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

For the Nine-Month Period Ended September 30, 2015

Contents

Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – "**Shufersal**" or "**the Company**") for the nine months ended September 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 524 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 September 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 nine 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 nine months ended September 30, 2015

The Company's results 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 nine months 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

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

development is expected to have an effect on the Company. At this stage it is difficult to assess the long-term effect.

- 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 October 11, 2015 the appointment of Ms. Talya Huber as the Company's CFO came into effect as well as the appointment of Mr. Shlomo Zohar as Division Manager R&D and Properties (Mr. Shlomo Zohar will continue to serve as Executive Vice President).
- In September 2015, in accordance with a shelf registration statement, the Company issued Series F debentures for an overall consideration (gross) of NIS 317 million. The aforesaid debentures include, inter alia, a commitment to comply with financial covenants, a commitment to not create a current pledge and restrictions on dividend distributions. For details see Note 5(F) to the financial statements and Paragraph 5 hereunder.
- 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 nine months ended September 30 2015 and subsequent to the date of the statement of financial position, 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

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

	Results of operations for the three months ended September 30			
	2015		2014	
	%	NIS millions	%	NIS millions
Revenues		**2,988**		2,989
Gross profit	**24.7%**	**739**	21.0%	*627
Selling, marketing, administrative and general expenses	**22.0%**	**(657)**	21.1%	*(630)
Operating profit (loss) before other expenses	**2.7%**	**82**	(0.1%)	(3)
Increase in fair value of investment property, net		**5**		-
Operating profit (loss) after other expenses	**2.9%**	**87**	(0.1%)	(3)
Financing expenses, net		**(34)**		(31)
Share of profits of equity accounted investees		**6**		-
Taxes on income		**(12)**		10
Profit (loss) for the period		**47**		(24)

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

Retail segment revenues amounted to NIS 2,975 million in the third quarter of the year, compared with NIS 2,976 million in the corresponding quarter last year.

In same store sales[2] with respect to stores that operated fully in the third quarter of the year and in the corresponding quarter last year, there was an increase of 1.4% in sales, which is mainly due to progress in implementing the business plan and a change in the competition map.

The sales per square meter[3] in the Company's stores amounted to NIS 5,836 in the third quarter of the year compared with NIS 5,464 in the corresponding quarter last year, an increase of 6.8%, which is mainly due to reducing selling areas.

Real estate segment revenues amounted to NIS 45 million in the third quarter of the year like in the corresponding quarter last year.

The Company's revenues amounted to NIS 2,988 million in the third quarter of the year, compared with NIS 2,989 million in the corresponding quarter last year.

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 739 million in the third quarter of the year, compared with NIS 627 million in the corresponding quarter last year, an increase of NIS 112 million. The gross profit rate was 24.7%, compared with 21.0% in the corresponding quarter last year. The increase in the amount of the gross profit and in its rate is mainly due to the improvement in trade agreements and to an increase in efficiency following implementation of the business plan as from July 2014.

Selling, marketing, administrative and general expenses amounted to NIS 657 million in the third quarter of the year, compared with NIS 630 million in the corresponding quarter last year. The ratio of expenses to revenues was 22.0% compared with 21.1% in the corresponding quarter last year. Excluding an update to the non-recurring provision from last year for closing down and reducing branches, there was no change in the expenses and in their rate compared to the corresponding period last year.

Operating profit in the retail segment amounted to NIS 52 million and a rate of 1.7% in the third quarter of the year, compared with a loss of NIS 34 million and a rate of 1.1% in the corresponding quarter last year, an increase of NIS 86 million that was mainly due to the aforesaid.

Operating profit in the real estate segment before other expenses amounted to NIS 37 million in the third quarter of the year, compared with NIS 38 million in the corresponding quarter last year.

The Company's operating profit after other expenses amounted to NIS 87 million and a rate of 2.9% of revenues in the third quarter of the year, compared with a loss of NIS 3 million and a rate of 0.1% of revenues in the corresponding quarter last year, an increase of approximately NIS 90 million that is due to the aforesaid.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 141 million and a rate of 4.7% of revenues in the third quarter of the year, compared with NIS 41 million and a rate of 1.4% of revenues in the corresponding quarter last year, as a result of the aforesaid.

Financing expenses, net amounted to NIS 34 million in the third quarter of the year, compared with NIS 31 million in the corresponding quarter last year.

Tax expenses amounted to NIS 12 million in the third quarter of the year, compared with tax income of NIS 10 million in the corresponding quarter last year. The change is due to than mentioned above.

Profit for the period amounted to NIS 47 million in the third quarter of the year, compared with a loss of NIS 24 million in the corresponding quarter last year. The change is due to that mentioned above.

The Company's basic and diluted earnings per share amounted to NIS 0.22 in the third quarter of the year, compared with a basic and diluted loss per share of NIS 0.11 in the corresponding quarter last year.

1.2.2 Analysis of results for the nine months ended September 30, 2015 as compared to the corresponding period last year

	Results of operations for the nine months ended September 30			
	2015		2014	
	%	NIS millions	%	NIS millions
Revenues		**8,582**		8,792
Gross profit	**23.8%**	**2,043**	22.8%	* 2,008
Selling, marketing, administrative and general expenses	**21.7%**	**(1,861)**	23.9%	* 2,099
Operating profit (loss) before other expenses	**2.1%**	**182**	(1.0%)	(91)
Other expenses		**-**		(2)
Increase (impairment) in fair value of investment property, net		**5**		(2)
Operating profit (loss) after other expenses	**2.2%**	**187**	(1.1%)	(95)
Financing expenses, net		**(92)**		(92)
Share of profits of equity accounted investees		**7**		-
Taxes on income		**(26)**		38
Profit (loss) for the period		**76**		(149)

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

Retail segment revenues amounted to NIS 8,545 million in the first nine months of the year, compared with NIS 8,755 million in the corresponding period last year, a decrease of 2.4% that is mainly due to a slowdown in consumption and reducing selling areas.

In same store sales[4] with respect to stores that operated fully in the first nine months of the year and in the corresponding period last year, there was a decrease of 1.7% in sales, which is mainly due to a slowdown in consumption.

