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

# For the Six-Month Period Ended June 30, 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 six months ended June 30, 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 284 branches throughout the country in a few formats in a total area of approximately 529 thousand square meters. The Company employs about 11.1 thousand employees (calculated positions) and has annual sales of about NIS 11.5 billion. As at June 30, 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 half 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 half of 2015

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

- The slowdown in sales that began already at the beginning of 2014.
- In 2015 the Company continued to strengthen the private label as part of the Company's strategy and it expanded the type and quantity of the products sold under the private label and in particular launched new products in leading categories. In the first half of the year the sales of products bearing the Company's private label constituted about 15% of all its retail sales, which is an increase compared to the rate of private label sales in 2014, about 11.5% of all its retail sales.
- In 2015 (until the date of this report) there was a significant increase in the Company's sales through Shufersal Online, and the sales constituted about 5% of the Company's total sales (compared with 4% in 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, in changing the format of branches of the large retailers to discount chains and the recent development in the Mega chain. This development is expected to have an effect on the Company that at this stage is difficult to assess.

[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 (June 30, 2015) unless stated otherwise or implied otherwise by the context of the matter.

- Various regulatory developments, such as the Law for the Promotion of Competition in the Food Industry – 2014 ("**the food law**") and raising the minimum wages in Israel.
- 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 Company's periodic report for 2014 ("**the periodic report**") and Note 5.A to the financial statements) ("**the business plan**").

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

- On June 25, 2015 the Company issued a shelf prospectus pursuant to which it will be able to issue various securities by law, including shares, debentures (convertible and non-convertible), option warrants (exercisable into shares and debentures) and commercial paper.
- For details on changes in legal claims and proceedings against the Company in the first half of 2015, see Note 7 to the financial statements.
- Further to that mentioned in Paragraph 13.4.1 of Part A (Description of the Entity's Business) in the Company's periodic report, 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 operates in accordance with the food law, which all its provisions have come into effect as at the reporting date. The food law includes three sets of provisions: (a) provisions regulating the activity of suppliers and retailers, including that of a large retailer (these provisions came into effect on January 15, 2015), (b) provisions regarding geographical competition of retailers (came into effect in March 2014) and (c) provisions regulating price transparency (came into effect on May 20, 2015). For further details on the food law, see Paragraph 7.4 of chapter A (Description of the Entity's Business) in the periodic report.

## 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 sales and the intensity of special offers made in the first quarter of this year as compared to the previous year in which they were spread over the first and second quarters. The effect of Passover is smaller in the second quarter of this year than its effect in the corresponding quarter last year.

In the opinion of the Company, analyzing the results for the half year more correctly presents the changes between the periods.

### 1.2.1 Analysis of results for the three months ended June 30, 2015 as compared to the corresponding period last year

| | Results of operations for the three months ended June 30 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | % | NIS millions | % | NIS millions |
| **Revenues** | | **2,758** | | 2,997 |
| **Gross profit** | **24.4%** | **674** | 22.9% | * 687 |
| Selling, marketing, administrative and general expenses | **21.8%** | **(602)** | 28.0% | *(839) |
| **Operating profit (loss) before other expenses** | **2.6%** | **72** | (5.1%) | (152) |
| Other expenses | | **-** | | (2) |
| Impairment in fair value of investment property, net | | **-** | | (2) |
| **Operating profit (loss) after other expenses** | **2.6%** | **72** | (5.2%) | (156) |
| Financing expenses, net | | **(51)** | | (43) |
| Share of profits of equity accounted investees | | **1** | | - |
| Taxes on income | | **(6)** | | 42 |
| **Profit (loss) for the period** | | **16** | | (157) |

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

**Retail segment revenues** amounted to NIS 2,746 million in the second quarter of the year, compared with NIS 2,985 million in the corresponding quarter last year, a decrease of 8.0% that is mainly due to the timing of the Passover holiday, a lowering of prices, reducing selling areas and an increase in competition. Excluding the seasonality effect (the timing of the Passover holiday) the decrease in sales was 2.8%.

In same store sales[2] with respect to stores that operated fully in the second quarter of the year and in the corresponding quarter last year, there was a decrease of 7.4% in sales, which is mainly due to the timing of the Passover holiday, a lowering of prices and an increase in competition. Excluding the seasonality effect (the timing of the Passover holiday) the decrease was 2.7%.

The sales per square meter[3] in the Company's stores amounted to NIS 5,324 in the second quarter of the year compared with NIS 5,468 in the corresponding quarter last year, a decrease of 2.7%, which is mainly due to the timing of the holiday as aforesaid, a lowering of prices and reducing selling areas.

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

**The Company's revenues** amounted to NIS 2,758 million in the second quarter of the year, compared with NIS 2,997 million in the corresponding quarter last year, a decrease of 8.0%. Excluding the seasonality effect (the timing of the Passover holiday) the decrease in sales was 2.8%.

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

[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 gross profit** amounted to NIS 674 million in the second quarter of the year, compared with NIS 687 million in the corresponding quarter last year, a decrease of NIS 13 million. The gross profit rate was 24.4%, compared with 22.9% in the corresponding quarter last year. The decrease in the amount of the gross profit is mainly due to the decrease in revenues as aforesaid. The increase in the gross profit rate is mainly due to the timing of the Passover holiday and to an improvement in trade agreements.

**Selling, marketing, administrative and general expenses** amounted to NIS 602 million in the second quarter of the year, compared with NIS 839 million in the corresponding quarter last year. The ratio of expenses to revenues was 21.8% compared with 28.0% in the corresponding quarter last year. The decrease in expenses was mainly due to recording non-recurring expenses from the closing down of branches and implementing a voluntary employee retirement program in the second quarter of 2014 as part of the business plan.

**Operating loss in the retail segment** amounted to NIS 42 million and a rate of 1.5% in the second quarter of the year, compared with a loss of NIS 183 million and a rate of 6.1% in the corresponding quarter last year, an increase of NIS 225 million that was mainly due to the aforesaid.

**Operating profit before other expenses in the real estate segment** amounted to NIS 37 million in the second quarter of the year, compared with NIS 36 million in the corresponding quarter last year.

