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

For the Three-Month Period Ended

March 31, 2015

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Shufersal Ltd.

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We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the three months ended March 31, 2015 (hereinafter **- "the reporting period"**)[1] in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

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

1.1 Principal data regarding the business affairs of the Company

Shufersal is the owner of the largest supermarket chain in Israel, which operates 281 branches throughout the country in a few formats in a total area of approximately 529 thousand square meters. The Company employs about 11.9 thousand employees (calculated positions) and has annual sales of about NIS 11.5 billion. As at March 31, 2015 and the date of this report, the controlling shareholder of the Company is Discount Investment Corporation Ltd.

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

The Company operates in two operating segments that are reported as business segments in the Company's consolidated financial statements for the first three months of 2015 (hereinafter – "**the financial statements**") – the retail segment and the real estate segment.

For details regarding the aforesaid operating segments, see Note 6 to the financial statements.

1.1.2 Management's discussion of the principal results for the first quarter of 2015

For details on management's review of 2014, see Paragraph 1.1.2 of the Board of Director's report on the state of the Company's affairs as at December 31, 2014 ("**the directors' report for 2014**") as reported in the Company's periodic report for 2014 dated February 25, 2015 (reference no. 2015-01-038101) ("**the periodic report**").

The Company's results for the first quarter of 2015 were affected by several matters:

- This year the Passover holiday took place at the beginning of April, as compared to the middle of April last year, which had a good effect on sales, but on the other hand the holiday period is characterized by many campaigns and large discounts that affect profitability.
- The slowdown in sales that began already at the beginning of 2014.
- The continued increase in competition that is reflected in opening branches and adding selling areas at a higher rate than the increase in population.
- The business plan the Company began implementing in July 2014 (see Note 1.C.(2) to the Company's financial statements as at December 31, 2014 that are included in the periodic report and Note 5.A to the financial statements).

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1 For the purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (March 31, 2015) unless stated otherwise or implied otherwise by the context of the matter.

1.1.3 Significant events that occurred in the reporting period

- Further to that mentioned in Paragraph 13.4.1 of the chapter describing the entity's business in the Company's periodic report for 2014, on March 8, 2015 the Company and the employees' representatives signed an agreement extending the period of the Company's collective agreements until December 31, 2015.
- The Company is acting according to the Food Law, which its provisions regarding suppliers and retailers came into effect on January 15, 2015. The Food Law includes three sets of provisions: (a) provisions regulating the activity of suppliers and retailers, including that of a large retailer, (b) provisions regarding geographical competition of retailers and (c) provisions regulating price transparency.

1.2 Analysis of results of operations

In 2015, the eve of Passover fell on April 3, as compared to 2014 in which the eve of Passover took place on April 14. The timing of the holiday affects balance sheet items such as trade receivables, inventories, trade payables as well as sales and the intensity of special offers made in the first quarter of this year as compared to the previous year. The effect of Passover is greater in the first quarter of this year than its effect in the corresponding quarter last year.

1.2.1 Analysis of results for the three months ended March 31, 2015 as compared to the corresponding period last year

	Results of operations for the three months ended March 31			
	2015		2014	
	%	NIS millions	%	NIS millions
Revenues		**2,836**		2806
Gross profit	**22.2%**	**630**	24.7%	*694
Selling, marketing, administrative and general expenses	**21.2%**	**(602)**	22.5%	*(630)
Operating profit	**1%**	**28**	2.3%	64
Financing expenses, net		**(7)**		(18)
Taxes on income		**(8)**		(14)
Profit for the period		**13**		32

* See Note 2.C regarding reclassification.

Retail segment revenues amounted to NIS 2,824 million in the first quarter of the year, compared with NIS 2,794 million in the corresponding quarter last year, an increase of 1.1% that is mainly due to the timing of the Passover holiday and on the other hand a decrease in consumption and a lowering of prices.

In same store sales[2] with respect to stores that operated fully in the first quarter of the year and in the

[2] Same store sales – gross sales of active branches that were opened before January 2014.

corresponding quarter last year, there was an increase of 1% in sales.

Excluding the seasonality effect (the timing of the Passover holiday) the decrease was 2.1%.

The sales per square meter[3] in the Company's stores amounted to NIS 5,370 in the first quarter of the year compared with NIS 5,099 in the corresponding quarter last year, an increase of 5.3%. Excluding the seasonality effect (the timing of the Passover holiday) the decrease was 2.5%.

Real estate segment revenues amounted to NIS 44 million in the first quarter of the year like in the corresponding quarter last year.

The Company's revenues amounted to NIS 2,836 million in the first quarter of the year, compared with NIS 2,806 million in the corresponding quarter last year, an increase of 1.1% that is due to the aforesaid.

The gross profit amounted to NIS 630 million in the first quarter of the year, compared with NIS 694 million in the corresponding quarter last year, a decrease of NIS 64 million. The gross profit rate was 22.2%, compared with 24.7% in the corresponding quarter last year. The decrease in the amount of the gross profit and in its rate is mainly due to the lowering of prices and to deeper sales campaigns in the framework of, inter alia, the private label.

Selling, marketing, administrative and general expenses amounted to NIS 602 million in the first quarter of the year, compared with NIS 630 million in the corresponding quarter last year. The ratio of expenses to revenues was 21.2% compared with 22.5% in the corresponding quarter last year. The decrease in expenses was mainly due to the closing down of branches as a part of the implementation of the business plan as from July 2014.

Operating loss in the retail segment amounted to NIS 3 million and a rate of 0.1% in the first quarter of the year, compared with a profit of NIS 33 million and a rate of 1.2% in the corresponding quarter last year, a decrease of NIS 36 million that was mainly due to the lowering of prices and a decrease in the gross profit following implementation of the business plan as aforesaid.