The sales per square meter[5] in the Company's stores amounted to NIS 16,527 in the first nine months of the year compared with NIS 16,007 in the corresponding period last year, an increase of 3.2%, which is mainly due to reducing selling areas.

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

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.

Real estate segment revenues amounted to NIS 133 million in the first nine months of the year like in the corresponding period last year.

The Company's revenues amounted to NIS 8,582 million in the first nine months of the year, compared with NIS 8,792 million in the corresponding period last year, a decrease of 2.4%.

The gross profit amounted to NIS 2,043 million in the first nine months of the year, compared with NIS 2,008 million in the corresponding period last year, an increase of NIS 35 million. The gross profit rate was 23.8%, compared with 22.8% in the corresponding period last year. The increase in the amount of the gross profit and in its rate is mainly due to the improvement in trade agreements and an increase in efficiency following implementation of the business plan as from July 2014.

Selling, marketing, administrative and general expenses amounted to NIS 1,861 million in the first nine months of the year, compared with NIS 2,099 million in the corresponding period last year. The ratio of expenses to revenues was 21.7% compared with 23.9% in the corresponding period last year. The decrease in expenses was mainly due to the closing down of branches, an increase in efficiency and non-recurring expenses that were in the corresponding period last year.

Operating profit in the retail segment amounted to NIS 91 million and a rate of 1.1% in the first nine months of the year, compared with a loss of NIS 184 million and a rate of 2.1% in the corresponding period last year, an increase of NIS 275 million that was mainly due to the aforesaid.

Operating profit in the real estate segment before other expenses amounted to NIS 111 million in the first nine months of the year, like in the corresponding period last year.

The Company's operating profit after other expenses amounted to NIS 187 million and a rate of 2.2% of revenues in the first nine months of the year, compared with a loss of NIS 95 million and a rate of 1.1% of revenues in the corresponding period last year, an increase of approximately NIS 282 million that is due to the aforesaid.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 378 million and a rate of 4.4% of revenues in the first nine months of the year, compared with NIS 243 million and a rate of 2.8% of revenues in the corresponding period last year.

Financing expenses, net amounted to NIS 92 million in the first nine months of the year, like in the corresponding period last year.

Tax expenses amounted to NIS 26 million in the first nine months of the year, compared with tax income of NIS 38 million in the corresponding period 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 76 million in the first nine months of the year, compared with a loss of NIS 149 million in the corresponding period 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 0.36 in the first nine months of the year, compared with a basic and diluted loss per share of NIS 0.70 in the corresponding period last year.

1.3 Financial position, liquidity and financing sources

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

Cash flow from operating activities

Net cash from operating activities amounted to NIS 396 million in the third quarter of 2015, compared with net cash used in operating activities of NIS 14 million in the corresponding quarter last year. The increase in cash flow from operating activities stemmed mainly from the changes in working capital items.

Cash flow used in investing activities

Net cash used in investing activities amounted to NIS 85 million in the third quarter of 2015, compared with NIS 33 million in the corresponding quarter last year. The cash used in investing activities in the third quarter of 2015 included mainly the purchase of fixed assets in the amount of NIS 86 million.

The cash used in investing activities in the third quarter of 2014 included mainly the purchase of fixed assets in the amount of NIS 127 million and the acquisition of marketable securities in the amount of NIS 133 million, and on the other hand proceeds from the sale of marketable securities in the amount of NIS 231 million.

Cash flow from financing activities

Net cash from financing activities amounted to NIS 309 million in the third quarter of 2015, compared with net cash used in financing activities of NIS 1 million in the corresponding quarter last year. The cash from financing activities in the third quarter of 2015 including mainly an issuance of debentures for a consideration of NIS 313 million (net).

1.3.2 Cash flow - Analysis of results for the nine months ended September 30, 2015 as compared with the corresponding period last year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 936 million in the first nine months of 2015, compared with NIS 397 million in the corresponding period last year. The increase in cash flow from operating activities stemmed mainly from the increase in profit and the changes in working capital items.

Cash flow from investing activities

Net cash from investing activities amounted to NIS 353 million in the first nine months of 2015, compared with net cash used in investing activities of NIS 402 million in the corresponding period last year. The cash from investing activities in the first nine months of 2015 included mainly the purchase of fixed assets in the amount of NIS 295 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 nine months of 2014 included mainly the purchase of fixed assets in the amount of NIS 325 million and the acquisition of marketable securities in the amount of NIS 519 million, and on the other hand proceeds from the sale of marketable securities in the amount of NIS 380 million and the withdrawal of short-term deposits in the amount of NIS 40 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 356 million in the first nine months of 2015, compared with NIS 327 million in the corresponding period last year. The cash used in financing activities in the first nine months of 2015 included mainly the redemption of debentures and interest payments in the amount of NIS 657 million and on the other hand an issuance of debentures for a consideration of NIS 313 million (net)

The cash used in financing activities in the first nine months 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 third quarter of 2015, the Company’s consolidated net liquid assets (cash and cash equivalents and marketable securities) amounted to NIS 1,184 million, compared with NIS 1,162 million as at the end of the corresponding quarter last year. The increase in net liquid assets was mainly due to receiving the consideration from the issuance of debentures in the third quarter of the year, and on the other hand redemptions of debentures in the first quarter of the year.

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 third 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 3,199 million, compared with NIS 3,519 million in the corresponding quarter last year.

The ratio of the Company's financial debt to its total assets was approximately 43.4% at the end of the third quarter of 2015, compared with approximately 47.5% 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 third quarter of 2015 amounted to NIS 1,092 million, compared with NIS 956 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 15% at the end of the third 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 September 30, 2105

As at September 30, 2015 the Group has a working capital deficit (on a consolidated basis) in the amount of NIS 279 million, compared with positive working capital of NIS 84 million and NIS 196 million as at December 31, 2014 and September 30, 2014, respectively, and it has a working capital deficit (on a stand-alone basis) of NIS 254 million compared with working capital of nil and NIS 124 million as at December 31, 2014 and September 30, 2014, respectively. The working capital deficit as at September 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 (whereas in the third quarter the Company issued debentures in the amount of NIS 317 million) and as a result of transferring a liability to acquire the partners' share of the partnership Shufersal Finance in the amount of NIS 114 million from long-term liabilities to short-term liabilities. It is noted that the Company concluded the first three quarters of the year with a positive cash flow from operating activities.