**The Company's operating profit after other expenses** amounted to NIS 72 million and a rate of 2.6% of revenues in the second quarter of the year, compared with a loss of NIS 156 million and a rate of 5.2% of revenues in the corresponding quarter last year, an increase of approximately NIS 228 million that is due to the aforesaid.

**The operating profit before depreciation and amortization (EBITDA)** amounted to NIS 148 million and a rate of 5.4% of revenues in the second quarter of the year, compared with NIS 70 million and a rate of 2.3% of revenues in the corresponding quarter last year, as a result of the aforesaid.

**Financing expenses, net** amounted to NIS 51 million in the second quarter of the year, compared with NIS 43 million in the corresponding quarter last year. The increase in net financing expenses was mainly due to the CPI increasing at a higher rate in the second quarter of 2015 than 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, mainly as a result of the Company selling its securities portfolio in the first quarter of this year. On the other hand the financing expenses decreased as a result of the decrease in the Company's total debt.

**Tax expenses** amounted to NIS 6 million in the second quarter of the year, compared with tax income of NIS 42 million in the corresponding quarter last year. The change is due to the aforesaid in the item on selling, marketing, administrative and general expenses, see above.

**Profit for the period** amounted to NIS 16 million in the second quarter of the year, compared with a loss of NIS 157 million in the corresponding quarter last year. The change is due to the aforesaid in the item on selling, marketing, administrative and general expenses, see above.

**The Company’s basic and diluted earnings per share** amounted to NIS 0.08 in the second quarter of the year, compared with a basic and diluted loss per share of NIS 0.74 in the corresponding quarter last year.

### 1.2.2 Analysis of results for the six months ended June 30, 2015 as compared to the corresponding period last year

| | Results of operations for the six months ended June 30 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | % | NIS millions | % | NIS millions |
| **Revenues** | | **5,594** | | 5,803 |
| **Gross profit** | **23.3%** | **1,304** | 23.8% | * 1,381 |
| Selling, marketing, administrative and general expenses | **21.5%** | **(1,204)** | 25.3% | *(1,469) |
| **Operating profit (loss) before other expenses** | **1.8%** | **100** | (1.5%) | (88) |
| Other expenses | | **-** | | (2) |
| Impairment in fair value of investment property, net | | **-** | | (2) |
| **Operating profit (loss) after other expenses** | **1.8%** | **100** | (1.6%) | (92) |
| Financing expenses, net | | **(58)** | | (61) |
| Share of profits of equity accounted investees | | **1** | | - |
| Taxes on income | | **(14)** | | 28 |
| **Profit (loss) for the period** | | **29** | | (125) |

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

**Retail segment revenues** amounted to NIS 5,570 million in the first half of the year, compared with NIS 5,779 million in the corresponding half last year, a decrease of 3.6% that is mainly due to a slowdown in consumption, a lowering of prices, reducing selling areas and an increase in competition.

In same store sales[4] with respect to stores that operated fully in the first half of the year and in the corresponding half last year, there was a decrease of 3.2% in sales, which is mainly due to a slowdown in consumption, a lowering of prices and an increase in competition.

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

The sales per square meter[5] in the Company's stores amounted to NIS 10,706 in the first half of the year compared with NIS 10,567 in the corresponding half last year, an increase of 1.3%.

**Real estate segment revenues** amounted to NIS 88 million in the first half of the year like in the corresponding quarter last year.

**The Company's revenues** amounted to NIS 5,594 million in the first half of the year, compared with NIS 5,803 million in the corresponding half last year, a decrease of 3.6%.

**The gross profit** amounted to NIS 1,304 million in the first half of the year, compared with NIS 1,381 million in the corresponding half last year, a decrease of NIS 77 million. The gross profit rate was 23.3%, compared with 23.8% in the corresponding half last year. The decrease in the amount of the gross profit and in its rate is mainly due to the decrease in revenues and a lowering of prices as aforesaid and to implementation of the business plan as from July 2014.

**Selling, marketing, administrative and general expenses** amounted to NIS 1,204 million in the first half of the year, compared with NIS 1,469 million in the corresponding half last year. The ratio of expenses to revenues was 21.5% compared with 25.3% in the corresponding half last year. The decrease in expenses was mainly due to recording non-recurring expenses from the closing down of branches and implementing a voluntary employee retirement program in the second quarter of 2014 as part of the business plan.

**Operating loss in the retail segment** amounted to NIS 39 million and a rate of 0.7% in the first half of the year, compared with a loss of NIS 150 million and a rate of 2.6% in the corresponding half last year, an increase of NIS 189 million that was mainly due to the aforesaid.

**Operating profit before other expenses in the real estate segment** amounted to NIS 74 million in the first half of the year, compared with NIS 73 million in the corresponding half last year.

**The Company's operating profit after other expenses** amounted to NIS 100 million and a rate of 1.8% of revenues in the first half of the year, compared with a loss of NIS 92 million and a rate of 1.6% of revenues in the corresponding half last year, an increase of approximately NIS 192 million that is due to the aforesaid.

**The operating profit before depreciation and amortization (EBITDA)** amounted to NIS 237 million and a rate of 4.2% of revenues in the first half of the year, compared with NIS 202 million and a rate of 3.5% of revenues in the corresponding half last year.

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5 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.

**Financing expenses, net** amounted to NIS 58 million in the first half of the year, compared with NIS 61 million in the corresponding half last year. The decrease in net financing expenses was mainly due to the CPI decreasing at a higher rate in the first half of 2015 than in the corresponding half last year. Furthermore, there was a decrease in the financing expenses as a result of the decrease in the Company's total debt. On the other hand 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, mainly as a result of the Company selling its securities portfolio in the first quarter of this year.

**Tax expenses** amounted to NIS 14 million in the first half of the year, compared with tax income of NIS 28 million in the corresponding half last year. The change is due to the aforesaid in the item on selling, marketing, administrative and general expenses, see above.

**Profit for the period** amounted to NIS 29 million in the first half of the year, compared with a loss of NIS 125 million in the corresponding half last year. The change is due to the aforesaid in the item on selling, marketing, administrative and general expenses, see above.

