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

For the Three-Month Period Ended

March 31, 2017

Shufersal Ltd.

Contents

Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the three months ended March 31, 2017 (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 274 branches throughout the country in a few formats in a total area of approximately 503 thousand square meters. The Company employs about 12.4 thousand employees (calculated positions) and has annual sales of about NIS 11.8 billion. As of March 31, 2017 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 three operating segments that are reported as business segments in the Company's financial statements, the retail segment, the real estate segment and the loyalty club credit card management segment.

For details regarding the aforesaid operating segments, see Note 6 to the Company's consolidated financial statements as of March 31, 2017 (hereinafter – "**the financial statements**").

1.1.2 Management's discussion of the principal results for the first quarter of 2017

For details on management of the Company's review of 2016, see Paragraph 1.1.2 to the Board of Directors' report on the state of the Company's affairs as of December 31, 2016 ("**the 2016 directors' report**") as was reported on February 21, 2017 in the Company's 2016 periodic report (reference no.: 2017-01-016090) ("**the periodic report**").

The Company's results for the first quarter of 2017 were influenced by several factors:

- Seasonality (see Paragraph 1.2 below).
- The Company continued to accelerate the development of its digital platform, mainly the "Shufersal Online" system, including opening warehouses that are dedicated to this platform. Shufersal Online sales in the first quarter accounted for 11.8% of Company sales.
- Continued expansion and strengthening of the private label. Private label products accounted for 21.4% of total retail sales in the first quarter.

[1] For the purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (March 31, 2017) unless stated otherwise or implied otherwise by the context of the matter.

1.1.3 Significant events that occurred during the reporting period

In March and April 2017, the Company engaged with three different banks (in three separate engagements) in connection with a credit facility agreement, amounting to NIS 100 million with each bank, over a two-year period. Under this agreement, the Company will be able to utilize the credit on call or for short periods. For further information, see Note 5 to the Company's consolidated financial statements.

1.2 Analysis of results of operations

In 2017, the eve of Passover fell on April 10, as opposed to 2016 in which the eve of Passover was on April 22. The timing of the holiday affects balance sheet items such as trade receivables, inventory, trade payables as well as sales and the intensity of special offers made in the first quarter of the year relative to corresponding quarter in the previous year. The effect of Passover is greater in the first quarter of the current year than in the first quarter of 2016.

1.2.1 Analysis of results for the three months ended March 31, 2017 as compared to the corresponding period in the previous year

	Results of operations for the three months ended March 31			
	2017		2016	
	%	NIS millions	%	NIS millions
Revenue		2,903		2,860
Gross profit	25.4%	737	25.1%	*717
Selling, marketing, administrative and general expenses	21.7%	(629)	21.8%	*(623)
Operating income before other income (expenses)	**3.7%**	**108**	**3.3%**	**94**
Other expenses, net		**(1)**		-
Increase in fair value and gain on sale of investment property, net		-		1
Operating income after other income (expenses)		**107**		**95**
Financing expenses, net		(25)		(21)
Share in the profit of investee, accounted for using the equity method		2		-
Profit before taxes on income		**84**		**74**
Taxes on income		(19)		(21)
Profit for the period		**65**		**53**

* See note 2(c) to the financial statements in connection with reclassification.

Retail segment revenue amounted to NIS 2,893 million in the first quarter of the current year, compared with NIS 2,849 million in the first quarter of the previous year, an increase of 1.5% that is mainly due to seasonality. The turnover of the company's branches in the first quarter of the current year has increased by 1% compared to the first quarter in the previous year. The gap between revenue growth and turnover growth of the Company is mainly attributed to a decrease in franchisee activity[2].

[2] See section 3.1, Part A (Description of Corporate Business) in the periodic report.

Same-store sales[3] for those stores that operated fully in the first quarter of the current year and in the first quarter of the previous year have remained unchanged.

The sales per square meter[4] in stores was NIS 5,823 in the first quarter of the current year compared with NIS 5,730 in the first quarter of the previous year, an increase of 1.6%, mainly due to an increase in sales and to a reduction in selling areas.

Real estate segment revenue was NIS 41 million in the first quarter of the current year, compared with NIS 43 million in the corresponding quarter of the previous year. The decrease in revenue was mainly driven by vacant investment property spaces.

