash flow used in investing activities

Net cash used in investing activities was NIS 124 million in the first nine months of 2016, compared with NIS 203 million in the corresponding period last year. The cash used in investing activities in the first nine months of 2016 included mainly, on the one hand, acquisition of property, plant and equipment at NIS 263 million, investment in deposits at NIS 100 million, and on the other hand, proceeds from the withdrawal of deposits at NIS 270 million.

The cash from investing activities in the first nine months of 2015 included mainly proceeds from the sale of marketable securities in the amount of NIS 696 million and on the other hand investment of NIS 150 million in deposits, the acquisition of NIS 51 million in marketable securities and the purchase of NIS 295 million in property, plant and equipment.

Cash flow used in financing activities

Net cash used in financing activities was NIS 773 million in the first nine months of 2016, compared with NIS 356 million in the corresponding period last year. The cash used in financing activities in the first nine months of 2016 included mainly the maturity of bonds and interest payments at NIS 628 million, a dividend payment 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 NIS 30 million.

The cash used in financing activities in the first nine months of 2015 included mainly maturity of bonds and interest payments of NIS 657 million, and on the other hand, a bond issue for NIS 313 million (net).

1.3.3 Balances of liquid assets and financial ratios

As at the end of the third quarter of 2016, net liquid assets (cash and cash equivalents, short-term deposits and marketable collaterals) amounted to NIS 697 million, compared with NIS 1,184 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 collaterals) amounted to NIS 1,026 million.

As at the end of the third quarter of 2016, the Company's liabilities to bondholders and banks, including interest payable (hereinafter – "**the financial debt**"), was NIS 2,580 million, compared with NIS 3,199 million in the corresponding quarter last year.

The ratio of the Company's financial debt to its total assets was approximately 35.5% at the end of the third quarter of 2016, compared with approximately 43.4% in the corresponding quarter last year. Total financial debt at the end of 2015 was NIS 3,129 million and financial debt to total assets ratio was 43.3%.

The Company's equity as at the end of the third quarter of 2016 was NIS 1,214 million, compared with NIS 1,092 million in the corresponding quarter last year. The Company's equity to total assets ratio was approximately 17% at the end of the third quarter of 2016, compared with 15% in the corresponding quarter last year.

As at the end of 2015, the Company's equity was 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 on the Company's liquidity in view of the working capital deficit as at September 30, 2016

As at September 30, 2016, the Company has a working capital deficit (on a consolidated basis) of NIS 559 million (compared with a working capital deficit of NIS 348 million as at December 31, 2015 and a working capital deficit of NIS 279 million as at September 30, 2015¹³), and it has a working capital deficit (on a stand-alone basis) of NIS 486 million as of September 30, 2016 (compared with working capital deficit of NIS 253 million as at December 31, 2015 and a working capital deficit of NIS 254 million as at September 30, 2015). The working capital deficit as at September 30, 2016 is mainly attributed to maturity of bonds and interest payments of NIS 628 million made in the first quarter.

The Company concluded the first nine months 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 amortization structure of the Company's Series B, C, D and E bonds, and mainly the Company's Series B and C bonds, created high burden of future maturities between 2016 and 2019 (inclusive). On August 4, 2015, the Company's Board of Directors approved a plan for dealing with those payments ("**the plan**") under which the Company will issue long-duration bonds (in other words – issue long-term bonds with principal payments beginning only after 2019) in, or around each of the years 2016 through 2019 (inclusive) in amounts that approximate the maturity payment required in each year in respect of those bond series or at least a significant part of it. In the third quarter of 2015, the Company began implementing the plan and issued to the public a new series of bonds (Series F) for NIS 317 million (gross) with a long duration (7.5 years), with principal payments beginning in 2020 (until 2028). In July 2016, the Company continued to implement the plan, replacing 50% of the par value of the outstanding Series B bonds (about NIS 511 million par value of Series B bonds) with bonds from an extended Series F, which were issued to those holders under a bond exchange offer based on a shelf prospectus. In total, Series F was expanded by about NIS 601 million par value following the bond exchange offer. The replacement contributed to, inter alia, a flatter debt maturity schedule over coming years and an increase in average bond duration.

As of the date of issuing this report, the Company's expected maturity payments for all outstanding bonds are expected to be NIS 489 million in 2017 (not including future linkage differences), and NIS 350 million on average in 2018 and 2019 (excluding future linkage differences). This maturity payments may require, in according to the outline, additional raising of debt by the company.

Additional measure in the outline, and in order to align the maturity payments and extend the average

¹³ The comparative figures as at 31 December 2015 and 30 September 2015 included a liability in respect of an option to acquire a partnership in the amount of 133 million and 114 million respectively. As of September 30, 2016 this liability is presented under non-current liabilities.

