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

# For the Three-Month Period Ended March 31, 2016

# Contents

**Shufersal Ltd.**

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the three months ended March 31, 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 273 branches throughout the country in a few formats in a total area of approximately 508 thousand square meters. The Company employs about 12.3 thousand employees (calculated positions) and has annual sales of about NIS 11.5 billion. As at March 31, 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 March 31, 2016 (hereinafter – "**the financial statements**").

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

For details on management of the Company's review of 2015, see Paragraph 1.1.2 to the Board of Directors' report on the state of the Company's affairs as at December 31, 2015 ("**the 2015 directors' report**") as was reported on February 29, 2016 in the framework of the Company's periodic report for 2015 (reference no.: 2016-02-036673) ("**the periodic report**").

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

- Seasonality (see Paragraph 1.2 hereunder).
- The continuing increase in real estate efficiency.
- Gradual operation of the new logistics center in Shoham that began operating in February.
- The Company continued to monitor and prepare various scenarios regarding the sale of Mega branches in city centers ("Mega in the City" format).
- The Company continued to accelerate the development of its digital platform, mainly being the "Shufersal Online" system, and to open special warehouses.

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[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 (March 31, 2016) unless stated otherwise or implied otherwise by the context of the matter.

- The continued strengthening of the private label.

### 1.1.3 Significant events that occurred in the reporting period

- Further to that mentioned in Paragraph 14.4.1 of Part A (Description of the Entity's Business) in the Company's periodic report regarding extension of the collective agreements, on April 5, 2016 the Company and the employees' representatives signed an agreement extending the period of the aforesaid collective agreements until December 31, 2017.
- On April 4, 2016 the Company paid a dividend to its shareholders in the amount of NIS 100 million further to approval of the distribution on February 28, 2016 by the Board of Directors.

## 1.2 Analysis of results of operations

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

### 1.2.1 Analysis of results for the three months ended March 31, 2016 as compared to the corresponding period last year

| | Results of operations for the three months ended March 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | % | NIS millions | % | NIS millions |
| **Revenues** | | 2,860 | | 2,836 |
| **Gross profit** | 26.0% | 744 | 22.2% | 630 |
| Selling, marketing, administrative and general expenses | 22.7% | (650) | 21.2% | (602) |
| **Operating profit before other income** | **3.3%** | **94** | **1.0%** | **28** |
| Increase in fair value and gain on sale of investment property, net | | 1 | | - |
| **Operating profit after other income** | | **95** | | **28** |
| Financing expenses, net | | (21) | | (7) |
| **Profit before taxes on income** | | 74 | | 21 |
| Taxes on income | | (21) | | (8) |
| **Profit for the period** | | **53** | | **13** |

**Retail segment revenues**[2] amounted to NIS 2,849 million in the first quarter of the year, compared with NIS 2,824 million in the corresponding quarter last year, an increase of 0.9% that is mainly due to the Company dealing with the changes taking place in the retail food market. The Company’s turnover in the first quarter of the year increased by 3.1% as compared with the corresponding quarter last year.

In same store sales[3] with respect to stores that operated fully in the first quarter of the year and in the corresponding quarter last year, there was an increase of 3.6% in sales. Excluding the seasonality effect (the timing of the Passover holiday) the sales increased by 7.8%.

The sales per square meter[4] in the Company’s stores amounted to NIS 5,730 in the first quarter of the year compared with NIS 5,370 in the corresponding quarter last year, an increase of 6.7% that is mainly due to an increase in sales and to a reduction in selling areas.

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2 See Note 6 to the financial statements as at March 31, 2016.

3 Same store sales – gross sales of active branches that were opened before January 2015.

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

**Real estate segment revenues** amounted to NIS 43 million in the first quarter of the year, compared with NIS 44 million in the corresponding quarter last year.

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

**The Company's revenues** amounted to NIS 2,860 million in the first quarter of the year, compared with NIS 2,836 million in the corresponding quarter last year, an increase of 0.8% that is mainly due to the retail segment.

**The gross profit** amounted to NIS 744 million in the first quarter of the year, compared with NIS 630 million in the corresponding quarter last year, an increase of NIS 114 million. The gross profit rate was 26.0%, compared with 22.2% in the corresponding quarter last year. The increase in the amount of the gross profit and in its rate is mainly due to the improvement in trade agreements, a change in the mix of the Company's franchisers[6], an increase in the share of the private label and an increase in efficiency following implementation of the business plan ( see Note 5.A to the financial statements).

**Selling, marketing, administrative and general expenses** amounted to NIS 650 million in the first quarter of the year, compared with NIS 602 million in the corresponding quarter last year. The ratio of expenses to revenues was 22.7% compared with 21.2% in the corresponding quarter last year. The increase in expenses is mainly due to an increase in costs of minimum wages and to closing down and reducing branches.

**Operating profit before other expenses in the retail segment** amounted to NIS 66 million in the first quarter of the year, a rate of 2.3%, compared with a loss of NIS 3 million and a rate of 0.1% in the corresponding quarter last year, an increase of NIS 69 million that is due to the aforesaid.

**Operating profit before other income in the real estate segment** amounted to NIS 33 million in the first quarter of the year, compared with NIS 37 million in the corresponding quarter last year. The decrease in profit is mainly due to an increase of NIS 3 million in maintenance expenses.