Revenue from the loyalty club credit card management segment was NIS 20 million in the first quarter of the current year, compared with NIS 18 million in the first quarter of the previous year, an increase of 11.1%, which was mainly driven by increase in fees on credit spreads.

Revenue was NIS 2,903 million in the first quarter of the current year, compared with NIS 2,860 million in the first quarter of the previous year, an increase of 1.5% that is mainly due to the retail segment.

Gross profit amounted to NIS 737 million in the first quarter of the current year, compared to NIS 717 million in the first quarter of the previous year, an increase of NIS 20 million. The gross profit rate was 25.4%, compared with 25.1% in the first quarter of the previous year. The increase in the gross profit and the gross profit rate is mainly due to an increase in the private brand, the improvement in trade conditions, shopping basket elements and special offer mix.

Selling, marketing, administrative and general expenses amounted to NIS 629 million in the first quarter of the current year, compared with NIS 623 million in the first quarter of the previous year. The ratio of expenses to revenue was 21.7% compared with 21.8% in the first quarter of the previous year. The increase in expenses is mainly due to an increase in payroll costs, including the minimum wages (see Section 7.8, Part A (Description of Corporate Business) in the periodic report).

Operating income before other expenses in the retail segment amounted to NIS 82 million in the first quarter of the current year, a rate of 2.8%, compared with NIS 66 million and a rate of 2.3% in the first quarter of the previous year, an increase of NIS 16 million that is due to the aforesaid.

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3 Same store sales – gross sales of active branches that were opened before January 2016.

4 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 and other operating areas.

Operating income before other income in the real estate segment amounted to NIS 32 million in the first quarter of the current year compared to NIS 33 in the first quarter of the previous year

Operating income in the loyalty club credit card management segment amounted to NIS 12 million in the first quarter of the current year compared with NIS 11 million in the previous year.

Operating income after other expenses was NIS 107 million and a rate of 3.7% in the first quarter of the current year, compared with NIS 95 million and a rate of 3.3% in the first quarter of the previous year, an increase of NIS 12 million that is mainly due to the above.

Operating income before depreciation and amortization (EBITDA) was NIS 186 million and a rate of 6.4% in the first quarter of the current year, compared with NIS 168 million and a rate of 5.9% in the first quarter of the previous year. The increase is mainly due to the improvement in operating income as above.

Financing expenses, net was NIS 25 million in the first quarter of the current year, compared with NIS 21 million in the first quarter of the previous year. The increase in financing expenses, net, is mainly due to the CPI decreasing at a lower rate in the first quarter of the current year than in the first quarter of the previous year, and due to an increase in forward and SWAP transactions. On the other hand, interest expenses decreased following a reversal of impairment of a NIS 14 million loan to an associate.

Tax expenses was NIS 19 million in the first quarter of the current year, compared with tax expenses of NIS 21 million in the first quarter of the previous year.

Profit for the period was NIS 65 million in the first quarter of the current year, compared with NIS 53 million in the first quarter of the previous year.

Basic and diluted earnings per share was NIS 0.31 in the first quarter of the current year, compared with NIS 0.25 in the first quarter of the previous year.

1.3 Financial position, liquidity and financing sources

1.3.1 Cash flow - Analysis of results for the first quarter of 2017 compared to the first quarter of the previous year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 195 million in the first quarter of 2017, compared with NIS 228 million in the first quarter of the previous year. The decrease in cash flow from operating activities derived mainly from changes in working capital items that are mostly due to the timing of Passover.

Cash flow used in investing activities

Net cash used in investing activities amounted to NIS 3 million in the first quarter of 2017, compared with NIS 191 million in the first quarter of the previous year. Net cash used in investing activity in the first quarter of the current year mainly include acquisition of property and equipment at NIS 91 million, against proceeds from exercising deposits at NIS 100 million.

Cash from investing activities in the first quarter of 2016 included mainly proceeds from withdrawal of deposits in the amount of NIS 270 million and on the other hand the acquisition of property and equipment at NIS 80 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 191 million in the first quarter of 2017, compared with NIS 659 million in the first quarter of the previous year. Cash used in financing activities in the first quarter of 2017, mainly includes maturity of bonds at NIS 172 million and interest payments NIS 15 million.

