

Shufersal Ltd.

Periodic Report for the Year 2009

Contents

Board of Directors' Report to the Shareholders

Summary Consolidated financial statements as at December 31, 2009

We are pleased to present the Report of the Board of Directors of Shufersal Ltd. (**hereinafter – "Shufersal" and/or "the Company"**) for the year 2009 in accordance with the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970.

A. Principal Information from the Description of the Company's Business

Shufersal is the owner of the largest chain of supermarkets in Israel.

The Company operates in two operating segments that are reported as business segments in its consolidated financial statements.

The Company implements the instructions of IFRS 8, Operating Segments, in accordance with the accounting policies presented in Note 3.

The Company has two reportable segments that are strategic business units. The strategic business units offer different services and products and the allocation of resources and evaluation of performance are managed separately because they require different marketing strategies.

The retail segment –

This segment includes the retail marketing of food and other products in the Company's branches, the credit card activity and the manufacture of frozen and fresh baked products.

The results of the retail operations, which are based on the branches and geographical areas in which the branches are located, are reviewed regularly by the Company's CEO, who is the chief operating decision maker of the Company, for the purpose of making decisions about resources to be allocated to the retail segment and assessing the performance.

As at December 31, 2009, the Company's retail segment activity is carried out in 240 stores having a wide geographical spread.

The Company operates five formats as part of a business marketing strategy that is aimed at satisfying its diverse customer population and providing them a buying experience that differs and varies in each of the formats operated by the Company.

The Company has a broad mix of products that are organized in a number of sale departments and secondary departments in each branch, and which includes, inter alia, products sold under the private label, for the purpose of offering to the customer a quality product, developing customer loyalty and improving the profitability of the categories in which the private label is sold.

The Company's CEO examines the performance of the retail segment on the basis of a budget that is prepared on the level of the overall retail activity and makes significant decisions such as regarding investments in branches of the chain, the establishment of new branches in areas that are strategic to the Company and the value of continuing to operate losing branches or of alternatively changing the format of the branch, only on the basis of the statement of income of each relevant branch, while considering the different locations of the branches and considering all the chain's branches as a whole.

The Shufersal credit card activity constitutes an integral part of the retail marketing activity of the Group in the framework of the retail activity's customer club.

The manufacturing activity of frozen and fresh baked products is managed by a wholly owned subsidiary of the Company whose main sales are to the branches of the Company. As aforementioned, the manufacture of frozen and fresh baked products is a part of the retail activity because of its similar economic and qualitative characteristics.

As at December 31, 2009, the Company has 240 stores covering a total area of about 520 thousand sq.m. As at December 31, 2008, the Company had 232 stores covering a total area of about 511 thousand sq.m.

The rental real estate segment –

This segment includes the rental of various types of real estate properties including commercial centers and other assets, which include a principal and significant asset in Netanya. The Company also operates by means of investee companies that operate shopping malls and commercial centers, including: Shufersal Bailsol Investments Ltd. (Hatzomet Mall, Kfar-Saba – 50% interest in capital and 51% interest in voting rights), Merkaz Hakiryia (Ashdod 1995) Ltd. (50% interest in capital and voting rights) and Bay Heart Ltd. (37% interest in capital and voting rights).

As at December 31, 2009, the Company's relative share in the total area of the rental space is about 85 thousand sq.m.

The Company's revenues from rental real estate stem from rentals on leased properties and management fees in respect of management services and the operation of shopping malls.

See Note 33 of the Company's annual financial statements for segment information of the Company.

Principal changes during the years 2008 and 2009

1. **Merger of Shufersal Ltd. with Clubmarket**

On December 20, 2007, the Company's Board of Directors decided to execute an arrangement whereby Clubmarket Marketing Chains Ltd. (hereinafter – Clubmarket) will merge with and into the Company pursuant to Sections 350 and 351 of the Companies Law – 1999 ("the Companies Law"), such that upon completion of the merger Clubmarket will be dissolved without liquidation. On December 25, 2007 the merger agreement was signed by Shufersal and Clubmarket.

On December 31, 2008 the Income Tax Authorities approved the merger and provided that as from the 2008 tax year Shufersal would be permitted to offset the business losses and capital losses that were accumulated by Clubmarket and Shufersal before the date of the merger, providing that in each tax year in the 10 years following the date of the merger the amount of the offset does not exceed the lower of: 50% of the taxable income of Shufersal in that same tax year or 10% of the total amount of losses. On March 25, 2009 the merger was recorded by the Registrar of Companies and Clubmarket was dissolved without liquidation.

In accordance with IAS 12 and the merger arrangement, a goodwill adjustment expense in the amount of NIS 127 million was recorded in 2008 (under other expenses) and on the other hand a tax income in the amount of NIS 127 million was recorded in respect of the merger of Clubmarket, so that the net profit of the Company is unaffected. See also Note 13 of the Company's financial statements for December 31, 2009 ("the Company's annual financial statements").

2. Exercise of option ending partnership with Kol B.I. Food Company

In July 2008 the Company exercised an option ending the partnership with Kol B.I. Food Company Ltd. in the B.I. Retail partnership, and ending the concessions of Merav-Food Kol Ltd. ("Merav") in two branches that were operated by Merav under a concession agreement with Shufersal in the framework of exercising the aforementioned option. See also Note 5 of the Company's annual financial statements.

3. Sale of investment property

On June 24, 2008 the sale of the Company's shares in Kanyonim Israel Ltd. ("Kanyonim"), a then proportionately consolidated company (50%) that held the Bat Yam Mall, to Eldar Properties Ltd. was completed, for the price of NIS 157 million. The Company recognized a net after-tax gain of NIS 25 million in respect of the sale. In addition, on April 30, 2008 the sale of investment property (proximate to the Bat Yam Mall) was completed for the price of NIS 47 million. The Company recognized a net after-tax gain of NIS 12 million in respect of this transaction. See also Notes 5 and 11 of the Company's annual financial statements.

4. The Economic Efficiency Law

In July 2009, the Economic Efficiency Law (The Arrangements Law) was issued for the years 2009 and 2010 (hereinafter – "the Law" or "the Arrangements Law"). The law includes significant changes to various tax laws including, inter alia, the Income Tax Ordinance, the VAT Law and the National Insurance Law.

The changes provided by the law include, inter alia, a reduction in the tax rates applicable to companies and individuals (see Note 29 of the Company's annual financial statements), a reduced tax rate of 12% on dividends distributed to individuals from profits accumulated until the end of 2002, online reporting to the VAT authority, doubling the maximum amount payable in respect of national insurance and health tax, etc. The Company is taking steps to implement the VAT regulations regarding online reporting.

5. Shelf registration prospectus

In August 2009 the Company published a shelf registration offer in accordance with a shelf registration prospectus, pursuant to which it offered to the public NIS 500 million of the Company's Series C debentures. The Company raised a net amount of NIS 496 million (net of issuance expenses). See Section L of the report.

6. Compensation of senior executives

In August 2009, in the framework of the "2005 option plan", the Company allotted 4,300,000 options (not registered for trading) that are exercisable into 4,300,000 ordinary shares of NIS 0.1 par value each, to the CEO of the Company, six officers of the Company and an additional senior employee who is not an officer. See Section M of the report.

B. Results of Operations

Analysis of the results for 2009 compared with 2008

	Results of operations			
	2009		2008	
	%	NIS millions	%	NIS millions
Revenues		11,041		10,962
Gross profit	26.0	2,874	27.0	2,955
Selling, marketing, administrative, general and other expenses	21.6	(2,381)	21.8	(2,390)
Operating profit before increase in value, sale of property and goodwill adjustment	4.5	493	5.2	565
Increase in value and sale of investment property		3		74
Goodwill adjustment (1)		-		(127)
Operating profit after increase in value, sale of property and goodwill adjustment		496		512
Financing expenses, net		(62)		(204)
Taxes on income		(110)		(145)
Tax income in respect of merger of Clubmarket (1)		-		127
Group's share of losses of affiliated company, net		(1)		(8)
Profit for the period		323		282

(1) See Section A1 of this report – merger of Shufersal Ltd. with Clubmarket

Retail segment sales amounted to NIS 10,984 million in 2009 compared with NIS 10,897 million in the previous year, an increase of 0.8%. The increase in sales is mainly due to an increase in the number of the Company's stores and to in-depth campaigns that were held at the end of 2009. Same store sales¹ with respect to stores that operated fully this year and last year decreased by 0.3%. The decrease in sales is mainly due to a decrease in selling prices. The sales per sq.m in the Company's stores amounted to NIS 21,896 in 2009, compared with NIS 21,944 in 2008.

Rental real estate segment revenues amounted to NIS 57 million in 2009 compared with NIS 65 million in the previous year, a decrease of 12.3%. The decrease in revenues stemmed mainly from the sale of investment property at the end of the second quarter of 2008.

Total revenues in the retail and rental real estate segments amounted to NIS 11,041 million in 2009 compared with NIS 10,962 million in the previous year, an increase of 0.7%.

Gross profit in the retail segment amounted to NIS 2,857 million in 2009 compared with NIS 2,930 million in the previous year, a decrease of NIS 73 million. The gross profit rate in the retail segment was 26.0% in 2009 compared with 26.9% in the previous year. The decrease in gross profit and in the gross profit rate is mainly due to the decline in selling prices as a result of the increase in competition.

¹ Same stores – stores that were active in corresponding periods of the two comparison years.

Gross profit from the rental real estate segment amounted to NIS 17 million in 2009 compared with NIS 25 million in the previous year, a decrease of NIS 8 million. The decrease in gross profit stemmed from the decrease in revenues as mentioned above.

The Company's total gross profit amounted to NIS 2,874 million in 2009 compared with NIS 2,955 million in the previous year, a decrease of NIS 81 million. The gross profit rate was 26.0% in 2009, compared with 27.0% in the previous year.

The Company's selling, marketing, administrative, general and other expenses amounted to NIS 2,381 million in 2009, compared with NIS 2,390 million in the previous year. The ratio of expenses to revenues was 21.6% compared with 21.8% in the previous year. The decrease in expenses stemmed primarily from a decrease in electricity expenses. The decline in the expense ratio stemmed primarily from the increase in sales as aforementioned.

The operating profit before the increase in value, sale of property and goodwill adjustment amounted to NIS 493 million in 2009, a rate of 4.5%, compared with NIS 565 million and a rate of 5.2% in the previous year, a decrease of NIS 72 million (about 13%). The decrease in the operating profit stemmed mainly from the decrease in gross profit as aforementioned.

The increase in value of investment property amounted to NIS 3 million in 2009 compared with the increase in value and sale of investment property in the amount of NIS 74 million in the previous year that was the result of the sale of shares of Kanyonim and the sale of an additional asset adjacent to the Bat Yam Mall (the increase in value amounted to NIS 45 million and the capital gain on the sale of Kanyonim amounted to NIS 29 million). The Company recorded a goodwill adjustment expense in the amount of NIS 127 million in 2008 following the recognition of tax benefits in respect of the Clubmarket merger.

The operating profit after the increase in value, sale of property and the goodwill adjustment amounted to NIS 496 million in 2009 compared with NIS 512 million in the previous year.

The operating profit before the increase in value, sale of property, goodwill adjustment and depreciation and amortization (EBITDA) amounted to NIS 712 million in 2009, a rate of 6.4%, compared with NIS 801 million and a rate of 7.3% in the previous year.

The net financing expenses amounted to NIS 62 million in 2009, compared with NIS 204 million in the previous year. The decrease in financing expenses stemmed primarily from the decrease in the rate of inflation, which affects the CPI-linked liabilities of the Company (the known CPI increased in 2009 by 3.8% compared with an increase of 4.5% in the previous year), and from the financing income in respect of CPI-hedging transactions (in 2009 the income amounted to NIS 86 million compared with an expense of NIS 36 million in the previous year).

In 2009, the Company had tax expenses of NIS 110 million, compared with tax expenses of NIS 145 million in the previous year. The Company's effective tax rate was 25.3% in 2009, compared with 47.1% in the previous year (excluding tax income in respect of the Clubmarket goodwill). The high tax expense and effective tax rate in the corresponding period of last year were mainly due to the sale of investment property.

In 2008 the Company created tax income in the amount of NIS 127 million following the recognition of tax benefits in respect of the Clubmarket merger. See also Note 13 of the financial statements.

The profit amounted to NIS 323 million in 2009 compared with a profit of NIS 282 million in the previous year, an increase of 15%.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

The Company's basic earnings per share amounted to NIS 1.56 in 2009, compared with NIS 1.38 in the previous year. The Company's diluted earnings per share amounted to NIS 1.56 in 2009, compared with NIS 1.37 in the previous year.

Analysis of the results for 2008 compared with 2007

	Results of operations			
	2008		2007	
	%	NIS millions	%	NIS millions
Revenues		10,962		9,935
Gross profit	27.0	2,955	26.6	2,643
Selling, marketing, administrative, general and other expenses	21.8	(2,390)	22.2	(2,205)
Operating profit before increase in value, sale of property and goodwill adjustment	5.2	565	4.4	438
Increase in value and sale of investment property		74		18
Goodwill adjustment (1)		(127)		-
Operating profit after increase in value, sale of property and goodwill adjustment		512		456
Financing expenses, net		(204)		(103)
Taxes on income		(145)		(108)
Tax income in respect of merger of Clubmarket (1)		127		-
Group's share of losses of affiliated company, net		(8)		(8)
Profit for the period		282		237

(1) See Section A1 of this report –Merger of the Company with Clubmarket

Retail segment sales amounted to NIS 10,897 million in 2008 compared with NIS 9,861 million in the previous year, an increase of 10.5%. Same store sales² with respect to stores that operated fully this year and last year increased by 10.5%. The increase in sales is mainly due to an increase in selling prices following the price increases of suppliers, the launching of a new store format, the "Yesh" format, and an increase in the number of the Company's stores. The sales per sq.m amounted to NIS 21,944 in 2008, compared with NIS 19,713 in the previous year, an increase of 11.3%.

