

**Shufersal Ltd.
(Formerly Super Sol Ltd.)**

Periodic report for the year 2008

Contents

Board of Directors' Report to the Shareholders

Summary Consolidated financial statements as at December 31, 2008

We are pleased to present the Report of the Board of Directors of Shufersal Ltd. (**hereinafter – "Shufersal" and/or "the Company"**) for the year 2008 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 retail and other segment (hereinafter – the retail segment) – The Company's main business is the retail marketing of food and other products in its stores.

The Company operates neighborhood and regional stores offering a broad range of high quality products with an emphasis on customer service, other stores offering a broad range of high quality products with an emphasis on discount prices; and stores offering a range of strictly kosher products for the ultra orthodox.

As at December 31, 2008, the Company has 232 stores covering a total area of approximately 511 thousand sq.m.

The rental real estate segment – The Company is also active in the rental real estate segment, both directly through the rental of various types of real estate properties, including commercial centers and other assets, as well as by means of investee companies that operate shopping malls and commercial centers, as follows: Shufersal Bailsol Hashkaot 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).

The total area of the rental space is 88 thousand sq.m. (including the Company's proportionate interest in investee companies).

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

Human resources

As at December 31, 2008, the Company employs approximately 10,760 employees in full-time and part-time positions, including 1,700 temporary employees or persons employed through manpower agencies.

Principal changes during the year

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.

In accordance with IAS 12 and the merger arrangement, a goodwill adjustment expense in the amount of NIS 127 million was recorded (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 earnings of the Company are unaffected. See also Note 13(2)(c) of the financial statements.

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

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. 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 financial statements.

3. Sale of investment property

On June 24, 2008 the sale of the Company's shares in Kanyonim Israel Ltd., which holds the Bat Yam Mall, to Eldar Properties Ltd. was completed, further to completing the sale of additional areas near the Bat Yam Mall, which was completed on April 30, 2008. See Notes 5 and 11 of the financial statements.

The Company's results by segment – see Note 33 of the Company's financial statements.

B. Results of Operations

The percentage of change in this report is calculated based on the data in the consolidated financial statements, in NIS millions, in which IFRS were implemented for the first time.

Directors' Report for the Year Ended December 31, 2008

Shufersal Ltd.

The results of 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 other income and expenses	5.2%	565	4.4%	438
Increase in value and sale of investment property		74		18
Goodwill adjustment (1)		(127)		-
Operating profit after other income and expenses		512		456
Financing expenses, net		(204)		(103)
Taxes on income		(145)		(108)
Tax income in respect of merger of Clubmarket (1)		127		-
Group's equity in losses of affiliated company, net		(8)		(8)
Earnings for the period		282		237

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

Retail segment sales in 2008 reached NIS 10,897 million compared with NIS 9,861 million in the previous year, reflecting a 10.5% increase. Same store sales¹ 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. Per sq.m sales in the Company's stores in 2008 were NIS 21,333, compared with NIS 19,279 in 2007, reflecting a 10.7% increase.

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

Total revenues in the retail and rental real estate segments in 2008 were NIS 10,962 million, compared with NIS 9,935 million in the previous year, reflecting a 10.3% increase

Gross profit in the retail segment in 2008 was NIS 2,930 million compared with NIS 2,608 million in the previous year, an increase of NIS 322 million. The gross profit rate 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 in 2008 was NIS 25 million 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.

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

Total gross profit of the Company was NIS 2,955 million in 2008, compared with NIS 2,643 million in the previous year, an increase of NIS 312 million. Gross profit rate this year was 27.0%, compared with 26.6% in the previous year.

Total selling, marketing, administrative, general and other expenses of the Company in 2008 were NIS 2,390 million, compared with NIS 2,205 million in the previous year. 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, an increase in the rates of the electric company, the launching of the "Yesh" format and an increase in the Consumer Price Index. The decline in the expense ratio stemmed primarily from the increase in revenues.

Operating profit before other income and expenses in 2008 was NIS 565 million, compared with NIS 438 million in the previous year, an increase of NIS 127 million (about 29%). Annual operating profit rate before other income and expenses was 5.2%, compared with 4.4% in the previous year. 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 adjacent asset, whereas in 2007 there was an increase in value of NIS 18 million. See also Notes 11 and 27 of the 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.

EBITDA in 2008 was NIS 801 million (excluding the revaluation and sale of investment property in the amount of NIS 74 million and the goodwill adjustment in the amount of NIS 127 million), compared with NIS 676 million in the previous year (excluding the revaluation of investment property in the amount of NIS 18 million). The EBITDA rate was 7.3% this year, compared with 6.8% in the previous year.

Financing expenses, net, in 2008 were NIS 204 million 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, and from the financing expenses in respect of CPI-hedging transactions (the known CPI increased in 2008 by 4.5% compared with an increase of 2.8% in the previous year).

In 2008, the Company had tax expenses of NIS 145 million excluding the tax income from 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 earnings and from the tax expense on the sale of investment property in the amount of NIS 38 million. The Company's effective tax rate in 2008 was 34.0% without the goodwill adjustment, compared with 31.3% 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 financial statements.

Net earnings in 2008 were NIS 282 million, compared with net earnings of NIS 237 million in the previous year, reflecting a 19% increase.

The basic earnings per share of the Company in 2008 were NIS 1.38, compared with NIS 1.16 in the previous year. The diluted earnings per share in 2008 were NIS 1.37, compared with NIS 1.15 in the previous year.

Directors' Report for the Year Ended December 31, 2008

Shufersal Ltd.

Three months ended December 31, 2008 compared with the corresponding period of the previous year

	Results of operations			
	Q4 2008		Q4 2007	
	%	NIS millions	%	NIS millions
Revenues		2,697		2,579
Gross profit	27.3%	737	26.7%	688
Selling, marketing, administrative, general and other expenses	22.4%	(605)	22.8%	(587)
Operating profit before other income and expenses	4.9%	132	3.9%	101
Increase (decrease) in value and sale of investment property		(6)		18
Goodwill adjustment (1)		(127)		-
Operating profit (loss) after other income and expenses		(1)		119
Financing income (expenses), net		(66)		2
Taxes on income		(11)		(34)
Tax income in respect of merger of Clubmarket (1)		127		-
Group's equity in earnings (losses) of affiliated company, net		1		(1)
Earnings for the period		50		86

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

Retail segment sales in Q4/2008 reached NIS 2,683 million, compared with NIS 2,560 million in the corresponding quarter of the previous year, reflecting a 4.8% increase. Same store sales with respect to stores that operated fully this quarter and in the corresponding quarter of the previous year increased by 5.0%. 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. Per sq.m sales in the Company's stores in Q4/2008 were NIS 5,255 compared with NIS 4,974 in the corresponding quarter of the previous year, reflecting a 5.7% increase.