As stated in the Company's previous reports (see Paragraph 1.3.4 of the Board of Directors' report as at June 30, 2015 and Paragraph 13.3 of the shelf registration statement the Company published on September 3, 2015), the repayment structure of the Company's Series B, C, D and E debentures, and mainly the Company's Series B and C debentures, creates a high burden of future payments between the years 2016 and 2019 (inclusive), as in those years the Company is expected to repay an average amount of debentures of NIS 630 million each year (principal and interest, not including linkage differences). It is noted that the Company has an insignificant amount of bank financing.

On August 4, 2015 the Company’s Board of Directors approved a plan for dealing with those payments (“the plan”) by which the Company would issue debentures each year, in the years 2016 through 2019 (inclusive) or proximate to them, in an amount close to the amount of the payment required in that year in respect of those series of debentures or at least a significant part of it, which have a long average duration (in other words – issue long-term debentures with principal payments beginning only after 2019). In the third quarter the Company began executing the aforesaid plan and issued to the public a new series of debentures (Series F) in an amount of NIS 317 million with a long average duration of 7.5, with principal payments beginning only in 2020 (until 2028). The Series F issuance will serve to finance (together with the Company’s own resources and/or other debt raising) the Company’s payments in 2016 in an amount of NIS 730 million in respect of the outstanding Series B, C, D and E debentures (the aforesaid amount reflects the principal, interest and linkage differences accrued until the date of this report). It is noted that the current interest payments of Series F will be made out of the Company’s own resources.

In view of the aforesaid plan, and taking into account the Company’s accessibility to additional sources of credit and financing (as aforesaid), and in view of the Group’s balances of cash and cash equivalents and the Group’s cash flow forecast for the two year period beginning September 30, 2015, the Board of Directors decided that notwithstanding the working capital deficit as at September 30, 2015 the Company does not have a liquidity problem.

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

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

It is emphasized that there is no certainty that the Company’s business plan of issuing debentures as aforesaid will be completed or that it will be completed in the manner described above. Furthermore, the timing of the issuances, their structure, scope and terms will be subject to all the approvals required by law, including the approval of the Company’s Board of Directors.

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

In the reporting period the person who was in charge of the management of market risks in the Company was the Deputy CEO and Chief Financial Officer, Mr. Shlomo Zohar. As from October 11, 2015, the Company’s CFO, Ms. Talya Huber, is responsible for the management of market risks in the Company. For details on the education and business experience of Ms. Talya Huber, see the Company’s immediate report from August 6, 2015 (reference no. 2015-01-091824).

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 on the state of the Company’s affairs as at December 31, 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 2.5 billion as at September 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 September 30, 2015, the Company has forward contracts on the rate of the dollar in the amount of US$ 5 million for settlement until July 2016 and forward contracts in the amount of € 3.2 million for settlement until February 2016.

In the third quarter of 2015, the Company incurred financing income in the amount of NIS 1.8 million in respect of these contracts, compared with NIS 1.2 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 "A2" by Ma'alot and Midroog Ltd., respectively.

2.3 Linkage bases report

Presented below is the Company's linkage bases report as at September 30, 2015:

	September 30, 2015				
	Israeli currency		Foreign currency		
	Unlinked	Linked	Mainly dollar	Other items	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets:					
Cash and cash equivalents	**1,163**	**-**	**11**	**-**	**1,174**
Marketable securities	**6**	**4**	**-**	**-**	**10**
Trade receivables	**1,190**	**-**	**-**	**-**	**1,190**
Other receivables	**14**	**9**	**-**	**70**	**93**
Current taxes	**-**	**-**	**-**	**33**	**33**
Inventories	**-**	**-**	**-**	**653**	**653**
Non-current assets:					
Investment in an associated company	**-**	**-**	**-**	**50**	**50**
Other investments	**9**	**-**	**-**	**-**	**9**
Investment property	**-**	**-**	**-**	**479**	**479**
Fixed assets	**-**	**-**	**-**	**2,753**	**2,753**
Intangible assets and deferred expenses	**-**	**-**	**-**	**832**	**832**
Deferred taxes	**-**	**-**	**-**	**98**	**98**
	2,382	**13**	**11**	**4,968**	**7,374**
Current liabilities:					
Current maturities of long-term loans	**-**	**3**	**-**	**-**	**3**
Current maturities of debentures	**169**	**504**	**-**	**-**	**673**
Trade payables	**1,863**	**-**	**-**	**15**	**1,878**
Other payables	**292**	**-**	**-**	**523**	**815**
Provisions	**-**	**-**	**-**	**63**	**63**
Non-current liabilities:					
To banks and others	**8**	**2**	**-**	**-**	**10**
Debentures	**504**	**2,017**	**-**	**-**	**2,521**
Employee benefits	**-**	**-**	**-**	**131**	**131**
Provisions	**-**	**-**	**-**	**56**	**56**
Deferred taxes	**-**	**-**	**-**	**85**	**85**
Other	**-**	**-**	**-**	**47**	**47**
Non-controlling interests	**-**	**-**	**-**	**6**	**6**
Equity	**-**	**-**	**-**	**1,086**	**1,086**
	2,836	**2,526**	**-**	**2,012**	**7,374**
Net exposure (*)	**(454)**	**(2,513)**	**11**	**2,956**	**-**

(*) 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 September 30, 2015 (NIS millions)