Rental real estate segment revenues amounted to NIS 65 million in 2008 compared with NIS 74 million in the previous year, a decrease of 12.2%. The decrease in revenues stemmed mainly from the sale of investment property.

Total revenues in the retail and rental real estate segments amounted to NIS 10,962 million in 2008 compared with NIS 9,935 million in the previous year, an increase of 10.3%.

² Same stores – stores that were active in corresponding periods of the two comparison years.

Gross profit in the retail segment amounted to NIS 2,930 million in 2008 compared with NIS 2,608 million in the previous year, an increase of NIS 322 million. The gross profit rate in the retail segment was 26.9% in 2008 compared with 26.4% in the previous year. The increase in gross profit stemmed primarily from the increase in sales as mentioned above. The increase in the gross profit rate stemmed primarily from the sales mix and well-timed purchases of inventories.

Gross profit from the rental real estate segment amounted to NIS 25 million in 2008 compared with NIS 35 million in the previous year, a decrease of NIS 10 million. The decrease in gross profit stemmed from the decrease in revenues as mentioned above.

The Company's total gross profit amounted to NIS 2,955 million in 2008 compared with NIS 2,643 million in the previous year, an increase of NIS 312 million. The gross profit rate was 27.0% in 2008, compared with 26.6% in the previous year.

The Company's selling, marketing, administrative, general and other expenses amounted to NIS 2,390 million in 2008, compared with NIS 2,205 million in the previous year. The ratio of expenses to revenues was 21.8% compared with 22.2% in the previous year. The increase in expenses stemmed primarily from an increase in minimum wages (about NIS 14 million), an increase in the rates of the electric company (about NIS 17 million), the launching of the "Yesh" format and an increase in the Consumer Price Index (the known CPI increased in 2008 by 4.5% compared with an increase of 2.8% in the previous year). The decline in the expense ratio stemmed primarily from the increase in revenues.

The operating profit before the increase in value, sale of property and goodwill adjustment amounted to NIS 565 million in 2008, a rate of 5.2%, compared with NIS 438 million and a rate of 4.4% in the previous year, an increase of NIS 127 million (about 29%). The increase in the operating profit stemmed from the increase in revenues and in the gross profit rate.

The increase in value and sale of investment property amounted to NIS 74 million in 2008 as a result of the sale of shares of Kanyonim and the sale of an additional asset at the Bat Yam Mall (the increase in value amounted to NIS 45 million and the capital gain on the sale of Kanyonim amounted to NIS 29 million), whereas in 2007 there was an increase in value of NIS 18 million. See also Notes 11 and 27 of the Company's financial statements. The Company recorded a goodwill adjustment expense in the amount of NIS 127 million following the recognition of tax benefits in respect of the Clubmarket merger.

The operating profit after the increase in value and sale of investment property and the goodwill adjustment resulting from the recognition of tax benefits in respect of the Clubmarket merger amounted to NIS 512 million in 2008 compared with NIS 456 million in the previous year.

The operating profit before the increase in value, sale of investment property, depreciation and amortization (EBITDA) amounted to NIS 801 million in 2008, a rate of 7.3%, compared with NIS 676 million and a rate of 6.8% in the previous year.

In 2008 the operating profit before the increase in value, sale of investment property, depreciation and amortization (EBITDA) did not include the revaluation and sale of investment property in the amount of NIS 74 million (the increase in value amounted to NIS 45 million and the capital gain on the sale of Kanyonim amounted to NIS 29 million) and the goodwill adjustment in the amount of NIS 127 million, whereas in 2007 the operating profit before the increase in value, sale of investment property, depreciation and amortization (EBITDA) did not include the revaluation of investment property in the amount of NIS 18 million.

The net financing expenses amounted to NIS 204 million in 2008, compared with NIS 103 million in the previous year. The increase in financing expenses stemmed primarily from the increase in the rate of inflation, which affects the CPI-linked liabilities of the Company (the known CPI increased in 2008 by 4.5% compared with an increase of 2.8% in the previous year), and from the financing expenses in respect of CPI-hedging transactions (in 2008 the expense amounted to NIS 36 million compared with income of NIS 35 million in the previous year).

In 2008, the Company had tax expenses of NIS 145 million excluding the tax income from the Clubmarket merger, compared with tax expenses of NIS 108 million in the previous year. The increase in tax expenses stemmed primarily from the increase in profit and from the tax expense on the sale of investment property in the amount of NIS 38 million. The Company's effective tax rate was 47.1% in 2008 without the goodwill adjustment, compared with 30.6% in the previous year. The increase in the effective tax rate stemmed primarily from the sale of investment property.

The Company created tax income in the amount of NIS 127 million following the recognition of tax benefits in respect of the Clubmarket merger. See also Note 13(2)(c) of the Company's financial statements.

The profit amounted to NIS 282 million in 2009 compared with a profit of NIS 237 million in the previous year, an increase of 19%.

The Company's basic earnings per share amounted to NIS 1.38 in 2008, compared with NIS 1.16 in the previous year. The Company's diluted earnings per share amounted to NIS 1.37 in 2008, compared with NIS 1.15 in the previous year.

Analysis of the results for the three months ended December 31, 2009 compared with the corresponding period of the previous year

	Results of operations			
	Q4 2009		Q4 2008	
	%	NIS millions	%	NIS millions
Revenues		2,746		2,697
Gross profit	26.7	733	27.3	737
Selling, marketing, administrative, general and other expenses	22.1	(606)	22.4	(605)
Operating profit before increase in value, sale of property and goodwill adjustment	4.6	127	4.9	132
Increase (decrease) in value and sale of investment property		4		(6)
Goodwill adjustment (1)		-		(127)
Operating profit (loss) after increase in value, sale of property and goodwill adjustment		131		(1)
Financing income (expenses), net		(29)		(66)
Taxes on income		(24)		(11)
Tax income in respect of merger of Clubmarket (1)		-		127
Group's share of profits (losses) of affiliated company, net		-		1
Profit for the period		78		50

(1) See Section A1 of this report –Merger of the Company with Clubmarket

Retail segment sales amounted to NIS 2,732 million in Q4/2009, compared with NIS 2,683 million in the corresponding quarter of the previous year, an increase of 1.8%. The increase in sales is mainly due to an increase in selling space and to sales campaigns as a result of the strong competition in the food retail market.

Same store sales³ with respect to stores that operated fully this quarter and in the corresponding quarter of the previous year increased by 1.1%. The sales per sq.m sales in the Company's stores amounted to NIS 5,444 in Q4/2009 compared with NIS 5,423 in the corresponding quarter of the previous year.

In Q4/2009, the Company's revenues from the rental real estate segment amounted to NIS 14 million, the same as in the corresponding period of the previous year.

Total revenues in the retail and rental real estate segments amounted to NIS 2,746 million in Q4/2009 compared with NIS 2,697 million in the corresponding quarter of the previous year, an increase of 1.8%.

Gross profit in the retail segment amounted to NIS 732 million in Q4/2009, compared with NIS 734 million in the corresponding quarter of the previous year, a decrease of NIS 2 million. The gross profit rate in the retail segment was 26.8% in Q4/2009, compared with 27.4% in the corresponding quarter of the previous year. The decrease in the gross profit rate is mainly due to the decline in selling prices as a result of the strong competition in the food retail market.

³ Same stores – stores that were active in corresponding periods of the two comparison years.

Gross profit from the rental real estate segment amounted to NIS 1 million in Q4/2009, compared with NIS 3 million in the corresponding quarter of the previous year.

Gross profit from the retail and rental real estate segments amounted to NIS 733 million in Q4/2009, compared with NIS 737 million in the corresponding quarter of the previous year, a decrease of NIS 4 million. The gross profit rate was 26.7% in Q4/2009, compared with 27.3% in the corresponding quarter of the previous year.

The Company's selling, marketing, administrative, general and other expenses amounted to NIS 606 million in Q4/2009, compared with NIS 605 million in the corresponding quarter of the previous year. The ratio of expenses to revenues was 22.1% compared with 22.4% in the corresponding quarter of the previous year. The decline in the expense ratio stemmed primarily from the increase in revenues.

The operating profit before the increase in value, sale of property and goodwill adjustment amounted to NIS 127 million in Q4/2009 compared with an operating profit of NIS 132 million in the corresponding quarter of the previous year, a decrease of NIS 5 million (about 4%). The operating profit rate before the increase in value, sale of property and goodwill adjustment was 4.6%, compared with 4.9% in the corresponding quarter of the previous year. The decline in the operating profit and in its rate is due to the aforementioned decrease in gross profit.

In Q4/2009 the increase in the value of investment property amounted to NIS 4 million compared with a decrease in the amount of NIS 6 million in the corresponding quarter of the previous year.

The Company recorded a goodwill adjustment expense in the amount of NIS 127 million following the recognition of tax benefits in respect of the Clubmarket merger.

The operating profit after the increase (decrease) in value and the goodwill adjustment resulting from the recognition of tax benefits in respect of the Clubmarket merger amounted to NIS 131 million in Q4/2009 compared with an operating loss of NIS 1 million in the corresponding quarter of the previous year.

The operating profit before the increase (decrease) in value, goodwill adjustment, depreciation and amortization (EBITDA) amounted to NIS 183 million in Q4/2009, a rate of 6.7%, compared with NIS 190 million and a rate of 7.0% in the corresponding quarter of the previous year. In Q4/2009 the operating profit before the increase in value, goodwill adjustment, depreciation and amortization (EBITDA) did not include an increase in value of investment property in the amount of NIS 4 million, whereas in the corresponding quarter of the previous year the operating profit before the decrease in value, goodwill adjustment, depreciation and amortization (EBITDA) did not include a decrease in value of investment property in the amount of NIS 6 million and a goodwill adjustment in the amount of NIS 127 million .

The net financing expenses amounted to NIS 29 million in Q4/2009, compared with NIS 66 million in the corresponding quarter of the previous year. The change in net financing expenses derives mainly from expenses in respect of the revaluation of hedging transactions (in Q4/2009 financing income from the revaluation of hedging transactions amounted to NIS 1 million, whereas in Q4/2008 financing expenses from the revaluation of hedging transactions amounted to NIS 53 million), and conversely the effect of the increase in the rate of inflation during the year on the CPI-linked liabilities of the Company (the known CPI increased in Q4/2009 by 0.2% compared with a decrease of 0.5% in the corresponding quarter of the previous year)

In Q4/2009, the Company had tax expenses of NIS 24 million, compared with tax expenses of NIS 11 million (excluding tax income from the Clubmarket merger) in the corresponding quarter of the previous year. The increase in the tax expenses stemmed primarily from the increase in pre-tax profit.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

The Company's effective tax rate before the goodwill adjustment was 23.5% in Q4/2009, compared with 18.3% in the corresponding quarter of the previous year. The decrease in the effective tax rate stemmed primarily from the aforementioned.

In 2008 the Company recognized tax income in the amount of NIS 127 million following the recognition of tax benefits in respect of the Clubmarket merger. See also Note 13 of the financial statements.

The profit amounted to NIS 78 million in Q4/2009 compared with NIS 50 million in the corresponding quarter of the previous year, an increase of 56%.

The Company's basic and diluted earnings per share amounted to NIS 0.38 in Q4/2009, compared with NIS 0.25 in the corresponding quarter of the previous year.

Condensed consolidated quarterly statements of income for the year 2009 and for the fourth quarter of 2008 (in NIS millions)

	2009					2008
	<u>Total for the year</u>	<u>Fourth quarter</u>	<u>Third quarter</u>	<u>Second quarter</u>	<u>First quarter</u>	<u>Fourth quarter</u>
Revenues	11,041	2,746	2,880	2,784	2,631	2,697
Gross profit	2,874	733	742	719	680	737
Selling, marketing, administrative, general and other expenses	(2,381)	(606)	(616)	(586)	(573)	(605)
Operating profit before increase in value, sale of property and goodwill adjustment	493	127	126	133	107	132
Increase in value and sale of investment property	3	4	(1)	-	-	(6)
Adjustment of goodwill in respect of Clubmarket merger	-	-	-	-	-	(127)
Operating profit after increase in value, sale of property and goodwill adjustment	496	131	125	133	107	(1)
Financing income (expenses), net	(62)	(29)	(38)	(3)	8	(66)
Group's share of losses of affiliated company	(1)	-	(1)	-	-	(1)
Profit before taxes on income	433	102	86	130	115	(66)
Taxes on income	(110)	(24)	(23)	(34)	(29)	(11)
Tax income in respect of merger of Clubmarket	-	-	-	-	-	127
Profit for the period	323	78	63	96	86	50

Consolidated statements of comprehensive income for the year ended December 31, 2009 and for the fourth quarter of 2008 (in NIS millions)

	2009					2008
	Total for the year	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter
Profit for the period	323	78	63	96	86	50
Other comprehensive income (loss)						
Net change in fair value of available-for-sale financial assets	18	1	4	5	8	(4)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(7)	(1)	(2)	(4)	-	3
Income tax on income and expense from available-for-sale financial assets recognized directly in equity	(2)	-	-	-	(2)	1
Defined benefit plan actuarial gains (losses)	7	(8)	-	23	(8)	(22)
Income tax on actuarial gains and losses recognized directly in equity	(4)	1	(1)	(6)	2	6
Other comprehensive income (loss) for the period, net of income tax	<u>12</u>	<u>(7)</u>	<u>1</u>	<u>18</u>	<u>-</u>	<u>(16)</u>
Total comprehensive income for the period	<u>335</u>	<u>71</u>	<u>64</u>	<u>114</u>	<u>86</u>	<u>34</u>
Attributable to:						
Equity holders of the Company	335	72	63	114	86	35
Minority interest	-	(1)	1	-	-	(1)
Total comprehensive income for the period	<u><u>335</u></u>	<u><u>71</u></u>	<u><u>64</u></u>	<u><u>114</u></u>	<u><u>86</u></u>	<u><u>34</u></u>

C. Financial Position, Liquidity and Financing Resources

Analysis of results for 2009 compared with 2008

Cash flow from operating activities

Net cash from operating activities amounted to NIS 749 million in 2009, compared with NIS 618 million in the previous year. The increase in cash flows from operating activities stems mainly from the decrease in working capital and the decrease in payments to the Income Tax Authorities. The payments to the Income Tax Authorities were higher in 2008 because of the sale of investment property.