**The Company's basic and diluted earnings per share** amounted to NIS 0.14 in the first half of the year, compared with a basic and diluted loss per share of NIS 0.59 in the corresponding half last year.

## 1.3 Financial position, liquidity and financing sources

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

Cash flow from operating activities

Net cash from operating activities amounted to NIS 71 million in the second quarter of 2015, compared with NIS 107 million in the corresponding quarter last year. The decrease in cash flow from operating activities stemmed mainly from the decrease in working capital and seasonality, and on the other hand an increase in profit.

Cash flow used in investing activities

Net cash used in investing activities amounted to NIS 110 million in the second quarter of 2015, compared with NIS 69 million in the corresponding quarter last year. The cash used in investing activities in the second quarter of 2015 included mainly the purchase of fixed assets in the amount of NIS 108 million.

The cash used in investing activities in the second quarter of 2014 included mainly the purchase of fixed assets in the amount of NIS 86 million and the acquisition of marketable securities in the amount of NIS 154 million, and on the other hand proceeds from the sale of marketable securities in the amount of NIS 116 million and the withdrawal of short-term deposits in the amount of NIS 40 million.

<u>Cash flow used in financing activities</u>

Net cash used in financing activities amounted to NIS 7 million in the second quarter of 2015, compared with NIS 6 million in the corresponding quarter last year.

### 1.3.2 Cash flow - Analysis of results for the first half of 2015 as compared with the corresponding half last year

<u>Cash flow from operating activities</u>

Net cash from operating activities amounted to NIS 540 million in the first half of 2015, compared with NIS 411 million in the corresponding half last year. The increase in cash flow from operating activities stemmed mainly from the increase in profit.

<u>Cash flow from investing activities</u>

Net cash from investing activities amounted to NIS 438 million in the first half of 2015, compared with net cash used in investing activities of NIS 369 million in the corresponding half last year. The cash used in investing activities in the first half of 2015 included mainly the purchase of fixed assets in the amount of NIS 209 million and the acquisition of marketable securities in the amount of NIS 51 million, and on the other hand proceeds from the sale of marketable securities in the amount of NIS 696 million.

The cash used in investing activities in the first half of 2014 included mainly the purchase of fixed assets in the amount of NIS 198 million and the acquisition of marketable securities in the amount of NIS 386 million, and on the other hand proceeds from the sale of marketable securities in the amount of NIS 149 million and the withdrawal of short-term deposits in the amount of NIS 40 million.

<u>Cash flow used in financing activities</u>

Net cash used in financing activities amounted to NIS 665 million in the first half of 2015, compared with NIS 326 million in the corresponding half last year. The cash used in financing activities in the first half of 2015 included mainly the redemption of debentures and interest payments in the amount of NIS 657 million.

The cash used in financing activities in the first half of 2014 included mainly the redemption of debentures in the amount of NIS 248 million and a dividend distribution in the amount of NIS 70 million at the beginning of 2014.

### 1.3.3 Balances of liquid assets and financial ratios

As at the end of the second quarter of 2015, the Company’s consolidated net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 564 million, compared with NIS 1,305 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 second 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 2,850 million, compared with NIS 3,475 million in the corresponding quarter last year.

The ratio of the Company’s financial debt to its total assets was approximately 43.1% at the end of the second quarter of 2015, compared with approximately 47.4% 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 second quarter of 2015 amounted to NIS 1,047 million, compared with NIS 980 million in the corresponding quarter last year. The ratio of the Company’s equity to its total assets was approximately 16% at the end of the second quarter of 2015, compared with 13% 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%.

### 1.3.4 Board of Directors’ discussion of the Company’s liquidity in view of the working capital deficit as at June 30, 2105

As at June 30, 2015 the Group has a working capital deficit in the amount of NIS 489 million, compared with positive working capital of NIS 84 million and NIS 340 million as at December 31, 2014 and June 30, 2014, respectively, and it has a working capital deficit (on a stand-alone basis) of NIS 459 million compared with working capital of nil and NIS 477 million as at December 31, 2014 and June 30, 2014, respectively. The working capital deficit as at June 30, 2015 is mainly due to a decrease in the Company’s cash balances following the redemption of debentures and interest payments in the amount of NIS 657 million that were paid in the first quarter. It is noted that the Company concluded the second quarter, as well as the first quarter, with a positive cash flow from operating activities.

In order to examine whether the working capital deficit indicates that the Company has a liquidity problem, the Company’s Board of Directors examined the Group’s current and expected liabilities, the Group’s balances of cash and cash equivalents, the Group’s forecast of expected cash flows for the two year period beginning from June 30, 2015 as well as the Group’s credit sources and other sources of financing (as described hereunder). The examination of these credit sources was based on, inter alia, the Group’s past experience in raising debt, and in refinancing of credit providers.

In this respect it is noted that there are 4 outstanding series of debentures issued by the Company (Series B, C, D and E) that their carrying amount (principal + interest) is NIS 2,844 million as at June 30, 2015 (the Company has an insignificant amount of bank financing). The payment structure of those series creates a burden of future payments between the years 2016 and 2019 (inclusive) since in those years the Company will be required to repay the outstanding balance of Series B and C (as at June 30, 2015 the carrying amount (principal + interest) of Series B and C is NIS 1,963 million). Accordingly, the Company is expected to repay debentures between the years 2016 and 2019 (inclusive) in an average amount of NIS 630 million each year (principal + interest).

As at the date of this report, the business plan the Company is examining for dealing with the debenture payments, and which was approved in principle by the Company's Board of Directors in its meeting on August 4, 2015, is to each year issue debentures, in the years 2016 to 2019 or proximate to them, in an amount close to the amount of the payment required in that year (or at least most of it),

which have a long average duration. It is noted that part of the issuances may be executed (as a private placement to institutional investors) in Shufersal Real Estate Ltd. As at the reporting date, and as assessed by the Company, the Company's cash flow from operating activities in the forthcoming years will meet the requirements of the Company's operating activities and investments.

The assessment of the Company's accessibility to possible additional sources of financing took note of, inter alia, the yields to maturity at which the Company's debentures are traded, the Company's rating, the Company's ability to realize real estate, the fact that it owns (including ownership by Shufersal Real Estate) unencumbered real estate and has good accessibility to 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 June 30, 2015 the Company does not have a liquidity problem.