Interest rate sensitivity

Sensitive instruments		Gain (loss) from changes			Fair value as at September 30, 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	0.1	**(5)**	(0.1)	(0.0)	(0.0)
Total debentures		36.8	18.9	201.2	**(3,283)**	(233.4)	(18.9)	(36.8)
2005 issuance of Series B	1.94%	2.0	1.0	19.6	**(538)**	(21.0)	(1.0)	(2.0)
2005 issuance of Series B	1.94%	1.1	0.6	11.0	**(302)**	(11.8)	(0.6)	(1.1)
2006 issuance of Series B	1.94%	0.7	0.4	7.2	**(198)**	(7.7)	(0.4)	(0.7)
2007 issuance of Series B	1.94%	1.7	0.9	17.1	**(470)**	(18.3)	(0.9)	(1.7)
2009 issuance of Series C	1.40%	0.2	0.1	2.1	**(134)**	(2.2)	(0.1)	(0.2)
2010 issuance of Series B	1.94%	1.2	0.6	12.0	**(330)**	(12.9)	(0.6)	(1.2)
2010 issuance of Series C	1.40%	0.1	0.1	1.8	**(109)**	(1.8)	(0.1)	(0.1)
2013 issuance of Series D	3.52%	8.8	4.4	46.2	**(442)**	(56.1)	(4.4)	(8.8)
2013 issuance of Series E	4.88%	11.2	5.6	42.8	**(445)**	(51.4)	(5.6)	(11.2)
2015 issuance of Series F	4.44%	9.9	5.0	41.4	**(315)**	(50.1)	(5.1)	(10.3)
Loans granted		(0.0)	(0.0)	(0.1)	**7**	1.0	0.0	0.0
Deposits		(0.0)	(0.0)	(1.87)	**1,127**	1.87	0.0	0.0

CPI sensitivity

Sensitive instruments	Base index	Gain (loss) from changes		Fair value as at September 30, 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	(0.6)	(0.3)	**(5)**	0.3	0.6
Debentures	74.3	(259.6)	(129.8)	**(2595)**	129.8	259.6
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 September 30, 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	0.5	**10**	(0.5)	(1.0)

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 October 29, 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 nine months of 2015, the Board of Directors held 12 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 nine months 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 regarding events subsequent to the date of the Company's statement of financial position as at September 30, 2015, see Note 9 to the financial statements.

4.1.3 On November 3, 2015 Mr. Rafi Bisker notified the Company of his intention to conclude his service as Chairman of the Board and director in the Company effective from such a date that will be agreed upon between him and the Company's controlling shareholders.

5. Specific Disclosure for Holders of Debentures

Data as at September 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	508	400	495	13	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	285	224	277	7	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	187	147	182	5	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	450	349	432	11	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	325	245	303	8	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	129	125	125	4	134	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	106	102	102	4	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	444	443	443	13	442	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	438	420	420	21	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

Series	Date of issuance	Par value on date of issuance (NIS millions)	Total proceeds on date of issuance net of issuance expenses (NIS millions)	Carrying amount (NIS millions)*	Balance of par value (NIS millions)	Balance of par value, including linkage (NIS millions)	Accumulated interest (NIS millions)	Stock market/fair value (NIS millions)	Type of interest	Effective interest rate on date of issuance	Stated interest	Payment dates of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series F	September 2015	317	313	314	317	317	1	315	Fixed	4.44%	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 in each of the years 2016-2028	CPI
Total		**3,801**	**4,020**	**3,194**	**2,772**	**3,096**	**87**	**3,283**							

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

Notes:

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

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

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

7. On October 8, 2015, subsequent to the date of the statement of financial position, the Company redeemed Series D debentures of the Company of a par value of NIS 29,524,500 and Series E debentures of a par value of NIS 27,998,500. The outstanding balance of the Company's Series D debentures and Series E debentures as at the date of issuing the report (meaning after the payment on October 8, 2015) amounted to a par value of NIS 413,343,000 and NIS 391,979,000, respectively.
8. In accordance with the terms of the trust deeds of the Company's Series D, E and F debentures, the Company is permitted to early redeem (fully or partially) the Series D, E and F debentures. For additional details, see Paragraph 9.2 of the trust deed of the Series D debentures and Paragraph 9.2 of the trust deed of the Series E debentures (as detailed in the trust deeds annex of the Company's shelf prospectus dated May 30, 2012 and as amended on September 30, 2013) and Paragraph 9.2 of the trust deed of the Series F debentures as detailed in the trust deeds annex of the Company's shelf registration statement dated September 3, 2015 that was issued in accordance with the Company's shelf prospectus dated June 25, 2015.
9. See Note 17 to the Company's 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. See Note 5.F to the financial statements for further details regarding the terms of the Company's Series F debentures.
10. 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.
11. The major part of the proceeds from the issuance of the Series D and E debentures was used by the Company for refinancing existing debt and the rest was used for its operating activities.

    In September 2015 the Company completed the issuance of a new series of debentures (Series F), which the issuance proceeds will be used for refinancing debt (see Paragraph 1.3.4 of this report). Until such time as these issuance proceeds are used for refinancing debt, the Company will invest them according to its customary investment policy, as it may be from time to time. As at the date of this report, the Company's policy is to invest in short-term bonds, deposits, government debentures and corporate debentures that are rated at least "A" and at least "A2" by Ma'alot and Midroog Ltd., respectively.

Presented hereunder are the results of calculating the financial covenants required from the Company in accordance with the terms of the Series D, E and F debentures as aforesaid, as at September 30, 2015 and proximate to the date of signing the financial statements:

Financial covenant	**Calculation results**	
	As at September 30, 2015	**Proximate to the date of signing the financial statements***
Ratio of net debt to total balance sheet shall not exceed 60%	27%	27%
The Company’s total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,092 million	NIS 1,092 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, E and F debentures as at September 30, 2015:

Restriction	**Calculation results as at September 30, 2015**
The Company’s total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,092 million
Ratio of the Company’s net debt to EBITDA shall not exceed 7	4.2 (*)

(*) Revenue in the amount of NIS 24 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.

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

On May 6, 2015 Ma’a lot announced that it is lowering the rating of Shufersal to ‘ilA’ instead of ‘+ilA’ with no change in the stable outlook of the Company’s debentures. The rating report is attached as an appendix to this board of directors’ report. On September 2, 2015 Ma’a lot announced that it is awarding a rating of ‘ilA’ to the Company’s issuance of Series F debentures of up to a par value of NIS 400 million.

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

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

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

14. Quarterly report of outstanding liabilities by maturity dates

For data regarding the outstanding liabilities of the Company as at September 30, 2015, see the immediate report on outstanding liabilities by maturity dates published by the Company on November 4, 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 Nine-Month Period Ended September 30, 2015

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

November 3, 2015

Shufersal Ltd

Condensed Consolidated Interim Financial Statements As at September 30, 2015

(Unaudited)

Shufersal Ltd.