In Q4/2008, the Company's revenues from the rental real estate segment amounted to NIS 14 million, compared with NIS 19 million in the corresponding period of the previous year, reflecting a 26.3% decrease. The decrease in revenues stemmed primarily from the sale of investment property.

Total revenues in the retail and rental real estate segments in Q4/2008 were NIS 2,697 million, compared with NIS 2,579 million in the corresponding quarter of the previous year, reflecting a 4.6% increase.

Gross profit in the retail segment in Q4/2008 was NIS 734 million, compared with NIS 680 million in the corresponding quarter of the previous year, an increase of NIS 54 million. Gross profit rate was 27.4% in Q4/2008, compared with 26.6% in the corresponding quarter of the previous year. The increase in gross profit stemmed primarily from an increase in sales, as mentioned above. The increase in the gross profit rate stemmed primarily from the sales mix, well-timed purchases of inventories and the opening of the new store format.

Gross profit from the rental real estate segment in Q4/2008 was NIS 3 million, compared with NIS 8 million in the corresponding quarter of the previous year, a decrease of NIS 5 million. The decrease in gross profit stemmed from the decrease in revenues as mentioned above.

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Gross profit from the retail and rental real estate segments was NIS 737 million in Q4/2008, compared with NIS 688 million in the corresponding quarter of the previous year, an increase of NIS 49 million. Gross profit rate this quarter was 27.3%, compared with 26.7% in the corresponding quarter of the previous year.

Total selling, marketing, administrative, general and other expenses of the Company in Q4/2008 were NIS 605 million, compared with NIS 587 million in the corresponding quarter of the previous year. The increase in expenses stemmed primarily from an increase in minimum wages, an increase in the rates of the electric company, the launching of the "Yesh" format and an increase in the Consumer Price Index. Ratio of expenses to revenues was 22.4% compared with 22.8% in the corresponding quarter of the previous year. The decline in the expense ratio stemmed primarily from the increase in revenues.

Operating profit before other income and expenses in Q4/2008 was NIS 132 million, compared with NIS 101 million in the corresponding quarter of the previous year, an increase of NIS 31 million (about 31%). The increase in the operating profit stemmed from the increase in revenues and in the gross profit rate. Operating profit rate before other income and expenses in Q4/2008 was 4.9%, compared with 3.9% in the corresponding quarter of the previous year.

In Q4/2008 the decrease in the value of investment property amounted to NIS 6 million compared with an increase in the amount of NIS 18 million in the corresponding quarter of the previous year. See also Note 11 of the 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 loss after the increase (decrease) 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 1 million in Q4/2008 compared with an operating profit of NIS 119 million in the corresponding quarter of the previous year.

EBITDA in Q4/2008 was NIS 188 million (excluding the decrease in value of investment property in the amount of NIS 6 million and the goodwill adjustment in the amount of NIS 127 million), compared with NIS 169 million in the corresponding quarter of the previous year (excluding the increase in value of investment property in the amount of NIS 18 million). The EBITDA rate was 7.0% in Q4/2008, compared with 6.6% in the corresponding quarter of the previous year.

Financing expenses, net, in Q4/2008 were NIS 66 million compared with financing income of NIS 2 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 transaction and from the effect of the increase in the rate of inflation during the year on the CPI-linked liabilities of the Company.

In Q4/2008, the Company had tax expenses of NIS 11 million, compared with tax expenses of NIS 34 million in the corresponding quarter of the previous year. The decrease in tax expenses stemmed primarily from the decrease in pre-tax earnings and from cancelling financing income for tax purposes in respect of a loan to Clubmarket that was cancelled following the merger. The Company's effective tax rate in Q4/2008 was 18.0% without the goodwill adjustment, compared with 28.3% in the corresponding quarter of the previous year. The decrease in the effective tax rate stemmed primarily from the aforementioned.

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(2)(c) of the financial statements.

Net earnings in Q4/2008 were NIS 50 million, compared with net earnings of NIS 86 million in the corresponding quarter of the previous year, reflecting a 42% decrease.

The basic earnings per share of the Company in Q4/2008 were NIS 0.25, compared with NIS 0.42 in the corresponding quarter of the previous year. The diluted earnings per share in Q4/2008 were NIS 0.25, compared with NIS 0.41 in the corresponding quarter of the previous year.

Condensed consolidated quarterly statements of income for the year 2008 (in NIS millions)

	2008					2007
	Total for the year	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter
Revenues	10,962	2,697	2,892	2,788	2,585	2,579
Gross profit	2,955	737	773	748	697	688
Selling, marketing, administrative, general and other expenses	2,390	605	626	592	567	587
Operating profit before other income and expenses	565	132	147	156	130	101
Increase in value and sale of investment property	74	(6)	-	35	45	18
Adjustment of goodwill in respect of Clubmarket merger	(127)	(127)	-	-	-	-
Operating profit after other income and expenses	512	(1)	147	191	175	119
Financing income (expenses), net	(204)	(66)	(58)	(37)	(43)	2
Group's equity in losses of affiliated company	(8)	1	(5)	(3)	(1)	(1)
Earnings before taxes on income	300	(66)	84	151	131	120
Taxes on income	(145)	(11)	(25)	(50)	(59)	(34)
Tax income in respect of merger of Clubmarket	127	127	-	-	-	-
Earnings for the period	<u>282</u>	<u>50</u>	<u>59</u>	<u>101</u>	<u>72</u>	<u>86</u>

C. Financial Position, Liquidity and Financing Resources

Cash flow from operating activities

Net cash from operating activities was NIS 624 million in 2008, compared with NIS 714 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 in 2008 was NIS 79 million, compared with NIS 410 million in 2007. The cash used in investing activities in 2008 included mainly the acquisition of fixed assets in the amount of NIS 223 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 112 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
Retail segment	223	169
Investment property	14	3
Total	237	172

Cash flow from financing activities

Net cash used in financing activities in 2008 amounted to NIS 665 million, compared with net cash used in financing activities in 2007 of NIS 183 million. 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. 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 and debentures in the amount of NIS 255 million.