Operating profit in the real estate segment before other income amounted to NIS 37 million in the first quarter of the year like in the corresponding quarter last year.

Operating profit amounted to NIS 28 million and a rate of 1% in the first quarter of the year, compared with NIS 64 million and a rate of 2.3% in the corresponding quarter last year, a decrease of approximately NIS 36 million that is due to the aforesaid.

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[3] The areas of the new branches are calculated proportionately from the opening date of the branch. The area of the branch is the gross area including selling areas as well as other covered operating areas.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 89 million and a rate of 3.1% in the first quarter of the year, compared with NIS 132 million and a rate of 4.7% in the corresponding quarter last year.

Financing expenses, net amounted to NIS 7 million in the first quarter of the year, compared with NIS 18 million in the corresponding quarter last year. The decrease in net financing expenses was mainly due to the decrease in the CPI in the first quarter of 2015, compared with the decrease in the CPI in the corresponding quarter last year. Furthermore, there was a decrease in interest income from securities in which the Company invests its monetary balances as described in Paragraph 2.2.4 hereunder, as a result of the decrease in the market interest rate.

Tax expenses amounted to NIS 8 million in the first quarter of the year, compared with tax expenses of NIS 14 million in the corresponding quarter last year. The decrease in the tax expenses was mainly due to the decrease in the profit before taxes on income.

Profit for the period amounted to NIS 13 million in the first quarter of the year, compared with NIS 32 million in the corresponding quarter last year. The change in profit is due to the aforesaid.

The Company's basic and diluted earnings per share amounted to NIS 0.06 in the first quarter of the year, compared with NIS 0.15 in the corresponding quarter last year.

1.3 Financial position, liquidity and financing sources

1.3.1 Cash flow - Analysis of results for the first quarter of 2015 as compared with the corresponding quarter last year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 469 million in the first quarter of 2015, compared with NIS 304 million in the corresponding quarter last year. The increase in cash flow from operating activities stemmed mainly from the change in working capital, primarily as a result of the timing of the Passover holiday.

Cash flow from investing activities

Net cash from investing activities amounted to NIS 548 million in the first quarter of 2015, compared with net cash of NIS 300 million that was used in investing activities in the corresponding quarter last year. The cash from investing activities in the first quarter of 2015 included mainly the purchase of fixed assets in the amount of NIS 101 million and the acquisition of marketable securities, in the amount of NIS 49 million, and on the other hand proceeds from the sale of marketable securities, net, in the amount of NIS 694 million.

The cash used in investing activities in the first quarter of 2014 included mainly the purchase of fixed assets in the amount of NIS 112 million and the acquisition of marketable securities in the amount of NIS 232 million, and on the other hand proceeds from the sale of marketable securities, net, in the amount of NIS 33 million and interest received from securities in the amount of NIS 11 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 658 million in the first quarter of 2015, compared with NIS 320 million in the corresponding quarter last year. The cash used in financing activities in the first quarter of 2015 included mainly the redemption of debentures in the amount of NIS 530 million and interest payments in the amount of NIS 127 million.

The cash used in financing activities in the first quarter of 2014 included mainly the redemption of debentures in the amount of NIS 114 million, a dividend distribution in the amount of NIS 70 million and interest payments in the amount of NIS 134 million.

1.3.2 Balances of liquid assets and financial ratios

As at the end of the first quarter of 2015, the Company's consolidated net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 610 million, compared with NIS 1,282 million as at the end of the corresponding quarter last year. The decrease in net liquid assets was mainly due to redemptions of debentures in the first quarter of 2015.

As at the end of 2014, net liquid assets (cash and cash equivalents and marketable securities) amounted to NIS 896 million.

As at the end of the first quarter of 2015, the Company's liabilities to banks and to the holders of debentures, including interest payable (hereinafter – "**the financial debt**"), amounted to NIS 2,800 million, compared with NIS 3,426 million in the corresponding quarter last year. The ratio of the Company's financial debt to its total assets was approximately 39.4% at the end of the first quarter of 2015, compared with approximately 45.8% in the corresponding quarter last year.

Total financial debt at the end of 2014 amounted to NIS 3,456 million and the ratio of financial debt to total assets was approximately 48.9%.

The Company's equity as at the end of the first quarter of 2015 amounted to NIS 1,010 million, compared with NIS 1,160 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 14% at the end of the first quarter of 2015, compared with 16% in the corresponding quarter last year.

As at the end of 2014 the Company's equity amounted to NIS 1,009 million and the ratio of the Company's equity to its total assets was approximately 14%.

1.3.3 Board of Directors’ discussion of the quarter’s negative working capital

As at March 31, 2015 the Group has a working capital deficit in the amount of NIS 468 million, compared with positive working capital of NIS 84 million and NIS 402 million as at December 31, 2014 and March 31, 2014, respectively, and it has a working capital deficit (on a stand-alone basis) of NIS 444 million compared with working capital of nil and NIS 612 million as at December 31, 2014 and March 31, 2014, respectively. The aforesaid working capital deficit is mainly due to the existence of current maturities of debentures and accrued interest payable in the amount of NIS 657 million. In the opinion of the Company’s Board of Directors, the working capital deficit does not indicate that the Company has a liquidity problem. In this respect, the Company has examined the Group’s current and expected liabilities for a two year period beginning from March 31, 2015 in comparison to the Group’s cash balances, the Group’s expected cash flow from operating activities as well as unutilized credit sources and facilities and other sources of financing, The examination of these credit sources was based on, inter alia, the Group’s past experience in raising debt, and refinancing of credit providers. Also the Company’s ability to realize real estate assets was noted in the examination of the Company’s additional sources of financing. In view of the aforesaid, the Company’s Board of Directors has reached the conclusion that notwithstanding the working capital deficit as at March 31, 2015 the Company does not have a liquidity problem.