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

Contents

Condensed Consolidated Interim Statements of Financial Position

	September 30 2015	September 30 2014	December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**1,174**	251	241
Marketable securities	**10**	911	655
Trade receivables	**1,190**	1,223	1,102
Other receivables	**93**	128	151
Current taxes	**33**	60	36
Inventory	**653**	796	753
Total current assets	**3,153**	3,369	2,938
Investment in associate	**50**	25	51
Other investments	**9**	13	12
Investment property	**479**	421	465
Fixed assets	**2,753**	2,663	2,666
Intangible assets and deferred expenses	**832**	809	827
Deferred taxes	**98**	105	104
Total non-current assets	**4,221**	4,036	4,125
Total assets	**7,374**	7,405	7,063

Signed on behalf of the Board of Directors:

Rafi Bisker	Shalom Fisher	Itzik Abercohen	Talya Huber
Co-Chairman of the Board of Directors	Co-Chairman of the Board of Directors	Chief Executive Officer	CFO

Date of approval: November 3, 2015

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

Condensed Consolidated Interim Statements of Financial Position

	September 30 2015	September 30 2014	December 31 2014
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities of long-term loans	**3**	3	2
Current maturities in respect of debentures	**673**	691	697
Trade payables	**1,878**	1,775	1,578
Other payables	**815**	* 620	* 496
Provisions	**63**	* 84	* 81
Total current liabilities	**3,432**	3,173	2,854
To banks and others	**10**	13	12
Debentures	**2,521**	2,820	2,753
Employee benefits	**131**	149	138
Provisions	**56**	80	73
Deferred taxes	**85**	70	78
Other	**47**	144	146
Total non-current liabilities	**2,850**	3,276	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	**364**	236	281
Total equity attributable to owners of the Company	**1,086**	953	1,003
Non-controlling interests	**6**	3	6
Total equity	**1,092**	956	1,009
Total liabilities and equity	**7,374**	7,405	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

	Nine months ended		Three months ended		Year ended
	September 30 2015	September 30 2014	September 30 2015	September 30 2014	December 31 2014
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales and rentals	**8,582**	8,792	**2,988**	2,989	11,602
Cost of sales and services	**6,539**	* 6,784	**2,249**	* 2,362	8,954
Gross profit	**2,043**	2,008	**739**	627	2,648
Selling and marketing expenses	**1,763**	* 2,014	**621**	* 600	2,570
General and administrative expenses	**98**	85	**36**	30	125
Total selling, marketing, general and administrative expenses	**1,861**	2,099	**657**	630	2,695
Operating profit (loss) before other income (expenses)	**182**	(91)	**82**	(3)	(47)
Other expenses	**-**	(2)	**-**	-	(1)
Increase (decrease) in fair value of investment property, net	**5**	(2)	**5**	-	12
Total other income (expenses), net	**5**	(4)	**5**	-	11
Operating profit (loss) after other income (expenses)	**187**	(95)	**87**	(3)	(36)
Financing expenses	**(112)**	(142)	**(40)**	(46)	(188)
Financing income	**20**	50	**6**	15	85
Financing expenses, net	**(92)**	(92)	**(34)**	(31)	(103)
Share of profits of equity accounted investees	**7**	-	**6**	-	-
Profit (loss) before taxes on income	**102**	(187)	**59**	(34)	(139)
Taxes on income	**(26)**	38	**(12)**	10	32
Profit (loss) for the period	**76**	(149)	**47**	(24)	(107)
Attributable to:					
Owners of the Company	**76**	(149)	**47**	(24)	(110)
Non-controlling interests	**-**	-	**-**	-	3
Profit (loss) for the period	**76**	(149)	**47**	(24)	(107)
Basic and diluted earnings (loss) per share (in NIS)	**0.36**	(0.70)	**0.22**	(0.11)	(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

	Nine months ended		Three months ended		Year ended
	September 30 2015	September 30 2014	September 30 2015	September 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	**76**	(149)	**47**	(24)	(107)
Other comprehensive income (loss) items that will not be transferred to profit or loss					
Remeasurement of defined benefit plan	**9**	(31)	**(3)**	-	(23)
Revaluation reserve for fixed assets	**-**	* -	**-**	-	6
Taxes on other comprehensive income items that will not be transferred to profit or loss	**(2)**	8	**1**	-	5
Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax	**7**	(23)	**(2)**	-	(12)
Total comprehensive income (loss) for the period	**83**	(172)	**45**	(24)	(119)
Attributable to:					
Owners of the Company	**83**	(172)	**45**	(24)	(122)
Non-controlling interests	**-**	-	**-**	-	3
Total comprehensive income (loss) for the period	**83**	(172)	**45**	(24)	(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 nine months ended September 30, 2015 (unaudited)								
Balance as at January 1, 2015	**240**	**560**	**7**	**(85)**	**281**	**1,003**	**6**	**1,009**
Profit for the period	**-**	**-**	**-**	**-**	**76**	**76**	**-**	**76**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**7**	**7**	**-**	**7**
Balance as at September 30, 2015	**240**	**560**	**7**	**(85)**	**364**	**1,086**	**6**	**1,092**
For the nine months ended September 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	-	-	-	-	(149)	(149)	-	(149)
Other comprehensive loss for the period, net of tax	-	-	-	-	(23)	(23)	-	(23)
Balance as at September 30, 2014	240	560	2	(85)	236	953	3	956

* 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 September 30, 2015 (unaudited)								
Balance as at July 1, 2015	**240**	**560**	**7**	**(85)**	**319**	**1,041**	**6**	**1,047**
Profit for the period	**-**	**-**	**-**	**-**	**47**	**47**	**-**	**47**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(2)**	**(2)**	**-**	**(2)**
Balance as at September 30, 2015	**240**	**560**	**7**	**(85)**	**364**	**1,086**	**6**	**1,092**
For the three months ended September 30, 2014 (unaudited)								
Balance as at July 1, 2014	240	560	2	(85)	260	977	3	980
Loss for the period	-	-	-	-	(24)	(24)	-	(24)
Balance as at September 30, 2014	240	560	2	(85)	236	953	3	956
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