As at the end of 2008, the Company's consolidated net liquid assets (cash, cash equivalents and marketable securities net of short-term bank credit) were NIS 248 million, compared with NIS 443 million as at the end of the previous year.

Financial ratios

As at the end of 2008, liabilities to banks and to the holders of long-term debentures, including interest payable in the amount of NIS 70 million (hereinafter – "the Financial Debt"), amounted to NIS 1,938 million, compared with NIS 2,003 million as at the end of the previous year. The ratio of loans and debentures to total balance sheet as at the end of 2008 was 35.6%, compared with 36.2% as at the end of the previous year.

Shareholders' equity as at the end of 2008 was NIS 1,249 million, compared with NIS 1,434 million as at the end of the previous year. The decrease is mainly due to the distribution of a dividend less the increase in earnings. The ratio of shareholders' equity to total balance sheet as at the end of 2008 was 22.9%, compared with 25.9% as at the end of the previous year.

D. Debentures to Institutional Investors and the Public

Series/date of issuance	Name of rating company	Rating upon issuance and as at the date of this report	Total par value on date of issuance	Type of interest	Stated interest	Effective interest rate on date of issuance	Listed for trading (yes/no)	Interest payment dates	Nominal par value as at December 31, 2008	CPI-linked nominal par value as at December 31, 2008	Carrying amount of debenture balances as at December 31, 2008	Carrying amount of interest payable as at December 31, 2008	Market value as at December 31, 2008
			NIS						NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
1.2002	Maalot	AA	317,500,000	Fixed	4.8%	4.86%	No	Annually on March 31 of the years 2003-2012	212	246	245	9	256
4.2005	Maalot	AA	500,000,000	Fixed	5.2%	5.24%	Yes	Annually on March 31 of the years 2006-2019	500	552	550	22	604
11.2005	Maalot	AA	279,589,932	Fixed	5.2%	5.02%	Yes	Annually on March 31 of the years 2006-2019	280	308	312	12	338
3.2006	Maalot	AA	183,654,729	Fixed	5.2%	5.02%	Yes	Annually on March 31 of the years 2006-2019	184	203	205	8	222
2.2007	Maalot	AA	435,919,791	Fixed	5.2%	4.30%	Yes	Annually on March 31 of the years 2007-2019	436	481	509	18	526
									1,612	1,790	1,821	69	1,946

Notes:

1. Debentures to institutional investors and the public – linked to the Consumer Price Index.
2. Repayment of the principal of private debentures – in 6 annual payments from March 31, 2007 to March 31, 2012.
3. Repayment of the principal of public debentures – in 5 annual payments from March 31, 2015 to March 31, 2019.
4. The trustee of the debentures to institutional investors (Series B debentures – institutional continuous) is Deloitte Touche (Israel) Brightman Almagor Trustees Ltd. The person in charge on behalf of Deloitte Touche (Israel) Brightman Almagor Trustees Ltd. is Ms. Irit Price (Tel: 03-6085323).
5. The trustee of the public debentures is Hermatic Trusts (1975) Ltd. The person in charge of the public debentures on behalf of Hermatic Trusts (1975) Ltd. is Mr. Dan Avnon (Tel: 03-5272272).
6. On January 7, 2008, U-Bank Trust Company Ltd. announced its resignation from its position as trustee of the debentures (Series B) of Shufersal due to concerns that the trustee may find itself in a position of conflict of interests. As from August 5, 2008, and after the court approved the resignation of U-Bank and the meeting of the holders of the Series B debentures gave its approval, Hermatic Trusts (1975) Ltd. serves as the trustee of the Company's Series B debentures instead of U-Bank.
7. As regards the 1.2002 series, on July 24, 2008 Deloitte Touche Israel Brightman Almagor Trustees Ltd. announced its resignation from its position as trustee of the said series of debentures due to concerns regarding conflict of interests that are the result of the trustee serving as the auditor of a number of group companies of IDB Development Corporation Ltd., of which the Company is also a member. On October 7, 2008 the Tel Aviv-Jaffa District Court approved the resignation of the trustee and the Company plans to convene a meeting of the holders of the debentures in order to appoint a new trustee. As at the date of the report, no such trustee has as yet been appointed. The existing trustee will continue to serve in this position until a new trustee is appointed.
8. As at the date of the 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 debentures.

E. Report on Exposure to Market Risks and Management Thereof

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

Control measures and policy 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 Investments Committee includes 2 directors, the CEO, the CFO, Financial Manager and Company Treasurer. In addition, occasionally, the Committee is assisted by consultants specializing in capital markets. The Investments Committee meets once every two months.

Changes in the economic environment

The global markets are currently undergoing a financial crisis (see also Sections 1.7.1 and 1.9.1 of the chapter "Description of the Company's Business"). A number of other developments have taken place in the Israeli economy including significant fluctuations in the exchange rates of principal foreign currencies in relation to the NIS and an increase in the rate of inflation.

As regards the effects of the rise in the rate of inflation see explanation under Section B of the report, "Results of Operations", and the analyses presented hereunder in this section.

As at the date of publishing this report, the said financial crisis and the fluctuations in foreign currency exchange rates do not have a material effect on the financial position of the Company, including on the composition and value of its assets, its financial strength and its liquidity. Nevertheless, it is noted that the global crisis and the aforementioned recent developments in the Israeli economy may cause a decrease in the consumption of food, which will have a negative effect on the Company's sales.

Presented hereunder is a repayment schedule of debentures and loans according to year of repayment (principal plus interest and linkage):

Year	Debentures*	Bank loans	Total
2009	152	32	184
2010	142	3	145
2011	133	3	136
2012	124	3	127
2013 and thereafter	1,339	6	1,345
Total	1,890	47	1,937

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

As described above in Section C of this 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.

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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 1.13 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.

The Company's securities portfolio is composed of short-term treasury notes, government debentures and corporate debentures rated A to AAA and A1 to AAA by Maalot/Midroog, respectively. As at balance sheet date, the value of the securities portfolio is NIS 185 million and the capital reserve in respect of these securities has a debit balance of NIS 3 million.

The Company has investment property in the amount of NIS 320 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 with which there was no change in the lease 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 has an effect on the value of investment property.

The Company shall continue to monitor the financial crisis on the markets and its effects on the Israeli economy, and it is possible that 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.