The cash used in financing activities in the first quarter of 2016 included mainly maturity of bonds at NIS 529 million, interest payments of NIS 99 million, and acquisition (through Shufersal Real Estate Ltd.) of the entire interest in Bailsol Investments (1987) Ltd. in Shufersal Bailsol Investments Ltd. for NIS 30 million.

1.3.2 Balances of liquid assets and financial ratios

As of the end of the first quarter of 2017, net liquid assets (cash and cash equivalents and marketable securities) amounted to NIS 395 million, compared with NIS 516 million as of the end of the first quarter of 2016. The decrease in net liquid assets was due to a decline in cash balances.

As at the end of 2016, net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) was NIS 494 million.

As of the end of the first quarter of 2017, liabilities to bondholders and banks, including interest payable (hereinafter – "**the financial debt**"), amounted to NIS 2,308 million, compared with NIS 2,517 million in the first quarter of 2016. The ratio of the Company's financial debt to its total assets was approximately 32.4% at the end of the first quarter of 2017, compared with approximately 36.6% in the first quarter of 2016. Total financial debt at the end of 2016 amounted to NIS 2,470 million and the ratio of financial debt to total assets was approximately 36.5%.

The Company's equity as of the end of the first quarter of 2017 was NIS 1,218 million, compared with NIS 1,102 million in the first quarter of 2016. The equity to total assets ratio was approximately 17% at the end of the first quarter of 2017, compared to 16% in the first quarter of 2016.

As at the end of 2016, the Company's equity was NIS 1,315 million and equity to total assets ratio was approximately 19%.

See Note 9(a) to the company's consolidated financial statements for further information regarding the company's issue of ordinary shares in a consideration of NIS 210 million (net) that took place in April 2017.

1.3.3 <u>Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as of March 31, 2017</u>

As of March 31, 2017, the Company has a working capital deficit (on a consolidated basis) of NIS 793 million, compared to NIS 440 million as of December 31, 2016, and has a working capital deficit of NIS 833 million as of March 31, 2016, and working capital deficit (on a stand-alone basis) as of March 31, 2017 of NIS 716 million, compared with working capital deficit of NIS 365 million as of December 31, 2016, and working capital deficit of NIS 749 million as of March 31, 2016.

The working capital deficit as of March 31, 2017 is mainly due to NIS 187 million maturity of bonds and interest payments in the first quarter of 2017, presentation of liability for option for acquisition of a partnership at NIS 162 million as short-term liability, and NIS 160 million in payables following a dividend declared by the Company on February 21, 2017 (the dividend was paid to the company's shareholders on April 4, 2017).

The Company concluded the first quarter of 2017 with a positive cash flow from operating activities (see 1.3.1 above).

As stated in the Company's previous director' reports, the repayment structure of the Company's Series B, C, D and E bonds, and mainly the Company's Series B and C bonds, creates a high burden of future payments between the years 2016 and 2019 (inclusive). However, following the issue of a new, long-duration bond series (Series F) in the third quarter of 2015, and also two issues in the second half of 2016 (exchange offer) in which the Company swapped shorter-duration bonds (Series B) with longer-duration ones (Series F and Series E), the bond maturities of the Company have been flattened and extended in duration. In addition, on February 3, 2017 a final payment was made to the holders of Series C bonds.

In March and April 2017, the Company engaged with three banks (in three separate engagements) for providing a credit facility for two years at NIS 100 million by each bank. The credit facility will be available on call or for short periods. In April 2017, the Company engaged with a third bank in an up to NIS 100 million credit facility agreement for a two-year period for short-term borrowings. As of the date of issuing this report, those credit facilities have yet to be utilized. We further note that in the second quarter of 2017, the Company issued shares under a shelf offer report in a consideration of NIS 215 million, gross (approximately NIS 210 million net of issuance costs).

In view of all the above, and taking into account the Company's accessibility to additional sources of credit and financing, 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 March 31, 2017, the Board of Directors decided that notwithstanding the working capital deficit as of March 31, 2017 the Company does not have a liquidity problem.

The assessment of the Company's accessibility to sources of credit (including issuing additional bonds as needed) 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 bonds are traded, the Company's rating, past experience of the Company with debt issuance and recycling, ability to realize real estate and the fact that the Company and its subsidiaries own unencumbered real estate. It is noted that as of 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 bonds and credit facility with the abovementioned banks to not create a current pledge with respect to its assets.

It is emphasized that the information on the Company's ability to access sources of financing 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 16 of Chapter A to the Company's periodic report.