	Nine months ended		Three months ended		Year ended
	September 30 2015	September 30 2014	September 30 2015	September 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	**76**	(149)	**47**	(24)	(107)
Adjustments for:					
Depreciation of fixed assets	**178**	179	**57**	55	240
Impairment losses on fixed assets	**15**	56	**-**	(3)	54
Amortization of intangible assets and deferred expenses	**19**	18	**8**	5	24
Taxes on income	**26**	(38)	**12**	(10)	(32)
Income tax paid	**(17)**	(69)	**(8)**	(9)	(74)
Income tax received	**5**	-	**3**	-	29
Financing expenses, net	**92**	92	**34**	31	103
Company's share of profits of equity accounted investees	**(7)**	-	**(6)**	-	-
Change in fair value and gain on sale of investment property, net	**(5)**	2	**(5)**	-	(12)
Change in employee benefits	**(2)**	6	**3**	1	2
Loss on sale of fixed assets	**-**	2	**-**	-	1
Change in provision for onerous contracts	**(27)**	94	**(7)**	(15)	79
Change in trade receivables	**(81)**	(58)	**(155)**	(72)	66
Change in other receivables	**51**	(14)	**23**	(10)	(41)
Change in inventory	**100**	(82)	**19**	(19)	(39)
Change in trade payables	**308**	223	**180**	89	21
Change in other payables, provisions and other liabilities	**205**	135	**191**	(33)	16
Net cash from (used in) operating activities	**936**	397	**396**	(14)	330

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

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended		Three months ended		Year ended
	September 30 2015	September 30 2014	September 30 2015	September 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	**(295)**	(325)	**(86)**	(127)	(418)
Proceeds from sale of fixed assets	**10**	10	**5**	-	20
Investment in deferred expenses and intangible assets	**(14)**	(8)	**(5)**	(4)	(23)
Investment in investment property	**(7)**	(9)	**(3)**	(5)	(6)
Proceeds from sale of investment property (including advances)	**-**	4	**-**	-	4
Purchase of marketable securities	**(51)**	(519)	**-**	(133)	(590)
Proceeds from sale of marketable securities	**696**	380	**-**	231	702
Cash payments from futures transactions, net	**(3)**	-	**-**	-	-
Repayment of long-term loans	**10**	-	**-**	-	-
Interest received	**5**	28	**1**	5	30
Proceeds from withdrawal of short-term deposits	**-**	40	**-**	-	40
Dividend received from investee company	**3**	1	**3**	-	1
Acquisition of operation	**(1)**	(4)	**-**	-	(6)
Net cash from (used in) investing activities	**353**	(402)	**(85)**	(33)	(246)

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

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

	Nine months ended		Three months ended		Year ended
	September 30 2015	September 30 2014	September 30 2015	September 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					
Proceeds from issuance of debentures, net	**313**	-	**313**	-	-
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	-	3	3
Repayment of long-term loans from banks	**(1)**	(5)	-	(3)	(5)
Partners' withdrawals from partnership	**(11)**	(7)	**(4)**	(1)	(12)
Net cash from (used in) financing activities	**(356)**	(327)	**309**	(1)	(426)
Increase (decrease) in cash and cash equivalents	**933**	(332)	**620**	(48)	(342)
Balance of cash and cash equivalents at the beginning of the period	**241**	583	**554**	299	583
Balance of cash and cash equivalents at the end of the period	**1,174**	251	**1,174**	251	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 September 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 November 3, 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.D.

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 50 million and NIS 16 million was classified from selling and marketing expenses to cost of sales and services in the nine and three month periods ended September 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 September 30, 2014 were reclassified for consistency, so that an amount of NIS 38 million and NIS 36 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 size of a branch it owns was reduced. 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, before tax, was recognized in selling and marketing expenses in the statement of income for the nine months ended September 30, 2015 in respect of fixed asset items in those branches.
Furthermore, a provision in the amount of NIS 3 million for onerous contracts was recorded in respect of these branches in the nine months ended September 30, 2015 in accordance with the guidance in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

B. Further to negotiations being held with one of the partners of Lev Hamifratz Ltd., an associate company of the Group, regarding acquisition of the partner's share in Lev Hamifratz, and the Company's report that the negotiations have been concluded and did not reach the stage of a transaction, on August 4, 2015 the Group received from that partner a notice that was addressed to it and the other partner in Lev Hamifratz (the Company, through a wholly owned subsidiary, and the other partner hold 37% and 26% of Lev Hamifratz, respectively) by which it wishes to sell all its holdings in Lev Hamifratz (37%) to a third party, including all the shareholders' loans that had been granted on its behalf to Lev Hamifratz (hereinafter – "the holdings") and that this notice is being provided to the Group and the other partner according to the right of first refusal mechanism provided in the shareholders' agreement between the parties. The notice states the method for calculating the consideration requested for the holdings, with part of it being contingent upon various conditions and certain financial results of Lev Hamifratz until the date of completing the transaction. In the opinion of the Group, the consideration requested in the notice, according to the calculation method detailed in it, reflects a value of approximately NIS 70 million for the holdings. The Group decided to not exercise its right of first refusal, and a notice to this effect was provided to the aforesaid partner. As at the date of the report, the Company is unable to assess whether the transaction will be completed. In the reporting period, Lev Hamifratz revalued its freehold investment property. The Group's share of that revaluation is NIS 6 million, which was included in the share of profits of equity accounted investees.

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.
As at September 30, 2015 implementation of the food law has not had a material effect on the Company's business.
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 September 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.

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

D. Change in estimate

In the reporting period, there were changes 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 (decrease) in the defined benefit obligation of NIS (9) million and NIS 3 million in the nine and three month periods ended September 30, 2015, respectively, and an increase (decrease) in deferred tax balances for the same periods in the amount of NIS (2) million and NIS 1 million, respectively, which were recognized against other comprehensive income.

E. The Company did not attach the financial statements as at September 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 September 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 September 30, 2015, since in the opinion of the Company the financial statements of the associate company are insignificant to the Company's financial statements.