Cash flow from investing activities

Net cash used in investing activities amounted to NIS 194 million in 2009, compared with NIS 73 million in the previous year. The cash used in investing activities in 2009 included mainly the acquisition of fixed assets in the amount of NIS 175 million and the acquisition of marketable securities net in the amount of NIS 16 million.

The cash used in investing activities in 2008 included mainly the acquisition of fixed assets in the amount of NIS 224 million, the acquisition of an operation and the exercise of an option to purchase the interest of the partners in the "Alef" chain in the amount of NIS 114 million and on the other hand included proceeds from the sale of investment property in the amount of NIS 204 million and the net sale of marketable securities in the amount of NIS 105 million.

Cash used to invest in fixed assets and investment property was as follows:

	2009	2008
	NIS millions	NIS millions
Fixed assets	175	224
Investment property	3	14
Total	178	238

Cash flow from financing activities

Net cash from financing activities amounted to NIS 67 million in 2009, compared with net cash used in financing activities in the amount of NIS 665 million in 2008. The cash used in financing activities in 2009 included mainly the payment of a dividend in the amount of NIS 247 million, the repayment of debentures, loans and interest in the amount of NIS 186 million and on the other hand the issuance of debentures in the amount of NIS 500 million (NIS 496 million net of issuance expenses).

The cash used in financing activities in 2008 included mainly the payment of a dividend in the amount of NIS 465 million and the repayment of bank loans and debentures in the amount of NIS 208 million.

Analysis of results for 2008 compared with 2007

Cash flow from operating activities

Net cash from operating activities amounted to NIS 618 million in 2008, compared with NIS 704 million in the previous year. The decrease in the cash flows from operating activities stems mainly from an increase in payments to the Income Tax Authorities as a result of the sale of real estate and from the increase in working capital as compared to the previous year.

Cash flow from investing activities

Net cash used in investing activities amounted to NIS 73 million in 2008, compared with NIS 408 million in the previous year. The cash used in investing activities in 2008 included mainly the acquisition of fixed assets in the amount of NIS 224 million, the acquisition of an operation and the exercise of an option to purchase the interest of the partners in the "Alef" chain in the amount of NIS 114 million and on the other hand included proceeds from the sale of investment property in the amount of NIS 204 million and the net sale of marketable securities in the amount of NIS 105 million. The cash used in investing activities in 2007 included mainly an investment in fixed assets in the amount of NIS 169 million and the net acquisition of marketable securities in the amount of NIS 246 million.

Cash used to invest in fixed assets and investment property was as follows:

	2008	2007
	NIS millions	NIS millions
Fixed assets	224	169
Investment property	14	3
Total	238	172

Cash flow from financing activities

Net cash used in financing activities amounted to NIS 665 million in 2008, compared with net cash used in financing activities in the amount of NIS 175 million in 2007. The cash used in financing activities in 2008 included mainly the payment of a dividend in the amount of NIS 465 million and the repayment of debentures, loans and interest. The cash used in financing activities in 2007 included mainly proceeds from the issuance of debentures in the amount of NIS 500 million, and on the other hand the payment of a dividend in the amount of NIS 335 million and the repayment of bank loans, debentures and interest in the amount of NIS 270 million.

Financial ratios

As at the end of 2009, the Company's consolidated net liquid assets (cash, cash equivalents and marketable securities net of overdrafts) amounted to NIS 899 million, compared with NIS 248 million as at the end of the previous year. The increase is mainly due to the issuance of debentures in the amount of NIS 496 million in August 2009.

As at the end of 2009, the Company's liabilities to banks and to the holders of debentures, including interest payable (hereinafter – "the Financial Debt"), amounted to NIS 2,417 million, compared with NIS 1,937 million as at the end of the previous year. The ratio of loans and debentures to total balance sheet as at the end of 2009 was 40%, compared with 36% as at the end of the previous year.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

The Company's equity as at the end of 2009 amounted to NIS 1,345 million, compared with NIS 1,249 million as at the end of the previous year. The increase is mainly due to the accounting profit less distribution of a dividend. The ratio of shareholders' equity to total balance sheet as at the end of 2009 was 22%, compared with 23% as at the end of the previous year.

D. Outstanding Debentures to Institutional Investors and the Public

Data as at December 31, 2009

Series	Date of issuance	Par value on date of issuance (NIS millions)	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 interest (NIS millions)	Accumulated interest (NIS millions)	Fair value (NIS millions)**	Stock market value (NIS millions)	Type of interest	Effective interest rate on date of issuance	Stated interest	Payment date of principal		Interest payment dates	Type of linkage
													First date	Last date		
Series B – debentures listed for trading	April 2005	500	498	571	500	573	22	658	652	Fixed	5.24%	5.2%	March 31, 2015	March 31, 2019	Annual interest on 03.31 of each year between 03.31.06, and 03.31 2019	CPI
	Nov. 2005	280	299	323	280	320	13	368	365	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on 03.31 of each year between 03.31.06, and 03.31 2019	CPI
	March 2006	184	200	213	184	210	8	241	240	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on 03.31 of each year between 03.31.06, and 03.31 2019	CPI
	Feb. 2007	436	499	525	436	499	20	574	568	Fixed	4.3%	5.2%	March 31, 2015	March 31, 2019	Annual interest on 03.31 of each year between 03.31.07, and 03.31 2019	CPI

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

Series	Date of issuance	Par value on date of issuance (NIS millions)	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 interest (NIS millions)	Accumulated interest (NIS millions)	Fair value (NIS millions)**	Stock market value (NIS millions)	Type of interest	Effective interest rate on date of issuance	Stated interest	Payment date of principal		Interest payment dates	Type of linkage
													First date	Last date		
Series C – debentures listed for trading	Aug. 2009	500	496	496	500	500	11	498	520	Fixed	5.68%	5.45%	Feb. 3, 2010	Feb. 3, 2017	Annual interest on 02.03 of each year between 02.03 2010 and 02.03 2017	Non-linked
Debentures not listed for trading	Jan. 2002	317	316	191	159	192	7	208	Not listed for trading	Fixed	4.86%	4.8%	March 30, 2007	March 30, 2012	Annual interest on 03.30 of each year between 03.30 2003 and 03.30 2012	CPI
Total		2,217	2,308	2,319	2,059	2,294	81	2,547	2,345							

* Carrying amount – The carrying amount of the principal plus interest discounted according to the effective interest rate on the date of issuance and linked to the CPI at the reporting date.

** Fair value – The principal plus interest discounted at the market interest rate at the reporting date and linked to the CPI at the reporting date.

Notes:

1. The principal payments of the debentures are annual.
2. The trustee of the Company's debentures that are not listed for trading is Reznik Paz Nevo Trusts Ltd., from 14 Yad Harutzim St., Tel Aviv (tel. 03-6393311, fax. 03-6393316). The contact person at the trustee is Yossi Reznik, CPA, e-mail: trust@rpn.co.il
3. The trustee of the Series B debentures listed for trading is Hermetic Trusts (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
4. The trustee of the Series C debentures is Strauss Lazer 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@sicpa.co.il
5. Throughout 2009, at its end and up to and including the date of this report, the Company is in compliance with all the conditions and liabilities under the trust deeds and there is no cause for demanding immediate repayment of the Company's outstanding debentures.
6. If the Tel Aviv Stock Exchange Ltd. should decide to delist the Company's Series B debentures and/or Series C debentures because the value of the relevant series is less than the minimum amount provided in the articles of the stock exchange with respect to delisting, the Company shall make an early redemption of the relevant series, as stated in Sections 3.1.14 and 3.3.16.1 of the Company's prospectus from July 22, 2009 (respectively for each of the aforementioned series).

Details regarding the rating of the outstanding debentures

On May 11, 2009 Standard & Poor's Maalot affirmed the ilAA/Stable rating of the Company's then outstanding debentures (Series B and non-marketable debentures).

In accordance with the rating report, in order to maintain the current rating, the Company is required to maintain an adjusted FFO to adjusted debt ratio of no less than 20%. As at the date of issuing this report the Company is in compliance with the said condition.

The aforementioned rating report is attached to this report as an annex. In this respect, adjusted FFO – flow from operating activities net of changes in working capital plus specific adjustments made by Standard & Poor's Maalot, adjusted debt – gross financial debt on the books, plus capitalization of lease contracts and plus specific adjustments made by Standard & Poor's Maalot.

On July 27, 2009 Standard & Poor's Maalot granted a rating of ilAA/Stable to the Series C debentures that were issued by the Company. The rating report is attached to this report as an annex.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

Presented hereunder are additional details regarding previous ratings of the outstanding debentures:

Series	Name of rating company	Current rating	Rating on date of issuance	Additional ratings between the original date of issuance and reporting date	
				Date	Rating
Series B – listed for trading	S&P Maalot	AA Stable	AA Stable	November 8, 2005 (expansion of series)	AA Stable
				February 7, 2007 (expansion of series)	AA Stable
Debentures not listed for trading	S&P Maalot	AA Stable	AA+ Stable	February 1, 2004	AA Negative

E. Report on Exposure to Market Risks and Management Thereof

The party responsible for the management of the Company's financial market risks is Mr. Shlomo Zohar, CFO. For details with respect to his education, qualifications and business experience, see Regulation 26A of the Periodic Report.

Description of the market risks

Market risks reflect the risk of changes in the value of financial instruments caused by fluctuations in interest rates, the Consumer Price Index, foreign currency exchange rates and prices of securities.

1. Changes in the economic environment

In September 2008 the global financial markets were again considerably shaken with the collapse of a number of the largest financial groups in the USA and other countries. The escalation of the crisis resulted in, inter alia, severe damages to global capital markets, significant falls and fluctuations in prices of securities on stock exchanges in Israel and around the world, and to deterioration in the credit crisis that began as a result of sub-prime mortgage crisis. As a result of the aforementioned events, a number of countries have taken various measures to stabilize and prevent the deterioration of the financial markets, including by providing money to financial institutions and lowering interest rates.

Furthermore, in the second half of 2008, the aforementioned credit crisis erupted and spread also to other sectors in Israel and the world, including the industry and hi-tech sectors, and companies underwent a crisis, which resulted in part of them discontinuing their operations and also caused the dismissal of employees. The crisis on the global markets and the economic slowdown had an effect also in Israel. As from the second half of 2009 there are signs on the global economy as well as in Israel that the economy is stabilizing, which is reflected in the escalation of the crisis stopping and even signs of recovery with respect to part of the economic indicators.

Nevertheless, as at the date of this report, the slowdown described above does not have a material effect on the financial position of the Company including on the composition and value of its assets, on its financial strength and liquidity. Nonetheless, it is noted that neither the duration nor the intensity of the slowdown can be assessed and accordingly, the overall extent of the direct and indirect economic effects, in the short, medium and long term, of the said slowdown on the Company, the value of its assets, its results, the condition of its business, its equity and its ability to realize its assets. Management of the Company examines the developments on a regular basis and the effects of the slowdown on its business.

As described above in Section C of the Board of Directors' report, "Financial Position, Liquidity and Financing Resources", and in accordance with the cash flows presented in the financial statements, and subject to there being no material deterioration in the Company's sales and profitability, the Company's cash flows from operating activities are expected to enable repayment of the liabilities without it being necessary to raise short and long term sources of financing.

The information and the Company's assessments regarding its ability to not require short and long term sources of financing is forward-looking information as defined in the Securities Law. The actual situation may be significantly different from that forecasted above, as a result of various reasons, of which the main ones are economic changes in the economy that have a negative effect on purchasing power, including the risk factors described in this section and the occurrence of the risk factors described in Section 13 of the chapter "Description of the Company's Business".

As described above in Section B of this report, "Results of Operations", and in accordance with the statement of income presented in the financial statements, the Company continued to present an improvement in its results of operations as compared with the previous year.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

Presented hereunder is a repayment schedule as at December 31, 2009 of debentures (principal and interest) and loans according to year of repayment:

Year	Debentures*	Bank loans	Total
2010	230	3	233
2011	226	3	229
2012	209	3	212
2013	138	4	142
2014 and thereafter	1,597	4	1601
Total	2,400	17	2,417

* Repayment of debentures (principal + interest) discounted according to the effective interest rates on the date of issuance – part linked to the Consumer Price Index and part unlinked.

The Company has investment property in the amount of NIS 329 million. A yield rate of between 8% and 12% was taken into consideration in the calculation of the value of the investment property. This rate takes into account the risk that arises from the lease agreements being short term. The Company has one principal lessee that vacated a small part of the area it leased in the current quarter. Most of this area was leased out to another lessee at better terms. The Company leases out investment property to a large amount of lessees with which there was no change in the lease agreements and/or the entry of new significant lessees that have an effect on the value of the investment property.

The Company shall continue to monitor the development on the financial markets and their effects on the Israeli economy, and it is possible that the developments will lead to a decrease in the value of the Company's securities portfolio, the value of its investment property and/or the value of its severance pay funds.

2. Consumer Price Index risks

The Company is exposed to changes in the Consumer Price Index ("the CPI") in respect of debentures issued by the Company in the net amount of NIS 1.8 billion.