**It is emphasized that there is no certainty that the Company's business plan of issuing debentures as aforesaid will be completed or that it will be completed in the manner described above. Furthermore, the timing of the issuances, their structure, scope and terms have not yet been determined, and they will be subject to all the approvals required by law, including the approval of the Company's Board of Directors. It is further emphasized that the information on the Company's sources of financing and revenue as provided in the above paragraph 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 2.2 billion as at June 30, 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 June 30, 2015, the Company has forward contracts on the rate of the dollar in the amount of US$ 12.2 million for settlement until December 2015 and forward contracts in the amount of € 6 million for settlement until December 2015.

In the second quarter of 2015, the Company incurred financing expenses in the amount of NIS 1.5 million in respect of these contracts, compared with NIS 1.4 million in the corresponding period last year.

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

### 2.2.3 Interest rate risks

The Company is exposed to fluctuations in interest rates on 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 from time to time 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 June 30, 2015:

| | June 30, 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 | 538 | - | 16 | - | 554 |
| Marketable securities | 7 | 3 | - | - | 10 |
| Trade receivables | 1,032 | - | - | - | 1,032 |
| Other receivables | 13 | 9 | - | 97 | 119 |
| Current taxes | - | - | - | 32 | 32 |
| Inventories | - | - | - | 672 | 672 |
| Non-current assets: | | | | | |
| Investment in an associated company | - | - | - | 44 | 44 |
| Other investments | 12 | - | - | - | 12 |
| Investment property | - | - | - | 471 | 471 |
| Fixed assets | - | - | - | 2,726 | 2,726 |
| Intangible assets and deferred expenses | - | - | - | 831 | 831 |
| Deferred taxes | - | - | - | 103 | 103 |
| | 1,602 | 12 | 16 | 4,976 | 6,606 |
| Current liabilities: | | | | | |
| Current maturities of long-term loans | - | 3 | - | - | 3 |
| Current maturities of debentures | 158 | 473 | - | - | 631 |
| Trade payables | 1,683 | - | - | 12 | 1,695 |
| Other payables | 197 | - | 3 | 320 | 520 |
| Provisions | - | - | - | 59 | 59 |
| Non-current liabilities: | | | | | |
| To banks and others | 8 | 3 | - | - | 11 |
| Debentures | 506 | 1,707 | - | - | 2,213 |
| Employee benefits | - | - | - | 124 | 124 |
| Provisions | - | - | - | 60 | 60 |
| Deferred taxes | - | - | - | 83 | 83 |
| Other | 112 | - | - | 48 | 160 |
| Non-controlling interests | - | - | - | 6 | 6 |
| Equity | - | - | - | 1,041 | 1,041 |
| | 2,664 | 2,186 | 3 | 1,753 | 6,606 |
| Net exposure (*) | (1,062) | (2,174) | 13 | 3,223 | - |

(*) 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 June 30, 2015 (NIS millions)**

**Interest rate sensitivity**

| Sensitive instruments | Market interest rate at reporting date | Gain (loss) from changes: Change (increase) of 10% in interest | Gain (loss) from changes: Change (increase) of 5% in interest | Gain (loss) from changes: Increase of 2% in interest | Fair value as at June 30, 2015 | Gain (loss) from changes: Decrease of 2% in interest | Gain (loss) from changes: Change (decrease) of 5% in interest | Gain (loss) from changes: Change (decrease) of 10% in interest |
|---|---|---|---|---|---|---|---|---|
| **Loans received** | | 0.0 | 0.0 | 0.1 | **(6)** | (0.1) | (0.0) | (0.0) |
| **Total debentures** | | 29.6 | 14.9 | 167.3 | **(2,920)** | (191.4) | (14.9) | (29.6) |
| **2005 issuance of Series B** | 1.79% | 2.0 | 1.0 | 22.1 | **(536)** | (23.8) | (1.0) | (2.0) |
| **2005 issuance of Series B** | 1.79% | 1.1 | 0.6 | 12.3 | **(301)** | (13.3) | (0.6) | (1.1) |
| **2006 issuance of Series B** | 1.79% | 0.8 | 0.4 | 8.1 | **(197)** | (8.7) | (0.4) | (0.8) |
| **2007 issuance of Series B** | 1.79% | 1.8 | 0.9 | 19.2 | **(468)** | (20.7) | (0.9) | (1.8) |
| **2009 issuance of Series C** | 1.41% | 0.2 | 0.1 | 2.8 | **(133)** | (2.9) | (0.1) | (0.2) |
| **2010 issuance of Series B** | 1.79% | 1.3 | 0.6 | 13.5 | **(328)** | (14.6) | (0.6) | (1.3) |
| **2010 issuance of Series C** | 1.41% | 0.2 | 0.1 | 2.3 | **(109)** | (2.4) | (0.1) | (0.2) |
| **2013 issuance of Series D** | 4.12% | 10.0 | 5.0 | 45.1 | **(423)** | (54.7) | (5.0) | (10.0) |
| **2013 issuance of Series E** | 5.48% | 12.2 | 6.2 | 41.9 | **(425)** | (50.3) | (6.2) | (12.2) |
| **Loans granted** | | (0.0) | (0.0) | (0.0) | **7** | 1.0 | 0.0 | 0.0 |
| **Deposits** | | (0.0) | (0.0) | (0.9) | **510** | 0.9 | 0.0 | 0.0 |

**CPI sensitivity**

| Sensitive instruments | Base index | Gain (loss) from changes: 10% increase in CPI | Gain (loss) from changes: 5% increase in CPI | Fair value as at June 30, 2015 | Gain (loss) from changes: 5% decrease in CPI | Gain (loss) from changes: 10% decrease in CPI |
|---|---|---|---|---|---|---|
| **Bank loans received** | 88.8 | (0.6) | (0.3) | **(6)** | 0.3 | 0.6 |
| **Debentures** | 74.3 | (225.4) | (112.7) | **(2,253)** | 112.7 | 225.4 |
| **Loans granted** | 107.6 | (0.5) | (0.3) | **5** | 0.3 | 0.5 |