It is clarified that the information on the Company’s sources of financing and revenue as provided in the above paragraph is forward-looking information, within its meaning in the Securities Law – 1968, and is mainly based on the Company’s forecasts. This assessment may not be realized or may be realized in a different manner than was assessed, including materially different, as a result of market behavior and realization of the risk factors mentioned in Paragraph 15 of Chapter A to the Company’s periodic report for 2014.

2. Market Risk Exposure and Management

2.1 Company officer responsible for market risk management

The person in charge for the management of market risks in the Company is the Deputy CEO and Chief Financial Officer, Mr. Shlomo Zohar.

2.2 Description of market risks

No material changes have occurred during the reported period as regarding the exposure of the Company to market risks and the management thereof in relation to the Company’s related reports in the directors' report for 2014 that was included in the Company’s periodic report. Market risks include changes in the value of financial instruments that are caused by fluctuations in interest rates, the Consumer Price Index, foreign currency exchange rates and prices of securities.

2.2.1 Consumer Price Index risks

The Company is exposed to changes in the Consumer Price Index, which relate primarily to the CPI-linked debentures that were issued by the Company, amounting to approximately NIS 2.1 billion as at March 31, 2015, and CPI-linked payments in an annual amount of NIS 399 million.

2.2.2 Foreign currency risks

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

As at March 31, 2015, the Company has forward contracts on the rate of the dollar in the amount of US$ 2.7 million for settlement until August 2015 and forward contracts in the amount of € 5.4 million for settlement until September 2015.

In the first quarter of 2015, the Company incurred financing expenses in the amount of NIS 4 million in respect of these contracts. In the corresponding period last year the Company did not incur any financing expenses in respect of said contracts.

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

2.2.3 Interest rate risks

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

2.2.4 Risks related to prices of securities in Israel

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

2.3 Linkage bases report

Presented below is the Company's linkage bases report as at March 31, 2015:

	March 31, 2015				
	Israeli currency		Foreign currency		
	Unlinked	Linked	Mainly euro	Other items	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets:					
Cash and cash equivalents	575	-	25	-	600
Marketable securities	6	4	-	-	10
Trade receivables	1,291	-	-	-	1,291
Other receivables	19	9	-	139	167
Current taxes	-	-	-	35	35
Inventories	-	-	-	839	839
Non-current assets:					
Investment in an associated company	-	-	-	43	43
Other investments	12	-	-	-	12
Investment property	-	-	-	467	467
Fixed assets	-	-	-	2,697	2,697
Intangible assets and deferred expenses	-	-	-	826	826
Deferred taxes	-	-	-	111	111
	1,903	13	25	5,157	7,098
Current liabilities:					
Current maturities of long-term loans	-	3	-	-	3
Current maturities of debentures	148	440	-	-	588
Trade payables	1,964	-	-	17	1,981
Other payables, including derivatives	192	-	2	568	762
Provisions	-	-	-	76	76
Non-current liabilities:					
To banks and others	8	3	-	-	11
Debentures	508	1,698	-	-	2,206
Employee benefits, net	-	-	-	157	157
Other	110	-	-	48	158
Provisions	-	-	-	64	64
Deferred taxes	-	-	-	82	82
Non-controlling interests	-	-	-	6	6
Equity	-	-	-	1,004	1,004
	2,930	2,144	2	2,022	7,098
Net exposure (*)	1,027	(2,131)	23	3,135	-

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

2.4 Sensitivity tests

Tables of sensitivity tests of sensitive instruments, in accordance with changes in market factors as at March 31, 2015 (NIS millions)

Interest rate sensitivity

Sensitive instruments		Gain (loss) from changes			Fair value as at March 31, 2015	Gain (loss) from changes		
	Market interest rate at reporting date	Change (increase) of 10% in interest	Change (increase) of 5% in interest	Increase of 2% in interest		Decrease of 2% in interest	Change (decrease) of 5% in interest	Change (decrease) of 10% in interest
Loans received		0.0	0.0	0.2	**(7)**	(0.2)	(0.0)	(0.0)
Total debentures		24.9	12.7	188.9	**(2,972)**	(217.2)	(12.7)	(25.7)
2005 issuance of Series B	1.07%	1.4	0.7	24.6	**(538)**	(26.2)	(0.7)	(1.4)
2005 issuance of Series B	1.07%	0.8	0.4	13.8	**(302)**	(14.9)	(0.4)	(0.8)
2006 issuance of Series B	1.07%	0.5	0.3	9	**(198)**	(9.8)	(0.3)	(0.5)
2007 issuance of Series B	1.07%	1.2	0.6	21.5	**(470)**	(23.1)	(0.6)	(1.2)
2009 issuance of Series C	1.33%	0.2	0.1	3.4	**(133)**	(3.6)	(0.1)	(0.2)
2010 issuance of Series B	1.07%	0.8	0.4	15.1	**330**	(16.3)	(0.4)	(0.8)
2010 issuance of Series C	1.33%	0.2	0.1	2.8	**(108)**	(2.9)	(0.1)	(0.2)
2013 issuance of Series D	3.02%	8.5	4.3	51.6	**(448)**	(77.4)	(4.3)	(8.7)
2013 issuance of Series E	4.5%	11.3	5.8	47.1	**(445)**	(63)	(5.8)	(11.9)
Loans granted		(0.0)	(0.0)	(0.1)	**7**	0.1	0.0	0.0
Deposits		(0.0)	(0.0)	(0.11)	**545**	0.12	0.0	0.0