In 2005 and 2006, the Company purchased long-term forward contracts on the CPI in the amount of NIS 780 million for the purpose of hedging long-term liabilities.

In November 2008 a swap contract in the amount of NIS 185 million was purchased. The contract swaps a CPI-linked stated interest rate of 4.8% on the 2002 series of debentures with a fixed interest rate of 6.18%. The transaction will be repaid in accordance with the repayment schedule of the debentures until March 2012.

Furthermore, during 2007, 2008 and 2009, the Company purchased short-term forward contracts on the CPI for the purpose of hedging short-term lease agreements. As at December 31, 2009 the balance of the contracts is NIS 204 million for settlement during 2010.

As at December 31, 2009 contracts in the total amount of NIS 1,169 million were purchased in 2005-2009.

The total fair value of the above contracts as at December 31, 2009 was an asset in the amount of NIS 25 million.

In 2009, the Company recorded financing income in the amount of NIS 86 million in respect of these contracts (which include forward contracts on the dollar exchange rate, see hereunder regarding currency risks), compared with financing expenses of NIS 36 million in the previous year.

3. Currency risks

During 2008 and 2009, the Company purchased forward contracts on the US dollar. As at December 31, 2009, the Company had forward contracts in the amount of \$ 6.7 million for settlement until June 2010 and in the amount of €1.5 million for settlement until March 2010.

The total fair value of these contracts as at December 31, 2009 is a liability in the amount of NIS 0.1 million.

In 2009 the Company recorded financing income in the amount of NIS 2 million in respect of these contracts, compared with financing income in the amount of NIS 0.5 million in 2008, while on the other hand it saved currency differentials on payments to suppliers.

The Company's exposure to currency risks is insignificant.

4. Interest risks

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

5. Risks related to prices of securities in Israel

Over the course of 2008 and 2009, portions of the Company's monetary reserves were invested in government debentures and corporate debentures that are linked to the Israeli CPI.

Company policy for managing market risks

The Company invests its liquid surplus with the aim of attaining an adequate return while maintaining a balance between risk and return.

During 2009, the Company used financial derivatives in order to match, to the extent possible, the linkage bases of its financial assets and liabilities (hedge transactions). The Company does not invest in entities whose primary activity involves short selling of derivatives.

Supervision over market risk management policy and its method of implementation

The Company regularly monitors the changes in interest rates, the Consumer Price Index and yield-to-maturity of debentures. The Company's Investments Committee has responsibility for handling financial exposures, developing hedging policy, supervising its application and providing an immediate reaction to unusual market events.

The Company's CEO, CFO, Financial Manager and Treasurer also participate in the meetings of the investment committee. In addition, occasionally, the committee is assisted by consultants specializing in capital markets. The Investments Committee meets at least once every quarter and as necessary. As from October 27, the Investment Committee is also the Company's balance sheet committee.

Effectiveness of internal control over financial reporting and disclosure

On November 24, 2009 the finance committee of the Knesset approved the proposal of the Securities Authority to adopt regulations relating to an entity's system of internal control over financial reporting and disclosure, so that they will provide a reasonable degree of assurance regarding the adequacy of the financial statements and their compliance with the provisions of the law (Securities Regulations (Periodic and Immediate Reports) (Amendment No. 3) – 2009, hereinafter – “the Amendment”). The Amendment was published on the official gazette in December 2009.

The purpose of the Amendment is to improve the quality of financial reporting and disclosure in reporting entities by means of three principal elements:

1. A report being provided by the board of directors and management of the entity regarding the effectiveness of internal control over financial reporting and disclosure, for the purpose of strengthening the entity's system of internal controls.
2. Personal certifications being provided by the entity's CEO and most senior finance officer by which, inter alia, according to their knowledge the financial statements and other financial data included in the financial statements do not include a misstatement of a material fact and include all the material facts needed so that the representations included in them are not misleading, and that according to their knowledge the financial statements and other financial data included in the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the entity, and also that they have assessed the effectiveness of internal control over financial reporting and disclosure, to the extent it relates to the financial statements and other financial data included in the financial statements.
3. The entity's auditor shall attach an opinion to the periodic report regarding the effectiveness of internal control over financial reporting in the entity and regarding the material weaknesses the auditor has identified in this control.

The said instructions are effective from the periodic report for December 31, 2010 (hereinafter – “the effective date”). Nonetheless, in accordance with the provisions of the Amendment, in the period between the date of issuance of the Amendment and its effective date, details regarding the entity's preparations and progress in implementing the provisions of the Amendment (hereinafter – “implementation of the project”) are to be included in the directors' report.

In the period between the date of issuance of the Amendment and its effective date, details regarding the Company's preparations and progress in implementing the provisions of these regulations (hereinafter – “implementation of the project”) will be included in the directors' report.

Disclosure regarding the Company's actions to implement the project until the date of this report:

The person responsible for implementation of the project is the Company's Controller, Ilan Or, with the supervision of a steering committee that was established for the purpose of implementing the Amendment (hereinafter – "the steering committee") and is headed by the Company's CFO, Shlomo Zohar.

As from the date it began operating in July 2008, the steering committee meets once every two weeks on average, discusses the business processes presented before it by the process managers, receives a report regarding identified control deficiencies, makes comments and approves a course of action to close the gaps and exposures.

The steering committee has established a methodology and work plan for implementing the project that is based on the following basic steps:

1. Mapping very material processes of financial reporting and disclosure, documenting existing processes and related procedures.
2. Identifying risks to financial reporting and disclosure while identifying very material control processes that provide a response to such risks.
3. Mapping gaps between existing controls and required controls.
4. Testing effectiveness of controls, identifying deficiencies and correcting them.
5. Audit of the controls by the auditor.

In order to determine the processes and identify the very material business risks in the Company, a model for assessing and analyzing risks was used that weights quantitative and qualitative factors in order to assess the risk inherent in the balances and movements in the Company's financial statements that may constitute a material risk to financial reporting and disclosure.

Quantitative considerations that were taken into account included assigning a relative weight to each monetary balance and movement in the financial statements that were published by the Company in relation to the total relevant balances or movements in the financial statements.

The Company has established three levels of quantitative risk:

1. High – over 2% of shareholders' equity or over 5% of net profit, whichever higher.
2. Medium – between 2% of shareholders' equity and 5% of net profit.
3. Low – less than 2% of shareholders' equity or 5% of net profit, whichever lower.

The qualitative considerations that were taken into account included, inter alia, the complexity of the accounting process that requires recording on the financial statements, the complexity of the information systems supporting the business process, the assessment of risks of fraud, company-wide risks, effects of factors external to the organization, and so forth. In the framework of preparing to implement the project, additional business processes that were chosen by the steering committee and which their weighted risk level is not "high" were examined. A process manager was appointed for each business process that was chosen as well as a subcommittee that acts together with the process manager.

The role of the process manager and the subcommittee is to prepare documentation of the existing process while identifying the risks in the process, existing controls and control gaps, as well as to correct the identified control gaps according to a plan that was established and approved by the steering committee.

Of all the processes that were mapped, 7 control processes were defined as being very material to financial reporting and disclosure as follows:

1. Entity level controls (ELC).
2. The process of closing the financial statements.
3. Information technology general controls (ITGC).
4. Revenue recording and adjustments.
5. Procurement.
6. Inventory.
7. Payroll.

As at the date of this report, the Company has completed the stage of mapping and documenting the processes and of identifying control gaps, and has established plans for dealing with these control gaps.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

Set forth below is the Company's balance by linkage bases:

	December 31, 2009				
	Israeli currency		Foreign	Other	Total
	Unlinked	CPI-linked	currency		
NIS millions					
Current assets:					
Cash and cash equivalents	670	5	10	-	685
Marketable securities	96	120	-	-	216
Trade receivables	1,179	-	-	-	1,179
Other receivables including derivatives	61	20	-	7	88
Current taxes	-	17	-	-	17
Inventory	-	-	-	599	599
Non-current assets:					
Long-term loans to others	-	12	-	-	12
Long-term loans to affiliated company	-	54	-	-	54
Other investments including derivatives	-	16	-	11	27
Investment property	-	-	-	329	329
Fixed assets	-	-	-	1,800	1,800
Intangible assets and deferred expenses	-	-	-	739	739
Prepaid lease fees	-	-	-	135	135
Deferred taxes	110	-	-	-	110
Right to reimbursement in respect of employee benefits	3	-	-	-	3
	<u>2,119</u>	<u>244</u>	<u>10</u>	<u>3,620</u>	<u>5,993</u>
Current liabilities:					
Bank credit	3	2	-	-	5
Current maturities of debentures	62	63	-	-	125
Trade payables	1,498	6	-	-	1,504
Other payables	475	70	-	1	546
Provisions in respect of claims and legal proceedings	6	-	-	-	6
Non-current liabilities:					
Liabilities to banks and others	34	8	-	-	42
Debentures	434	1,760	-	-	2,194
Employee benefits	58	-	-	-	58
Other	-	-	-	74	74
The Group's share in the capital deficiency of an affiliated company	-	-	-	33	33
Deferred taxes	61	-	-	-	61
Minority interest	-	-	-	1	1
Equity	-	-	-	1,344	1,344
	<u>2,631</u>	<u>1,909</u>	<u>-</u>	<u>1,453</u>	<u>5,993</u>
Net exposure	<u>(512)</u>	<u>(1,665)</u>	<u>10</u>	<u>2,167</u>	<u>-</u>

Tables of sensitivity of financial instruments to changes in market factors as at December 31, 2009

Sensitive instruments	Interest rate sensitivity					
	Market interest rate at reporting date	Gain (loss) from changes		Fair value as at December 31, 2009	Gain (loss) from changes	
		10% increase in interest	5% increase in interest	NIS millions	5% decrease in interest	10% decrease in interest
Loans received		0.1	0.1	15.6	(0.1)	(0.1)
Loan from subsidiary (1)	4.3%	0.1	0.1	7.8	(0.1)	(0.1)
Loan from subsidiary (2)	4.3%	0.0	0.0	1.2	(0.0)	(0.0)
Loan from subsidiary (3)	4.45%	0.0	0.0	4.4	(0.0)	(0.0)
Loan from subsidiary (4)	4.45%	0.0	0.0	0.3	(0.0)	(0.0)
Loan from subsidiary (5)	4.45%	0.0	0.0	0.3	(0.0)	(0.0)
Loan from subsidiary (6)	4.45%	0.0	0.0	0.3	(0.0)	(0.0)
Loan from subsidiary (7)	4.45%	0.0	0.0	0.3	(0.0)	(0.0)
Loan from subsidiary (8)	3.55%	0.0	0.0	0.5	(0.0)	(0.0)
Loan from subsidiary (9)	3.55%	0.0	0.0	0.5	(0.0)	(0.0)
Total debentures		46.1	23.2	2,575.0	(23.5)	(47.3)
2002 issuance	0.63%	0.2	0.1	208.5	(0.1)	(0.2)
2005 issuance	3.44%	13.2	6.6	658.2	(6.7)	(13.5)
2005 issuance	3.44%	7.3	3.7	368.2	(3.7)	(7.5)
2006 issuance	3.44%	4.8	2.4	240.1	(2.5)	(4.9)
2007 issuance	3.44%	11.4	5.7	574.0	(5.8)	(11.7)
2009 issuance	4.64%	9.2	4.7	526.0	(4.7)	(9.5)
Loans granted	4.3%	(0.2)	(0.1)	(19.3)	0.1	0.2
NIS-CPI forward (*)		3.1	1.6	25.0	(1.5)	(3.1)
Deposits	0.92%	(0.1)	(0.0)	627.7	0.0	0.1

(*) Hedging is not recognized for accounting purposes.

This table does not include the Company's commitments in respect of rental agreements. The total scope of the Company's liabilities in respect of these agreements is approximately NIS 2 billion, of which 98% is linked to the CPI and 2% is linked to the exchange rate of the US dollar.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

Sensitive instruments	CPI sensitivity					
	Basic index	Gain (loss) from changes		Fair value as at December 31, 2009 NIS millions	Gain (loss) from changes	
		10% increase in CPI	5% increase in CPI		5% decrease in CPI	10% decrease in CPI
Loans received	88.77	(1.6)	(0.8)	15.6	0.8	1.5
Debentures	77.26	(205.1)	(102.5)	2,049.0	102.5	205.1
Loans granted	101.29	1.9	1.0	(19.3)	(1.0)	(1.9)
NIS-CPI forward (*)	103.06	141.4	70.7	25.0	(70.7)	(141.4)

(*) Hedging is not recognized for accounting purposes.

Instrument	Dollar rate sensitivity					
	Basic rate	Gain (loss) from changes		Fair value as at December 31, 2009 NIS millions	Gain (loss) from changes	
		10% increase in the rate	5% increase in the rate		5% decrease in the rate	10% decrease in the rate
Dollar-NIS forward (*)	3.82	2.0	1.0	(0.2)	(1.0)	(2.0)
Euro-NIS forward (*)	5.45	0.8	0.4	0.1	(0.4)	(0.8)

(*) Hedging is not recognized for accounting purposes.

Sensitive instruments	Market price sensitivity					
	Gain (loss) from changes		Fair value as at December 31, 2009 NIS millions	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	21.6	10.8	216.0	(10.8)	(21.6)	

Human capital

As at December 31, 2009 the Group has 10,620 employees in part-time and full-time positions, of which 1,300 are temporary employees or employees stationed at the Group on behalf of their employers, manpower agencies and 250 employees of Gidron (about 9,350 employees in calculated positions).

Proximate to the date of this report there has been no change in the number of the Company's part-time and full-time employees and in the number of employees in calculated positions.