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.

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 the year, 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.

Consumer Price Index risk

The Company is exposed to changes in the Consumer Price Index (“the CPI”) in respect of loans received from banks and others and debentures issued by the Company in the net amount of NIS 1.8 billion.

In 2005 and 2006, the Company purchased short-term forward contracts on the CPI in the amount of NIS 780 million for settlement on the following dates:

NIS 225 million for settlement in October-November 2010,
NIS 250 million for settlement in May 2011,
NIS 205 million for settlement in July-August 2011,
NIS 100 million for settlement in October 2011.

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 and 2008, the Company purchased short-term forward contracts on the CPI. As at December 31, 2008 the balance of the contracts is NIS 444 million for settlement during 2009. As at December 31, 2008 contracts in the total amount of NIS 1,409 million were purchased in 2005-2008.

The total fair value of the above contracts as at December 31, 2008 was a liability in the amount of NIS 54 million. In 2008, the Company recorded financing expenses in the amount of NIS 36 million in respect of these contracts (which include forward contracts on the dollar exchange rate, see hereunder regarding currency risks), compared with financing income of NIS 35 million in the previous year.

Currency risks

During 2008, the Company purchased forward contracts on the US dollar. As at the balance sheet date, the Company had forward contracts in the amount of \$ 13.1 million for settlement dates until March 2010. The total fair value of these contracts, as at the balance sheet date, is an asset of approximately NIS 0.6 million.

In 2008 the Company recorded financing income in the amount of NIS 0.5 million in respect of these contracts, compared with financing expenses in the amount of NIS 2.4 million in the previous year, while on the other hand it saved currency differentials on payments to suppliers.

The Company’s exposure to currency risks is insignificant.

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

	December 31, 2008				
	Israeli currency		Foreign	Other	Total
	Unlinked	CPI-linked	currency		
NIS millions					
Cash and cash equivalents	55	-	8	-	63
Marketable securities	67	118	-	-	185
Trade receivables	1,196	-	-	-	1,196
Other receivables	134	26	-	-	160
Inventory	-	-	-	607	607
Investments and long-term loans	-	69	-	8	77
Fixed assets	-	-	-	1,826	1,826
Investment property	-	-	-	320	320
Right to reimbursement in respect of employee benefits	2	-	-	-	2
Deferred expenses and other assets	279	-	-	734	1,013
	<u>1,733</u>	<u>213</u>	<u>8</u>	<u>3,495</u>	<u>5,449</u>
Bank credit	1	31	-	-	32
Current maturities of debentures	-	61	-	-	61
Trade payables	1,482	18	-	-	1,500
Other payables	464	123	-	-	587
Liabilities to banks and others	34	9	-	-	43
Liabilities relating to debentures	-	1,760	-	-	1,760
Employee benefits	61	-	-	-	61
Liabilities to others	-	-	4	54	58
The Group's share in the capital deficiency of an affiliated company	-	-	-	32	32
Tax provision	66	-	-	-	66
Minority interest	-	-	-	1	1
Shareholders' equity	-	-	-	1,248	1,248
	<u>2,108</u>	<u>2,002</u>	<u>4</u>	<u>1,335</u>	<u>5,449</u>
Net exposure		<u>(1,789)</u>	<u>4</u>		<u>-</u>

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.

Risks related to prices of securities in Israel

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

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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 in 2007 by NIS 125 per month commencing from April 1, 2007, and by NIS 140 per month commencing from July 2008. The increase in the minimum wage, as stated, has a material impact on the Group's results. The impact of the increase in the minimum wage, as stated, compared with 2007, amounts to an increase of NIS 14 million in the Group's salary expenses in 2008, and it is expected to cause an increase of NIS 9 million in the Group's salary expenses in 2009 in comparison with 2008. During 2007 and 2008 the Company implemented efficiency measures aimed at reducing the salary expenses, as detailed in Sections 1.12.3.1 and 1.12.6 of the periodic report under "Description of the Company's Business", and reducing the number of work hours. The Company examines on an ongoing basis its available alternatives for purposes of cutting back its expenses.

Tables of sensitivity of financial instruments to changes in market factors as at December 31, 2008

Sensitive instruments	Interest rate sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2008	Gain (loss) from changes	
	10% increase in interest	5% increase in interest		5% decrease in interest	10% decrease in interest
NIS millions					
Loans received	0.2	0.1	45.8	(0.1)	(0.2)
Loan 1	0.0	0.0	20.7	0.0	0.0
Loan 2	0.0	0.0	9.1	0.0	0.0
Loan from subsidiary (1)	0.1	0.1	8.8	(0.1)	(0.1)
Loan from subsidiary (2)	0.0	0.0	1.4	(0.0)	(0.0)
Loan from subsidiary (3)	0.1	0.0	5.5	(0.0)	(0.1)
Loan from subsidiary (4)	0.0	0.0	0.3	0.0	0.0
Total debentures	48.2	24.4	1,946.0	(24.9)	(52.0)
Debentures 1	1.7	0.9	256.7	(0.9)	(1.8)
Debentures 2	16.6	8.4	603.7	(8.6)	(17.3)
Debentures 3	9.3	4.7	337.6	(4.8)	(9.7)
Debentures 4	6.1	3.1	221.7	(3.1)	(8.1)
Debentures 5	14.5	7.3	526.3	(7.5)	(15.1)
Loans granted	(0.3)	(0.2)	(23.3)	0.2	0.4
NIS-CPI forward transactions (*)	(1.1)	(0.6)	(54.3)	0.6	1.1
Deposits (including dollar-linked)	(0.0)	(0.0)	24.6	0.0	0.0

(*) 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 1.7 billion, of which 99% is linked to the CPI and 1% is linked to the exchange rate of the US dollar.

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Sensitive instruments	CPI sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2008	Gain (loss) from changes	
	10% increase in CPI	5% increase in CPI		5% decrease in CPI	10% decrease in CPI
NIS millions					
Loans received	(4.6)	(2.3)	45.9	2.3	4.6
Debentures	(194.6)	(97.3)	1,946.0	97.3	194.6
Loans granted	2.33	1.16	(23.3)	(1.2)	(2.3)
NIS-CPI forward (*)	128.6	64.3	(54.3)	(64.3)	(128.5)

(*) Hedging is not recognized for accounting purposes.