**Operating profit in the credit card club customers' management segment** amounted to NIS 11 million in the first quarter of the year compared with NIS 10 million in the corresponding quarter last year.

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

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

**The Company's operating profit after other income** amounted to NIS 95 million and a rate of 3.3% in the first quarter of the year, compared with NIS 28 million and a rate of 1% in the corresponding quarter last year, an increase of NIS 67 million that is mainly due to the retail segment.

**Operating profit before depreciation and amortization (EBITDA)** amounted to NIS 168 million and a rate of 5.9% in the first quarter of the year, compared with NIS 89 million and a rate of 3.1% in the corresponding quarter last year. The increase is mainly due to the improvement in operating profit as aforesaid.

**Financing expenses, net** amounted to NIS 21 million in the first quarter of the year, compared with NIS 7 million in the corresponding quarter last year. The increase in financing expenses, net, is mainly due to the CPI decreasing at a lower rate in the first quarter of 2016 than in the corresponding quarter last year.

**Tax expenses** amounted to NIS 21 million in the first quarter of the year, compared with tax expenses of NIS 8 million in the corresponding quarter last year. The increase is mainly due to the improvement in pre-tax profit as a result of the aforesaid.

**Profit for the period** amounted to NIS 53 million in the first quarter of the year, compared with NIS 13 million in the corresponding quarter last year.

**The Company's basic and diluted earnings per share** amounted to NIS 0.25 in the first quarter of the year, compared with NIS 0.06 in the corresponding quarter last year.

## 1.3 Financial position, liquidity and financing sources

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

Cash flow from operating activities

Net cash from operating activities amounted to NIS 228 million in the first quarter of 2016, compared with NIS 469 million in the corresponding quarter last year. The decrease in cash flow from operating activities stemmed mainly from the decrease in working capital that is mostly due to the timing of the Passover holiday and the effect of the Food Law.

Cash flow from investing activities

Net cash from investing activities amounted to NIS 191 million in the first quarter of 2016, compared with NIS 548 million in the corresponding quarter last year. The cash from investing activities in the first quarter of 2016 included mainly proceeds from the withdrawal of deposits in the amount of NIS 270 million and on the other hand the purchase of fixed assets in the amount of NIS 80 million.

The cash from investing activities in the first quarter of 2015 included mainly the purchase of fixed assets in the amount of NIS 101 million and the acquisition of marketable securities in the amount of NIS 49 million, and on the other hand proceeds from the sale of marketable securities in the amount of NIS 694 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 659 million in the first quarter of 2016, compared with NIS 658 million in the corresponding quarter last year. The cash used in financing activities in the first quarter of 2016 included mainly the redemption of debentures in the amount of NIS 529 million, interest payments in the amount of NIS 99 million, and acquisition (through Shufersal Real Estate Ltd.) of the entire interest of Bailsol Investments (1987) Ltd. in Shufersal Bailsol Investments Ltd. for an amount of NIS 30 million.

The cash used in financing activities in the first quarter of 2015 included mainly the redemption of debentures in the amount of NIS 530 million and interest payments in the amount of NIS 127 million.

### 1.3.2 Balances of liquid assets and financial ratios

As at the end of the first quarter of 2016, the net liquid assets (cash and cash equivalents and marketable securities) amounted to NIS 516 million, compared with NIS 610 million as at the end of the corresponding quarter last year. The decrease in net liquid assets was due to a decline in cash balances.

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

As at the end of the first quarter of 2016, the Company's liabilities to banks and to the holders of debentures, including interest payable (hereinafter – "**the financial debt**"), amounted to NIS 2,517 million, compared with NIS 2,800 million in the corresponding quarter last year. The ratio of the Company's financial debt to its total assets was approximately 36.6% at the end of the first quarter of 2016, compared with approximately 39.8% in the corresponding quarter last year. Total financial debt at the end of 2015 amounted to NIS 3,129 million and the ratio of financial debt to total assets was approximately 43.3%.

The Company's equity as at the end of the first quarter of 2016 amounted to NIS 1,102 million, compared with NIS 1,010 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 16% at the end of the first quarter of 2016, compared with 14% in the corresponding quarter last year.

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

### 1.3.3 Board of Directors’ discussion of the Company’s liquidity in view of the working capital deficit as at March 31, 2016

As at March 31, 2016 the Company has a working capital deficit (on a consolidated basis) in the amount of NIS 833 million (compared with a working capital deficit of NIS 348 million as at December 31, 2015), and it has a working capital deficit (on a stand-alone basis) of NIS 749 million (compared with working capital deficit of NIS 253 million as at December 31, 2015). The working capital deficit as at March 31, 2016 is mainly due to the redemption of debentures and interest payments in the amount of NIS 628 million that were paid in the first quarter. It is noted that the Company concluded the first quarter of the year with a positive cash flow from operating activities.