Minimum Wage Law – 1987

The salaries of most of the Group's employees are based on the minimum wage as provided in the Minimum Wage Law - 1987. The minimum wage per employee was increased by NIS 125 per month commencing from April 1, 2007, and by NIS 140 per month commencing from July 2008. In 2007, 2008 and 2009 the Company has implemented efficiency measures aimed at reducing its salary expenses and lowering the number of work hours. The Company examines on an ongoing basis its available alternatives for purposes of cutting back its expenses.

In general, a material increase in the minimum wage may have a material effect on the Group's results. An increase of 1% in the minimum wage may increase the Company's salary expenses by NIS 4-5 million per year (according to the number of employees who earn the minimum wage at the reporting date).

F. Critical Accounting Estimates

At the time of preparation of the financial statements in accordance with IFRS, Company's Management is required 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 preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management bases its estimates on prior experience and on other factors that could, under certain circumstances, impact the considerations for determining the amounts of the assets and liabilities. Presented hereunder is a review of the significant accounting estimates and their underlying assumptions:

- **Investment property**

The fair value of investment property was determined on the basis of valuations that were prepared by external independent appraisers having appropriate professional skills, and take into consideration the location, the type of the investment property and the mix of the tenants. The fair value was determined on the basis of the discounted cash flows anticipated from the assets, and on the basis of recent transactions on the market with respect to similar real estate located in a place similar to that of the Group's property, if any such transactions took place. See Note 11 of the Company's financial statements.

- **Employee benefits**

In respect of the Group's net obligation for post-employment employee benefits, an estimate is calculated of the future amount of the benefit that will be due to the employees in respect of their services in the current period and in prior periods, which is presented at present value net of the fair value of plan assets. This estimate is calculated on the basis of actuarial estimates and discounted amounts. See Note 19 of the Company's financial statements.

- **Impairment of non-financial assets**

The Company examines at each reporting date whether any events or changes in circumstances have occurred that indicate impairment of one or more of its non-monetary assets. When there are indications of impairment, it examines whether the amount by which the investment is presented is recoverable from the discounted cash flows anticipated from the asset, and if necessary an impairment provision is recognized up to the amount that is recoverable. The cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates of the cash flows are based on past experience regarding the asset or similar assets, and on the Group's best judgment with respect to the economic terms that will exist during the balance of the asset's useful life. With respect to real estate, the estimates take into account also the situation of the market in the same geographic area of the asset. Changes in the Group's estimates may result in significant changes in the carrying amounts of assets and in the results of operations.

- **Contingent liabilities**

The Group creates provisions in respect of legal claims as mentioned in Note 3(L)(2) of the financial statements. See also Note 16 of the financial statements.

G. Directors with Accounting and Financial Skills

In a meeting of the Board of Directors on March 12, 2006, the Board of Directors decided, pursuant to the provisions of article 92(a)(12) of the Companies Law - 1999, that the minimum number of directors with skills in accounting and finance, that is appropriate for the Company is three directors, including the external directors, taking into consideration the nature of the accounting and financial issues that arise in the preparation of the Company's financial statements in view of the Company's areas of operations, and also considering the overall composition of the Company's Board of Directors, which includes individuals with managerial, business and professional experience that enables them to cope with corporate management tasks, including reporting tasks.

In the said meeting, the Board of Directors reviewed statements by Messrs. Nochi Dankner, Isaac Manor and Ami Erel that were provided pursuant to the Companies Regulations (Conditions and Tests for Directors with Expertise in Accounting and Finance, and Directors with Professional Qualifications) - 2005 ("Expert Regulations"), and concluded that these directors possess expertise in accounting and finance, as defined in the Expert Regulations, based on their education, their experience and their knowledge, as follows:

Nochi Dankner – Holds an LL.B. and a B.A. in political sciences. Serves as the Chairman of the Board and Chief Executive Officer of the IDB Group, the Chairman and Chief Executive Officer of the Ganden Group, member of the boards of directors of various companies (including companies of the IDB Group and the Ganden Group or related companies), and in the past served, inter alia, as a director of Bank Hapoalim, and as Chairman of the Credit Committee of the board of directors of Bank Hapoalim B.M.

Isaac Manor – Holds an M.A. in business administration of the Hebrew University. Serves as Deputy Chairman of the Board of IDB Holding Corporation Ltd. and as a director in public and private companies, including the IDB Group, the Chairman of the Board of the vehicles segment companies in the David Lubinski Group Ltd., director and member of the balance sheet committee of Union Bank of Israel Ltd.

Ami Erel – Holds a B.Sc. in electronic engineering from the Technion, Haifa. Serves for over a decade as CEO, director and/or Chairman of the Board in various private and public companies that are active in numerous fields including: media, hi-tech, commerce and services, industry and real estate, including Cellcom Israel Ltd., Discount Investment Corporation Ltd., Koor Industries Ltd., Makhteshim Agan Industries Ltd., Elron Electronic Industries Ltd., Netvision Ltd., Property and Building Corporation Ltd., and in the past as the CEO of Bezeq - The Israeli Telecommunications Corporation Ltd.

Directors of the Company who have accounting and financial expertise:

Imri Tov – On June 23, 2009, Imri Tov was appointed by the general meeting as an external director for an additional term. The director declared that he has financial and accounting expertise. In its meeting of May 14, 2006, the Board of Directors examined Imri Tov's declaration which was made pursuant to the Expert Regulations and concluded that the said director has financial and accounting expertise as defined in the Expert Regulations, based on his education, experience and knowledge, as set forth below:

External director of the Company. Holds a B.A. in economics and political sciences and an M.A. in economics and business administration. Senior researcher at the Institute of National Security Studies (INSS) of the Tel Aviv University, Chairman of the Board of Directors of M.T.A Holdings Ltd. and a director in additional companies. Serves as a director in Bank Hapoalim B.M., Granite Hacarmel Ltd., Amnat Management and Systems Ltd., Plasan Sasa Ltd. Formerly served as head economist of the Ministry of Defense, and held various research and management positions with the Bank of Israel.

Ron Hadassi – At the meeting of the Board of Directors held on June 12, 2007, Mr. Ron Hadassi was appointed as a Company director. On November 7, 2007, Mr. Hadassi was appointed as the Deputy Chairman of the Board of Directors. The director declared that he has accounting and financial expertise. The Board of Directors examined Mr. Hadassi's declaration that was made pursuant to the Expert Regulations and reached the conclusion that he has accounting and financial expertise within the meaning thereof in the Expert Regulations, based on his education, experience and knowledge, as set forth below:

Mr. Hadassi holds an M.A. in business administration and a B.A. in law, economics and political sciences. As from 2003 Mr. Hadassi serves as a senior manager in the Bronfman Fisher Group, Deputy Chairman of the Board of Directors of Isralom Properties Ltd., a lecturer on banking and finance at the Interdisciplinary Center in Herzlyia and Chairman of the Board of Directors of Blue Square Furniture Ltd. In the past, Mr. Hadassi served as a director in the Blue Square Group.

Shufersal Ltd.

Yehezkel Ofir* – At the meeting of the Board of Directors held on February 19, 2008, Prof. Yehezkel Ofir, an external director of the Company, declared that he has accounting and financial expertise. The Board of Directors examined Prof. Ofir's declaration that was made pursuant to the Expert Regulations and reached the conclusion that he has accounting and financial expertise within the meaning thereof in the Expert Regulations, based on his education, experience and knowledge, as set forth below:

Prof. Ofir is an external director of the Company. Prof. Ofir holds a B.Sc. and M.Sc. in industrial engineering and management and an M.A. and Ph.D. from Columbia University College of Business Administration. Prof. Ofir has many years of experience on boards of directors of various business enterprises operating in a range of business sectors, including: Co-Op Blue Square, Kitan Industries Ltd., HaMashbir Lazarchan, ITL Optronics Ltd. and others. Prof. Ofir serves as the Chairman of the Board of Directors of a metal factory in Kfar Menachem, the Chairman of the Board of Directors of the Magid Institution and as the Chairman of the Board of Blockal Ravid.

Eliahu Cohen – At the meeting of the Board of Directors held on January 14, 2009, Mr. Eliahu Cohen was appointed as a Company director. The director declared that he has accounting and financial expertise. The Board of Directors examined Mr. Cohen's declaration that was made pursuant to the Expert Regulations, as well as his declaration that he has the qualifications and time required in order to fulfill his duties as a director of the Company and his compliance with the qualification provisions of Sections 226 and 227 of the Companies Law – 1999, and reached the conclusion that he has accounting and financial expertise within the meaning thereof in the Expert Regulations, based on his education, experience and knowledge, as set forth below:

Mr. Cohen has an LL.M. He serves as the CEO of IDB Development Corporation Ltd., serves as CEO, director and/or Chairman of the Board in various private and public companies that operate in a variety of areas, in the IDB Group, including IDB Holding Corporation Ltd., IDB Development Corporation Ltd., Clal Insurance Enterprises Holdings Ltd., Clal Insurance Company Ltd., Clal Health Insurance Company Ltd., Clal Industries and Investments Ltd., Discount Investment Corporation Ltd., Property and Building Corporation Ltd. Served as the Chairman of the Board of Israel Discount Bank Ltd.

Alon Bachar – At the meeting of the Board of Directors held on June 4, 2009, Mr. Alon Bachar was appointed as a Company director. The director declared that he has accounting and financial expertise. The Board of Directors examined Alon Bachar's declaration that was made pursuant to the Expert Regulations, as well as his declaration that he has the qualifications and time required in order to fulfill his duties as a director of the Company and his compliance with the qualification provisions of Sections 226 and 227 of the Companies Law – 1999, and reached the conclusion that he has accounting and financial expertise within the meaning thereof in the Expert Regulations, based on his education, experience and knowledge, as set forth below:

Alon Bachar has an M.A. in business administration and a B.A. in economics. He worked for 10 years in the banking system in the area of business credit. As from 2006 he is an executive manager in the Bronfman Fisher Group and serves as the finance manager of the group's holding company. He serves as a director of other companies of the Bronfman Fisher Group.

* The second term Mr. Yehezkel Ofir as an external director of the Company ends on February 23, 2010.

H. Disclosure regarding the Company's Internal Auditor

Particulars of the internal auditor

1. The Company's internal auditor – Levi Steinbaum.
2. First date of service: October 1, 1997.
3. The internal auditor complies with the conditions provided in Section 3(a) of the Internal Audit Law – 1992 (hereinafter – “**the Internal Audit Law**”).
4. The internal auditor is not an interested party of the Company and is not related to an interested party or an officer of the Company, and does not serve as the Company's external auditor or on its behalf. The internal auditor does not fill any other position in the Company besides internal auditor and to the best of the Company's knowledge, he does not fill any position outside of the Company that creates or may create a conflict of interests with his position as internal auditor of the Company. The internal auditor complies with the provisions of Section 146(b) of the Companies Law and the provisions of Section 8 of the Internal Audit Law.
5. To the best of the Company's knowledge, in 2008 the internal auditor exercised 40,000 options of the Company that were allotted to him in 2005 in the framework of an employee compensation plan. In the opinion of the Company's Board of Directors, and in light of this being a non-recurring allotment, the aforementioned holding did not have an effect on the quality of the internal auditor's work and on the results of the internal audit. To the best of the Company's knowledge, as at the date of this report the internal auditor does not hold any securities of the Company and/or of the controlling shareholder of the Company, an entity controlled by the Company or by the Company's controlling shareholder, or by groups related to any of them (“**related party**”).
6. To the best of the Company's knowledge, other than the employment of the internal auditor and his staff as described hereunder, the internal auditor and his staff do not have material business connections or any other material connections with the Company or a related party of the Company.
7. The internal auditor is an employee of the Company and serves as a senior officer in accordance with the law.

Appointment of the internal auditor

The internal auditor was appointed to his position in October 1997 by the Company's Board of Directors based on the provisions of the Internal Audit Law and he has extensive experience in auditing. The internal auditor is a CPA, he holds a B.A. in economics, statistics and accounting and is an International Certified Internal Auditor (CIA) since 1994. The appointment was approved by the Board of Directors at its meeting on August 10, 1997. It was determined that the internal auditor would act according to the provisions of the law in performing an internal audit in Shufersal.

Identity of the organizational function in charge of the internal auditor

The internal auditor is subordinate to the Chairman of the Board of Directors.

The work plan and the considerations it is based on

The annual work plan is derived from a triennial plan and is determined by the internal auditor with the approval of the audit committee. An external party performed a risk assessment survey in the Company in 2006.

Furthermore, in 2008 the triennial work plan was submitted and approved. The plan for 2009 is derived from the triennial plan. The work plan is updated on the basis of a risk assessment survey the internal auditor performs in the Company every year. The work plan responds to emphases of the Company's Chairman of the Board, its CEO and to additional points raised by Company managers in the framework of the annual survey. The work plan and audit resources are presented to the audit committee of the Board of Directors. The Board's audit committee approves the work plan with any changes it considers suitable in accordance with Section 7 of the Internal Audit Law.

The Company's internal auditor may digress from the work plan at his discretion. Any deviation from the work plan is presented before the audit committee and once a year.

The work plan includes: covering all the Company's divisions, with emphasis on matters examined in the past that were found to have high exposure, providing a response to matters raised in the risks' survey prepared by the Company and performing an audit in the traditional areas at a reasonable frequency (once a year for important and material matters and every three or four years for other matters). 20 internal audit reports were submitted in 2009.

The principal reports relate to the following matters:

Finance department – suppliers' reconciliation process, income assurance system

Trade and marketing department – trade agreements

Operation and chain of supply department – inventory and counts of branches, external warehouses

Activity of subsidiary Katif – control over the cooling chain and quality of supply of fruit and vegetables.

R&D and maintenance department – business licensing

Reference to companies constituting material holdings of the Company

The internal audit plan encompasses the Company's wholly owned investee companies.