2. Market Risk Exposure and Management

2.1 Company officer responsible for market risk management

The person who was in charge of the management of financial market risks in the Company is the Company's CFO, Ms. Talya Huber.

2.2 Description of market risks

No material changes have occurred during the reported period as regarding the exposure of the Company to market risks and the management thereof in relation to the Company's related reports in the directors' report for 2016 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 bonds that were issued by the Company, amounting to approximately NIS 1.4 billion as of March 31, 2017 (compared to NIS 2 billion as of March 31, 2016) and CPI-linked payments in an annual amount of NIS 385 million.

As of March 31, 2017, the Company has swap transactions to exchange NIS-linked cash flows with fixed cash flows for bonds (Series F). The value of hedged and hedging instruments is NIS 600 million. The transactions are accounted for as an accounting hedge.

In the first quarter of 2017, the Company incurred financing expenses of NIS 3 million in respect of those transactions.

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 of March 31, 2017, the Company has forward contracts on the rate of the dollar in the amount of US$8.3 million for settlement by February 2018 and forward contracts in the amount of €14.8 million for settlement by May 2018.

In the first quarter of 2017, the Company incurred financing expenses in the amount of NIS 5 million in respect of these contracts, compared with NIS 1 million in the first quarter of 2016.

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 short-term investments and deposits.

2.2.4 Risks related to prices of securities in Israel

The Company is exposed to changes in the prices of securities in Israel, since some of the Company's monetary balances are invested in government bonds and in corporate bonds that are linked to the Israeli CPI, and in corporate bonds bearing fixed shekel interest that are rated at least "A" and at least "A2" by Ma'alot and Midroog Ltd., respectively. As of the date of the statement of financial position, this exposure is immaterial.

2.3 Linkage bases report

Presented below is the Company's linkage bases report as of March 31, 2017:

	March 31, 2017				
	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	**366**	**-**	**19**	**-**	**385**
Marketable securities	**7**	**3**	**-**	**-**	**10**
Trade receivables	**1,314**	**-**	**-**	**-**	**1,314**
Other receivables, including derivatives	**28**	**9**	**7**	**103**	**147**
Current taxes	**-**	**-**	**-**	**9**	**9**
Inventories	**-**	**-**	**-**	**812**	**812**
Non-current assets:					
Investment in an associated company	**87**	**-**	**-**	**-**	**87**
Other investments	**18**	**-**	**-**	**-**	**18**
Investment property	**-**	**-**	**-**	**527**	**527**
Property and equipment	**-**	**-**	**-**	**2,880**	**2,880**
Intangible assets and deferred expenses	**-**	**-**	**-**	**895**	**895**
Deferred taxes	**-**	**-**	**-**	**36**	**36**
	1,820	**12**	**26**	**5,262**	**7,120**
Current liabilities:					
Current maturities of long-term loans	**-**	**2**	**-**	**-**	**2**
Current maturities of bonds	**82**	**110**	**-**	**-**	**192**
Trade payables	**1,807**	**-**	**64**	**-**	**1,871**
Other payables	**431**	**-**	**3**	**759**	**1,193**
Provisions	**-**	**-**	**-**	**50**	**50**
Liability for option to acquire partnership	**162**	**-**	**-**	**-**	**162**
Non-current liabilities:					
Banks and others	**-**	**-**	**-**	**-**	**-**
Bonds	**769**	**1,345**	**-**	**-**	**2,114**
Employee benefits	**-**	**-**	**-**	**138**	**138**
Other liabilities	**5**	**-**	**-**	**51**	**56**
Provisions	**-**	**-**	**-**	**30**	**30**
Deferred taxes	**-**	**-**	**-**	**94**	**94**
Equity	**-**	**-**	**-**	**1,218**	**1,218**
	3,256	**1,457**	**67**	**2,340**	**7,120**
Net exposure (*)	**(1,436)**	**(1,445)**	**(41)**	**2,929**	**-**

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

2.4 Sensitivity tests

There were no material changes in the sensitivity tests in relation to the Company's Periodic Report.

3. Corporate Governance

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 (Independent Director) and Mr. Tzvi Ben Porat (Independent Director).

On May 21, 2017, the Committee held a meeting for a fundamental and comprehensive discussion of the material reporting issues and for the discussion and formulation of the Committee’s recommendations to the Board with respect to the process of approval of the financial statements. All Committee members attended the meeting.