As stated in the Company’s previous director’ reports, the repayment structure of the Company’s Series B, C, D and E debentures, and mainly the Company’s Series B and C debentures, creates a high burden of future payments between the years 2016 and 2019 (inclusive), as in those years the Company is expected to repay an average amount of debentures of NIS 630 million each year (principal and interest, not including linkage differences). It is noted that the Company has an insignificant amount of bank financing. On August 4, 2015 the Company’s Board of Directors approved a plan for dealing with those payments (“**the plan**”) by which the Company would issue debentures each year, in the years 2016 through 2019 (inclusive) or proximate to them, in an amount close to the amount of the payment required in that year in respect of those series of debentures or at least a significant part of it, which have a long average duration (in other words – issue long-term debentures with principal payments beginning only after 2019). In the third quarter of 2015 the Company began executing the aforesaid plan and issued to the public a new series of debentures (Series F) in an amount of NIS 317 million (gross) with a long average duration of 7.5, with principal payments beginning in 2020 (until 2028). The Series F issuance will serve to finance (together with the Company’s own resources and/or other debt raising) the Company’s payments in 2016 in an amount of NIS 726 million in respect of the outstanding Series B, C, D and E debentures (the aforesaid amount reflects the principal, interest and linkage differences accrued until the date of this report). It is noted that the current interest payments of Series F will be made out of the Company’s own resources.

In view of the aforesaid plan, and taking into account the Company’s accessibility to additional sources of credit and financing (as aforesaid), and in view of the Group’s balances of cash and cash equivalents and the Group’s cash flow forecast for the two year period beginning March 31, 2016, the Board of Directors decided that notwithstanding the working capital deficit as at March 31, 2016 the Company does not have a liquidity problem.

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

It is also noted that as at the date of the report, and according to the Company's assessment, the cash flow that will be generated for the Company from operating activities in the forthcoming years will meet the Company's operating activity requirements and investment needs.

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

# 2. Market Risk Exposure and Management

## 2.1 Company officer responsible for market risk management

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

## 2.2 Description of market risks

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

### 2.2.1 Consumer Price Index risks

The Company is exposed to changes in the Consumer Price Index, which relate primarily to the CPI-linked debentures that were issued by the Company, amounting to approximately NIS 2 billion as at March 31, 2016, and CPI-linked payments in an annual amount of NIS 385 million.

### 2.2.2 Foreign currency risks

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

As at March 31, 2016, the Company has forward contracts on the rate of the dollar in the amount of US$ 7 million for settlement until August 2016 and forward contracts in the amount of € 6.6 million for settlement until October 2016.

In the first quarter of 2016, the Company incurred financing expenses in the amount of NIS 1 million in respect of these contracts, compared with NIS 4 million in the corresponding quarter last year.

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

### 2.2.3 Interest rate risks

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

### 2.2.4 Risks related to prices of securities in Israel

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

## 2.3 Linkage bases report

Presented below is the Company's linkage bases report as at March 31, 2016:

| | March 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency | | |
| | Unlinked | Linked | Mainly dollar | Other items | Total |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| Current assets: | | | | | |
| Cash and cash equivalents | 500 | - | 6 | - | 506 |
| Marketable securities | 7 | 3 | - | - | 10 |
| Trade receivables | 1,162 | - | - | - | 1,162 |
| Other receivables | 17 | 4 | - | 85 | 106 |
| Current taxes | - | - | - | 31 | 31 |
| Inventories | - | - | - | 736 | 736 |
| Non-current assets: | | | | | |
| Investment in an associated company | - | - | - | 69 | 69 |
| Other investments | 11 | - | - | - | 11 |
| Investment property | - | - | - | 495 | 495 |
| Fixed assets | - | - | - | 2,812 | 2,812 |
| Intangible assets and deferred expenses | - | - | - | 860 | 860 |
| Deferred taxes | - | - | - | 73 | 73 |
| | 1,697 | 7 | 6 | 5,161 | 6,871 |
| Current liabilities: | | | | | |
| Current maturities of long-term loans | - | 2 | - | - | 2 |
| Current maturities of debentures | 151 | 447 | - | - | 598 |
| Trade payables | 1,964 | - | - | - | 1,964 |
| Other payables including derivatives | 353 | - | 1 | 399 | 753 |
| Provisions | - | - | - | 67 | 67 |
| Non-current liabilities: | | | | | |
| To banks and others | - | 2 | - | - | 2 |
| Debentures | 361 | 1,554 | - | - | 1,915 |
| Employee benefits | - | - | - | 141 | 141 |
| Other | 137 | - | - | 54 | 191 |
| Provisions | - | - | - | 48 | 48 |
| Deferred taxes | - | - | - | 88 | 88 |
| Equity | - | - | - | 1,102 | 1,102 |
| | 2,966 | 2,005 | 1 | 1,899 | 6,871 |
| Net exposure (*) | (1,269) | (1,998) | 5 | 3,262 | - |

(*) 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 March 31, 2016 (NIS millions)**