F. In accordance with a shelf registration statement that was published by the Company on September 3, 2015, in September 2015 the Company issued 316,673,000 Series F debentures ("the debentures") of a par value of NIS 1 each, linked (principal and interest) to the Consumer Price Index (with the base index being the index published in respect of July 2015), the principal of which will be payable in nine equal annual installments on October 8 of each of the years from 2020 to 2028 (inclusive). The principal of the Series F debentures will bear annual interest at the rate of 4.3%. The interest on the unpaid balance of the principal of the Series F debentures will be paid in thirteen (13) annual payments on October 8 of each of the years from 2016 to 2028 (inclusive).
The Series F debentures were issued in consideration for their par value which amounted to a total (gross) of NIS 317 million. The issuance expenses amounted to NIS 4 million.
The debentures were rated 'ilA' by Maalot.

<u>Interest rate adjustment mechanism from change in the debentures' rating: right to early redemption</u>
According to the terms of the debentures, in the event of a change in the debentures' rating to one notch lower than ilA (or a comparable rating), the annual interest rate ("the base interest") shall increase by 0.25%. In any event of an additional lowering of the rating the annual interest rate will increase by an additional 0.25% in respect of each notch. In any event, the addition to the interest rate that is due to the lowering of the rating shall not be more than 1% above the base interest; all subject to and as detailed in the terms provided in the trust deed of the Series F debentures ("the trust deed"). In this respect it is noted that according to the terms of the debentures, if the debentures are rated less than "BBB-" (or a comparable rating) and the rating is not raised within 60 days, this will constitute cause for immediate repayment. The terms of the debentures also grant the Company the right to early redeem all or part of the debentures at its own initiative, all according to the terms provided in the trust deed, but not before September 3, 2016.

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

F. (cont'd)

Commitment to comply with financial covenants; commitment to not create a current pledge, cross default

In the framework of the trust deed the Company undertook to comply with financial covenants as follows:

1. The ratio between the Company's net debt and total balance sheet at the end of each calendar quarter, as presented in the reviewed or audited consolidated financial statements of the Company, as relevant, for the relevant calendar quarter, shall not exceed 60%. In this respect, "net debt" – the cumulative amount of the following balance sheet items: current maturities in respect of long-term loans, current maturities in respect of debentures, long-term liabilities to banks and others and long-term liabilities in respect of debentures; less – cash and cash equivalents, short-term deposit and marketable securities; all – as presented in the consolidated financial statements of the Company at the end of the relevant period.
2. The Company's total equity (including non-controlling interests) at the end of each calendar quarter, as presented in the reviewed or audited consolidated financial statements of the Company, as relevant, for the relevant quarter, shall not fall below NIS 550 million.

The Company shall be considered to be in breach of the aforesaid commitments only if it does not comply with the relevant financial covenants for two consecutive calendar quarters.

In the trust deed the Company undertook to not create a current pledge on all its assets in favor of any third party, unless approved in advance by the meeting of the holders of the debentures in a special resolution.

It is also noted that among the causes for immediate repayment that are included in the trust deed is also the event of another debt of the Company (that is not a debt to holders of any of the Company's series of debentures) to a bank or any financial institution (including an institutional body) (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 as aforesaid is higher than NIS 300 million; an additional cause is another outstanding series of debentures issued by the Company being called for immediate repayment (not by the Company). As at September 30, 2015 the Company is in compliance with the aforesaid financial covenants.

Restrictions on dividend distribution

In the trust deed, the Company undertook to not distribute a dividend to its shareholders and/or to purchase its own shares and/or to make any other distribution per its definition in the Companies Law:

1. Insofar as the result of such a distribution is that the Company's total equity (including non-controlling interests) according to its consolidated financial statements, is less than NIS 750 million.
2. Insofar as following such a distribution the ratio between the Company's net debt (per its definition above), calculated according to the most recent audited or reviewed (as relevant) consolidated financial statements of the Company issued before the date of the distribution, and the Company's annual EBITDA (per its definition hereunder), taking into consideration such a distribution, is higher than 7.

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

F. (cont'd)

2. (cont'd)
In this context, "annual EBITDA' – the cumulative amount over a period of twelve (12) calendar months of the Company's operating profit (before other expenses and income), plus depreciation and amortization, calculated according to the data included in the Company's reviewed or audited (as relevant) consolidated financial statements for the last four (4) quarters preceding the date of the distribution.
3. Insofar as on the date the Company's Board of Directors decided on the aforesaid distribution according to the provisions of the law, the Company is in breach of any of its commitments to comply with the financial covenants required from it in the trust deed or any of the causes provided in the trust deed for calling for immediate repayment has occurred.

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 nine months ended September 30, 2015 (unaudited):

	Retail segment	Real estate segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	**8,545**	**37**	**-**	**8,582**
Inter-segment rental revenues	**-**	**96**	**(96)**	**-**
Segment revenues	**8,545**	**133**	**(96)**	**8,582**
Operating profit before other income	**91**	**111**	**(20)**	**182**
Other income, net	**-**	**4**	**1**	**5**
Operating profit after other income	**91**	**115**	**(19)**	**187**
Financing expenses				**(112)**
Financing income				**20**
Share of profits of equity accounted investees				**7**
Taxes on income				**(26)**
Profit for the period				**76**

Note 6 - Segment Reporting (cont'd)

For the nine months ended September 30, 2014 (unaudited):

	Retail segment	Real estate segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	8,755	37	-	8,792
Inter-segment rental revenues	-	96	(96)	-
Segment revenues	8,755	133	(96)	8,792
Operating profit (loss) before other expenses	*(184)	111	(18)	(91)
Other expenses, net	-	(10)	6	(4)
Operating profit (loss) after other expenses	(184)	101	(12)	(95)
Financing expenses				(142)
Financing income				50
Taxes on income				38
Loss for the period				(149)

* Including non-recurring expenses in the amount of NIS 191 million. See Note 5.C to the condensed interim financial statements as at September 30, 2014.

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

	Retail segment	Real estate segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	2,975	13	-	2,988
Inter-segment rental revenues	-	32	(32)	-
Segment revenues	2,975	45	(32)	2,988
Operating profit before other income	52	37	(7)	82
Other income, net	-	5	-	5
Operating profit after other income	52	42	(7)	87
Financing expenses				(40)
Financing income				6
Share of profits of equity accounted investees				6
Taxes on income				(12)
Profit for the period				47

Note 6 - Segment Reporting (cont'd)

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

	Retail segment	Real estate segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	2,976	13	-	2,989
Inter-segment rental revenues	-	32	(32)	-
Segment revenues	2,976	45	(32)	2,989
Operating profit (loss) before other expenses	*(34)	38	(7)	(3)
Other expenses, net	-	-	-	-
Operating profit (loss) after other expenses	(34)	38	(7)	(3)
Financing expenses				(46)
Financing income				15
Taxes on income				10
Loss for the period				(24)

* Including non-recurring expenses in the amount of NIS 20 million. See Note 5.C to the condensed interim financial statements as at September 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 financial statements as at December 31, 2014.