Instrument	Dollar rate sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2008	Gain (loss) from changes	
	10% increase in the market factor	5% increase in the market factor		5% decrease in the market factor	10% decrease in the market factor
NIS million					
Dollar-NIS forward transactions(*):					
Sensitive to rate of exchange	4.3	2.2	1	(2.2)	(4.3)
Sensitive to interest differences	6.5	6.5	1	6.5	6.5
Sensitive to dollar linked deposits	0.02	0.01	0.2	(0.01)	(0.02)

(*) Hedging is not recognized for accounting purposes.

Sensitive instruments	Market price sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2008	Gain (loss) from changes	
	10% increase in market price	5% increase in market price		5% decrease in market price	10% decrease in market price
NIS millions					
Marketable securities	18.4	9.2	184.5	(9.2)	(18.4)

Tables of sensitivity of financial instruments to changes in market factors as at December 31, 2007

Sensitive instruments	Interest rate sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2007	Gain (loss) from changes	
	10% increase in interest	5% increase in interest		5% decrease in interest	10% decrease in interest
NIS millions					
Loans received	0.8	0.3	135.7	(0.8)	(1.3)
Loan 1	0.1	0.0	39.7	(0.0)	(0.1)
Loan 2	0.1	0.0	25.9	(0.0)	(0.1)
Loan 3	0.0	0.0	6.1	(0.0)	(0.0)
Loan from subsidiary (1)	0.1	0.0	15.1	(0.5)	(0.5)
Loan from subsidiary (2)	0.2	0.1	15.7	(0.1)	(0.3)
Loan from subsidiary (3)	0.0	0.0	2.0	(0.0)	(0.0)
Loan from subsidiary (4)	0.2	0.1	12.8	(0.1)	(0.2)
Loan from subsidiary (5)	0.1	0.1	10.2	(0.1)	(0.1)
Loan from subsidiary (6)	0.0	0.0	1.9	(0.0)	(0.0)
Loan from subsidiary (7)	0.0	0.0	6.3	(0.0)	(0.0)
Total debentures	54.7	27.6	1,872.3	(28.2)	(57.2)
Debentures 1	2.1	1.0	314.5	(1.0)	(2.1)
Debentures 2	18.8	9.5	556.7	(9.7)	(19.7)
Debentures 3	10.5	5.3	311.3	(5.4)	(11.0)
Debentures 4	6.9	3.5	204.5	(3.6)	(7.2)
Debentures 5	16.4	8.3	485.3	(8.5)	(17.2)
Loans granted	(0.0)	(0.0)	(17.5)	0.0	0.0
NIS-CPI forward transactions (*)	7.515	3.809	(7.728)	(3.654)	(7.407)
Deposits (including dollar-linked)	(0.05)	(0.03)	(147.74)	0.03	0.05

(*) 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 1.5 billion, of which 98% is linked to the CPI and 2% is linked to the exchange rate of the US dollar.

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Sensitive instruments	CPI sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2007	Gain (loss) from changes	
	0.2% increase in CPI	0.1% increase in CPI		0.1% decrease in CPI	0.2% decrease in CPI
NIS million					
Loans received	(0.3)	(0.1)	129.6	0.1	0.3
Debentures	(3.7)	(1.9)	1,872.2	1.9	3.7
Loans granted	0.04	0.02	(17.5)	(0.02)	(0.04)
NIS-CPI forward (*)	2.1	1.1	(7.7)	(1.1)	(2.1)

(*) Hedging is not recognized for accounting purposes.

Instrument	Dollar rate sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2007	Gain (loss) from changes	
	10% increase in the market factor	5% increase in the market factor		5% decrease in the market factor	10% decrease in the market factor
NIS millions					
Dollar-NIS forward transactions(*):					
Sensitive to rate of exchange	8.3	4.2	(2.2)	(4.2)	(8.3)
Sensitive to dollar linked deposits	0.02	0.01	0.2	(0.01)	(0.02)

(*) Hedging is not recognized for accounting purposes.

Sensitive instruments	Market price sensitivity				
	Gain (loss) from changes		Fair value as at December 31, 2007	Gain (loss) from changes	
	10% increase in market price	5% increase in market price		5% decrease in market price	10% decrease in market price
NIS millions					
Marketable securities	29.2	14.6	292.2	(14.6)	(29.2)

(*) Hedging is not recognized for accounting purposes.

F. Critical Accounting Estimates

At the time of preparation of the financial statements in accordance with generally accepted accounting principles in Israel, Company's Management is required to adopt assumptions for purposes of making estimates that affect the reported amounts of the assets and liabilities as at the balance sheet date as well as the reported amounts of the revenues and expenses in the period covered by the report. 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. Actual results could differ materially from the aforesaid estimates.

In Management's estimation, the accounting estimate described below is critical since it includes estimates with respect to the effect of factors the realization of which is not certain.

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 regarding the location and type of the investment property being valued. The fair value was determined on the basis of recent transactions on the market with respect to similar real estate located in a place similar to that of the Company's investment property, if any such transactions took place, and on the basis of the discounted cash flows anticipated from the assets. The discount rates that were used by the appraisers were between 8% and 12% per year, according to the type and designation of the asset, its location and the quality of the lessees.

Employee benefits

In accordance with generally accepted accounting principles in Israel, the Company's liabilities for employee severance benefits are recognized on its books in the amount of the difference between the Company's liability for the payment of severance pay on the basis of past experience, the current situation and the dismissals anticipated in the future, and the amounts that were deposited. Furthermore, liabilities in respect of paid vacation and sick leave were calculated on the basis of estimated redemption and utilization, respectively. As at the date of transition to IFRS, all the net liabilities in respect of post-employment benefits of employees and other long-term benefit plans are measured in accordance with IAS 19, "Employee Benefits". Post-employment benefits that are defined benefit plans are measured on the basis of actuarial estimates and discounted amounts. In addition, in accordance with generally accepted accounting policies in Israel, insurance policies in respect of employee severance benefits that were issued by a related party were presented as a deduction from the liability. In accordance with IFRS these policies do not constitute plan assets and are presented as a separate asset (right to reimbursement in respect of employee benefits). The Company has chosen to recognize actuarial gains and losses directly in retained earnings, since under this alternative the statement of income appropriately reflects the fair value of the net liabilities to the employees on the cutoff date. Furthermore, in accordance with this alternative, the statement of income more appropriately reflects the Company's results of operations, and fluctuations resulting from actuarial gains and losses are avoided. In the framework of its report regarding the transition to IFRS in its financial statements for December 31, 2007, the Company noted that upon the implementation of IFRS it plans to implement the corridor method, but following a reassessment and in accordance with the policy of the parent companies, the Company has chosen to implement the retained earnings method.