CPI sensitivity

Sensitive instruments	Base index	Gain (loss) from changes		Fair value as at March 31, 2015	Gain (loss) from changes	
		10% increase in CPI	5% increase in CPI		5% decrease in CPI	10% decrease in CPI
Bank loans received	88.8	(0.7)	(0.3)	**(7)**	0.3	0.7
Debentures	74.3	(228.3)	(114.1)	**(2,286)**	114.1	228.3
Loans granted	107.6	0.5	0.3	**5**	(0.3)	(0.5)

Market price sensitivity

Sensitive instruments	Gain (loss) from changes		Fair value as at March 31, 2015	Gain (loss) from changes	
	10% increase in market price	5% increase in market price		5% decrease in market price	10% decrease in market price
Marketable securities	1	0.5	**10**	(0.5)	(1)

3. Corporate Governance Aspects

3.1 Process of approval of the financial statements

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

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

On May 12, 2015, the Committee held a meeting for a fundamental and comprehensive discussion of the material reporting issues and for the discussion and formulation of the Committee's recommendations to the Board with respect to the process of approval of the financial statements. All Committee members attended the meeting.

3.2 Board of Directors' Meetings

In the first three months of 2015, the Board of Directors held 4 meetings. The committees of the Board of Directors held additional meetings.

4. Directives Regarding Disclosures Pertaining to the Financial Reporting of the Company

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

4.1.1 For details regarding changes in claims and legal proceedings against the Company in the first quarter of 2015 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.

4.1.2 For details on events subsequent to the date of the Company's statement of financial position as at March 31, 2015, see Note 9 to the financial statements.

5. Specific Disclosure for Holders of Debentures

Data as at March 31, 2015

Series	Date of issuance	Par value on date of issuance (NIS millions)	Total proceeds on date of issuance net of issuance expenses (NIS millions)	Carrying amount (NIS millions)*	Balance of par value (NIS millions)	Balance of par value, including linkage (NIS millions)	Accumulated interest (NIS millions)	Stock market/fair value (NIS millions)	Type of interest	Effective interest rate on date of issuance	Stated interest	Payment dates of principal – First date	Payment dates of principal – Last date	Interest payment dates	Type of linkage
Series B	April 2005	500	498	488	400	488	0	538	Fixed	5.24%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2006-2019	CPI
	November 2005	280	299	274	224	273	0	302	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2006-2019	CPI
	March 2006	184	200	180	147	179	0	198	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2006-2019	CPI
	February 2007	436	499	434	349	426	0	470	Fixed	4.30%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2007-2019	CPI
	December 2010	306	421	316	245	299	0	330	Fixed	2.81%	5.2%	March 31, 2015	March 31, 2019	Annual interest on March 31 in each of the years 2011-2019	CPI
Series C	August 2009	500	496	126	125	125	1	133	Fixed	5.68%	5.45%	Feb. 3, 2010	Feb. 3, 2017	Annual interest on February 3 in each of the years 2010-2017	Unlinked
	December 2010	358	382	104	102	102	1	108	Fixed	4.82%	5.45%	Feb. 3, 2011	Feb. 3, 2017	Annual interest on February 3 in each of the years 2011-2017	Unlinked
Series D	October 2013	472	468	445	443	443	6	448	Fixed	3.12%	2.99%	Oct. 8, 2014	Oct. 8, 2029	Annual interest on Oct. 8 in each of the years 2014-2029	CPI
Series E	October 2013	448	444	427	420	420	10	445	Fixed	5.23%	5.09%	Oct. 8, 2014	Oct. 8, 2029	Annual interest on Oct. 8 in each of the years 2014-2029	Unlinked
Total		3,484	3,707	2,794	2,455	2,755	18	2,972							

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

Notes:

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

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

   The trustee of the Series D debentures and Series E debentures is Reznik Paz Nevo Trustees Ltd., from 14 Yad Haroutzim St. Tel-Aviv (tel. 03-6389200, fax. 03-6389222). The contact person at the trustee for the Series D debentures and Series E debentures is Mr. Yossi Reznik, CPA, e-mail: Trust@rpn.co.il
3. In the first three months of 2015 through to the date of this report, the Company is in compliance with all the conditions and obligations under the trust deeds and there is no cause for demanding immediate repayment of the Company’s outstanding debentures.
4. All of the Company’s outstanding series of debentures, as detailed in the table above, are material. All the series of debentures are listed for trade on the Tel Aviv Stock Exchange.
5. In accordance with the terms of the trust deeds of the Company’s Series B and C debentures, the debentures may be called for immediate repayment in customary cases, including in the event of the Company defaulting on its debts, circumstances of liquidation and/or insolvency and/or an execution proceeding being taken against a substantial part of the Company’s assets and, with respect to Series B, in the event of another series of the Company’s debentures being called for immediate repayment, all according to the terms of the trust deed of the relevant series and as applicable. In addition, a calling for immediate repayment of the debentures may also be subject to the causes provided in the Securities Law – 1968, as amended from time to time. For additional details, see Paragraph 7 of the trust deed of the Series B debentures and Paragraph 7 of the trust deed of the Series C debentures (as detailed in the trust deeds annex of the Company’s shelf prospectus dated May 30, 2012 and as amended on September 31, 2013), respectively. The Company’s Series B and Series C debentures do not include financial covenants.
6. On February 3, 2015, the Company redeemed Series C debentures of the Company of a par value of NIS 113,663,143. The outstanding balance of the Company’s Series C debentures as at March 31, 2015, amounted to a par value of NIS 227,326,286. In addition, on March 31, 2015 the Company redeemed Series B debentures of the Company of a par value of NIS 341,084,490. The outstanding balance of the Company’s Series B debentures as at

March 31, 2015, amounted to a par value of NIS 1,364,337,961.