**Interest rate sensitivity**

| Sensitive instruments | | Gain (loss) from changes | | | Fair value as at March 31, 2016 | Gain (loss) from changes | | |
|---|---|---|---|---|---|---|---|---|
| | Market interest rate at reporting date | Change (increase) of 10% in interest | Change (increase) of 5% in interest | Increase of 2% in interest | | Decrease of 2% in interest | Change (decrease) of 5% in interest | Change (decrease) of 10% in interest |
| **Loans received** | | 0.0 | 0.0 | 0.1 | **(4)** | (0.1) | (0.0) | (0.0) |
| **Total debentures** | | 26.8 | 13.6 | 187.4 | **(2,670)** | (218.6) | (13.8) | (27.6) |
| **2005 issuance of Series B** | 1.21% | 0.9 | 0.5 | 14.6 | **(394)** | (15.6) | (0.5) | (0.9) |
| **2005 issuance of Series B** | 1.21% | 0.5 | 0.3 | 8.2 | **(221)** | (8.7) | (0.3) | (0.5) |
| **2006 issuance of Series B** | 1.21% | 0.3 | 0.2 | 5.4 | **(145)** | (5.7) | (0.2) | (0.3) |
| **2007 issuance of Series B** | 1.21% | 0.8 | 0.4 | 12.7 | **(344)** | (13.6) | (0.4) | (0.8) |
| **2009 issuance of Series C** | 1.08% | 0.1 | 0.0 | 1.1 | **(65)** | (1.1) | (0.0) | (0.1) |
| **2010 issuance of Series B** | 1.21% | 0.6 | 0.3 | 8.9 | **(241)** | (9.5) | (0.3) | (0.6) |
| **2010 issuance of Series C** | 1.08% | 0.0 | 0.0 | 0.9 | **(53)** | (0.9) | (0.0) | (0.0) |
| **2013 issuance of Series D** | 2.69% | 6.8 | 3.4 | 47.0 | **(427)** | (56.9) | (3.5) | (7.0) |
| **2013 issuance of Series E** | 3.68% | 8.9 | 4.5 | 44.9 | **(434)** | (53.9) | (4.6) | (9.2) |
| **2015 issuance of Series F** | 3.35% | 7.9 | 4.0 | 43.7 | **(346)** | (52.7) | (4.0) | (8.1) |
| **Loans granted** | | (0.0) | (0.0) | (0.1) | **2** | 0.1 | 0.0 | 0.0 |
| **Deposits** | | (0.0) | (0.0) | (0.8) | **423** | 0.8 | 0.0 | 0.0 |

**CPI sensitivity**

| Sensitive instruments | Base index | Gain (loss) from changes | | Fair value as at March 31, 2016 | Gain (loss) from changes | |
|---|---|---|---|---|---|---|
| | | 10% increase in CPI | 5% increase in CPI | | 5% decrease in CPI | 10% decrease in CPI |
| **Bank loans received** | 88.8 | (0.4) | (0.2) | **(4)** | 0.2 | 0.4 |
| **Debentures** | 74.3 | (211.8) | (105.9) | **(2,118)** | 105.9 | 211.8 |

**Market price sensitivity**

| Sensitive instruments | Gain (loss) from changes | | Fair value as at March 31, 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 | 0.5 | **10** | (0.5) | (1) |

# 3. Corporate Governance

## 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 May 10, 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 three months of 2016, the Board of Directors held 5 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 quarter of 2016 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.

**Shufersal Ltd.**

# 5. Specific Disclosure for Holders of Debentures

**Data as at March 31, 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 | 365 | 300 | 366 | 0 | 394 | 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 | 205 | 168 | 204 | 0 | 221 | 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 | 135 | 110 | 134 | 0 | 145 | 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 | 324 | 262 | 319 | 0 | 344 | 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 | 234 | 184 | 224 | 0 | 241 | Fixed | 2.81% | 5.2% | March 31, 2015 | March 31, 2019 | Annual interest on March 31 in each of the years 2011-2019 | CPI |
| Series C | August 2009 | 500 | 496 | 63 | 63 | 63 | 1 | 65 | 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 | 52 | 51 | 51 | 0 | 53 | 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 | 416 | 413 | 413 | 6 | 427 | 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 | 398 | 392 | 392 | 9 | 434 | Fixed | 5.23% | 5.09% | Oct. 8, 2014 | Oct. 8, 2029 | Annual interest on Oct. 8 in each of the years 2014-2029 | Unlinked |

| 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 | 321 | 317 | 317 | 8 | 346 | Fixed | 4.44% | 4.3% | Oct. 8, 2020 | Oct. 8, 2028 | Annual interest on Oct. 8 in each of the years 2016-2028 | CPI |
| **Total** | | **3,801** | **4,020** | **2,513** | **2,260** | **2,483** | **24** | **2,670** | | | | | | | |

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

**Notes:**

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

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

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

7. In accordance with the terms of the trust deeds of the Company's Series D, E and F debentures, the Company is permitted to early redeem (fully or partially) the Series D, E and F debentures. For additional details, see Paragraph 9.2 of the trust deed of the Series D debentures and Paragraph 9.2 of the trust deed of the Series E debentures (as detailed in the trust deeds annex of the Company's shelf prospectus dated May 30, 2012 and as amended on September 30, 2013) and Paragraph 9.2 of the trust deed of the Series F debentures as detailed in the trust deeds annex of the Company's shelf registration statement dated September 3, 2015 that was issued in accordance with the Company's shelf prospectus dated June 25, 2015.
8. See Note 17 to the Company's financial statements as at December 31, 2015 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.