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duration, the Company's Board, concurrently to approving this report, and subject to approval by Tel –Aviv stock exchange, the Board of directors of the Company issued a shelf prospectus, which also serves as exchange offer filing, for replacing all remaining outstanding bonds (Series B) (approximately NIS 512 million par value) by Series E bonds of the Company.

In view of the above plan outline, 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 September 30, 2016, the Board of Directors decided that despite the working capital deficit as at September 30, 2016 the Company does not have a liquidity problem.

The assessment of the Company's accessibility to sources of credit (including issuing bonds as part of the plan) and the assessment of the Company's accessibility to possible additional sources of financing, considered the Company's market yield to maturity of bonds, credit rating, ability to realize real estate and the fact that the Company and its subsidiaries own lien-free real estate. Note that as at the date of this report, there is only a small number of liens of insignificant value on the assets of the Company and its subsidiaries, and that the Company does not have any commitments to not place liens on its assets other than its commitment in the trust deeds of the Series D, E and F bonds to not create a floating charge on its assets without obtaining consent of bondholders of 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 bonds 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 September 30, 2016, and CPI-linked payments in an annual amount of NIS 385 million.

The Company performed a swap transaction for exchanging NIS-denominated, CPI-linked cash flows with NIS-denominated, fixed cash flows, relating to bonds (Series F), which were issued in the period. The value of the hedge instrument is NIS 200 million. The transaction is accounted for as an accounting hedge.

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 September 30, 2016, the Company has forward contracts on the rate of the dollar in the amount of US dollar 5 million for settlement until February 2017 and forward contracts in the amount of Euro 4 million for settlement until August 2017.

In the third quarter of 2016, the Company incurred financial expenses in the amount of NIS 1.2 million in respect of these contracts, compared with NIS 1.8 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 its short-term investments and deposits.

2.2.4 Risks related to prices of securities in Israel

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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 September 30, 2016:

	September 30, 2016				
	Israeli currency		Foreign currency		Total
	Unlinked	Linked	Mainly dollar	Other items	
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
<u>Current assets:</u>					
Cash and cash equivalents	565	-	22	-	587
Short-term deposits	100	-	-	-	100
Marketable securities	6	4	-	-	10
Trade receivables	1,379	-	-	-	1,379
Other receivables	14	4	-	80	98
Current taxes	-	-	-	9	9
Inventories	-	-	-	733	733
<u>Non-current assets:</u>					
Investment in an associated company	-	-	-	69	69
Other investments	11	-	-	-	11
Investment property	-	-	-	510	510
Fixed assets	-	-	-	2,842	2,842
Intangible assets and deferred expenses	-	-	-	865	865
Deferred taxes	-	-	-	53	53
	<u>2,075</u>	<u>8</u>	<u>22</u>	<u>5,161</u>	<u>7,266</u>
<u>Current liabilities:</u>					
Current maturities of long-term loans	-	3	-	-	3
Current maturities of debentures	165	307	-	-	472
Trade payables	2,004	-	-	-	2,004
Other payables	239	-	-	712	951
Provisions	-	-	-	45	45
<u>Non-current liabilities:</u>					
Debentures	361	1,744	-	-	2,105
Employee benefits	-	-	-	146	146
Provisions	-	-	-	33	33
Liability in respect of option to acquire partnership	140	-	-	-	140
Other	7	-	-	53	60
Deferred taxes	-	-	-	93	93
Equity	-	-	-	1,214	1,214
	<u>2,916</u>	<u>2,054</u>	<u>-</u>	<u>2,296</u>	<u>7,266</u>
Net exposure (*)	<u>(841)</u>	<u>(2,046)</u>	<u>22</u>	<u>2,865</u>	<u>-</u>

(*) 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 September 30, 2016 (NIS millions)