7. In accordance with the terms of the trust deeds of the Company's Series D and E debentures, the debentures may be called for immediate repayment in customary cases, including in the event of: (1) the Company defaulting on its debts; (2) circumstances of liquidation and/or insolvency and/or an execution proceeding being taken against a substantial asset of the Company's assets (per the definition of these terms in the trust deed); (3) non-compliance with the financial covenants provided in the trust deed over specified periods; (4) the debentures not being rated for more than 60 days due to reasons and/or circumstances under the sole control of the Company; (5) the debentures being rated less than BBB- (triple B minus) by Maalot (or a comparable rating on the rating scale of the relevant rating agency) and the rating not being raised within 60 days; (6) another debt of the Company to a bank and/or other financial institution (other than a debt that is non-recourse to the Company) being called for immediate repayment, providing that the total amount called for immediate repayment is higher than NIS 300 million or another outstanding series of the Company's debentures being called for immediate repayment (not by the Company) providing that the total amount called for immediate repayment is higher than NIS 40 million; (7) the Company breaching its undertaking to not create a current pledge on its assets; all according to the terms of the trust deed of the relevant series and as applicable.

In addition, a calling for immediate repayment of the debentures may also be subject to the causes provided in the Securities Law – 1968, as amended from time to time. For additional details, see Paragraph 10 of the trust deed of the Series D debentures and Paragraph 10 of the trust deed of the Series E debentures (as detailed in the trust deeds annex of the Company's shelf prospectus dated May 30, 2012 and as amended on September 30, 2013).

In accordance with the terms of the trust deeds of the Company's Series D and E debentures, the Company is permitted to early redeem (fully or partially) the Series D and E debentures. For additional details, see Paragraph 9.2 of the trust deed of the Series D debentures and Paragraph 9.2 of the trust deed of the Series E debentures (as detailed in the trust deeds annex of the Company's shelf prospectus dated May 30, 2012 and as amended on September 30, 2013).

8. See Note 17 to the financial statements as at December 31, 2014 (reference no. 2015-01-038101) for further details regarding the terms of the Company's Series D and E debentures, including a commitment to comply with financial covenants, a commitment to not create a current pledge, and restrictions relating to dividend distribution.

Presented hereunder are the results of calculating the financial covenants required from the Company in accordance with the terms of the Series D and E debentures as aforesaid, as at March 31, 2015 and proximate to the date of signing the financial statements:

Financial covenant	**Calculation results**	
	As at March 31, 2015	**Proximate to the date of signing the financial statements***
Ratio of net debt to total balance sheet shall not exceed 60%	31%	31%
The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,010 million	NIS 1,010 million

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

Presented hereunder are the results of calculating the dividend distribution restrictions that apply to the Company (should it want to distribute a dividend) in accordance with the terms of the Series D and E debentures as at March 31, 2015:

Restriction	**Calculation results as at March 31, 2015**
The Company's total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,010 million
Ratio of the Company's net debt to EBITDA shall not exceed 7	7.3

9. **<u>Details regarding the credit rating of the Company</u>**

On May 6, 2015 Ma'a lot announced that it is lowering the rating of Shufersal to 'ilA' instead of '+ilA' with no change in the stable outlook of the Company's debentures. The rating report is attached as an appendix to this board of directors' report.

10. Information on the rating of outstanding debentures

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

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

11. Quarterly report of outstanding liabilities by maturity dates

For data regarding the outstanding liabilities of the Company as at March 31, 2015, see the immediate report on outstanding liabilities by maturity dates published by the Company on May 18, 2015, the information included in which is presented in this report by way of reference.

Shufersal Ltd.

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

Rafi Bisker Co-Chairman of the Board of Directors	Shalom Fisher Co-Chairman of the Board of Directors	Itzik Abercohen CEO

May 17, 2015

Shufersal Ltd

Condensed Consolidated Interim Financial Statements As at March 31, 2015

(Unaudited)

Shufersal Ltd.

Condensed Consolidated Interim Financial Statements as at March 31, 2015

Contents

Condensed Consolidated Interim Statements of Financial Position

	March 31 2015	March 31 2014	December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**600**	267	241
Short-term deposits	**-**	40	-
Marketable securities	**10**	975	655
Trade receivables	**1,291**	1,175	1,102
Other receivables	**167**	147	151
Current taxes	**35**	31	36
Inventory	**839**	909	753
Total current assets	**2,942**	3,544	2,938
Investment in associate	**43**	25	51
Other investments	**12**	14	12
Investment property	**467**	415	465
Fixed assets	**2,697**	2,641	2,666
Intangible assets and deferred expenses	**826**	804	827
Deferred taxes	**111**	38	104
Total non-current assets	**4,156**	3,937	4,125
Total assets	**7,098**	7,481	7,063

Signed on behalf of the Board of Directors:

Raphi Bisker	Shalom Fisher	Yitzak Aber-Cohen	Shlomo Zohar
Co-Chairman of the Board of Directors	Co-Chairman of the Board of Directors	Chief Executive Officer	Deputy CEO and Chief Financial Officer

Date of approval: May 17, 2015

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

Condensed Consolidated Interim Statements of Financial Position

	March 31 2015	March 31 2014	December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities of long-term loans	**3**	5	2
Current maturities in respect of debentures	**588**	594	697
Trade payables	**1,981**	1,869	1,578
Other payables, including derivatives	**762**	* 633	* 496
Provisions	**76**	* 41	* 81
Total current liabilities	**3,410**	3,142	2,854
To banks and others	**11**	12	12
Debentures	**2,206**	2,823	2,753
Employee benefits, net	**157**	113	138
Provisions	**64**	* 24	73
Other	**158**	* 141	146
Deferred taxes	**82**	66	78
Total non-current liabilities	**2,678**	3,179	3,200
Equity			
Share capital	**240**	240	240
Premium on shares	**560**	560	560
Reserves	**7**	2	7
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**282**	440	281
Total equity attributable to owners of the Company	**1,004**	1,157	1,003
Non-controlling interests	**6**	3	6
Total equity	**1,010**	1,160	1,009
Total liabilities and equity	**7,098**	7,481	7,063

* See Note 2.C regarding reclassification.