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 March 31, 2016 and proximate to the date of signing the financial statements:

| **Financial covenant** | **Calculation results** | |
|---|---|---|
| | **As at March 31, 2016** | **Proximate to the date of signing the financial statements*** |
| Ratio of net debt to total balance sheet shall not exceed 60% | 29% | 29% |
| The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million | NIS 1,102 million | NIS 1,102 million |

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

Presented hereunder are the results of calculating the dividend distribution restrictions that apply to the Company in accordance with the terms of the Series D, E and F debentures as at March 31, 2016:

| Restriction | Calculation results as at March 31, 2016 |
|---|---|
| The Company's total equity (including non-controlling interests) shall not fall below NIS 750 million | NIS 1,102 million |
| Ratio of the Company's net debt to EBITDA shall not exceed 7 | 3.2 (*) |

(*) Revenue in the amount of NIS 12 million that derives from a change in an onerous contract was deducted from the EBITDA in the calculation of the ratio of the Company's net debt to EBITDA.

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

On May 6, 2015 Ma'a lot announced that it is lowering the rating of Shufersal to 'ilA' instead of '+ilA' with no change in the stable outlook of the Company's debentures. The rating report is included in the Company's immediate report dated May 6, 2015 (reference no. 2015-01-013656). On September 2, 2015 Ma'a lot announced that it is awarding a rating of 'ilA' to the Company's issuance of Series F debentures of up to a par value of NIS 400 million (see immediate report dated September 2, 2015, reference no. 2015-01-111957).

10. **Information on the rating of outstanding debentures**

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

| 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 |
| 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 |
| 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 |
| Series F debentures – listed for trading | Ma'alot | ilA Stable | ilA Stable | September 2, 2015 (initial rating) | ilA Stable |

## 11. 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.

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<br>Co-Chairman of the Board of Directors | Shalom Fisher<br>Co-Chairman of the Board of Directors | Itzik Abercohen<br>CEO |

May 15, 2016

# Shufersal Ltd

# Condensed Consolidated Interim Financial Statements As at March 31, 2016

## (Unaudited)

## Condensed Consolidated Interim Financial Statements as at March 31, 2016

### Contents

## Condensed Consolidated Interim Statements of Financial Position

| | March 31 2016 | March 31 2015 | December 31 2015 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Assets** | | | |
| Cash and cash equivalents | **506** | 600 | 746 |
| Short-term deposits | **-** | - | 270 |
| Marketable securities | **10** | 10 | 10 |
| Trade receivables | **1,162** | 1,291 | 1,145 |
| Other receivables | **106** | * 109 | 82 |
| Current taxes | **31** | 35 | 32 |
| Inventory | **736** | 839 | 643 |
| **Total current assets** | **2,551** | 2,884 | 2,928 |
| Investment in associate | **69** | 43 | 69 |
| Other investments | **11** | 12 | 15 |
| Investment property | **495** | 467 | 468 |
| Fixed assets | **2,812** | 2,697 | 2,801 |
| Intangible assets and deferred expenses | **860** | 826 | 859 |
| Deferred taxes | **73** | 111 | 90 |
| **Total non-current assets** | **4,320** | 4,156 | 4,302 |
| **Total assets** | **6,871** | 7,040 | 7,230 |

* See Note 2.c regarding reclassification.

Signed on behalf of the Board of Directors:

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

Date of approval: May 15, 2016

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

## Condensed Consolidated Interim Statements of Financial Position

| | March 31 2016 | March 31 2015 | December 31 2015 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Liabilities** | | | |
| Current maturities of long-term loans | **2** | 3 | 3 |
| Current maturities in respect of debentures | **598** | 588 | 674 |
| Trade payables | **1,964** | *1,939 | 1,814 |
| Other payables | **753** | 762 | 719 |
| Provisions | **67** | *60 | 66 |
| **Total current liabilities** | **3,384** | 3,352 | 3,276 |
| To banks and others | **2** | 11 | 10 |
| Debentures | **1,915** | 2,206 | 2,450 |
| Employee benefits | **141** | 157 | 131 |
| Provisions | **48** | 64 | 51 |
| Other | **191** | 158 | 54 |
| Deferred taxes | **88** | 82 | 88 |
| **Total non-current liabilities** | **2,385** | 2,678 | 2,784 |
| **Equity** | | | |
| Share capital | **240** | 240 | 240 |
| Premium on shares | **560** | 560 | 560 |
| Reserves | **12** | 7 | 7 |
| Treasury shares | **(85)** | (85) | (85) |
| Retained earnings | **375** | 282 | 439 |
| **Total equity attributable to owners of the Company** | **1,102** | 1,004 | 1,161 |
| **Non-controlling interests** | **-** | 6 | 9 |
| **Total equity** | **1,102** | 1,010 | 1,170 |
| **Total liabilities and equity** | **6,871** | 7,040 | 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