**Market price sensitivity**

| Sensitive instruments | Gain (loss) from changes: 10% increase in market price | Gain (loss) from changes: 5% increase in market price | Fair value as at June 30, 2015 | Gain (loss) from changes: 5% decrease in market price | Gain (loss) from changes: 10% decrease in market price |
|---|---|---|---|---|---|
| **Marketable securities** | 1.0 | 0.5 | **10** | (0.5) | (1.0) |

## 3. Corporate Governance Aspects

### 3.1 <u>Process of approval of the financial statements</u>

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 July 30, 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 <u>Board of Directors' Meetings</u>

In the first half of 2015, the Board of Directors held 8 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 <u>Disclosure regarding events subsequent to the date of the statement of financial position</u>

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

# 5. Specific Disclosure for Holders of Debentures

**Data as at June 30, 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 | | Interest payment dates | Type of linkage |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | First date | Last date | | |
| Series B | April 2005 | 500 | 498 | 500 | 400 | 494 | 6 | 536 | 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 | 281 | 224 | 276 | 4 | 301 | 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 | 184 | 147 | 181 | 2 | 197 | 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 | 444 | 349 | 431 | 6 | 468 | 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 | 322 | 245 | 302 | 4 | 328 | 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 | 127 | 125 | 125 | 2 | 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 | 105 | 102 | 102 | 2 | 109 | 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 | 449 | 443 | 443 | 10 | 423 | 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 | 432 | 420 | 420 | 16 | 425 | 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 | 2,844 | 2,455 | 2,774 | 52 | 2,920 | | | | | | | |

* 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 half 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 June 30, 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 June 30, 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.

9. On July 15, 2015 meetings of the holders of the Company’s debentures (Series D and E) ratified the service of Reznik Paz Nevo Trustees Ltd. as trustee for the aforesaid debentures until the full repayment of such series.

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 June 30, 2015 and proximate to the date of signing the financial statements:

| **Financial covenant** | **Calculation results** | |
|---|---|---|
| | **As at June 30, 2015** | **Proximate to the date of signing the financial statements*** |
| Ratio of net debt to total balance sheet shall not exceed 60% | 35% | 35% |
| The Company’s total equity (including non-controlling interests) shall not fall below NIS 550 million | NIS 1,047 million | NIS 1,047 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 June 30, 2015:

| **Restriction** | **Calculation results as at June 30, 2015** |
|---|---|
| The Company’s total equity (including non-controlling interests) shall not fall below NIS 750 million | NIS 1,047 million |
| Ratio of the Company’s net debt to EBITDA shall not exceed 7 | 6.1 (*) |

(*) Revenue in the amount of NIS 37 million that derives from a change in an onerous contract was deducted from the EBITDA in the calculation of the ratio of the Company’s net debt to EBITDA.

10. **<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.

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

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

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

## 12. Quarterly report of outstanding liabilities by maturity dates

For data regarding the outstanding liabilities of the Company as at June 30, 2015, see the immediate report on outstanding liabilities by maturity dates published by the Company on August 5, 2015, the information included in which is presented in this report by way of reference.

**Board of Directors' Report on the State of the Company's Affairs for the Three-Month Period Ended June 30, 2014**

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

August 4, 2015

# Shufersal Ltd

# Condensed Consolidated Interim Financial Statements As at June 30, 2015

# (Unaudited)

**Shufersal Ltd.**

**Condensed Consolidated Interim Financial Statements as at June 30, 2015 (unaudited)**

**Contents**


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## Condensed Consolidated Interim Statements of Financial Position

| | June 30 2015 | June 30 2014 | December 31 2014 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Assets** | | | |
| Cash and cash equivalents | **554** | 299 | 241 |
| Marketable securities | **10** | 1,006 | 655 |
| Trade receivables | **1,032** | 1,149 | 1,102 |
| Other receivables | **119** | 118 | 151 |
| Current taxes | **32** | 53 | 36 |
| Inventory | **672** | 777 | 753 |
| **Total current assets** | **2,419** | 3,402 | 2,938 |
| Investment in associate | **44** | 25 | 51 |
| Other investments | **12** | 13 | 12 |
| Investment property | **471** | 416 | 465 |
| Fixed assets | **2,726** | 2,583 | 2,666 |
| Intangible assets and deferred expenses | **831** | 808 | 827 |
| Deferred taxes | **103** | 88 | 104 |
| **Total non-current assets** | **4,187** | 3,933 | 4,125 |
| **Total assets** | **6,606** | 7,335 | 7,063 |

Signed on behalf of the Board of Directors:

| | | | |
|---|---|---|---|
| Rafi Bisker<br>Co-Chairman of the Board of Directors | Shalom Fisher<br>Co-Chairman of the Board of Directors | Itzik Abercohen<br>Chief Executive Officer | Shlomo Zohar<br>Deputy CEO and Chief Financial Officer |

Date of approval: August 4, 2015

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

## Condensed Consolidated Interim Statements of Financial Position

| | June 30 2015 | June 30 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 | **631** | 643 | 697 |
| Trade payables | **1,695** | 1,682 | 1,578 |
| Other payables | **520** | *653 | * 496 |
| Provisions | **59** | *79 | * 81 |
| **Total current liabilities** | **2,908** | 3,062 | 2,854 |
| To banks and others | **11** | 12 | 12 |
| Debentures | **2,213** | 2,823 | 2,753 |
| Employee benefits | **124** | 147 | 138 |
| Provisions | **60** | 100 | 73 |
| Other | **160** | 143 | 146 |
| Deferred taxes | **83** | 68 | 78 |
| **Total non-current liabilities** | **2,651** | 3,293 | 3,200 |
| **Equity** | | | |
| Share capital | **240** | 240 | 240 |
| Premium on shares | **560** | 560 | 560 |
| Capital reserves | **7** | 2 | 7 |
| Treasury shares | **(85)** | (85) | (85) |
| Retained earnings | **319** | 260 | 281 |
| **Total equity attributable to owners of the Company** | **1,041** | 977 | 1,003 |
| **Non-controlling interests** | **6** | 3 | 6 |
| **Total equity** | **1,047** | 980 | 1,009 |
| **Total liabilities and equity** | **6,606** | 7,335 | 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