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

Condensed Consolidated Interim Statements of Income

	Three months ended		Year ended
	March 31 2015	March 31 2014	December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Sales and rentals	**2,836**	2,806	11,602
Cost of sales and services	**2,206**	* 2,112	8,954
Gross profit	**630**	694	2,648
Selling and marketing expenses	**572**	* 603	2,570
General and administrative expenses	**30**	27	125
Total selling, marketing, general and administrative expenses	**602**	630	2,695
Operating profit (loss) before other income	**28**	64	(47)
Other expenses	**-**	-	(1)
Increase in fair value and gain on sale of investment property, net	**-**	-	12
Total other income, net	**-**	-	11
Operating profit (loss) after other income	**28**	64	(36)
Financing expenses	**(15)**	(34)	(188)
Financing income	**8**	16	85
Financing expenses, net	**(7)**	(18)	(103)
Profit (loss) before taxes on income	**21**	46	(139)
Taxes on income	**(8)**	(14)	32
Profit (loss) for the period	**13**	32	(107)
Attributable to:			
Owners of the Company	**13**	32	(110)
Non-controlling interests	**-**	-	3
Profit (loss) for the period	**13**	32	107
Basic and diluted earnings (loss) per share (in NIS)	**0.06**	0.15	(0.52)

* See Note 2.C regarding reclassification.

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

	Three months ended March 31 2015	Three months ended March 31 2014	Year ended December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Profit (loss) for the period	**13**	32	(107)
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	**(16)**	-	(23)
Revaluation reserve for fixed assets	**-**	-	6
Taxes on other comprehensive income items that will not be transferred to profit or loss	**4**	-	5
Total other comprehensive loss for the period that will not be transferred to profit or loss, net of tax	**(12)**	-	(12)
Total comprehensive income (loss) for the period	**1**	32	(119)
Attributable to:			
Owners of the Company	**1**	32	(122)
Non-controlling interests	**-**	-	3
Total comprehensive income (loss) for the period	**1**	32	(119)

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

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the Company's owners							
	Share capital	Share premium	Revaluation reserve for fixed assets	Treasury shares	Retained earnings	Total	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three months ended March 31, 2015 (unaudited)								
Balance as at December 31, 2014	**240**	**560**	**7**	**(85)**	**281**	**1,003**	**6**	**1,009**
Profit for the period	**-**	**-**	**-**	**-**	**13**	**13**	**-**	**13**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(12)**	**(12)**	-	**(12)**
Balance as at March 31, 2015	**240**	**560**	**7**	**(85)**	**282**	**1,004**	**6**	**1,010**
For the three months ended March 31, 2014 (unaudited)								
Balance as at December 31, 2013	240	560	2	(85)	478	1,195	3	1,198
Exercise of employee share options	*-	*-	-	-	-	*-	-	*-
Dividend paid	-	-	-	-	(70)	(70)	-	(70)
Profit for the period	-	-	-	-	32	32	-	32
Balance as at March 31, 2014	240	560	2	(85)	440	1,157	3	1,160
For the year ended December 31, 2014 (audited)								
Balance as at December 31, 2013	240	560	2	(85)	478	1,195	3	1,198
Exercise of employee share options	*-	*-	-	-	-	*-	-	*-
Dividend paid	-	-	-	-	(70)	(70)	-	(70)
Loss for the year	-	-	-	-	(110)	(110)	3	(107)
Other comprehensive loss for the year, net of tax	-	-	5	-	(17)	(12)	-	(12)
Balance as at December 31, 2014	240	560	7	(85)	281	1,003	6	1,009

* Represents an amount lower than NIS 1 million.

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended		Year ended
	March 31 2015	March 31 2014	December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Profit (loss) for the period	**13**	32	(107)
Adjustments for:			
Depreciation of fixed assets	**58**	62	240
Impairment losses on fixed assets	**6**	-	54
Amortization of intangible assets and deferred expenses	**5**	6	24
Taxes on income	**8**	14	(32)
Income tax paid	**(6)**	(40)	(74)
Income tax received	**-**	-	29
Financing expenses, net	**7**	18	103
Change in fair value and gain on sale of investment property, net	**-**	-	(12)
Change in employee benefits	**2**	4	2
Loss on sale of fixed assets	**-**	-	1
Change in provision for onerous contracts	**(15)**	(1)	79
Change in trade receivables	**(187)**	(19)	66
Change in other receivables	**(20)**	(34)	(41)
Change in inventory	**(86)**	(195)	(39)
Change in trade payables	**409**	315	21
Change in other payables, provisions and other liabilities	**275**	142	16
Net cash from operating activities	**469**	304	330
Cash flows from investing activities			
Purchase of fixed assets	**(101)**	(112)	(418)
Proceeds from sale of fixed assets	**1**	-	20
Investment in deferred expenses and intangible assets	**(4)**	(2)	(23)
Investment in investment property	**(2)**	(1)	(6)
Proceeds from sale of investment property (including advances)	**-**	3	4
Purchase of marketable securities	**(49)**	(232)	(590)
Proceeds from sale of marketable securities	**694**	33	702
Cash payments from futures transactions, net	**(2)**	-	-
Repayment of long-term loans	**8**	-	-
Interest received	**4**	11	30
Proceeds from withdrawal of short-term deposits	**-**	-	40
Acquisition of operation	**(1)**	-	(6)
Dividend received from investee company	**-**	-	1
Net cash from (used in) investing activities	**548**	(300)	(246)

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

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

	Three months ended		Year ended
	March 31 2015	March 31 2014	December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Cash flows from financing activities			
Repayment of debentures	**(530)**	(114)	(171)
Interest paid	**(127)**	(134)	(171)
Dividend paid	**-**	(70)	(70)
Exercise of share options by employees	**-**	-	*-
Receipt of long-term loans from banks	**-**	-	3
Repayment of long-term loans from banks	**-**	-	(5)
Partners' withdrawals from partnership	**(1)**	(2)	(12)
Net cash used in financing activities	**(658)**	(320)	(426)
Increase (decrease) in cash and cash equivalents	**359**	(316)	(342)
Balance of cash and cash equivalents at the beginning of the period	**241**	583	583
Balance of cash and cash equivalents at the end of the period	**600**	267	241

* Represents an amount lower than NIS 1 million.