| | Three months ended | | Year ended |
|---|---|---|---|
| | March 31 2016 | March 31 2015 | December 31 2015 |
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| Sales and rentals | **2,860** | 2,836 | 11,505 |
| Cost of sales and services | **2,116** | 2,206 | 8,716 |
| **Gross profit** | **744** | 630 | 2,789 |
| Selling and marketing expenses | **619** | 572 | 2,385 |
| General and administrative expenses | **31** | 30 | 130 |
| Total selling, marketing, general and administrative expenses | **650** | 602 | 2,515 |
| **Operating profit before other income** | **94** | 28 | 274 |
| Other income, net | **-** | - | 3 |
| Increase in fair value and gain on sale of investment property, net | **1** | - | 9 |
| Total other income, net | **1** | - | 12 |
| **Operating profit after other income** | **95** | 28 | 286 |
| Financing expenses | **(26)** | (15) | (139) |
| Financing income | **5** | 8 | 52 |
| Financing expenses, net | **(21)** | (7) | (87) |
| **Profit before taxes on income** | **74** | 21 | 199 |
| Taxes on income | **(21)** | (8) | (46) |
| **Profit for the period** | **53** | 13 | 153 |
| **Attributable to:** | | | |
| Owners of the Company | **53** | 13 | 150 |
| Non-controlling interests | **-** | - | 3 |
| **Profit for the period** | **53** | 13 | 153 |
| **Basic and diluted earnings (loss) per share (in NIS)** | **0.25** | 0.06 | 0.71 |

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

## Condensed Consolidated Interim Statements of Other Comprehensive Income

| | Three months ended | | Year ended |
|---|---|---|---|
| | March 31 2016 | March 31 2015 | December 31 2015 |
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Profit for the period** | **53** | 13 | 153 |
| **Other comprehensive income (loss) items that will not be transferred to profit or loss** | | | |
| Remeasurement of defined benefit plan | **(7)** | (16) | 9 |
| Revaluation reserve for fixed assets | **6** | - | - |
| Taxes on other comprehensive income items that will not be transferred to profit or loss | **-** | 4 | (2) |
| **Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax** | **(1)** | (12) | 7 |
| **Total comprehensive income for the period** | **52** | 1 | 160 |
| **Attributable to:** | | | |
| Owners of the Company | **52** | 1 | 157 |
| Non-controlling interests | **-** | - | 3 |
| **Total comprehensive income for the period** | **52** | 1 | 160 |

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

## Condensed Consolidated Interim Statements of Changes in Equity

| | Attributable to the Company's owners | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Revaluation reserve for fixed assets | Treasury shares | Retained earnings | Total | Non-controlling interests | Total |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **For the three months ended March 31, 2016 (unaudited)** | | | | | | | | |
| **Balance as at January 1, 2016** | **240** | **560** | **7** | **(85)** | **439** | **1,161** | **9** | **1,170** |
| Share based payment, net of tax | **-** | **-** | **-** | **-** | **2** | **2** | **-** | **2** |
| Dividend to shareholders | **-** | **-** | **-** | **-** | **(100)** | **(100)** | **-** | **(100)** |
| Acquisition of non-controlling interest | **-** | **-** | **-** | **-** | **(13)** | **(13)** | **(9)** | **(22)** |
| Profit for the period | **-** | **-** | **-** | **-** | **53** | **53** | **-** | **53** |
| Other comprehensive income for the period, net of tax | **-** | **-** | **5** | **-** | **(6)** | **(1)** | **-** | **(1)** |
| **Balance as at March 31, 2016** | **240** | **560** | **12** | **(85)** | **375** | **1,102** | **-** | **1,102** |
| **For the three months ended March 31, 2015 (unaudited)** | | | | | | | | |
| **Balance as at January 1, 2015** | 240 | 560 | 7 | (85) | 281 | 1,003 | 6 | 1,009 |
| Profit for the period | - | - | - | - | 13 | 13 | - | 13 |
| Other comprehensive loss for the period, net of tax | - | - | - | - | (12) | (12) | - | (12) |
| **Balance as at March 31, 2015** | 240 | 560 | 7 | (85) | 282 | 1,004 | 6 | 1,010 |
| **For the year ended December 31, 2015 (audited)** | | | | | | | | |
| **Balance as at January 1, 2015** | 240 | 560 | 7 | (85) | 281 | 1,003 | 6 | 1,009 |
| Share based payment, net of tax | **-** | - | - | - | 1 | 1 | - | 1 |
| Profit for the year | - | - | - | - | 150 | 150 | 3 | 153 |
| Other comprehensive income 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