| | Six months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | June 30 2015 | June 30 2014 | June 30 2015 | June 30 2014 | December 31 2014 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| Sales and rentals | **5,594** | 5,803 | **2,758** | 2,997 | 11,602 |
| Cost of sales and services | **4,290** | *4,422 | **2,084** | *2,310 | 8,954 |
| **Gross profit** | **1,304** | 1,381 | **674** | 687 | 2,648 |
| Selling and marketing expenses | **1,142** | *1,414 | **570** | *811 | 2,570 |
| General and administrative expenses | **62** | 55 | **32** | 28 | 125 |
| Total selling, marketing, general and administrative expenses | **1,204** | 1,469 | **602** | 839 | 2,695 |
| **Operating profit (loss) before other income (expenses)** | **100** | (88) | **72** | (152) | (47) |
| Other expenses | **-** | (2) | **-** | (2) | (1) |
| Increase (decrease) in fair value of investment property, net | **-** | (2) | **-** | (2) | 12 |
| Total other income (expenses), net | **-** | (4) | **-** | (4) | 11 |
| **Operating profit (loss) after other income (expenses)** | **100** | (92) | **72** | (156) | (36) |
| Financing expenses | **(72)** | (96) | **(57)** | (62) | (188) |
| Financing income | **14** | 35 | **6** | 19 | 85 |
| Financing expenses, net | **(58)** | (61) | **(51)** | (43) | (103) |
| Share of profits of equity accounted investees | **1** | - | **1** | - | - |
| **Profit (loss) before taxes on income** | **43** | (153) | **22** | (199) | (139) |
| Taxes on income | **(14)** | 28 | **(6)** | 42 | 32 |
| **Profit (loss) for the period** | **29** | (125) | **16** | (157) | (107) |
| **Attributable to:** | | | | | |
| Owners of the Company | **29** | (125) | **16** | (157) | (110) |
| Non-controlling interests | **-** | - | **-** | - | 3 |
| **Profit (loss) for the period** | **29** | (125) | **16** | (157) | (107) |
| **Basic and diluted earnings (loss) per share (in NIS)** | **0.14** | (0.59) | **0.08** | (0.74) | (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

| | Six months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | June 30 2015 | June 30 2014 | June 30 2015 | June 30 2014 | December 31 2014 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Profit (loss) for the period** | **29** | (125) | **16** | (157) | (107) |
| **Other comprehensive income (loss) items that will not be transferred to profit or loss** | | | | | |
| Remeasurement of defined benefit plan | **12** | (31) | **28** | (31) | (23) |
| Revaluation reserve for fixed assets | **-** | *- | **-** | *- | 6 |
| Taxes on other comprehensive income items that will not be transferred to profit or loss | **(3)** | 8 | **(7)** | 8 | 5 |
| **Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax** | **9** | (23) | **21** | (23) | (12) |
| **Total comprehensive income (loss) for the period** | **38** | (148) | **37** | (180) | (119) |
| **Attributable to:** | | | | | |
| Owners of the Company | **38** | (148) | **37** | (180) | (122) |
| Non-controlling interests | **-** | - | **-** | - | 3 |
| **Total comprehensive income (loss) for the period** | **38** | (148) | **37** | (180) | (119) |

* 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 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 six months ended June 30, 2015 (unaudited)** | | | | | | | | |
| **Balance as at January 1, 2015** | **240** | **560** | **7** | **(85)** | **281** | **1,003** | **6** | **1,009** |
| Profit for the period | **-** | **-** | **-** | **-** | **29** | **29** | **-** | **29** |
| Other comprehensive income for the period, net of tax | **-** | **-** | **-** | **-** | **9** | **9** | **-** | **9** |
| **Balance as at June 30, 2015** | **240** | **560** | **7** | **(85)** | **319** | **1,041** | **6** | **1,047** |
| **For the six months ended June 30, 2014 (unaudited)** | | | | | | | | |
| **Balance as at January 1, 2014** | 240 | 560 | 2 | (85) | 478 | 1,195 | 3 | 1,198 |
| Exercise of employee share options | *- | *- | - | - | - | *- | - | *- |
| Dividend paid | - | - | - | - | (70) | (70) | - | (70) |
| Loss for the period | - | - | - | - | (125) | (125) | - | (125) |
| Other comprehensive loss for the period, net of tax | - | - | *- | - | (23) | (23) | - | (23) |
| **Balance as at June 30, 2014** | 240 | 560 | 2 | (85) | 260 | 977 | 3 | 980 |

* 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 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 June 30, 2015 (unaudited)** | | | | | | | | |
| **Balance as at April 1, 2015** | **240** | **560** | **7** | **(85)** | **282** | **1,004** | **6** | **1,010** |
| Profit for the period | **-** | **-** | **-** | **-** | **16** | **16** | **-** | **16** |
| Other comprehensive income for the period, net of tax | **-** | **-** | **-** | **-** | **21** | **21** | **-** | **21** |
| **Balance as at June 30, 2015** | **240** | **560** | **7** | **(85)** | **319** | **1,041** | **6** | **1,047** |
| **For the three months ended June 30, 2014 (unaudited)** | | | | | | | | |
| **Balance as at April 1, 2014** | 240 | 560 | 2 | (85) | 440 | 1,157 | 3 | 1,160 |
| Exercise of employee share options | *- | * - | - | - | - | *- | - | *- |
| Loss for the period | - | - | - | - | (157) | (157) | - | (157) |
| Other comprehensive loss for the period, net of tax | - | - | *- | - | (23) | (23) | - | (23) |
| **Balance as at June 30, 2014** | 240 | 560 | 2 | (85) | 260 | 977 | 3 | 980 |
| **For the year ended December 31, 2014 (audited)** | | | | | | | | |
| **Balance as at January 1, 2014** | 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