See Note 19 of the financial statements regarding the quantitative effect on the Company's financial position and results of operations.

Provision for impairment of assets

Pursuant to IAS 36, "Impairment of Assets", the Company examines the recoverable amount of its assets at any time that there are indications of a possible impairment of such assets. Where the carrying value of an asset exceeds its recoverable amount, which is determined based on the higher of the net selling price or its value in use, the Company recognizes a loss from impairment of the asset. An impairment loss that was previously recognized may be reversed only if there has been a change in the estimates used in determining the recoverable amount since the date on which the latest impairment loss was recognized. The carrying value after the reversal may not be higher than the carrying value that would have been determined for the asset if no impairment loss had been recorded in prior years.

The Company calculates the estimate of the recoverable amount for every store and every other income-generating asset separately (hereinafter – "Cash Generating Unit"). When the positive cash flows of one store are contingent on the cash flows of another store in the same geographic area, the group of stores in the same geographic area is the Cash Generating Unit. When calculating the value in use of a Cash Generating Unit, the Company makes use of cash flow forecasts that reflect the asset's current situation and represent the best estimate of the economic terms that will exist during the balance of the asset's useful life. In computing the net selling price of the buildings, including land and lease rights, the Company makes use of valuations prepared by appraisers.

The increased competition in the retail and rental real estate segments, including the opening of stores by competitors, could have a material impact on the cash flows, on the balance of the useful lives and on determination of the net selling price of the assets.

Goodwill and intangible assets

As from January 1, 2006 the Company implements the provisions of IAS 38 (Revised), "Intangible Assets" (hereinafter – the Standard).

In accordance with the Standard the excess cost of an investment in a subsidiary over the share of the Company in the fair value of its identifiable assets (including intangible assets) net of the fair value of its identifiable liabilities (after the allocation of taxes) as at the date of acquisition is goodwill. The goodwill is presented in the consolidated balance sheet under the item of "other assets and deferred expenses".

Goodwill is not systematically amortized. Instead, the Company examines whether there has been an impairment in the value of the goodwill deriving from the acquisition of a subsidiary, once a year or more frequently if events or changes in circumstances indicate that there may have been an impairment in the value of the assets. The excess of cost that was attributed to assets and liabilities is allocated to the relevant balance sheet items.

The excess of the Company's share in the fair value of the subsidiary's identifiable assets (including intangible assets) net of the fair value of its identifiable liabilities (after the allocation of taxes) over the cost of the investment in the subsidiary was initially deducted from the share of the Company in the intangible assets of the subsidiary, and the balance was deducted from the share of the Company in the other non-monetary assets of the subsidiary, proportionately to the fair value of these assets. The excess of cost remaining after this allocation is negative goodwill, which was recognized in the financial statements upon acquisition.

Regarding the quantitative impact on the Company's financial position and the results of its operations – see Notes 2(E) and 13 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 finances, 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. Serves 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 – 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.

Imri Tov – On July 27, 2006, Imri Tov was appointed by the general meeting as an external director. 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 financing 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.

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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, 2008, 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.

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 and as the Chairman of the Board of Directors of the Magid Institution.

Almog Geva – At the meeting of the Board of Directors held on February 19, 2008, Mr. Almog Geva was appointed as a Company director. The director declared that he has accounting and financial expertise. The Board of Directors examined Mr. Geva'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. Geva holds an LL.B. and an M.A. in law and business administration. He is an executive manager in the Bronfman Fisher Group and worked as a tax lawyer in a firm in New York. He serves as a director of other companies of the Bronfman Fisher Group.

Yaniv Mazor – At the meeting of the Board of Directors held on November 4, 2008, Mr. Yaniv Mazor was appointed as a Company director. The director declared that he has accounting and financial expertise. The Board of Directors examined Mr. Mazor'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. Mazor has a B.A. in accounting and economics. As from 2002 he serves as an executive manager of the Bronfman Fisher Group. He serves as a director in other companies of the Bronfman Fisher Group.

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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.

It is noted that these directors do not hold additional positions with the Company, except for membership on committees of the Board of Directors.

H. Disclosure regarding the Company's Internal Auditor

The Company's internal auditor – Levi Steinbaum.

CPA, holds a B.A. in economics, statistics and accounting, International Certified Internal Auditor (CIA) since 1994.

The internal auditor is an employee of the Company and serves as a senior officer in accordance with the law. 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.

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. 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 parties"). 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 results of the internal audit.

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.

Scope of employment of the internal auditor and his staff and their remuneration

In 2008 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. 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 results of the audit. See above regarding securities that were allotted to the internal auditor.

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An additional position that was supposed to be filled in 2008 has not yet been filled.

Manner of appointment

The internal auditor was appointed to his position in October 1997 by the Board of Directors based on the provisions of the Internal Auditors Law, 1992, and he has extensive experience in auditing.

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 considerations in determination of the work plan

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. The annual work plan is derived from the triennial work plan and is determined by the internal auditor with the approval of the audit committee. The Company's risks survey was performed in 2006.

The internal auditor may digress from the work plan at his discretion.

Reference to companies constituting material holdings of the Company

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

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.

Dates on which reports of the internal auditor's findings were submitted to the Chairman of the Board of Directors, the CEO and the Chairman of the Audit Committee and the dates on which discussions were held by the Audit Committee with respect to the internal auditor's findings

Reports with respect to the internal auditor's findings are submitted on a current basis and in writing during the year (the dates reports were submitted in 2008 – February 18, May 5, June 30, August 4, September 3, November 27 and December 29) 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' evaluation of the internal auditor's operations

According to the Board of Director's assessment, the nature, continuity of operations and work plan are reasonable and should achieve the goals of an internal audit.

Remuneration of the internal auditor

In 2008 the remuneration of the internal director amounted to NIS 712 thousand (“remuneration” – as defined in Regulation 21 of the Securities Regulations (Periodic and Immediate Reports) – 1970).

The total remuneration to the staff of the internal auditor amounted to NIS 662 thousand in 2008.