3.2 Board of Directors’ Meetings

In the first three months of 2017, the Board of Directors held 5 meetings. The committees of the Board of Directors held additional meetings.

4. Disclosure Directives Pertaining to the Financial Reporting of the Company

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

- For details regarding provisions and legal proceedings against the Company in the first quarter of 2017 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.
- For information regarding events subsequent to the date of the statement of financial position of the Company as of March 31, 2017, see note 9 to the financial statements.

5. Specific Disclosure for Holders of Bonds

Data as of March 31, 2017

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	34	28	34	0	36	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	19	16	19	0	20	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	12	10	12	0	13	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	30	24	30	0	32	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	22	17	21	0	22	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 D	October 2013	472	468	386	384	384	5	410	Fixed	3.12%	2.99%	October. 8, 2014	October. 8, 2029	Annual interest on October 8 in each of the years 2014-2029	CPI
Series E	October 2013	448	444	370	364	364	9	419	Fixed	5.23%	5.09%	October. 8, 2014	October. 8, 2029	Annual interest on October 8 in each of the years 2014-2029	Unlinked
	November 2016	463	***473	481	463	463	12	532	Fixed	4.81%	5.09%	October. 8, 2017	October. 8, 2029	Annual interest on Oct. 8 in each of the years 2017-2029	Unlinked
Series F	September 2015	317	313	320	317	317	6	365	Fixed	4.44%	4.3%	October. 8, 2020	October. 8, 2028	Annual interest on Oct. 8 in each of the years 2016-2028	CPI

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		
	July 2016	601	***643	632	601	601	13	691	Fixed	3.82%	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 in each of the years 2016-2028	CPI
Total		**4,007**	**4,258**	**2,306**	**2,224**	**2,245**	**45**	**2,540**							

* 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 E bonds is not linked to the CPI).

** No cash consideration was received in respect of those issuances, which were carried out as part of a swap offer for replacing bonds (Series B) of the Company as described in notes 1(b)(6) and 1(b)(7) to the consolidated financial statements for the year ended December 31, 2016. The consideration indicated above refer to the par value of the bonds (Series B) that were swapped in the above exchange offers (including interest payable).

Notes:

1. The principal payments of the bonds are annual.
2. The trustee of the Series B bonds 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 bonds is Mr. Dan Avnon, Adv., e-mail: hermetic@hermetic.co.il
   The trustee of the Series D bonds and Series E bonds 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 bonds and Series E bonds is Mr. Yossi Reznik, CPA, e-mail: Trust@rpn.co.il. The trustee of the Series F bonds 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 bonds is Mr. Ori Lazer, e-mail: ori@slcpa.co.il
3. In the first three months of 2017 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 bonds.
4. Outstanding Series D, E and F bonds of the Company, as detailed in the table above, are material. All the series of bonds are listed for trade on the Tel Aviv Stock Exchange.
5. Among the causes for immediate repayment of the Series B bonds is also the event of another series of the Company’s bonds being called for immediate repayment, all according to the terms provided in the trust deed. Among the causes for immediate repayment of the Series D and E bonds 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 bonds 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 bonds 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 bonds being called for immediate repayment (unlike the amount of NIS 40 million in Series D and E).
6. The Company’s Series B bonds do not include financial covenants. The Series D, E and F bonds include financial covenants as stated hereunder.
7. On February 3, 2017, the Company repaid NIS 113,663,143 par value of Series C bonds. After that payment, Series C bonds are fully repaid. As of March 31, 2017, the company repaid NIS 47,352,600 par value of Series B bonds. The data within the aforesaid table reflect a partial repayment of the Series B bond made by the company.
8. In accordance with the terms of the trust deeds of the Company’s Series D, E and F bonds, the Company is permitted to early redeem (fully or partially)

the Series D, E and F bonds. For additional details, see Paragraph 9.2 of the trust deed of the Series D bonds and Paragraph 9.2 of the trust deed of the Series E bonds (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 bonds 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 periodic report for the year ended 2016 for further details regarding the terms of the Company's Series D, E and F bonds, including a commitment to comply with financial covenants, a commitment to not create a current pledge, and restrictions relating to dividend distribution.