| | Six months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | June 30 2015 | June 30 2014 | June 30 2015 | June 30 2014 | December 31 2014 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Cash flows from operating activities** | | | | | |
| Profit (loss) for the period | **29** | (125) | **16** | (157) | (107) |
| **Adjustments for:** | | | | | |
| Depreciation of fixed assets | **121** | 124 | **63** | 62 | 240 |
| Impairment losses on fixed assets | **15** | 59 | **9** | 59 | 54 |
| Amortization of intangible assets and deferred expenses | **11** | 13 | **6** | 7 | 24 |
| Taxes on income | **14** | (28) | **6** | (42) | (32) |
| Income tax paid | **(9)** | (60) | **(3)** | (20) | (74) |
| Income tax received | **2** | - | **2** | - | 29 |
| Financing expenses, net | **58** | 61 | **51** | 43 | 103 |
| Company's share of profits of equity accounted investees | **(1)** | - | **(1)** | - | - |
| Change in fair value and gain on sale of investment property, net | **-** | 2 | **-** | 2 | (12) |
| Change in employee benefits | **(5)** | 5 | **(7)** | 1 | 2 |
| Loss on sale of fixed assets | **-** | 2 | **-** | 2 | 1 |
| Change in provision for onerous contracts | **(20)** | 109 | **(5)** | 110 | 79 |
| Change in trade receivables | **74** | 14 | **261** | 33 | 66 |
| Change in other receivables | **28** | (4) | **48** | 30 | (41) |
| Change in inventory | **81** | (63) | **167** | 132 | (39) |
| Change in trade payables | **128** | 134 | **(281)** | (181) | 21 |
| Change in other payables, provisions and other liabilities | **14** | 168 | **(261)** | 26 | 16 |
| **Net cash from operating activities** | **540** | 411 | **71** | 107 | 330 |

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

## Condensed Consolidated Interim Statements of Cash Flows

| | Six months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | June 30 2015 | June 30 2014 | June 30 2015 | June 30 2014 | December 31 2014 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Cash flows from investing activities** | | | | | |
| Purchase of fixed assets | **(209)** | (198) | **(108)** | (86) | (418) |
| Proceeds from sale of fixed assets | **5** | 10 | **4** | 10 | 20 |
| Investment in deferred expenses and intangible assets | **(9)** | (4) | **(5)** | (2) | (23) |
| Investment in investment property | **(4)** | (4) | **(2)** | (3) | (6) |
| Proceeds from sale of investment property (including advances) | - | 4 | - | 1 | 4 |
| Purchase of marketable securities | **(51)** | (386) | **(2)** | (154) | (590) |
| Proceeds from sale of marketable securities | **696** | 149 | **2** | 116 | 702 |
| Cash payments from futures transactions, net | **(3)** | - | **(1)** | - | - |
| Repayment of long-term loans | **10** | - | **2** | - | - |
| Interest received | **4** | 23 | - | 12 | 30 |
| Proceeds from withdrawal of short-term deposits | - | 40 | - | 40 | 40 |
| Dividend received from investee company | - | 1 | - | 1 | 1 |
| Acquisition of operation | **(1)** | (4) | - | (4) | (6) |
| **Net cash from (used in) investing activities** | **438** | (369) | **(110)** | (69) | (246) |

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

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

| | Six months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | **June 30 2015** | **June 30 2014** | **June 30 2015** | **June 30 2014** | **December 31 2014** |
| | **Unaudited** | **Unaudited** | **Unaudited** | **Unaudited** | **Audited** |
| | **NIS millions** | **NIS millions** | **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 | **(1)** | (2) | **(1)** | (2) | (5) |
| Partners' withdrawals from partnership | **(7)** | (6) | **(6)** | (4) | (12) |
| **Net cash used in financing activities** | **(665)** | (326) | **(7)** | (6) | (426) |
| **Increase (decrease) in cash and cash equivalents** | **313** | (284) | **(46)** | 32 | (342) |
| Balance of cash and cash equivalents at the beginning of the period | **241** | 583 | **600** | 267 | 583 |
| **Balance of cash and cash equivalents at the end of the period** | **554** | 299 | **554** | 299 | 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 June 30, 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 August 4, 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, other than that mentioned in Note 5.C.

### C. Change in classification

(1) The Group reclassified the 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 packaging related to the cost of sales and services.
Comparative data were reclassified for consistency, so that an amount of NIS 34 million and NIS 18 million was classified from selling and marketing expenses to cost of sales and services in the six and three month periods ended June 30, 2014, respectively.
The aforesaid classification did not have an effect on the operating profit after other income and on the profit for the period.

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

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

(2) The Group reclassified 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 December 31, 2014 and June 30, 2014 were reclassified for consistency, so that an amount of NIS 38 million and NIS 34 million, respectively, was classified from other payables to provisions in the category of current liabilities.

## Note 3 - Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements were applied consistently to their application in the annual financial statements that were issued by it as at and for the year ended December 31, 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 8 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 and it was therefore decided to close them down. In addition, the Company reduced the size of a branch it owns. Accordingly, the Company tests these branches for impairment separately from the cash-generating unit they belong to and calculates the recoverable amount for each branch in itself.
As regards the 8 branches that are planned to be closed, 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 area cut off the branch under the Company's ownership was measured on the basis of fair value (level 3) less costs of disposal, according to an assessment of an external appraiser.

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

**A.** (cont'd)

The recoverable amount of the aforesaid branches, including the cut off area mentioned above, is lower than their carrying amount and therefore an impairment loss in the amount of NIS 15 million and NIS 9 million, before tax, was recognized in selling and marketing expenses in the statement of income for the six and three months ended June 30, 2015, respectively, in respect of fixed asset items in those branches. As at June 30, 2015 the recoverable amount of such fixed asset items is NIS 11 million.
Furthermore, a provision in the amount of NIS 3 million for onerous contracts was recorded in respect of these branches in the six and three month periods ended June 30, 2015.

**B.** Further to that mentioned in Note 5.A.(1) to the Company's consolidated financial statements as at December 31, 2014 regarding negotiations being held with one of the partners of Lev Hamifratz Ltd., as associate company of the Company, regarding acquisition of the partner's share in the Company, as at the reporting date the negotiations have not yet been concluded and reached the stage of a transaction.

**C.** The Company operates in accordance with the food law, which all its provisions have come into effect as at the reporting date. 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.
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 June 30, 2015 was the classification to cost of sales and services of amounts that before the law came into effect were classified as selling and marketing expenses.