Interest rate sensitivity								
Sensitive instruments	Market interest rate at reporting date	Gain (loss) from changes			Fair value as at September 30, 2016	Gain (loss) from changes		
		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	(3)	(0.0)	(0.0)	(0.0)
Total debentures		33.7	17.0	234.9	(2,750)	(278.8)	(17.3)	(34.6)
2005 issuance of Series B	1.26%	0.4	0.2	5.6	(200)	(5.9)	(0.2)	(0.4)
2005 issuance of Series B	1.26%	0.2	0.1	3.1	(112)	(3.3)	(0.1)	(0.2)
2006 issuance of Series B	1.26%	0.1	0.1	2.1	(74)	(2.2)	(0.1)	(0.1)
2007 issuance of Series B	1.26%	0.3	0.2	4.9	(174)	(5.2)	(0.2)	(0.3)
2009 issuance of Series C	0.96%	0.0	0.0	0.4	(66)	(0.5)	(0.0)	(0.0)
2010 issuance of Series B	1.26%	0.2	0.1	3.4	(122)	(3.6)	(0.1)	(0.2)
2010 issuance of Series C	0.96%	0.0	0.0	0.4	(54)	(0.4)	(0.0)	(0.0)
2013 issuance of Series D	2.40%	5.9	2.9	45.1	(440)	(54.3)	(3.0)	(6.0)
2013 issuance of Series E	3.18%	7.5	3.8	43.8	(453)	(52.4)	(3.8)	(7.7)
2015 issuance of Series F	2.82%	6.6	3.3	43.5	(364)	(52.1)	(3.4)	(6.8)
2016 issuance of Series F	2.82%	12.5	6.3	82.6	(691)	(98.9)	(6.4)	(12.9)
Loans granted		(0.0)	(0.0)	(0.1)	1	0.2	0.0	0.0
Deposits		(0.0)	(0.0)	(1.1)	585	1.1	0.0	0.0
CPI sensitivity								
Sensitive instruments	Base index	Gain (loss) from changes		Fair value as at September 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	(0.3)	(0.2)	(3)	0.2	0.3		
Debentures	74.3	(217.7)	(108.8)	(2,177)	108.8	217.7		
SWAP interest exchange		24.5	12.2	(2)	(11.7)	(23.1)		
Market price sensitivity								
Sensitive instruments	Gain (loss) from changes		Fair value as at September 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 November 8, 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 nine months of 2016, the Board of Directors held 10 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 nine months of 2016 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.
- For details on approval by the Company's Board of Directors, concurrently to issuing this report, and subject to approval by Tel Aviv stock exchange of a shelf prospectus, which constitute exchange offer filings for replacing all outstanding bonds (Series B) of the Company with bonds (Series E) of the Company., see paragraphs 1.3.4 to this report.

5. Specific Disclosure for Holders of Debentures
Data as at September 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	189	150	184	5	200	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	106	84	103	3	112	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	70	55	68	2	74	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	167	131	161	4	174	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	120	92	113	3	122	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	65	63	63	2	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	2	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	422	413	413	12	440	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	409	392	392	20	453	Fixed	5.23%	5.09%	Oct. 8, 2014	Oct. 8, 2029	Annual interest on Oct. 8 in each of the years 2014-2029	Unlinked

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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	328	317	317	14	364	Fixed	4.44%	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 in each of the years 2016-2028	CPI
	July 2016	601	643	648	601	601	27	691	Fixed	3.82%	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 in each of the years 2016-2028	CPI
Total		4,402	4,663	2,577	2,349	2,466	94	2,750							

* 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, Adv., CPA., 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. Note that on October 8, 2016, after the date of the statement of financial position, the Company repaid 29,524,500 par value of Series D bonds (excluding annual interest payment) and 27,998,500 par value of Series E bonds (excluding annual interest payment), such that as of the date of issuing this report, the remaining par value balance of Series D bonds is 383,818,500 par value and the remaining par value of Series E is 363,980,500 par value.
4. In the first nine months 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.
5. 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.
6. 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).

7. 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.
8. 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.
9. 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.
10. 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 bonds (Series B) to purchase from them up to NIS 511 million par value of the Company's bonds (Series B) held by them (constituting as of that date about 50% of the par value of the outstanding bonds (Series B)), by means of a partial bond exchange offer, in consideration for an issuance of the Company's bonds (Series F) by means of expansion of a series, at a ratio of 1.175 for each NIS 1 of bonds (Series B) against an issuance of NIS 601 million par value of Company bonds (Series F). The bond exchange offer was oversubscribed and in its framework the Company purchased NIS 511,626,735 par value of bonds (Series B) against an issuance (by expansion of a series) of NIS 601,161,414 par value of bonds (Series F). The bonds (Series B) that were purchased by the Company were cancelled and delisted.
11. 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 September 30, 2016 and proximate to the date of signing the financial statements:

Financial covenant	Calculation results	
	As at September 30, 2016	Proximate to the date of signing the financial statements*
Ratio of net debt to total balance sheet shall not exceed 60%	26%	26%
The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,214 million	NIS 1,214 million

(*) Note that the liabilities of the Company to meet financial covenants is applicable to each calendar quarter-end, as that information appears in the audited or reviewed financial statements of the Company as of that date, and the information appearing the "shortly before signing the financial statements" are estimates only, and are not reviewed nor audited.

Below 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 bonds as at September 30, 2016:

Restriction	Calculation results as at September 30, 2016
The Company's total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,214million
Ratio of the Company's net debt to EBITDA shall not exceed 7	2.7 (*)

(*) In the calculation of net debt to EBITDA ratio, the EBITDA figure was less income from a NIS 15 million change in an onerous contract.

12. Information about credit rating of the Company

On September 20, 2016, Maalot upgraded the Company from ilA to ilA+ and changed its outlook to stable, following improvement in financial ratios. The rating report is appended to this report by way of reference to an immediate report by the Company dated September 20, 2016 (reference no.: 2016-01-126115).