Manner and scope of employment of the internal auditor and his staff and their remuneration

In 2009 the Company employed three employees (including the internal auditor) in full time internal auditing positions and was assisted by outside parties in performing the work plan. In 2009 the internal audit department employed external consultants to do work relating to information security, reconciliation of suppliers and a risk survey on physical security of information. In 2009 the internal auditor and persons working on this behalf invested 7,000 work hours (including 500 in the subsidiaries) and the external consultants invested in the same year 800 work hours.

Shufersal Ltd.

The audit department was approved an additional position that was supposed to be filled during 2008, but has not yet been filled, and since the Company is in the process of streamlining its activities it was decided at this point to postpone the expansion of the audit department. The matter will be reconsidered towards the 2010 work year.

The professional standards pursuant to which the internal auditor performs the audit

According to information conveyed by the internal auditor to management of the Company, the audit is performed in accordance with generally accepted professional standards. The Board of Directors relies on the internal auditor's report regarding his compliance with the professional standards according to which he conducts his audits.

Access to information

The internal auditor has free and unrestricted access to the Company's information systems, including financial data.

The internal auditor's reports

Reports with respect to the internal auditor's findings are submitted on a current basis and in writing (dates on which the audit committee convened and discussed the reports for 2009 – March 18, March 25, May 5, May 10, July 2, July 21, August 4, October 20) to the Chairman of the Board of Directors, the CEO, the Chairman of the Audit Committee and the Company's external auditors. Every quarter a discussion of the internal auditor's findings is held by the audit committee.

Board of Directors' assessment of the internal auditor's activities

According to the Board of Director's assessment, the scope, nature and continuity of the internal auditor's activities and work plan are reasonable in the circumstances and should achieve the goals of the Company's internal audit.

Remuneration of the internal auditor

In 2009 the remuneration of the internal director amounted to NIS 704 thousand ("remuneration" – as defined in Regulation 21 of the Securities Regulations (Periodic and Immediate Reports) – 1970). See above regarding securities that were allotted to the internal auditor.

In addition, the internal auditor will be entitled to a bonus in the amount of NIS 400,000 in accordance with a compensation plan for senior employees of the Company for three years, subject to the executives' performance and the Company's financial results.

The total remuneration to the staff of the internal auditor amounted to NIS 693 thousand in 2009.

Remuneration of the internal auditor and his staff does not change according to the results of the internal audit and therefore, according to the estimate of the Company's Board of Directors, it does not affect the professional judgment exercised by the internal auditor and the results of the audit.

Directors' Report for the Year Ended December 31, 2009

Shufersal Ltd.

I. Disclosure regarding Compensation of the External Auditors

In 2009 the external auditors of the Company and its subsidiaries were KPMG, and in 2008 were KPMG and Ernst & Young.

Set forth below is detail of the total compensation to which the auditors of the Company and of its subsidiaries are entitled in the year of the report and in the preceding year:

2009

	KPMG	
	<u>NIS thousands</u>	<u>Hours</u>
Auditing and tax services to the Company (including IFRS audit)	1,117	5,045
Auditing and tax services to subsidiaries	193	1,053
Consulting, tax and other services	388	1,333
Total	<u>1,698</u>	<u>7,431</u>

2008

	<u>Total</u>		<u>KPMG</u>		<u>Ernst & Young</u>	
	<u>NIS thousands</u>	<u>Hours</u>	<u>NIS thousands</u>	<u>Hours</u>	<u>NIS thousands</u>	<u>Hours</u>
Auditing and tax services to the Company (including IFRS audit)	1,393	5,963	1,393	5,963	-	-
Auditing and tax services to subsidiaries	714	3,333	229	1,226	485	2,107
Consulting, tax and other services	509	1,346	335	1,164	174	182
Total	<u>2,616</u>	<u>10,642</u>	<u>1,957</u>	<u>8,353</u>	<u>659</u>	<u>2,289</u>

J. Compensation of Senior Executives

Determination of salary and bonuses

Once a year, the Company's Board of Directors decides to grant bonuses to senior executives on the basis of the Company's performance in the preceding year. In determining the annual bonus, the Board of Directors and the Salary Committee take into consideration the profitability, financial results, scope and complexity of the transactions and the individual contribution of the managers to the success of the business. In the opinion of the Company's Board of Directors, the aforementioned bonus as well as the bonus to the joint chairmen that is derived from the earnings of the Company reflects the contribution of the said officers to the Company and the bonus paid to them is fair and reasonable. See also Note 23 of the Company's financial statements and Regulation 21 of Chapter D of the periodic report. For details on options allotted to executives and a bonus plan to senior employees in the current year, see also Section M hereunder.

K. Dividend Distribution

1. On May 6, 2008 the Company's Board of Directors decided to distribute a dividend in the amount of NIS 270 million (NIS 259 million after deducting the dividend to a subsidiary). The dividend was paid on June 24, 2008.
2. On August 17, 2008 the Company's Board of Directors decided to distribute a dividend in the amount of NIS 108 million (NIS 103 million after deducting the dividend to a subsidiary). The dividend was paid on September 10, 2008.
3. On November 4, 2008 the Company's Board of Directors decided to distribute a dividend in the amount of NIS 108 million (NIS 103 million after deducting the dividend to a subsidiary). The dividend was paid on December 3, 2008.
4. On February 9, 2009 the Company's Board of Directors decided to distribute a dividend in the amount of NIS 108 million (NIS 104 million after deducting the dividend to a subsidiary). The dividend was paid on March 4, 2009.
5. On July 27, 2009 the Company's Board of Directors decided to distribute a dividend in the amount of NIS 150 million (NIS 143 million after deducting the dividend to a subsidiary). The dividend was paid on September 8, 2009.

L. Shelf Registration Prospectus

On July 22, 2009 the Company published a shelf registration prospectus on the basis of its financial statements as at March 31, 2009, in the framework of which the Company will be able to offer to the public shares, convertible debentures, non-convertible debentures, options exercisable into shares and into debentures and commercial securities. In August 2009 the Company issued a shelf registration offer in accordance with the said shelf registration prospectus, pursuant to which it offered to the public NIS 500 million of the Company's Series C debentures. See table in Section D of this report for details regarding these debentures.

M. Compensation of Senior Executives

In the framework of the employees' option plans from 2005, 120,000 options were exercised in 2009 (see Note 23 of the Company's annual financial statements).

Executives' option plan

In August 2009, in the framework of the "2005 option plan", the Company allotted 4,300,000 options (not registered for trading) that are exercisable into 4,300,000 ordinary shares of NIS 0.1 par value each, to the CEO of the Company six officers of the Company and an additional senior employee who is not an officer. Of the said options, 1,800,000 options that are convertible into the same number of the Company's ordinary shares were allotted to the Company's CEO. See also Note 23 of the financial statements and the Company's immediate report from August 19, 2009 (reference no. 2009-01-2001714) with respect to the basis to the amount of the compensation and the method by which it was determined.

Bonus to senior employees

In August 2009 the Board of Directors approved compensation to senior employees in the amount of NIS 12 million for a period of three years, subject to the executives' performance and the Company's financial results.

N. Community Involvement

The Company sees itself as committed to active and ongoing involvement in various areas of community service.

Presented hereunder is a summary of the activities in 2009 –

1. Contributions in 2009: As part of its contribution to the community, the Company gives priority to contributions to weak populations in Israel, thus every holiday the Company distributes food packages to thousands of families and children throughout the entire country. On Passover 2009 a total of about 5,300 packages were contributed to the needy, of which about 1,500 packages were contributed through societies and welfare organizations. In addition, purchase vouchers were distributed before the holiday for acquisition of products at the branches in the amount of NIS 86,000.

On the Jewish New Year about 5,300 packages were contributed to the needy by means of societies and welfare organizations. In addition, purchase vouchers were distributed for acquisition of products at the branches in the amount of NIS 270,000.

In 2009, the total contributions of cash and products, including packages to the needy, amounted to about NIS 6 million.

2. Furthermore, on the Jewish New Year Shufersal launched a joint project with the International Fellowship of Christians and Jews ("IFCJ") in the framework of which the Company contributed NIS 1.5 million, in addition to the NIS 16 million contribution of IFJC, in the framework of a project that granted to 46,000 needy families purchase vouchers in the form of a magnetic card for making holiday purchases.

3. Furthermore, many branches of Shufersal throughout the country adopt various causes (shelters, children's homes, soup kitchens, homes for senior residents, etc.) and distribute "day-end contributions" of baked products and vegetables.

Like in previous years, Shufersal performed contribution activities in the branches:

4. Contributions at the branches: In 2009, 15 activities were carried out in defined periods throughout the entire year. The length of each activity was 10 days. Contribution activities involved gathering food products (the Latet Society, Israel Red Cross and others) in which 20,000 packages were collected, or monetary contributions from customers (NIS 1 up to NIS 10 in accordance with the activity). The organizations to which the contributions were made during 2009 were – Negishut Israel, ALUT, NATAL, Yad BeYad, ALEH, the Beterem Organization, Ezer Metzion, Israel Red Cross, AKIM, Shalva, Tower of Light, the Israel Cancer Association and Variety. In the framework of all the contribution activities, approximately NIS 14 million was contributed in money or in money equivalents (food) to the various societies and organizations.
5. During the Oferet Yetzuka military operation, the Company's customers and the Company contributed together more than 100,000 gift packages to IDF soldiers in the framework of the "Lahayalim Mekol Halev" campaign.

O. Process of Approval of the Financial Statements

The Company's Board of Directors is the body responsible for the corporate governance of the Company and the approval of its financial statements.

The Company's Board of Directors has appointed a Balance Sheet and Investments Committee that presents its recommendations to it with respect to approval of the financial statements and discusses them before recommending their approval. The Balance Sheet and Investments Committee is composed of four members – Mr. Eli Cohen, the Chairman of the Board, Prof. Hezi Ofir, external director, Mr. Imri Tov, external director, and Mr. Ron Haddasi. All the members of the committee have financial and accounting expertise. Invited to and present at the meeting of the Balance Sheet and Investments Committee, at which the financial statements are discussed and approved, are the Company's internal auditor and external auditors, who are asked to present the main findings uncovered, if any, during the course of their audit or review.

The Balance Sheet and Investments Committee examines, by means of a detailed presentation by the Company's officers and others, including: the Company's CEO, Mr. Effi Rozenhaus, the CFO, Mr. Shlomo Zohar, and the Controller, Mr. Ilan Or, the material issues in the financial report, including transactions not in the ordinary course of business, if any, the significant assessments and critical estimates applied in the financial statements, the reasonableness of the data, the accounting policies applied and the changes therein, and application of the proper disclosure principle in the financial statements and the accompanying information.

The Balance Sheet and Investments Committee also examines various aspects of risk management and control, both those reflected in the financial statements (such as the report on financial risks), as well as those impacting the reliability of the financial statements. Where necessary, the Balance Sheet Committee requires that comprehensive surveys be presented to it in connection with matters having a particularly material impact.

Approval of the financial statements involves at least two meetings: one - of the Balance Sheet and Investments Committee, held prior to the meeting of the Board of Directors, for a comprehensive discussion of the material reporting issues, and the second - of the Board of Directors, for discussion and approval of the financial statements.

The members of the Board of Directors are as follows: Rafi Bisker, Yaakov Shalom Fisher, Haim Gavrieli, Ron Haddasi, Nohi Dankner, Yitzhak Manor, Zvi Livnat, Eliahu Cohen, Ido Bergman, Ami Erel, Prof. Yehezkel Ofir, Sabina Biran, Imri Tov, Almog Geva, Alon Bachar.

The board members that participated in the board meeting that approved the financial statements of the Company: Rafi Bisker, Yaakov Shalom Fisher, Haim Gavrieli, Ron Haddasi, Nohi Dankner, Yitzhak Manor, Zvi Livnat, Eliahu Cohen, Ido Bergman, Ami Erel, Prof. Yehezkel Ofir, Sabina Biran, Imri Tov, Alon Bachar.

P. Immateriality Procedure

1. On February 9, 2009 the Company's Board of Directors decided to adopt guidelines and rules for classifying a transaction of the Company or its subsidiary with an interested party ("interested party transaction") as an immaterial transaction as provided in Regulation 64(3)(d)(1) of the Securities Regulations (Preparation of Annual Financial Statements) – 1993. These rules and guidelines will also be used to examine the scope of the disclosure required in the periodic report and in the prospectus (including in a shelf registration offer) with respect to a transaction with a controlling shareholder or in which the controlling shareholder has an interest in its approval as specified in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports) – 1970 ("Periodic Reports Regulations") and in Regulation 54 of the Securities Regulations (Details of a Prospectus and Draft of a Prospectus – Structure and Shape) – 1969, and also for the purpose of providing an immediate report on the said transaction as specified in Regulation 37(a)(6) of the Periodic Reports Regulations.
2. In the ordinary course of business, the Company and its subsidiaries execute or may execute transactions with interested parties, including transactions of the following types and having the following characteristics: transactions for the acquisition of services from interested parties (such as: logistical operation services, communication and mailing services, travel services, investment portfolio management services, consultation and investment services, other financial services and services for the removal of cardboard boxes); transactions for the acquisition and/or lease and/or sale of movable property and goods from interested parties (such as: trucks and towing equipment, motor vehicles, office equipment and paper products, insurance products and baking materials), including movable property the Company acquires for retail selling (such as: paper products, toiletries, cleaning products, soft drinks, textile products, disposable products, candles, citrus fruit, magazines and newspapers); transactions for the acquisition, sale, lease and renting out of real estate properties; transactions related to marketing campaigns, advertising and discounts together with interested parties or related to products of interested parties; transactions with interested parties regarding gift cards of the Company and discounts provided to interested parties for the purchase of products at the Company's branches; the sale of food products or other products at the Company's branches or through Shufersal Yashir.