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

Note 1 - General

A. The reporting entity

Shufersal Ltd. (hereinafter – the "Company" and/or "Shufersal") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 30 Benyamin Shmotkin Street, Rishon-Le-Zion. The condensed consolidated interim financial statements of the Group as at March 31, 2015 comprise the Company, its subsidiaries (hereinafter together – "the Group") and an investment in an associate. The Company is mainly held by Discount Investment Corporation Ltd., which is the Company's controlling shareholder (which is controlled by IDB Development Corporation Ltd.) and by Isralom Properties Ltd. The Group is involved in the operation of a chain of supermarkets in Israel. The Company also operates in the area of real estate (through Shufersal Real-Estate Ltd., a wholly owned subsidiary) and as part of this activity owns shopping centers and commercial centers. The securities of the Company are registered for trade on the Tel Aviv Stock Exchange.

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements as at and for the year ended December 31, 2014. Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on May 17, 2015.

B. Use of estimates and judgments

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

The significant judgments made by management in applying the Group's accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2014.

C. Change in classification

(1) The Group reclassified the delivery and packaging expenses in the statement of income from selling and marketing expenses to the cost of sales and services, to reflect more appropriately the costs of deliveries and packaging related to the cost of sales and services.
Comparative data were reclassified for consistency, so that an amount of NIS 33 million was classified from selling and marketing expenses to cost of sales and services in the three month period ended March 31, 2014.
The aforesaid classification did not have an effect on the operating profit after other income and on the profit for the year.

Note 2 - Basis of Preparation (cont'd)

C. Change in classification (cont'd)

(2) The Group reclassified the short-term provision for onerous contracts and the balance of the provision for customer claims in the statement of financial position from other payables to provisions in the category of current liabilities.
Comparative data as at March 31, 2014 were reclassified for consistency, so that an amount of NIS 33 million was classified from other payables to provisions in the category of current liabilities.
Comparative data as at December 31, 2014 were classified in respect of the provision for customer claims such that an amount of NIS 38 million was classified from other payables to provisions in the category of current liabilities.
In addition, the Group reclassified the long-term provision for onerous contracts in the statement of financial position from the other item to provisions in the category of non-current liabilities.
Comparative data as at March 31, 2014 were reclassified for consistency, so that an amount of NIS 24 million was reclassified from the other item to provisions in the category of non-current liabilities.

Note 3 - Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements were applied consistently to their application in the annual financial statements that were issued by it as at and for the year ended December 31, 2014.

Note 4 - Seasonality

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

Note 5 - Events in the Reporting Period

A. Further to that mentioned in Notes 1.C.(2) and 6.E to the annual financial statements, in the reporting period the Company reexamined branches having operating and cash flow losses in the geographical locations and reached the conclusion that 4 branches (most of which are leased under an operating lease) of all the branches that were examined no longer provide an operating and/or strategic contribution to the geographical location (the cash-generating unit) they belong to. Accordingly, the Company tests these branches for impairment separately from the cash-generating unit they belong to and calculates the recoverable amount for each branch in itself.

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

A. (cont'd)

As regards these 4 branches, the Company calculated the recoverable amount in accordance with IAS 36. The recoverable amount of the branches planned to be closed was measured separately, on the basis of fair value (level 3) less costs of disposal. The key assumption in the calculation of the recoverable amount of the branches is that these branches will not generate any economic benefits until they are closed down, and therefore equipment and leasehold improvements that are not expected to be sold or transferred to another branch were fully written-off, whereas the other assets were tested on the basis of the economic benefits the Company expects they will generate in the other branches.

The recoverable amount of the branches that are planned to be closed is lower than their carrying amount and therefore an impairment loss in the amount of NIS 6 million, before tax, was recognized in selling and marketing expenses in the statement of income for the period ended March 31, 2015, in respect of equipment and leasehold improvements existing in those branches. As at March 31, 2015 the recoverable amount of the equipment is NIS 5 million.
Furthermore, a provision for onerous contracts of an immaterial amount was recorded in respect of these branches.

B. In March 2014 the Law for the Promotion of Competition in the Food Industry – 2014 (hereinafter "the food law") was published on the Official Gazette. The food law includes three sets of provisions: (a) provisions regulating the activity of suppliers and retailers, including the activity of a large retailer, (b) provisions regarding geographical competition of retailers, and (c) provisions regulating price transparency. The law also includes a chapter on enforcement, punishment and monetary sanctions. In September 2014 the Company received from the Antitrust Authority notification regarding catchment areas of the Company's large stores.
The Company is acting according to the Food Law, which its provisions regarding suppliers and retailers came into effect on January 15, 2015. In the opinion of the Company, the food law may have an adverse effect on the business results of the Company and proximate to the date of approval of these financial statements, the Company is unable to assess the extent of effect of the aforesaid on its business. Furthermore, the provisions of the food law regarding geographical competition of retailers may affect the ability of the Company to expand by opening new branches in certain areas, and in certain circumstances the Company may be required to close down active branches.
The main effect of implementing the food law on the financial statements as at March 31, 2015 was the classification of immaterial amounts from selling and marketing expenses to cost of sales and services.