13. 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	iIA + Stable	AA Stable	November 8, 2005 (expansion of series)	iIAA Stable
				February 7, 2007 (expansion of series)	iIAA Stable
				May 11, 2009 (affirmation of rating)	iIAA Stable
				May 24, 2010 (affirmation of rating and lowering of Company rating outlook)	iIAA Negative
				December 21, 2010 and December 26, 2010 (lowering of rating and expansion of series, respectively)	iIAA- Stable
				October 4, 2011 (affirmation of rating)	iIAA- Stable
				March 5, 2012 (affirmation of rating and lowering of outlook)	iIAA- Negative
				September 20, 2012 (lowering of rating and affirmation of outlook)	iIA+ Negative
				December 2, 2012 (affirmation of rating and outlook)	iIA+ Negative
				September 16, 2013 (affirmation of rating)	iIA+ Negative
				October 3, 2013 (affirmation of rating)	iIA+ Negative
				April 23, 2014 (affirmation of rating)	iIA+ Stable
				May 6, 2015 (lowering of rating and affirmation of outlook)	iIA Stable
				May 26, 2016 (affirmation of rating and raising of outlook)	iIA Positive
September 20, 2016 (raising of rating and raising of outlook)	iIA+ Stable				

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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 C debentures – listed for trading	Ma'alot	ilA + Stable	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
September 20, 2016 (raising of rating and raising of outlook)	ilA+ Stable				
Series D debentures – listed for trading	Ma'alot	ilA + Stable	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
				September 20, 2016 (raising of rating and raising of outlook)	ilA+ Stable

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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 + Stable	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
				September 20, 2016 (raising of rating and raising of outlook)	ilA+ Stable
Series F debentures – listed for trading	Ma'alot	ilA + Stable	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
				September 20, 2016 (raising of rating and raising of outlook)	ilA+ Stable

14. 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.

Board of Directors' Report on the State of the Company's Affairs for the Six-Month Period Ended June 30, 2016

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

Itzik Abercohen
CEO

November 14, 2016

Shufersal Ltd

**Condensed Consolidated
Interim
Financial Statements
As at September 30, 2016**

(Unaudited)

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

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Condensed Consolidated Interim Statements of Financial Position

	September 30 2016	September 30 2015	December 31 2015
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	587	*1,024	746
Short-term deposits	100	*150	270
Marketable securities	10	10	10
Trade receivables	1,379	1,190	1,145
Other receivables	98	93	82
Current taxes	9	33	32
Inventory	733	653	643
Total current assets	2,916	3,153	2,928
Investment in associate	69	50	69
Other investments	11	9	15
Investment property	510	479	468
Fixed assets	2,842	2,753	2,801
Intangible assets and deferred expenses	865	832	859
Deferred taxes	53	98	90
Total non-current assets	4,350	4,221	4,302
Total assets	7,266	7,374	7,230

* See Note 2.C regarding reclassification.

Signed on behalf of the Board of Directors:

_____ Israel Berman Chairman of the Board of Directors	_____ Itzik Abercohen Chief Executive Officer	_____ Talya Huber CFO
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Date of approval: November 14, 2016

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

Condensed Consolidated Interim Statements of Financial Position

	September 30 2016	September 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	472	673	674
Trade payables	2,004	1,878	1,814
Other payables	951	*701	*586
Liability in respect of option to acquire partnership	-	*114	*133
Provisions	45	63	66
Total current liabilities	3,475	3,432	3,276
To banks and others	-	10	10
Debentures	2,105	2,521	2,450
Employee benefits	146	131	131
Provisions	33	56	51
Liability in respect of option to acquire partnership	140	-	-
Other	60	47	54
Deferred taxes	93	85	88
Total non-current liabilities	2,577	2,850	2,784
Equity			
Share capital	240	240	240
Premium on shares	560	560	560
Capital reserves	10	7	7
Treasury shares	(85)	(85)	(85)
Retained earnings	489	364	439
Total equity attributable to owners of the Company	1,214	1,086	1,161
Non-controlling interests	-	6	9
Total equity	1,214	1,092	1,170
Total liabilities and equity	7,266	7,374	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