| | Three months ended March 31 2016 | Three months ended March 31 2015 | Year ended December 31 2015 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Cash flows from operating activities** | | | |
| Profit for the period | **53** | 13 | 153 |
| **Adjustments for:** | | | |
| Depreciation of fixed assets | **62** | 58 | 236 |
| Impairment losses on fixed assets | **11** | 6 | 22 |
| Amortization of intangible assets and deferred expenses | **5** | 5 | 26 |
| Taxes on income | **21** | 8 | 46 |
| Income tax paid | **(3)** | (6) | (23) |
| Income tax received | **-** | - | 6 |
| Financing expenses, net | **21** | 7 | 87 |
| Change in fair value and gain on sale of investment property, net | **(1)** | - | (9) |
| Change in employee benefits | **2** | 2 | (3) |
| Gain on sale of fixed assets | **-** | - | (3) |
| Share based payment | **2** | - | 1 |
| Change in provision for onerous contracts | **(4)** | (15) | (28) |
| Change in trade receivables | **(15)** | (187) | (35) |
| Change in other receivables | **(27)** | *38 | 3 |
| Change in inventory | **(93)** | (86) | 110 |
| Change in trade payables | **129** | *367 | 268 |
| Change in other payables, provisions and other liabilities | **65** | *259 | 90 |
| **Net cash from operating activities** | **228** | 469 | 947 |
| **Cash flows from investing activities** | | | |
| Purchase of fixed assets | **(80)** | (101) | (384) |
| Proceeds from sale of fixed assets | **1** | 1 | 16 |
| Investment in deferred expenses and intangible assets | **(3)** | (4) | (25) |
| Investment in investment property | **(3)** | (2) | (6) |
| Proceeds from sale of investment property | **-** | - | 21 |
| Taxes paid on sale of investment property and fixed assets | **-** | - | (3) |
| Purchase of marketable securities | **(1)** | (49) | (52) |
| Proceeds from sale of marketable securities | **1** | 694 | 697 |
| Cash payments from futures transactions, net | **-** | (2) | (5) |
| Repayment of long-term loans | **-** | 8 | 13 |
| Interest received | **2** | 4 | 8 |
| Proceeds from withdrawal of (investment in) short-term deposits | **270** | - | (270) |
| Acquisition of operation | **-** | (1) | (1) |
| Dividend received from investee company | **4** | - | 3 |
| **Net cash from investing activities** | **191** | 548 | 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)

| | Three months ended | | Year ended |
|---|---|---|---|
| | March 31 2016 | March 31 2015 | December 31 2015 |
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Cash flows from financing activities** | | | |
| Acquisition of non-controlling interests | **(22)** | - | - |
| Repayment of capita note | **(8)** | - | - |
| Proceeds from issuance of debentures, net | **-** | - | 313 |
| Repayment of debentures | **(529)** | (530) | (588) |
| Interest paid | **(99)** | (127) | (162) |
| Repayment of long-term loans from banks | **(1)** | - | (2) |
| Partners' withdrawals from partnership | **-** | (1) | (15) |
| **Net cash used in financing activities** | **(659)** | (658) | (454) |
| **Increase (decrease) in cash and cash equivalents** | **(240)** | 359 | 505 |
| **Balance of cash and cash equivalents at the beginning of the period** | **746** | 241 | 241 |
| **Balance of cash and cash equivalents at the end of the period** | **506** | 600 | 746 |

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

# Note 1 - General

### A. The reporting entity

Shufersal Ltd. (hereinafter – the "Company" and/or "Shufersal") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 30 Benyamin Shmotkin Street, Rishon-Le-Zion. The condensed consolidated interim financial statements of the Group as at March 31, 2016 comprise the Company, its subsidiaries (hereinafter together – "the Group") and an investment in an associate. The Company is mainly held by Discount Investment Corporation Ltd., which is the Company's controlling shareholder (which is controlled by IDB Development Corporation Ltd.) and by Isralom Properties Ltd. The Group is involved in the operation of a chain of supermarkets in Israel. The Group also operates in the area of real estate (through Shufersal Real-Estate Ltd., a wholly owned subsidiary) and as part of this activity owns shopping centers and commercial centers, as well as manages a credit card customers' club (through Shufersal Finance Limited Partnership) through which it offers the Shufersal and Yesh credit cards. The securities of the Company are registered for trade on the Tel Aviv Stock Exchange.

# Note 2 - Basis of Preparation

### A. Statement of compliance

These condensed consolidated 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 May 15, 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.

### C. Change in classification

(1) The Group reclassified part of the balance of advances to suppliers in the statement of financial position from other receivables to trade payables.
Comparative data as at March 31, 2015 were reclassified for consistency, so that an amount of NIS 42 million was classified from other receivables to trade payables.

## Note 2 - Basis of Preparation (cont'd)

**C. Change in classification (cont'd)**

(2) The Group reclassified part of the balance of insurance assets in the statement of financial position, which were received in respect of insurance claims that were closed in the past, from other receivables to provisions in the category of current liabilities.
Comparative data as at March 31, 2015 were reclassified for consistency, so that an amount of NIS 16 million was classified from other receivables to provisions in the category of current liabilities.

## Note 3 - Significant Accounting Policies

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

## Note 4 - Seasonality

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

## Note 5 - Events in the Reporting Period

**A.** Further to that mentioned in Notes 1.B.(1) and 10.D to the annual financial statements as at December 31, 2015 and for the year then ended, in the reporting period the Company reexamined branches having operating and cash flow losses in the geographical locations and reached the conclusion that 7 branches (under an operating lease) of all the branches that were examined either 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.
As regards these 7 branches, the Company calculated the recoverable amount in accordance with IAS 36. The recoverable amount of the branches planned to be shut down 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 is that these branches 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 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.

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

**A.** (cont'd)

The recoverable amount of the branches that are planned to be shut down is lower than their carrying amount and therefore an impairment loss in the amount of NIS11 million, before tax, was recognized in selling and marketing expenses in the statement of income for the period ended March 31, 2016, in respect of equipment and leasehold improvements existing in those branches.
Furthermore, a provision for onerous contracts in the amount of NIS 2 million, before tax, 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 March 31, 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 Shufersal Bailsol Investments Ltd., which were held by a third party, for the amount of NIS 30 million, so that after the acquisition the Group holds 100% of that company's shares. The transaction was accounted for as a transaction with non-controlling interests, and therefore the Group recognized a decrease of NIS 9 million in non-controlling interests and a decrease of NIS 13 million in retained earnings.