I. Disclosure regarding Compensation of the External Auditors

The external auditors of the Company and its subsidiaries are Somekh Chaikin and Kost Forer Gabbay & Kasierer.

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:

	2008		2007	
	NIS thousands	Hours	NIS thousands	Hours
Auditing and tax services to the Company (including IFRS audit)	1,393	5,963	1,250	5,664
Auditing and tax services to subsidiaries	714	3,333	733	3,604
Consulting, tax and other services	509	1,346	807	3,143
Total	2,616	10,642	2,790	12,411

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 reasonable. See also Note 23 of the Financial Statements.

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.

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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 103 million after deducting the dividend to a subsidiary).

L. Option Plan

In the framework of the employees' option plans from 2005 and 2000, 2,707,498 options were exercised in the reported period (see Note 23 of the financial statements).

M. Peer Review

Pursuant to the instruction of the Securities Authority dated July 28, 2005, obligating reporting companies to provide disclosure on their agreement to perform a "Peer Review", designed, as set forth in said instruction, to drive a process of oversight over the work of external auditors of reporting companies, on March 12, 2006, the Company's Board of Directors granted its consent to perform a "Peer Review."

N. Community Involvement

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

1. Summary of contribution activities in the branches in 2008:

In 2008, 19 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, the Tower of Light Society (Rabbi Grossman), Israel Red Cross and others) 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 2008 were – Negishut Israel, ALUT, NATAI, Yad BeYad, ALEH, the Beterem Organization, Ezer Metzion, Israel Red Cross, AKIM, ILAN, Tower of Light and Variety.

In the framework of all the contribution activities, approximately NIS 19 million was contributed in money or in money equivalents (food) to the various societies and organizations.

2. Summary of contribution activities in 2008:

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 2008 a total of about 5,400 packages were contributed to the needy, of which about 1,500 packages were contributed to the Yad Yehudit society, 1,600 to the Pillars of Samson society, 1,000 to the Tower of Light society and the balance to other societies and through welfare organizations. In addition, purchase vouchers were distributed before the holiday for acquisition of products at the branches in the amount of NIS 43,000.

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On the Jewish New Year about 5,600 packages were contributed to the needy, of which 1,500 packages were contributed to the Yad Yehudit society, 1,500 packages to the Pillars of Samson society, 1,500 to the Tower of Light society and the balance to other societies and through welfare organizations. In addition, purchase vouchers were distributed for acquisition of products at the branches in the amount of NIS 72,000.

In 2008, the total contributions of cash and products, including packages to the needy, amounted to about NIS 5 million.

3. "Negiah Ktana Balev" project:

In the framework of the celebrations of the Company's 50th birthday, 100 activities took place in which 2,000 volunteer employees took part. In these activities we touched the hearts of people from Eilat to Maalot every week. The volunteer employees played, toured, renovated, painted, cleaned and celebrated with children, older people, people with special needs and others.

O. Process of Approval of the Financial Statements

The Company's Board of Directors has appointed a Balance Sheet Committee that discusses the financial statements and thereafter recommends to the Board to approve them. The Balance Sheet Committee is composed of four members, of whom two are external directors. All the members of the committee have financial and accounting expertise. Invited to and present at the meeting of the Balance Sheet Committee, as well as the meeting of the Board of Directors 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 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 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.

The Balance Sheet Committee presents its main findings and comments before the Board of Directors and recommends approval of the financial statements.

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 services, travel services, investment portfolio management services, consultation and investment services, other financial services); transactions for the acquisition and/or lease of movable property and goods from interested parties (such as: trucks and towing equipment, motor vehicles, office equipment, insurance products), including movable property the Company acquires for retail selling (such as: paper products, toiletries, cleaning products, soft drinks and candles); 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 related 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) earnings ratio – the actual or forecasted earnings or loss attributed to the interested party transaction divided by the average annual earnings 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%).

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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.

Q. Authorized Signatories of the Company

As at the date of this report, the Company does not have exclusive signatories, as defined in the Directive of the Securities Authority dated January 3, 2008.

R. Subsequent to Balance Sheet Date Events

On February 9, 2009 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).

S. The Board of Directors

During 2008, the Board of Directors held 11 meetings. The committees of the Board of Directors held additional meetings.

The Company's Board of Directors wishes to thank the management and employees for their contribution to the Company in 2008.

Raphi Bisker
Joint Chairman of the Board of
Directors

Shalom Fisher
Joint Chairman of the Board of
Directors

Effie Rozenhaus
Chief Executive Officer

February 9, 2009

Summary Consolidated Financial Statements as at December 31, 2008

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Summary Consolidated Balance Sheets at December 31

	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Assets		
Cash and cash equivalents	63	183
Marketable securities	185	261
Trade receivables	1,196	1,085
Other receivables	140	78
Current tax assets	20	8
Inventory	607	597
	<u>2,211</u>	<u>2,212</u>
Total current assets		
Long-term loans to investee companies	23	14
Long term loans to others	46	15
Other investments	8	40
Investment property	320	531
Fixed assets	1,826	1,788
Intangible assets and deferred expenses	734	789
Prepaid lease fees	133	121
Deferred tax assets	146	27
Right to reimbursement in respect of employee benefits	2	2
	<u>3,328</u>	<u>3,237</u>
Total non-current assets		
Total assets	<u><u>5,449</u></u>	<u><u>5,539</u></u>

_____ Joint-Chairman of the Board of Directors
Raphi Bisker

_____ Joint- Chairman of the Board of Directors
Shalom Fisher

_____ Chief Executive Officer
Effie Rozenhaus

_____ Chief Financial Officer
Shlomo Zohar

Date of approval: February 9, 2009

Summary Consolidated Balance Sheets at December 31

	2008	2007
	NIS millions	
Liabilities		
Bank credit	32	60
Current maturities in respect of notes	61	59
Trade payables	1,500	1,444
Other payables	580	518
Provisions for legal claims and proceedings	7	6
Total current liabilities	2,180	2,087
Long term liabilities		
Banks and others	43	93
In respect of notes	1,760	1,748
Employee benefits	61	37
Other liabilities	58	32
Provision for losses of affiliated company	32	24
Deferred tax liabilities	66	84
Total non-current liabilities	2,020	2,018
Equity		
Share capital	239	239
Share premium	510	492
Capital reserve in respect of available-for-sale financial assets	3	9
Treasury shares	(85)	(85)
Retained earnings	581	777
Total equity attributable to equity holders of the Company	1,248	1,432
Minority interests	1	2
Total equity	1,249	1,434
Total liabilities and equity	5,449	5,539