	Nine months ended		Three months ended		Year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales and rentals	8,974	8,582	3,042	2,988	11,505
Cost of sales and services	6,694	6,539	2,271	2,249	8,716
Gross profit	2,280	2,043	771	739	2,789
Selling and marketing expenses	1,856	1,763	628	621	2,385
General and administrative expenses	110	98	39	36	130
Total selling, marketing, general and administrative expenses	1,966	1,861	667	657	2,515
Operating profit before other income	314	182	104	82	274
Other income	-	-	-	-	3
Increase in fair value of investment property, net	2	5	-	5	9
Total other income, net	2	5	-	5	12
Operating profit after other income	316	187	104	87	286
Financing expenses	(111)	(112)	(44)	(40)	(139)
Financing income	16	*27	5	*12	52
Financing expenses, net	(95)	(85)	(39)	(28)	(87)
Profit before taxes on income	221	102	65	59	199
Taxes on income	(55)	(26)	(14)	(12)	(46)
Profit for the period	166	76	51	47	153
Attributable to:					
Owners of the Company	166	76	51	47	150
Non-controlling interests	-	-	-	-	3
Profit for the period	166	76	51	47	153
Basic and diluted earnings per share (in NIS)	0.78	0.36	0.24	0.22	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

	Nine months ended		Three months ended		Year ended
	September 30	September 30	September 30	September 30	December 31
	2016	2015	2016	2015	2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	166	76	51	47	153
Items that may be reclassified subsequently to profit or loss					
The effective part of the change in the fair value of the hedging of cash flows	(2)	-	(2)	-	-
Total other comprehensive loss for the period that may be reclassified subsequently to profit or loss, net of tax	(2)	-	(2)	-	-
Items that will not be transferred to profit or loss					
Remeasurement of defined benefit plan	(10)	9	3	(3)	9
Revaluation reserve for fixed assets	6	-	-	-	-
Taxes on other comprehensive income items that will not be transferred to profit or loss	-	(2)	(1)	1	(2)
Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax	(4)	7	2	(2)	7
Total other comprehensive income (loss), net of tax	(6)	7	-	(2)	7
Total comprehensive income for the period	160	83	51	45	160
Attributable to:					
Owners of the Company	160	83	51	45	157
Non-controlling interests	-	-	-	-	3
Total comprehensive income for the period	160	83	51	45	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						Non-controlling interests	Total
	Share capital	Share premium	Capital reserve	Treasury shares	Retained earnings	Total		
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions		
For the nine months ended September 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	-	-	-	-	6	6	-	6
Dividend paid	-	-	-	-	(100)	(100)	-	(100)
Acquisition of non-controlling interests	-	-	-	-	(13)	(13)	(9)	(22)
Profit for the period	-	-	-	-	166	166	-	166
Other comprehensive loss for the period, net of tax	-	-	3	-	(9)	(6)	-	(6)
Balance as at September 30, 2016	240	560	10	(85)	489	1,214	-	1,214
For the nine months ended September 30, 2015 (unaudited)								
Balance as at January 1, 2015	240	560	7	(85)	281	1,003	6	1,009
Profit for the period	-	-	-	-	76	76	-	76
Other comprehensive income for the period, net of tax	-	-	-	-	7	7	-	7
Balance as at September 30, 2015	240	560	7	(85)	364	1,086	6	1,092

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						Non-controlling interests NIS millions	Total NIS millions
	Share capital	Share premium	Capital reserve	Treasury shares	Retained earnings	Total		
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions		
For the three months ended September 30, 2016 (unaudited)								
Balance as at July 1, 2016	240	560	12	(85)	434	1,161	-	1,161
Share based payment, net of tax	-	-	-	-	2	2	-	2
Profit for the period	-	-	-	-	51	51	-	51
Other comprehensive income for the period, net of tax	-	-	(2)	-	2	-	-	-
Balance as at September 30, 2016	240	560	10	(85)	489	1,214	-	1,214
For the three months ended September 30, 2015 (unaudited)								
Balance as at July 1, 2015	240	560	7	(85)	319	1,041	6	1,047
Profit for the period	-	-	-	-	47	47	-	47
Other comprehensive loss for the period, net of tax	-	-	-	-	(2)	(2)	-	(2)
Balance as at September 30, 2015	240	560	7	(85)	364	1,086	6	1,092
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 period	-	-	-	-	150	150	3	153
Other comprehensive loss 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

	Nine months ended		Three months ended		Year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	Unaudited NIS millions	Unaudited NIS millions	Unaudited NIS millions	Unaudited NIS millions	Audited NIS millions
Cash flows from operating activities					
Profit for the period	166	76	51	47	153
Adjustments for:					
Depreciation of fixed assets	194	178	67	57	236
Impairment losses on fixed assets	12	15	-	-	22
Amortization of intangible assets and deferred expenses	20	19	7	8	26
Taxes on income	55	26	14	12	46
Income tax paid	(17)	(17)	(5)	(8)	(23)
Income tax received	29	5	-	3	6
Financing expenses, net	95	*85	39	*28	87
Change in fair value and gain on sale of investment property, net	(2)	(5)	-	(5)	(9)
Change in employee benefits	1	(2)	1	3	(3)
Loss on sale of fixed assets	-	-	-	-	(3)
Share based payment	6	-	2	-	1
Change in provision for onerous contracts	(30)	(27)	(8)	(7)	(28)
Change in trade receivables	(228)	(81)	(218)	(155)	(35)
Change in other receivables	(19)	51	3	23	3
Change in inventory	(90)	100	(108)	19	110
Change in trade payables	188	308	161	180	268
Change in other payables, provisions and other liabilities	358	205	251	191	90
Net cash from operating activities	738	936	257	396	947