Note 7 - Claims and Legal Proceedings

A provision in the total amount of NIS 14 million is included in the financial statements in respect of all the claims against the Company.

See Note 15 to the financial statements as at December 31, 2014 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 nine months of the year and subsequent to the date of the statement of financial position:

A. Consumer claims

In the reporting period ten 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 137 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 six of the aforesaid claims, which amount to NIS 49 million.

In addition, in the reporting period nine motions to certify consumer claims as class actions were filed against the Company and other defendants. A total amount of NIS 72 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 eight of the aforesaid claims, which amount to NIS 69 million.

In the reporting period twenty one motions from a prior period to certify consumer claims as class actions in the total amount of NIS 446 million have been dismissed and withdrawn at the approval of the court, as well as two motions from the reporting period to certify consumer claims as class actions in the total amount of NIS 188 million. Some were dismissed without awarding expenses and some awarded immaterial expenses

Subsequent to the date of the report, a motion to certify a consumer claim as a class action was filed against the Company and other defendants, which alleges unlawful conduct, while causing monetary and non-monetary damages to customers. A total amount of NIS 6 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 addition, a motion from a prior period to certify a consumer claim as a class action in the amount of NIS 25 million has been dismissed with the court's approval, at immaterial amounts.

B. Claims relating to the Restrictive Trade Practices Law

Further to that mentioned in the Company's financial statements that are included in the Company's periodic report as at December 31, 2014, regarding the appeal that was filed by the Company, Effi Rosenhaus - the Company's former President and CEO ("Rosenhaus"), and Eli Gidur – the Company's former VP Commerce and Marketing ("Gidur") ("the defendants"), on a verdict that convicted the defendants of two counts of non-compliance with a condition provided in the approval of the merger between the Company and Clubmarket Marketing Chains Ltd. and four counts of attempting to perform a restrictive arrangement, contrary to the Restrictive Trade Practices Law – 1988 and the Penal Law – 1977, on August 10, 2015 the appeal of the Company and Rosenhaus on the conviction and on the sentence were denied whereas the appeal of Gidur on the conviction and sentence was denied other than with respect to the prison sentence, which was converted into three months of community service.

Note 7 - Claims and Legal Proceedings (cont'd)

C. Claims of employees, subcontractors, suppliers, authorities and others

In the ordinary course of business, various claims have been filed against the Company by employees, subcontractors, suppliers, authorities and others which deal mostly in claims for breach of provisions of the law governing termination of employment and obligatory payments to employees, claims for breach of agreements and compulsory payments to authorities.
As at September 30, 2015, the amounts that are claimed from the Company under the said claims total NIS 27 million.
Subsequent to the date of the statement of financial position, the Company received a demand to pay a betterment levy of about NIS 14 million in respect of an asset leased by Shufersal.

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 September 30, 2015		As at September 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)	**3,194**	**3,283**	3,511	3,752	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.

Note 8 - Financial Instruments (cont'd)

	As at September 30, 2015			As at September 30, 2014				As at December 31, 2014		
	Level 1	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 3	Total
	Unaudited			Unaudited				Audited		
	NIS millions			NIS millions				NIS millions		
Financial assets										
Marketable securities	**10**	**-**	**10**	911	-	-	911	655	-	655
Other investments*	**-**	**9**	**9**	-	-	13	13	-	12	12
	10	**9**	**19**	911	-	13	924	655	12	667
Financial liabilities										
Forward - hedge on transactions linked to the Consumer Price Index	-	-	-	-	(1)	-	(1)	-	-	-
	-	-	-	-	(1)	-	(1)	-	-	-
	10	**9**	**19**	911	(1)	13	923	655	12	667

* Investment in non-marketable shares of Wholesale Market for Agricultural Produce in Tel Aviv Ltd., which is accounted for as a financial asset measured at fair value through profit or loss. In the reporting period the Company received a dividend in the amount of NIS 3 million.

Note 9 - Subsequent Events

In its meeting on November 3, 2015 the Company's Board of Directors decided to approve as part of the Company's "2005 options plan" (as updated in that meeting) an allotment of 5,850,000 options (hereinafter – "the options") to the Company's CEO and six officers of the Company. Of those options, 1,800,000 options will be allotted to the Company's CEO. The options are offered to the offerees according to the plan and according to the provisions of the capital gain track of Section 102(B)(2) ("capital gain track'") of the Income Tax Ordinance. The options will be granted to the offerees at no cost.

Grant date	Instrument terms	Number of instruments (in thousands)	Vesting conditions	Contractual life of options (in years)
November 3, 2015	Each option is exercisable into one ordinary share of NIS 0.1 par value, at an exercise price of NIS 10.53	5,850	Exercisable in 3 equal portions as from November 3, 2016.	4 years – first and second portions. 5 years – third portion.

Note 9 - Subsequent Events (cont’d)

	Options to officer excluding the CEO
Grant date fair value	2.14
Parameters used to calculate the fair value:	
Share price (on grant date)	11.25
Exercise price	11.45
Expected volatility (weighted average)	25.81%-26.70%
Expected life (weighted average)	3.4-3.5
Risk-free interest rate	0.46%

As at the date of approval of this report, the estimated fair value of each option granted to the CEO is NIS 2.6.

Expected volatility is estimated by considering historic share price volatility. The life of the options granted to the CEO is determined on the basis of the assumption that all the options will be exercised on the last date of the exercise period. The life of the options granted to the other officers is determined on the basis of the Company’s past experience in previous option plans as regards the average period the officers hold options. The risk-free interest rate was determined on the basis of shekel-denominated Government debentures with a remaining life equal to the expected life of the options.
The total value of the options (including the estimated value of the options granted to the CEO) is NIS 13.4 million.