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

The effects of the aforesaid changes are:
An increase in the defined benefit obligation and an adjustment in deferred tax balances as at March 31, 2016 in the amount of NIS 7 million and NIS 2 million, respectively, which were recognized against other comprehensive income.

## Note 6 - Segment Reporting

The basis of segmentation and the measurement basis for the segment profit or loss are the same as that presented in Note 32 regarding operating segments in the financial statements as at December 31, 2015 and for the year then ended. Further to that mentioned in that note, the comparative data for the three month period ended March 31, 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 three months ended March 31, 2016 (unaudited):**

| | Retail segment | Real estate segment | Credit card customers' club management segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | 2,849 | 11 | 18 | (18) | 2,860 |
| **Inter-segment rental revenues** | - | 32 | - | (32) | - |
| **Segment revenues** | 2,849 | 43 | 18 | (50) | 2,860 |
| **Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club** | 55 | 33 | - | (5) | 83 |
| **Operating profit from management of credit card customers' club** | 11 | - | 11 | (11) | 11 |
| **Operating profit before other income (expenses)** | 66 | 33 | 11 | (16) | 94 |
| **Other income (expenses), net** | (2) | 3 | - | - | 1 |
| **Operating profit after other income (expenses)** | 64 | 36 | 11 | (16) | 95 |
| **Financing expenses** | | | | | (26) |
| **Financing income** | | | | | 5 |
| **Taxes on income** | | | | | (21) |
| **Profit for the period** | | | | | 53 |

## Note 6 - Segment Reporting (cont'd)

**For the three months ended March 31, 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** | 2,824 | 12 | 16 | (16) | 2,836 |
| **Inter-segment rental revenues** | - | 32 | - | (32) | - |
| **Segment revenues** | 2,824 | 44 | 16 | (48) | 2,836 |
| **Operating profit before other expenses and excluding profit from management of the credit card customers' club** | (13) | 37 | - | (6) | 18 |
| **Operating profit from management of credit card customers' club** | 10 | - | 10 | (10) | 10 |
| **Operating profit (loss) before other expenses** | (3) | 37 | 10 | (16) | 28 |
| **Other expenses, net** | - | (1) | - | 1 | - |
| **Operating profit after other expenses** | (3) | 36 | 10 | (15) | 28 |
| **Financing expenses** | | | | | (15) |
| **Financing income** | | | | | 8 |
| **Taxes on income** | | | | | (8) |
| **Profit for the period** | | | | | 13 |

## Note 6 - Segment Reporting (cont'd)

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

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

* Reclassified.

## Note 7 - Claims and Legal Proceedings

A provision in the total amount of NIS 16 million is included in the financial statements in respect of all the claims against the Company.

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

**Consumer claims**

In the reporting period three 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 473 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 the claims.

In addition, in the reporting period one motion to certify a consumer claim as a class action was filed against the Company and other defendants. A total amount of NIS 66 million is attributed to the Company in respect of this claim. At this early stage it is not yet possible to assess the outcome of the claim.

In the reporting period five motions to certify consumer claims as class actions in the total amount of NIS 43 million have been dismissed and withdrawn at the approval of the court, at immaterial amounts. In addition, two motions to certify consumer claims as class actions against the Company and other defendants in the total amount of NIS 20 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 10 million is attributed to the Company in respect of these claims. At this early stage it is not yet possible to assess the outcome of the claims.
In addition, five motions to certify consumer claims as class actions in the total amount of NIS 35 million have been dismissed at the approval of the court, at immaterial amounts, and one motion to certify a consumer claim as a class action against the Company and other defendants in the amount of NIS 11 million was dismissed without awarding expenses.

# Note 8 - Financial Instruments

**Financial instruments measured at fair value for disclosure purposes only**

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

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

| | As at March 31, 2016 | | As at March 31, 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** | **2,513** | **2,670** | 2,794 | 2,972 | 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 March 31, 2016 | | | | As at March 31, 2015 | | | | As at December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 3 | Total |
| | Unaudited | | | | Unaudited | | | | Audited | | |
| | NIS millions | | | | NIS millions | | | | NIS millions | | |
| **Financial assets** | | | | | | | | | | | |
| Marketable securities | **10** | **-** | **-** | **10** | 10 | - | - | 10 | 10 | - | 10 |
| Investment | **-** | **-** | **11** | **11** | - | - | 12 | 12 | - | 15 | 15 |
| | **10** | **-** | **11** | **21** | 10 | - | 12 | 22 | 10 | 15 | 25 |
| **Financial liabilities** | | | | | | | | | | | |
| Forward - hedge on transactions linked to foreign currency | **-** | **(1)** | **-** | **(1)** | - | (2) | - | (2) | - | - | - |
| | **-** | **(1)** | **-** | **(1)** | - | (2) | - | (2) | - | - | - |
| | **10** | **(1)** | **11** | **20** | 10 | (2) | 12 | 20 | 10 | 15 | 25 |

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