Summary Consolidated Statements of Income for the years ended December 31

	2008	2007
	NIS millions	
Revenues		
Sales	10,897	9,861
Rentals and operation of shopping malls	65	74
	<u>10,962</u>	<u>9,935</u>
Costs		
Cost of sales	7,967	7,253
Cost of services and maintenance expenses for shopping malls	40	39
	<u>8,007</u>	<u>7,292</u>
Gross profit	<u>2,955</u>	<u>2,643</u>
Selling and marketing expenses	2,243	2,062
General and administrative expenses	142	146
Total selling, marketing, general and administrative expenses	<u>2,385</u>	<u>2,208</u>
Operating profit before other income and expenses	<u>570</u>	<u>435</u>
Adjustment of goodwill and other expenses	(132)	(4)
Other income	29	7
Investment property, fair value increase	45	18
Total other income (expenses), net	<u>(58)</u>	<u>21</u>
Operating profit after other income and expenses	<u>512</u>	<u>456</u>
Financing expenses	(262)	(184)
Financing income	58	81
Financing expenses, net	<u>(204)</u>	<u>(103)</u>
Company's equity in losses of affiliated company, net	<u>(8)</u>	<u>(8)</u>
Earnings before income taxes	<u>300</u>	<u>345</u>
Income taxes	<u>(18)</u>	<u>(108)</u>
Earnings for the period	<u>282</u>	<u>237</u>
Attributable to:		
Equity holders of the Company	283	236
Minority interests	(1)	1
Earnings for the period	<u>282</u>	<u>237</u>
Earnings per share (basic and diluted)		
Basic earnings per share (in NIS)	1.38	1.16
Diluted earnings per share (in NIS)	1.37	1.15

**Summary Consolidated Statements of Recognized Income and Expense for the Year Ended
December 31**

	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Net change in fair value of available-for-sale financial assets	(3)	3
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(4)	3
Defined benefit plan actuarial losses	(26)	(5)
Income tax on income and expense recognized directly in equity	<u>8</u>	<u>1</u>
Other recognized income (expense) for the period, net of tax	(25)	2
Earnings for the period	<u>282</u>	<u>237</u>
Total recognized income for the period	<u>257</u>	<u>239</u>
Attributable to:		
Equity holders of the Company	258	238
Minority interests	<u>(1)</u>	<u>1</u>
Total recognized income for the period	<u>257</u>	<u>239</u>

Summary Consolidated Statements of Cash Flows for the years ended December 31

	2008	2007
	NIS millions	
Cash flows from operating activities		
Earnings for the period	282	237
Adjustments for:		
Depreciation of fixed assets	205	213
Amortization of intangible assets, deferred expenses and prepaid lease fees	31	25
Income tax, net	18	108
Equity in losses of affiliated company, net	8	8
Increase in fair value of investment property	(45)	(18)
Decrease in employee benefits	(2)	(5)
Decrease in provision for future rent, net	-	(4)
Capital losses, net	5	2
Capital gain on sale of proportionately consolidated investment	(29)	-
Financing expenses on long-term liabilities	73	51
Decrease (increase) in value of marketable securities	(4)	3
Benefit in respect of issue of options to employees	5	2
Adjustment of Clubmarket goodwill to profit or loss	127	-
Prepaid lease fees	1	1
Increase in trade receivables	(111)	(95)
Increase in other receivables	(27)	(24)
Increase in inventory	(10)	(60)
Increase in trade payables	45	211
Increase in other payables, provisions and long-term liabilities	184	115
Income tax paid	(132)	(56)
Net cash generated by operating activities	624	714
Cash flows to investing activities		
Purchase of fixed assets	(223)	(169)
Investment in deferred expenses and intangible assets	(15)	(15)
Purchase of marketable securities	(218)	(356)
Proceeds from sale of marketable securities	323	110
Proceeds from sale of fixed assets	8	5
Long-term loans repaid	2	2
Loans granted	(10)	-
Loans to affiliated company	(29)	(17)
Investment in investment property	(14)	(3)
Prepaid lease fees	(13)	-
Proceeds from sale of investment property	47	7
Exercise of option to purchase partnership	(80)	-
Acquisition of operations	(34)	-
Interest received	20	26
Proceeds from sale of proportionately consolidated company	157	-
Net cash used in investing activities	(79)	(410)

Summary Consolidated Statements of Cash Flows for the years ended December 31 (cont'd)

	2008	2007
	NIS millions	
Cash flows to financing activities		
Proceeds from issue of notes	-	500
Repayment of notes	(59)	(96)
Dividend paid	(465)	(335)
Partners' share in distribution from partnership	(20)	(15)
Exercise of options by employees	18	-
Receipt of long-term loans from banks and others	7	14
Repayment of long-term loans from banks and others	(55)	(75)
Repayment of short-term credit from banks	-	84
Change in short-term credit	(1)	1
Partners' loans	4	15
Interest paid	(94)	(108)
Net cash used in financing activities	(665)	(183)
Increase (decrease) in cash and cash equivalents	(120)	121
Balance of cash and cash equivalents at the beginning of the year	183	62
Balance of cash and cash equivalents at the end of the year	63	183

Explanatory Notes

A. 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 summary consolidated financial statements of the Group as at and for the year ended December 31, 2008 comprise the Company, its subsidiaries & 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 real estate 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.

At December 31, 2008 the Group operates 232 stores occupying 511 thousand square meters.

B. Financial statements

The summary consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). These are the Group’s first IFRS annual financial statements and IFRS 1, “First-time Adoption of International Financial Reporting Standards”, has been applied. The financial statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 1993.

These financial statements are presented here in English in summary form. The Group’s full audited consolidated financial statements in Hebrew containing notes and the auditor’s report are available on the Company’s website and on the site of the Securities Authority.

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on February 9, 2009.

C. 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.

D. IFRS

The summary consolidated financial statements have been prepared on the basis of international financial reporting standards and their related interpretations (hereinafter – IFRSs) in issue that are effective or available for early adoption at the Group’s first IFRS annual reporting date, December 31, 2008, and were the basis for the Company’s accounting policy.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Israeli GAAP.

The accounting policies have been applied consistently to all periods presented in these summary consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2007 for the purposes of the transition to IFRSs, as required by IFRS