**D.** Change in estimate

In the reporting period, there was an increase 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:
A decrease in the defined benefit obligation of NIS 12 million and NIS 28 million in the six and three month periods, and an adjustment in deferred tax balances for the same periods in the amount of NIS 3 million and NIS 7 million, respectively, which were recognized against other comprehensive income.

**E.** The Company did not attach the financial statements as at June 30, 2015 of Lev Hamifratz Ltd., an associate company of the Company, even though the portion of the associate's profit for the four quarters preceding June 30, 2015 that is attributable to the Company due its interest in the associate is higher than 20% of the Company's total profit, in absolute values, for the four quarters preceding June 30, 2015, since in the opinion of the Company the financial statements of the associate company are insignificant to the Company's financial statements.

## 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:

**For the six months ended June 30, 2015 (unaudited):**

| | Retail segment | Real estate segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | **5,570** | **24** | **-** | **5,594** |
| **Inter-segment rental revenues** | **-** | **64** | **(64)** | **-** |
| **Segment revenues** | **5,570** | **88** | **(64)** | **5,594** |
| **Operating profit before other expenses** | **39** | **74** | **(13)** | **100** |
| **Other expenses, net** | **-** | **(1)** | **1** | **-** |
| **Operating profit after other expenses** | **39** | **73** | **(12)** | **100** |
| **Financing expenses** | | | | **(72)** |
| **Financing income** | | | | **14** |
| **Share of profits of equity accounted investees** | | | | **1** |
| **Taxes on income** | | | | **(14)** |
| **Profit for the period** | | | | **29** |

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

**For the six months ended June 30, 2014 (unaudited):**

| | Retail segment | Real estate segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | 5,779 | 24 | - | 5,803 |
| **Inter-segment rental revenues** | - | 64 | (64) | - |
| **Segment revenues** | 5,779 | 88 | (64) | 5,803 |
| **Operating profit (loss) before other expenses** | *(150) | 73 | (11) | (88) |
| **Other expenses, net** | - | (10) | 6 | (4) |
| **Operating profit (loss) after other expenses** | (150) | 63 | (5) | (92) |
| **Financing expenses** | | | | (96) |
| **Financing income** | | | | 35 |
| **Taxes on income** | | | | 28 |
| **Loss for the period** | | | | (125) |

* Including non-recurring expenses in the amount of NIS 211 million. See Note 5.C to the condensed interim financial statements as at June 30, 2014.

**For the three months ended June 30, 2015 (unaudited):**

| | Retail segment | Real estate segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | 2,746 | 12 | - | 2,758 |
| **Inter-segment rental revenues** | - | 32 | (32) | - |
| **Segment revenues** | 2,746 | 44 | (32) | 2,758 |
| **Operating profit before other expenses** | 42 | 37 | (7) | 72 |
| **Other expenses, net** | - | - | - | - |
| **Operating profit after other expenses** | 42 | 37 | (7) | 72 |
| **Financing expenses** | | | | (57) |
| **Financing income** | | | | 6 |
| **Share of profits of equity accounted investees** | | | | 1 |
| **Taxes on income** | | | | (6) |
| **Profit for the period** | | | | 16 |

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

**For the three months ended June 30, 2014 (unaudited):**

| | Retail segment | Real estate segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | 2,985 | 12 | - | 2,997 |
| **Inter-segment rental revenues** | - | 32 | (32) | - |
| **Segment revenues** | 2,985 | 44 | (32) | 2,997 |
| **Operating profit (loss) before other expenses** | *(183) | 36 | (5) | (152) |
| **Other expenses, net** | - | (11) | 7 | (4) |
| **Operating profit (loss) after other expenses** | (183) | 25 | 2 | (156) |
| **Financing expenses** | | | | (62) |
| **Financing income** | | | | 19 |
| **Taxes on income** | | | | 42 |
| **Loss for the period** | | | | (157) |

* Including non-recurring expenses in the amount of NIS 211 million. See Note 5.C to the condensed interim financial statements as at June 30, 2014.

**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 8 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 half of 2015 and subsequent to the date of the statement of financial position:

**Consumer claims**

In the reporting period seven 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 104 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 six motions to certify consumer claims as class actions were filed against the Company and other defendants. A total amount of NIS 51 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 the reporting period seventeen motions to certify consumer claims as class actions (from a prior period) in the total amount of NIS 391 million have been dismissed and withdrawn at the approval of the court , some without awarding expenses and some awarding immaterial expenses. 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, a motion to certify a consumer claim as a class action in the amount of NIS 30 million was filed against the Company, which alleges unlawful conduct, while causing monetary and non-monetary damages to customers. At this early stage it is not yet possible to assess the outcome of the claim. In addition, two 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 11 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, three motions to certify consumer claim as class action (from a prior period) in the amount of NIS 51 million have been dismissed with the court’s approval, at immaterial amounts.

# Note 8 - Financial Instruments

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

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

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

| | As at June 30, 2015 | | As at June 30, 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 | |
| **Debentures (including accrued interest)** | **2,844** | **2,920** | 3,466 | 3,756 | 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 June 30, 2015 | | | | As at June 30, 2014 | | | | As at December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | Unaudited | | | | Unaudited | | | | Audited | | | |
| | NIS millions | | | | NIS millions | | | | NIS millions | | | |
| **Financial assets** | | | | | | | | | | | | |
| Marketable securities | **10** | **-** | **-** | **10** | 1,006 | - | - | 1,006 | 655 | - | - | 655 |
| Other investments** | **-** | **-** | **12** | **12** | - | - | 13 | 13 | - | - | 12 | 12 |
| | **10** | **-** | **12** | **22** | 1,006 | - | 13 | 1,019 | 655 | - | 12 | 667 |
| **Financial liabilities** | | | | | | | | | | | | |
| Forward - hedge on transactions linked to foreign currency | **-** | **(3)** | **-** | **(3)** | - | (1) | - | (1) | - | * - | - | * - |
| | **-** | **(3)** | **-** | **(3)** | - | (1) | - | (1) | - | * - | - | * - |
| | **10** | **(3)** | **12** | **19** | 1,006 | (1) | 13 | 1,018 | 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.