3. The Company's Board of Directors has decided that if no special qualitative considerations arise from the overall circumstances of the matter, an interested party transaction will be considered immaterial if the relevant ratio calculated for the transaction (one or more, as mentioned hereunder) is less than one percent (1%).

For every interested party transaction that is being examined for immateriality, one or more of the ratios relevant to the specific transaction will be calculated on the basis of the most recent annual consolidated financial statements of the Company: (a) sales ratio – total sales in the interested party transaction divided by total annual sales; (b) cost of sales ratio – cost of the interested party transaction divided by total annual cost of sales; (c) profit ratio – the actual or forecasted profit or loss attributed to the interested party transaction divided by the average annual profit or loss in the last three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements were issued; (d) assets ratio – amount of the assets in the interested party transaction divided by total assets; (e) liabilities ratio – the liability in the interested party transaction divided by total liabilities; (f) operating expenses ratio – the amount of the expense in the interested party transaction divided by total annual operating expenses.

Thus for example, the relevant ratio in a transaction for the acquisition of products or services will usually be the cost of sales ratio. In cases that according to the Company's judgment all the aforementioned quantitative ratios are irrelevant to the immateriality examination of the interested party transaction, the transaction will be considered immaterial on the basis of some other relevant ratio to be determined by the Company, providing that the relevant ratio calculated for the transaction is less than one percent (1%).

4. An examination of the qualitative considerations of an interested party transaction may lead to a conclusion that contradicts the presumption that the transaction is immaterial as stated in paragraph 3 above. Thus for examples, and only for illustration purposes, an interested party transaction shall usually not be considered immaterial if it is considered a material event by management of the Company and serves as a basis for making management decisions, or if in the framework of the interested party transaction the interested parties are expected to receive benefits that it is important they be reported to the public.
5. The immateriality of a transaction shall be examined on an annual basis for purposes of reporting in the periodic report, the financial statements and the prospectus (including a shelf registration offer), with respect to all the transactions of the same type between the Company and the interested party or with entities controlled by the interested party. It is clarified that separate transactions that are executed regularly and repeatedly every period, and are independent of each other (such as the periodic acquisition of inventory from an interested party on the basis of an individual order without there being an obligation to make such an acquisition), will be examined on an annual basis for the purposes of reporting in the periodic report, the financial statements and the prospectus (including a shelf registration offer), and on the basis of the specific transaction for purposes of immediate reporting.

It is noted that discussions are being held with the Securities Authority with respect to the immateriality procedure described above, and that changes are expected to be made in it.

Q. Independent Directors

As at the date of this report, the articles of the Company do not include any instruction regarding the number of independent directors (per their definition in Section 219(e) of the Companies law – 1999).

R. Subsequent to Balance Sheet Date Events

1. On January 19, 2010 the Company's Board of Directors announced that it had appointed the Company's CEO Mr. Effie Rozenhaus as the President and Chief Executive Officer of the Company. Mr. Richard Hunter was appointed as the Company's Chief Business Manager effective as of March 31, 2010.
2. In February 2010 (after a preliminary hearing was held), an indictment was filed with the Jerusalem District Court against the Company's CEO Effie Rozenhaus, the Company's VP Commerce and Marketing Eli Gidor (hereinafter together in this item – "the officers") and the Company with respect to violations, as alleged, according to Sections 2(a), 4, 47(a)(1) and (4), 48 and 21 of the Restrictive Trade Practices Law and violations according to Sections 23(a)(2), 25 and 29(b) of the Penal Law – 1977, involving claims regarding non-compliance with the conditions of the Company's merger with Clubmarket and an attempt to perform a restrictive arrangement. See also Note 16 to the financial statements.

S. The Board of Directors

During 2009, the Board of Directors held 13 meetings. The committees of the Board of Directors held additional meetings.

Rafi Bisker
Joint Chairman of the Board of
Directors

Shalom Fisher
Joint Chairman of the Board of
Directors

Effie Rozenhaus
President and
Chief Executive Officer

February 9, 2010

Condensed Consolidated Statement of Financial Position

	December 31 2009	December 31 2008
	<u>NIS millions</u>	<u>NIS millions</u>
Assets		
Cash and cash equivalents	685	63
Marketable securities	216	185
Trade receivables	1,179	1,196
Other receivables	88	144
Current tax assets	17	20
Inventory	599	595
Total current assets	<u>2,784</u>	<u>2,203</u>
Long-term loans to others	12	23
Long-term loans to an affiliate	54	46
Other investments	27	8
Investment property	329	320
Fixed assets	1,800	1,838
Intangible assets and deferred expenses	739	734
Prepaid lease fees	135	133
Deferred taxes	110	146
Right to reimbursement in respect of employee benefits	3	2
Total non-current assets	<u>3,209</u>	<u>3,250</u>
Total assets	<u><u>5,993</u></u>	<u><u>5,453</u></u>

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

Condensed Consolidated Statement of Financial Position

	December 31 2009 <u>NIS millions</u>	December 31 2008 <u>NIS millions</u>
Liabilities		
Bank credit	5	32
Current maturities in respect of notes	125	61
Trade payables	1,504	1,500
Other payables	546	531
Provisions in respect of claims and legal proceedings	6	7
Total current liabilities	<u>2,186</u>	<u>2,131</u>
Long-term liabilities		
To banks and others	42	96
In respect of notes	2,194	1,760
Employee benefits	58	61
Other	74	58
Company's share of equity deficiency of affiliated company	33	32
Deferred taxes	61	66
Total non-current liabilities	<u>2,462</u>	<u>2,073</u>
Equity		
Share capital	239	239
Premium on shares	511	510
Reserve in respect of available-for-sale financial assets	12	3
Treasury shares	(85)	(85)
Retained earnings	667	581
Total equity attributable to equity holders of the Company	<u>1,344</u>	<u>1,248</u>
Minority interest	<u>1</u>	<u>1</u>
Total equity	<u>1,345</u>	<u>1,249</u>
Total liabilities and equity	<u><u>5,993</u></u>	<u><u>5,453</u></u>

Raphi Bisker Co-Chairman of the Board of Directors	Shalom Fisher Co-Chairman of the Board of Directors	Effie Rozenhaus Chief Executive Officer	Shlomo Zohar Chief Financial Officer
--	---	--	---

Date of approval: February 9, 2010

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

Condensed Consolidated Statement of Financial Position

	Year ended December 31 2009	Year ended December 31 2008	Year ended December 31 2007
	NIS millions	NIS millions	NIS millions
Revenues			
Sales	10,984	10,897	9,861
Rentals and ,management	57	65	74
	<u>11,041</u>	<u>10,962</u>	<u>9,935</u>
Costs			
Cost of sales	8,127	7,967	7,253
Cost of services and management expenses	40	40	39
	<u>8,167</u>	<u>8,007</u>	<u>7,292</u>
Gross profit	<u>2,874</u>	<u>2,955</u>	<u>2,643</u>
Selling and marketing expenses	2,235	2,243	2,062
General and administrative expenses	145	142	146
Total selling, marketing, general and administrative expenses	<u>2,380</u>	<u>2,385</u>	<u>2,208</u>
Operating profit before other income and expenses	<u>494</u>	<u>570</u>	<u>435</u>
Goodwill adjustments and other expenses	(1)	(132)	(4)
Other income	-	29	7
Increase in fair value of investment property, net	3	45	18
Total other income (expenses), net	<u>2</u>	<u>(58)</u>	<u>21</u>
Operating profit after other income and expenses	<u>496</u>	<u>512</u>	<u>456</u>
Financing expenses	(195)	(262)	(184)
Financing income	133	58	81
Financing expenses, net	<u>(62)</u>	<u>(204)</u>	<u>(103)</u>
Company's share of losses of affiliated company, net	<u>(1)</u>	<u>(8)</u>	<u>(8)</u>
Profit before taxes on income	<u>433</u>	<u>300</u>	<u>345</u>
Taxes on income	(110)	(18)	(108)
Profit for the period	<u>323</u>	<u>282</u>	<u>237</u>
Attributable to:			
Equity holders of the Company	323	283	236
Minority interest	-	(1)	1
Profit for the period	<u>323</u>	<u>282</u>	<u>237</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Earnings per share (basic and diluted):			
Basic earnings per share	1.56	1.38	1.16
Diluted earnings per share	1.56	1.37	1.15

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

Condensed Consolidated Statement of Comprehensive Income

	Year ended December 31 2009	Year ended December 31 2008	Year ended December 31 2007
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Net change in fair value of available-for-sale financial assets	18	(3)	3
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(7)	(4)	3
Taxes on income and expenses from available-for-sale financial assets recognized directly in equity	(2)	1	-
Defined benefit plan actuarial gains (losses)	7	(26)	(5)
Taxes on actuarial gains (losses) recognized directly in equity	(4)	7	1
Other comprehensive income (expense) for the period, net of income tax	12	(25)	2
Profit for the period	323	282	237
Total comprehensive income for the period	335	257	239
Attributable to:			
Equity holders of the Company	335	258	238
Minority interest	-	(1)	1
Total comprehensive income for the period	335	257	239

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

Condensed Consolidated Statement of Changes in Equity (cont'd)

Attributable to equity holders of the company

	Share capital	Share premium	Reserve from available-for-sale financial instruments	Treasury shares	Retained earnings	Total	Minority interest	Total equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the year ended December 31, 2009								
Balance as at January 1, 2009	239	510	3	(85)	581	1,248	1	1,249
Benefit in respect of options allotted to employees	-	-	-	-	7	7	-	7
Exercise of employee share options (1)	* -	1	-	-	-	1	-	1
Dividend paid (2)	-	-	-	-	(247)	(247)	-	(247)
Total comprehensive income for the period	-	-	9	-	326	335	-	335
Balance as at December 31, 2009	239	511	12	(85)	667	1,344	1	1,345
For the year ended December 31, 2008								
Balance as at January 1, 2008	239	492	9	(85)	777	1,432	2	1,434
Benefit in respect of options allotted to employees	-	-	-	-	5	5	-	5
Exercise of employee share options (1)	* -	18	-	-	-	18	-	18
Dividend paid (2)	-	-	-	-	(465)	(465)	-	(465)
Total comprehensive income for the period	-	-	(6)	-	264	258	(1)	257
Balance as at December 31, 2008	239	510	3	(85)	581	1,248	1	1,249
For the year ended December 31, 2007								
Balance as at January 1, 2008	239	492	3	(85)	878	1,527	1	1,528
Benefit in respect of options allotted to employees	-	-	-	-	2	2	-	2
Dividend paid (2)	-	-	-	-	(335)	(335)	-	(335)
Total comprehensive income for the period	-	-	6	-	232	238	1	239
Balance as at December 31, 2007	239	492	9	(85)	777	1,432	2	1,434

(1) In the year ended December 31, 2009, 120,000 employee options were exercised into ordinary shares of the Company of NIS 0.1 par value at an average weighted exercise price of NIS 4.93 per option. Furthermore, in the year ended December 31, 2008, 2,707,498 employee options were exercised into ordinary shares of the Company of NIS 0.1 par value at an exercise price ranging between NIS 5.59 and NIS 7.85 per option (including the exercise of 1,250,000 options by the Company's CEO). See also Note 23 regarding share-based payments.

(2) Net of a dividend to a subsidiary on its shares in the Company.

* Represent an amount lower than NIS 1 million.

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

Condensed Consolidated Statement of Cash Flows

	Year ended December 31 2009	Year ended December 31 2008	Year ended December 31 2007
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Profit for the period	323	282	237
Adjustments for:			
Depreciation of fixed assets	196	205	213
Amortization of intangible assets and deferred expenses	23	31	25
Taxes on income, net	110	18	108
Income tax paid	(85)	(132)	(56)
Company's shares of losses of affiliated company, net	1	8	8
Increase in fair value of investment property, net	(3)	(45)	(18)
Decrease in employee benefits	-	(5)	(9)
Increase (decrease) in provision for future rent, net	1	-	(4)
Capital losses, net	1	5	2
Capital gain on sale of proportionately consolidated investment	-	(29)	-
Financing expenses, net	62	204	103
Benefit in respect of employee stock options allotment	7	5	2
Adjustment of Clubmarket goodwill to profit or loss	-	127	-
Prepaid lease fees	1	1	1
Decrease (increase) in trade receivables	33	(97)	(90)
Decrease (increase) in other receivables	64	(59)	2
Increase in inventory	(4)	(9)	(60)
Increase in trade payables	13	40	211
Increase in other payables, provisions and long-term liabilities	6	68	29
Net cash from operating activities	749	618	704
Cash flows from investing activities			
Purchase of fixed assets	(175)	(224)	(169)
Proceeds from sale of fixed assets	2	8	5
Investment in deferred expenses and intangible assets	(14)	(15)	(15)
Purchase of marketable securities	(179)	(218)	(356)
Proceeds from sale of marketable securities	163	323	110
Cash payments (receipts) in respect of future and forward transactions	7	7	(2)
Loans granted	(1)	(10)	-
Loans to affiliated company	(8)	(29)	(17)
Repayment of long-term loans	7	2	2
Investment in investment property	(3)	(14)	(3)
Proceeds from sale of investment property	-	47	7
Prepaid lease fees	(3)	(13)	-
Proceeds from sale of proportionately consolidated company	-	157	-
Exercise of option to purchase partnership	-	(80)	-
Acquisition of operation	-	(34)	-
Interest received	10	20	30
Net cash used in investing activities	(194)	(73)	(408)

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

Condensed Consolidated Statement of Cash Flows (cont'd)

	Year ended December 31 2009	Year ended December 31 2008	Year ended December 31 2007
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Cash flows from financing activities			
Repayment of notes	(61)	(59)	(96)
Issuance of notes, net	496	-	500
Dividend paid	(247)	(465)	(335)
Partners' share in profits of partnership	-	(20)	(15)
Exercise of stock options by employees	1	18	-
Receipt of long-term loans from banks	1	7	14
Repayment of long-term loans from banks	(32)	(55)	(75)
Repayment of short-term loan from banks	-	-	(84)
Change in short-term credit	2	(1)	1
Partners' loans	-	4	14
Interest paid	(93)	(94)	(99)
Net cash from (used in) financing activities	<u>67</u>	<u>(665)</u>	<u>(175)</u>
Increase (decrease) in cash and cash equivalents	622	(120)	121
Balance of cash and cash equivalents at the beginning of the period	<u>63</u>	<u>183</u>	<u>62</u>
Balance of cash and cash equivalents at the end of the period	<u><u>685</u></u>	<u><u>63</u></u>	<u><u>183</u></u>

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

Notes to the Consolidated Financial Statements as at December 31, 2009

Notes to the Consolidated Financial Statements as at December 31, 2009

Note 1 - 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 financial statements of the Group as at December 31, 2009 comprise the Company, its subsidiaries and jointly controlled entities (together referred to as the “Group”) and the Group’s interest in an affiliate. The Company is mainly held by Discount Investment Corporation Ltd. and Bronfman, Fisher, Gad Investments Ltd. The Group primarily is involved in the operation of a chain of supermarkets in Israel. The Company also operates in the area of income-producing property directly through rental of different types of property and through investee companies that operate 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**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The Group adopted IFRSs for the first time in 2008, with the date of transition to IFRSs being January 1, 2007 (hereinafter – “the date of transition”). The financial statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 2009.