* 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

	Nine months ended		Three months ended		Year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	Unaudited NIS millions	Unaudited NIS millions	Unaudited NIS millions	Unaudited NIS millions	Audited NIS millions
Cash flows from investing activities					
Purchase of fixed assets	(263)	(295)	(97)	(86)	(384)
Proceeds from sale of fixed assets	1	10	-	5	16
Investment in deferred expenses and intangible assets	(17)	(14)	(6)	(5)	(25)
Investment in investment property	(17)	(7)	(6)	(3)	(6)
Proceeds from sale of investment property (including advances)	-	-	-	-	21
Taxes paid on sale of investment property and fixed assets	(2)	-	-	-	(3)
Purchase of marketable securities	(2)	(51)	(1)	-	(52)
Proceeds from sale of marketable securities	2	696	1	-	697
Cash payments from futures transactions, net	(2)	(3)	(1)	-	(5)
Repayment of long-term loans	-	10	-	-	13
Interest received	2	5	-	1	8
Proceeds from withdrawal of short-term deposits	170	*(150)	(100)	*(150)	(270)
Dividend received from investee company	4	3	-	3	3
Acquisition of operation	-	(1)	-	-	(1)
Net cash from (used in) investing activities	(124)	203	(210)	(235)	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)

	Nine months ended		Three months ended		Year ended
	September 30	September 30	September 30	September 30	December 31
	2016	2015	2016	2015	2015
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from financing activities					
Acquisition of non-controlling interests	(22)	-	-	-	-
Repayment of capital note	(8)	-	-	-	-
Proceeds from issuance of debentures, net	-	313	-	313	313
Repayment of debentures	(529)	(530)	-	-	(588)
Transaction costs related to debenture exchange	(2)	-	(2)	-	-
Interest paid	(99)	(127)	-	-	(162)
Dividend paid	(100)	-	-	-	-
Exercise of share options by employees	-	-	-	-	-
Receipt of long-term loans from banks	-	-	-	-	-
Repayment of long-term loans from banks	(2)	(1)	(1)	-	(2)
Partners' withdrawals from partnership	(11)	(11)	(4)	(4)	(15)
Net cash from (used in) financing activities	(773)	(356)	(7)	309	(454)
Increase (decrease) in cash and cash equivalents	(159)	783	40	470	505
Balance of cash and cash equivalents at the beginning of the period	746	241	547	554	241
Balance of cash and cash equivalents at the end of the period	587	* 1,024	587	* 1,024	746

* See Note 2.C regarding reclassification.

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

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

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 September 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.) (See note 5.H). 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. 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 November 14, 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) Income in the amount of NIS 7 million and NIS 6 million for the nine and three month periods ended September 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.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

Note 2 - Basis of Preparation (cont'd)**C. Change in classification (cont'd)**

- (2) 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 figures were reclassified for consistency purposes, such that an amount of NIS 133 million and NIS 114 million as of December 31, 2015 and September 30, 2015, respectively, was reclassified from other payables to a liability in respect of an option to acquire a partnership under current liabilities
- (3) The Group reclassified the statement of financial position balance of short-term deposits – amounting to NIS 150 million as of September 30, 2015 – from cash and cash equivalents to short-term deposits.

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,. Except as described below.

Hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of income or loss within "finance expenses (income)".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the statement of income or loss within finance expenses. The gain or loss relating to the non-effective portion is also recognized among "finance expenses (income" in the statement of income or loss.

When a hedging instrument expires or sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in statement of income or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income or loss within "other income (expenses), net".

In the reported period, the Company carried out a swap transaction for the swap of CPI-linked cash flows with fixed cash flows in respect of Series F bonds issued in the reported period (see note 5f and 5g).

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.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

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 6 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).

As regards the 6 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 12 million, before tax, was recognized in selling and marketing expenses in the statement of income for the nine months ended September 30, 2016, in respect of equipment and leasehold improvements in those properties.

Furthermore, a provision for onerous contracts in the amount of NIS 3 million, before tax, for the nine month periods ended September 30, 2016, 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 September 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.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

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

- 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 were changes 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 (decrease) in the defined benefit obligation for the nine and three month periods ended September 30, 2016. in the amount of NIS 8 million and NIS (3) million, respectively, and an increase (decrease) in deferred tax balances for the same periods in the amount of NIS 2 million and NIS (1) million, respectively, which were recognized against other comprehensive income.