C. Change in estimate

In the first quarter of 2015, there was a decrease in the yield rates of high quality corporate debentures in Israel that are used for discounting a defined benefit obligation and other long-term employee benefits.
The effects of the change in the discount rate are as follows:
An increase in the defined benefit obligation and an adjustment in deferred tax balances as at March 31, 2015 in the amount of NIS 16 million and NIS 4 million, respectively, which were recognized against other comprehensive income.

Note 6 - Segment Reporting

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

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

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

<u>For the three months ended March 31, 2015</u> (unaudited):

	Retail segment	Real estate segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	**2,824**	**12**	**-**	**2,836**
Inter-segment rental revenues	**-**	**32**	**(32)**	**-**
Segment revenues	**2,824**	**44**	**(32)**	**2,836**
Operating profit (loss) before other income	**(3)**	**37**	**(6)**	**28**
Other income, net	**-**	**(1)**	**1**	**-**
Operating profit (loss) after other income	**(3)**	**36**	**(5)**	**28**
Financing expenses				**(15)**
Financing income				**8**
Taxes on income				**(8)**
Profit for the period				**13**

Note 6 - Segment Reporting (cont'd)

For the three months ended March 31, 2014 (unaudited):

	Retail segment	Real estate segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	2,794	12	-	2,806
Inter-segment rental revenues	-	32	(32)	-
Segment revenues	2,794	44	(32)	2,806
Operating profit before other expenses	33	37	(6)	64
Other income, net	-	1	(1)	-
Operating profit after other expenses	33	38	(7)	64
Financing expenses				(34)
Financing income				16
Taxes on income				(14)
Profit for the period				32

For the year ended December 31, 2014 (audited):

	Retail segment	Real estate segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	**11,553**	**49**	**-**	**11,602**
Inter-segment rental revenues	**-**	**129**	**(129)**	**-**
Segment revenues	**11,553**	**178**	**(129)**	**11,602**
Operating profit (loss) before other Income	***(171)**	**148**	**(24)**	**(47)**
Other income, net	**1**	**25**	**(15)**	**11**
Operating profit (loss) after other income	**(170)**	**173**	**(39)**	**(36)**
Financing expenses				**(188)**
Financing income				**85**
Taxes on income				**32**
Loss for the year				**(107)**

* Including non-recurring expenses in the amount of NIS 184 million. See Note 1.C.(2) to the annual financial statements.

Note 7 - Claims and Legal Proceedings

A provision in the total amount of NIS 9 million is included in the financial statements in respect of all the claims against the Company.

See Note 15 to the annual financial statements regarding claims and legal proceedings pending against the Company as at December 31, 2014. Presented hereunder are changes in claims and legal proceedings pending against the Company in the first quarter of 2015 and subsequent to the date of the statement of financial position:

Consumer claims

In the reporting period three motions to certify consumer claims as class action have been filed against the Company mainly containing allegations of illegal collection of funds, unlawful conduct or breach of license, or a breach of agreements with customers, causing monetary and non-monetary damages to them. A total amount of NIS 85 million is claimed from the Company in respect of these claims. At this early stage it is not yet possible to assess the outcome of the claims.

In addition, in the reporting period one motions to certify a consumer claim as a class action was filed against the Company and other defendants. A total amount of NIS 25 million is attributed to the Company in respect of this claim. At this early stage it is not yet possible to assess the outcome of the claim.

In the reporting period ten motions to certify consumer claims as class actions (from a prior period) in the total amount of NIS 287 million have been dismissed and withdrawn at the approval of the court , some without awarding expenses and some at immaterial amounts. In addition, two motions to certify consumer claims as class action (from the reporting period) in the total amount of NIS 188 million have been dismissed and withdrawn at the approval of the court, without awarding expenses.

Subsequent to the date of the report, three motions to certify consumer claims as class actions were filed against the Company and other defendants, that mainly contain allegations of unlawful conduct, while causing monetary and non-monetary damages to customers. A total amount of NIS 13 million is attributed to the Company in respect of these claims. At this early stage it is not yet possible to assess the outcome of the claims.
In addition, one motion to certify consumer claim as class action (from a prior period) in the amount of NIS 3 million have been dismissed without awarding expenses.

Note 8 - Financial Instruments

Financial instruments measured at fair value for disclosure purposes only

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

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

	As at March 31, 2015		As at March 31, 2014		As at December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited		Unaudited		Audited	
	NIS millions		NIS millions		NIS millions	
Non-current liabilities:						
Debentures (including accrued interest)	**2,794**	**2,972**	3,417	3,767	3,450	3,596

Fair value hierarchy of financial instruments measured at fair value

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

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

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

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

	As at March 31, 2015				As at March 31, 2014			As at December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 3	Total	Level 1	Level 2	Level 3	Total
	Unaudited				Unaudited			Audited			
	NIS millions				NIS millions			NIS millions			
Financial assets											
Marketable securities	**10**	**-**	**-**	**10**	975	-	975	655	-	-	655
Other investments**	**-**	**-**	**12**	**12**	-	14	14	-	-	12	12
	10	**-**	**12**	**22**	975	14	989	655	-	12	667
Financial liabilities											
Forward - hedge on transactions linked to foreign currency	**-**	**(2)**	**-**	**(2)**	-	-	-	-	* -	-	* -
	-	**(2)**	**-**	**(2)**	-	-	-	-	* -	-	* -
	10	**(2)**	**12**	**20**	975	14	989	655	* -	12	667

* Represents an amount lower than NIS 1 million.

* Investment in non-marketable shares of Wholesale Market for Agricultural Produce in Tel Aviv Ltd., which is accounted for as a financial asset measured at fair value through profit or loss.