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on February 9, 2010.

B. Functional and presentation currency

These consolidated financial statements are presented in NIS, which is the Company’s functional currency, and have been rounded to the nearest thousand. The NIS is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- Available-for-sale financial assets are measured at fair value
- Derivative financial instruments are measured at fair value.
- Investment property is measured at fair value.
- Inventory, which is presented at the lower of cost and net realizable value.

Notes to the Consolidated Financial Statements as at December 31, 2009

- Fixed assets and intangible assets are presented at the lower of cost less accumulated depreciation and amortization, and recoverable value.
- Notes issued by the Company are measured at amortized cost using the effective interest at the date of issuance.
- Liabilities for employee benefits and the right to reimbursement in respect of employee benefits, as described in Note 3K.

Note 2 - Basis of Preparation (cont'd)

The value of non-monetary assets and equity items that were measured on the historical cost basis was adjusted to changes in the CPI until December 31, 2003, since until that date the Israeli economy was considered hyperinflationary.

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 preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

D. Use of estimates and judgments

Management bases its estimates on prior experience and on other factors that could, under certain circumstances, impact the considerations for determining the amounts of the assets and liabilities. Presented hereunder is a review of the significant accounting estimates and their underlying assumptions:

- **Investment property**

The fair value of investment property was determined on the basis of valuations that were prepared by external independent appraisers having appropriate professional skills, and take into consideration the location, the type of the investment property and the mix of the tenants. The fair value was determined on the basis of the discounted cash flows anticipated from the assets, and on the basis of recent transactions on the market with respect to similar real estate located in a place similar to that of the Group's property, if any such transactions took place.

- **Employee benefits**

In respect of the Group's net obligation for post-employment employee benefits, an estimate is calculated on the future amount of the benefit that will be due to the employees in respect of their services in the current period and in prior periods, which is presented at present value net of the fair value of plan assets. This estimate is calculated on the basis of actuarial estimates and discounted amounts.

Notes to the Consolidated Financial Statements as at December 31, 2009

Note 2 - Basis of Preparation (cont'd)**D. Use of estimates and judgments (cont'd)****• Impairment of non-financial assets**

The Group examines at each reporting date whether any events or changes in circumstances have occurred that indicate impairment of one or more of its non-monetary assets. When there are indications of impairment, it examines whether the amount by which the investment is presented is recoverable from the discounted cash flows anticipated from the asset, and if necessary an impairment provision is recognized up to the amount that is recoverable. The cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates of the cash flows are based on past experience regarding the asset or similar assets, and on the Group's best judgment with respect to the economic terms that will exist during the balance of the asset's useful life. With respect to real estate, the estimates take into account also the situation of the market in the same geographic area of the asset. Changes in the Group's estimates may result in significant changes in the carrying amounts of assets and in the results of operations.

Contingent liabilities

The Group creates provisions in respect of legal claims. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, including an affiliated company.

Note 3 - Significant Accounting Policies**A. New standards and interpretations not yet adopted**

- In the framework of the 2009 Improvements to IFRSs project, in April 2009 the IASB published and approved 15 amendments to various IFRS on a wide range of accounting issues. The amendments shall apply to periods beginning on or after January 1, 2010 and permit early adoption, subject to the specific conditions of each amendment.

Presented hereunder are the amendments that may be relevant to the Group.

- * Amendment to IAS 17, *Leases* – Classification of leases of land and buildings (hereinafter – the Amendment) – In accordance with the Amendment, a lease of land does not have to be classified as an operating lease in every case that ownership is not expected to pass to the lessee at the end of the lease period. In accordance with the amended standard, a land lease is to be examined according to the regular criteria for classifying a lease as a finance lease or as an operating lease.

The Amendment also provides that when a lease includes both a land component and a buildings component, the classification of each component should be based on the criteria of the standard, with the principal consideration regarding the classification of land being the fact that land normally has an indefinite useful life.

Notes to the Consolidated Financial Statements as at December 31, 2009

Note 3 - Significant Accounting Policies (cont'd)**A. New standards and interpretations not yet adopted (cont'd)**

* (cont'd)

The Amendment applies to financial statements for annual periods beginning on or after January 1, 2010. Early implementation of the Amendment is allowed while providing disclosure. The Amendment is to be implemented retrospectively, which means that the classification of land leases is to be examined on the basis of the information that was available on the date of the lease agreement, and that in the event of reclassification of the lease, the provisions of IAS 17 are to be implemented retrospectively as from the date of the lease agreement. Nevertheless, if the entity does not have the information necessary to apply the Amendment retrospectively, it should use the information available on the adoption date of the Amendment and recognize the asset and liability related to a land lease that was classified as a result of the Amendment as a finance lease according to their fair value as at that date. Any difference between the fair value of the asset and the fair value of the liability shall be recognized in retained earnings.

The Group is examining the effects of implementing the provisions of the Amendment. As a result of adopting the Amendment, the Group expects to classify its land as being leased under a finance lease. Accordingly, the land that is defined as being leased under a finance lease will be classified from the item of prepaid lease payments to the item of fixed assets. Furthermore, the Group is expected to create a liability in respect of future rent payments and to recognize deferred taxes, respectively.

* Amendment to IAS 36, *Impairment of Assets* – Unit of accounting for goodwill impairment test (hereinafter – the Amendment) – In accordance with the Amendment, for purposes of impairment testing the largest cash-generating unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria in Paragraph 12 of IFRS 8. The Amendment is to be applied prospectively for annual periods beginning on or after January 1, 2010. Early implementation is permitted with disclosure. Implementation of the Amendment has no effect on the Company's results of operations and financial position.

Notes to the Consolidated Financial Statements as at December 31, 2009

Note 3 - Significant Accounting Policies (cont'd)**B. Changes in accounting policies due to initial implementation of new standards****(1) Presentation of financial statements**

As from January 1, 2009 the Group implements revised IAS 1, *Presentation of Financial Statements* (hereinafter – the Standard). The Standard allows the presentation of one statement of comprehensive income (a combined statement of income and of other comprehensive income) or two statements – a statement of income and a separate statement of comprehensive income. The Group has chosen to present income and expense items and components of other comprehensive income in two separate statements – a statement of income followed by a statement of comprehensive income. Furthermore, the Group presents a statement of changes in equity immediately after the statement of comprehensive income instead of in the notes. The statement includes changes in equity resulting from transactions with shareholders in their capacity as owners (such as dividends, issuance of shares and/or options, etc.). The Standard is applied on a retrospective basis. Since the change only impacts the presentation of the financial statements, there is no impact on the Group's results of operations.

(2) Segment reporting

As from January 1, 2009 the Group implements IFRS 8, *Operating Segments* (hereinafter – the Standard). The Standard determines that the “management approach” should be used in segment reporting, meaning in accordance with the format of the internal reports provided to the chief operating decision maker of the Group. Segment information for prior periods has been restated so as to reflect the change in the composition of the Group's reportable segments.

, as from January 1, 2009 the Group has early adopted the revision to IFRS 8 that was published in the framework of the 2009 improvements to IFRSs project, pursuant to which disclosure of information on segment asset is required only if such information is reported regularly to the chief operating decision maker.

Notes to the Consolidated Financial Statements as at December 31, 2009

C. Presented hereunder are the Rates of Change in the Consumer Price Index and Dollar Exchange Rate:

	Year ended December 31			December 31		
	2009	2008	2007	2009	2008	2007
	Rate of change			Rate on reporting date		
	%			NIS		
1 US dollar	(2.6)	-	(8.9)	3.7	3.8	3.8
1 euro	2.7	(7.0)	1.7	5.4	5.3	5.7
Consumer Price Index in points – on the basis of the known index	3.8	4.5	2.8	114.7	110.5	105.7
Consumer Price Index in points – on the basis of the current month index	3.9	3.8	3.4	114.7	110.4	106.4

Note 4 - Segment Reporting

The Company implements the instructions of IFRS 8, Operating Segments, in accordance with the accounting policies presented in Note 3.

The Company has two reportable segments that are strategic business units. The strategic business units offer different services and products and the allocation of resources and evaluation of performance are managed separately because they require different marketing strategies.

The retail segment

This segment includes the retail marketing of food and other products in the Company's branches, the Shufersal credit card activity and the manufacture of frozen and fresh baked products.

The results of the retail operations, which are based on the branches and geographical areas in which the branches are located, are reviewed regularly by the Company's CEO, who is the chief operating decision maker of the Company, for the purpose of making decisions about resources to be allocated to the retail segment and assessing the performance.

As at December 31, 2009, the Company's retail segment activity is carried out in 240 stores having a wide geographical spread.

The Company operates five formats as part of a business marketing strategy that is aimed at satisfying its diverse customer population, by adjusting the range of products it offers in the different branches and providing them a buying experience that differs and varies in each of the formats operated by the Company.

Notes to the Consolidated Financial Statements as at December 31, 2009

The Company has a broad mix of products that are organized in a number of sale departments and secondary departments in each branch, and which includes, inter alia, products sold under the private label “Shufersal” for the purpose of offering a quality product, developing customer loyalty and improving the profitability of the categories in which the private label is sold.

The retail segment

The Company’s CEO examines the performance of the retail segment on the basis of a budget that is prepared on the level of the overall retail activity and makes significant decisions such as regarding investments in branches of the chain, the establishment of new branches in areas that are strategic to the Company and the value of continuing to operate losing branches or of alternatively changing the format of the branch, only on the basis of the statement of income of each relevant branch, while considering the different locations of the branches and considering all the chain’s branches as a whole.

The Shufersal credit card activity constitutes an integral part of the retail marketing activity of the Group in the framework of the retail activity’s customer club.

The manufacturing activity of frozen and fresh baked products is managed by a wholly owned subsidiary of the Company whose main sales are to the branches of the Company. As aforementioned, the manufacture of frozen and fresh baked products is a part of the retail activity because of its similar economic and qualitative characteristics.

The rental real estate segment

This segment includes the rental of various types of real estate properties including commercial centers and other as

Notes to the Consolidated Financial Statements as at December 31, 2009

Note 4 - Segment Reporting (cont'd)
Operating segments (cont'd)

	Year ended December 31, 2009			Year ended December 31, 2008			Year ended December 31, 2007		
	Retail	Rental real estate	Consolidated	Retail	Rental real estate	Consolidated	Retail	Rental real estate	Consolidated
	NIS millions			NIS millions			NIS millions		
Segment revenue	10,984	57	11,041	10,897	65	10,962	9,861	74	9,935
Operating profit	476	20	496	546	93	639	406	50	456
Goodwill adjustment			-			(127)			-
Financing expenses			(195)			(262)			(184)
Financing income			133			58			81
Share of losses of equity accounted investees		(1)	(1)		(8)	(8)		(8)	(8)
Taxes on income			(110)			(18)			(108)
Profit for the period			323			282			237

* In 2009 the operating profit in the rental real estate segment included an increase in value in the amount of NIS 3 million. In 2008 it included an increase in value in the amount of NIS 45 million and a capital gain on the sale of an investee company in the amount of NIS 29 million, and in 2007 it included an increase in value in the amount of NIS 18 million and a capital gain from the sale of property in the amount of NIS 2 million. Presented hereunder is a summary of the activities in 2009 –
Like in previous years, Shufersal performed contribution activities in the branches:

The second term of Mr. Yehezkel Ofir as an external director of the Company ends on February 23, 2010.

Note 4 - Segment Reporting (cont'd)

Information regarding products

Presented hereunder are the Group's sales revenues from each group of similar products in the retail segment:

1. "Grocery" products which include various food products but not milk and dairy products.
2. "Chilled" products which include milk and dairy products, cheese, sausages, salads and eggs.
3. "Meat" products which include fresh and frozen meat and fish products and products sold at meat counters.
4. "Vegetable and fruit" products which include various fruits and vegetables and dried fruits.
5. "Pharmacy" products which include, inter alia, cleaning and paper products, medicine, cosmetics and baby products.

	Year ended December 31		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Grocery	3,707	3,662	3,240
Chilled	2,521	2,477	2,165
Meat	1,596	1,576	1,372
Vegetables and fruit	1,265	1,269	1,143
Pharmacy	1,658	1,616	1,541