- F.** In July 2016 the Company offered all holders of Company's Series B bonds to purchase from those bond holders up to NIS 511 million par value of Series B bonds (constituting 50% of the par value of the outstanding Series B bonds); the offer was made by way of a partial exchange purchase offer in consideration for issuance of NIS 601 million par value of Company's Series F bonds by way of bond expansion at a ratio of 1.175 per each NIS 1 Series B bond. The purchase offer was taken up in full and the Series B bonds, which were acquired by the Company, were cancelled and delisted. The value of the exchanged bonds was NIS 645 million (including interest payable).

The exchange transaction does not constitute an exchange of debt instrument with substantially different terms; all expenses arising from the exchange of bonds were deducted from the balance of the debt as of the date of exchange. Those expenses are amortized using the effective interest method over the remaining period. For details regarding the terms of the bonds, see note 17 to the annual financial statements as of December 31, 2015.

- G.** On August 23, 2016, the Company entered into a swap transaction for the swap of CPI-linked cash flows with fixed cash flows. The hedged instrument comprises principal and interest payments; interest will accrue on an annual basis as from the inception of the hedge in respect of a proportionate share (NIS 200 million) of the total amount of the Series F bonds (NIS 918 million). The amount of the hedge instrument is NIS 200 million. The transaction is accounted for as a hedge accounting transaction

- H.** In September, 2016, Discount Investment Ltd (DIC), the controlling shareholder of the Company, and Bronfman Fischer (B.F.) Commerce Limited Partnership ("Bronfman Fischer"), an interested party of the Company, engaged in an acquisition agreement (the "Acquisition Agreement"), whereby DIC acquired from Bronfman Fischer 9,097,127 ordinary shares of the Company for NIS 14.62 per share.

The shareholders agreement between DIC and Bronfman Fischer dated March 21, 2007 (as amended over the years) has expired and terminated with immediate effect concurrently to signing the Acquisition Agreement. Furthermore, under the Acquisition Agreement, Bronfman Fischer granted DIC an option to acquire up to additional 9,097,127 ordinary shares of Shufersal it is holding for an exercise price of NIS 14.62 per share (subject to standard market adjustment). The option will remain in effect through December 12, 2016.

As of the date of these financial statements, DIC and Bronfman Fischer hold 58.17% and 7.80%, respectively, of the issued and paid-up share capital of the Company, excluding the dormant shares.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

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.

Further to that mentioned in that note, the comparative data for the nine and three month period ended September 30, 2015 were reclassified so as to reflect the credit card customers' club management segment.

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 nine months ended September 30, 2016 (unaudited):

	Retail segment	Real estate segment	Credit card customers' club management segment	Reconciliation to consolidated	Consolidated
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Total external revenues	8,940	34	55	(55)	8,974
Inter-segment rental revenues	-	94	-	(94)	-
Segment revenues	8,940	128	55	(149)	8,974
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	193	103	-	(17)	279
customers' club Operating profit from management of credit card customers' club	35	-	35	(35)	35
Operating profit before other income (expenses)	228	103	35	(52)	314
Other income (expenses), net	(2)	6	-	(2)	2
Operating profit after other income (expenses)	226	109	35	(54)	316
Financing expenses					(111)
Financing income					16
Taxes on income					(55)
Profit for the period					166

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

Note 6 - Segment Reporting (cont'd)

For the nine months ended September 30, 2015 (unaudited):

	<u>Retail segment</u>	<u>Real estate segment</u>	<u>Credit card customers' club management segment</u>	<u>Reconciliation to consolidated</u>	<u>Consolidated</u>
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Total external revenues	8,545	37	49	(49)	8,582
Inter-segment rental revenues	-	96	-	(96)	-
Segment revenues	<u>8,545</u>	<u>133</u>	<u>49</u>	<u>(145)</u>	<u>8,582</u>
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	58	111	-	(20)	149
customers' club Operating profit from management of credit card customers' club	<u>33</u>	<u>-</u>	<u>33</u>	<u>(33)</u>	<u>33</u>
Operating profit before other income (expenses)	91	1111	33	(53)	182
Other income (expenses), net	-	4	-	1	5
Operating profit after other income (expenses)	<u>91</u>	<u>115</u>	<u>33</u>	<u>(52)</u>	<u>187</u>
Financing expenses					(112)
Financing income					*27
Taxes on income					<u>(26)</u>
Profit for the period					<u>76</u>

* Reclassification.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

Note 6 - Segment Reporting (cont'd)

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

	Retail segment	Real estate segment	Credit card customers' club management segment	Reconciliation to consolidated	Consolidated
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Total external revenues	3,029	13	19	(19)	3,042
Inter-segment rental revenues	-	31	-	(31)	-
Segment revenues	<u>3,029</u>	<u>44</u>	<u>19</u>	<u>(50)</u>	<u>3,042</u>
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	62	36	-	(6)	92
customers' club Operating profit from management of credit card customers' club	<u>12</u>	<u>-</u>	<u>12</u>	<u>(12)</u>	<u>12</u>
Operating profit after other income (expenses)	<u>74</u>	<u>36</u>	<u>12</u>	<u>(18)</u>	<u>104</u>
Financing expenses					(44)
Financing income					5
Taxes on income					<u>(14)</u>
Profit for the period					<u>51</u>

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

Note 6 - Segment Reporting (cont'd)

For the three months ended September 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	2,975	13	17	(17)	2,988
Inter-segment rental revenues	-	32	-	(32)	-
Segment revenues	<u>2,975</u>	<u>45</u>	<u>17</u>	<u>(49)</u>	<u>2,988</u>
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	40	37	-	(7)	70
customers' club Operating profit from management of credit card customers' club	<u>12</u>	<u>-</u>	<u>12</u>	<u>(12)</u>	<u>12</u>
Operating profit before other income (expenses)	52	37	12	(19)	82
Other income (expenses), net	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
Operating profit after other income (expenses)	<u>52</u>	<u>42</u>	<u>12</u>	<u>(19)</u>	<u>87</u>
Financing expenses					(40)
Financing income					*12
Taxes on income					<u>(12)</u>
Profit for the period					<u>47</u>

* Reclassification.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

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
customers' club 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 period					153

* Reclassification.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

Note 7 - Claims and Legal Proceedings

A provision in the total amount of NIS 9 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 nine month of 2016 and subsequent to the date of the statement of financial position:

A. Consumer claims

In the reporting period twenty one 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 850 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 sixteen of those claims in the amount of NIS 770 million.

In addition, in the reporting period three motions to certify consumer claims as class actions were filed against the Company and other defendants. A total amount of NIS 105 million is attributed to the Company in respect of these claims. Also seven motions to certify consumer claims as class actions were filed against the Company and other defendants, a total amount of NIS 7 billion is attributed to those motion without specifying an amount against the Company separately. At this early stage it is not yet possible to assess the outcome of eight of those claims in the amount of NIS 107 million.

In connection with this matter, in August 2016, the a motion to certify a claim as a class action was filed against the Company and other defendants (hereafter – "the respondents") claiming that the respondents or those acting on their behalf acted negligently since they have not tested certain products properly and/or were negligent in testing those products, which were allegedly marketed to food retailers with a salmonella bacteria contamination. It is claimed in the motion that the respondents' conduct allegedly amounts to gross negligence, negligent misrepresentation and false representation; breach of the Public Health Ordinance, breach of the Supervision of Products and Services Order (Food Quality), 1958; fundamental breach of agreement between the respondents and the consumers; unjust enrichment, breach of the Defective Products Law and the Consumer Protection Law. The total amount claimed is NIS 6.8 million. At this preliminary stage of the legal proceedings, where the Company has not yet filed its response to the motion and class action and taking into account what the judge said in Court during the preliminary hearing, the Company's legal advisors are of the opinion that the chances that the motion will be allowed (in respect of the Company) are higher than the chances that it will be rejected.

In the reporting period thirteen motions to certify consumer claims as class actions in the total amount of NIS 152 million have been dismissed and withdrawn at the approval of the court, at immaterial amounts.

In addition, six motions to certify consumer claims as class actions against the Company and other defendants in the total amount of NIS 99 million have been dismissed and withdrawn at the approval of the court, at immaterial amounts.

Subsequent to the date of the report, three 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 74 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.

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

Note 7 - Claims and Legal Proceedings (cont'd)

In addition, two motions to certify consumer claims as class actions in the total amount of NIS 9 million were filed against the Company and other defendants, at this early stage it is not yet possible to assess the outcome of the claims.

In addition, three motions to certify consumer claims as class actions in the total amount of NIS 12 million have been dismissed at the approval of the court, at immaterial amounts.

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 September 30, 2016		As at September 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	2,577	2,750	3,194	3,283	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 September 30, 2016				As at September 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	-	-	9	9	-	-	15	15
	10	-	11	21	10	-	9	19	10	-	15	25
Financial liabilities												
Swap-interest exchange	-	(2)	-	(2)	-	-	-	-	-	-	-	-

Notes to the Consolidated Financial Interim Statements as at September 30, 2016

<u>-</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>10</u>	<u>(2)</u>	<u>11</u>	<u>19</u>	<u>10</u>	<u>-</u>	<u>9</u>	<u>19</u>	<u>10</u>	<u>-</u>	<u>15</u>	<u>25</u>

- * 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

On November 14, 2016, the Company's board of directors approved, subject to approval by the Tel – Aviv stock exchange a shelf offering report, which also constitutes an exchange purchase offer to exchange all outstanding Series B bonds (approximately 512 million par value) with Series E bonds of the Company..