Presented hereunder are the results of calculating the financial covenants required from the Company in accordance with the terms of the Series D, E and F bonds and the terms of the credit facility agreements as above, as of March 31, 2017 and proximate to the date of signing the financial statements:

Financial covenant	**Calculation results**	
	As at March 31, 2017	**Proximate to the date of signing the financial statements***
Ratio of net debt to total balance sheet shall not exceed 60%	27%	23%
The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,218 million	NIS 1,428 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. Further, note that the information in the "shortly before signing the financial statements" column is presented after the Company issued to the public 12,026,300 ordinary shares of NIS 0.1 par value through a shelf offer. The immediate gross consideration received for the ordinary shares that were allocated under the shelf offer was NIS 215 million (approx. NIS 210 million, net of issuance costs).

Presented hereunder are the results of calculating the dividend distribution restrictions that apply to the Company in accordance with the terms of the Series D, E and F bonds and the terms of the credit facilities as of March 31, 2017:

Restriction	**Calculation results as of March 31, 2017**	**Results of calculation as of March 31, 2017 considering issue of shares shortly before signing the financial statements**
The Company’s total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,218 million	NIS 1,428 million
Ratio of the Company’s net debt to EBITDA shall not exceed 7	2.6 (*)	2.4

(*) Revenue in the amount of NIS 4 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.

(**) The results of calculation in the column "before signing the financial statements" take into account the aforesaid issue of shares that took place in a time adjacent to the date of signing the financial statements.

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

On September 20, 2016, Maalot issued an updated credit rating for the Company, in which it upgraded its rating from ilA to ilA+ and changed outlook to stable, following improvement of financial ratios. That rating report is appended to this report by way of reference to immediate report of the Company dated September 20, 2016 (ref. 2016-01-126115).

On November 15, 2016, Maalot gave a credit rating of ilA+ Stable to Series E bonds with value of up to NIS 625 million par value as part of a debt swap offer (see a November 20, 2016 immediate report, ref. 2016-01-080085).

11. Information on the rating of outstanding bonds

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 bonds – 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
				May 26, 2016 (affirmation of rating and upgrade of outlook)	ilA Positive
				September 20, 2016 (upgrade of credit rating and 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 D bonds – 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 (downgrading of rating and affirmation of outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and upgrading outlook)	ilA Positive
				September 20, 2016 (affirmation of rating and upgrading outlook)	ilA+ Stable
Series E bonds – 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 (downgrading of rating and affirmation of outlook)	ilA Stable
				May 26, 2015 (affirmation of rating and outlook upgrade)	ilA Positive
				September 20, 2016 (rating upgrade and outlook upgrade)	ilA+ Stable
				November 15, 2016 (initial rating for series extension)	ilA+ Stable
Series F bonds – listed for trading	Ma’alot	ilA+ Stable	ilA Stable	September 2, 2015 (initial rating)	ilA Stable
				May 26, 2016 (affirmation of rating and outlook upgrade)	ilA Positive
				July 11, 2016 (initial rating for series extension)	ilA
				September 20, 2016 (rating upgrade and outlook upgrade)	ilA+ Stable

11.Quarterly report of outstanding liabilities by maturity dates

For data regarding the outstanding liabilities of the Company, see the immediate report on outstanding liabilities by maturity dates that was published by the Company on the date of issuing the financial statements, the information included in which is presented in this report by way of reference.

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.

Israel Berman Chairman of the Board of Directors	Itzik Abercohen CEO

May 24, 2017

Shufersal Ltd

Condensed Consolidated Interim Financial Statements As at March 31, 2017

(Unaudited)

Convenience translation of original financial statements in Hebrew

Shufersal Ltd.

Condensed Consolidated Interim Financial Statements as at March 31, 2017

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Convenience translation of original financial statements in Hebrew

Shufersal Ltd.

Condensed Consolidated Interim Statement of Financial Position

	March 31 2017	March 31 2016	December 31 2016
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**385**	506	384
Short-term deposits	**-**	-	100
Marketable securities	**10**	10	10
Trade receivables	**1,314**	1,162	1,083
Other receivables	**147**	*95	87
Current taxes	**9**	31	8
Inventory	**812**	*747	677
Total current assets	**2,677**	2,551	2,349
Investment in associate	**87**	69	71
Other investments	**18**	11	18
Investment property	**527**	495	543
Property and equipment	**2,880**	2,812	2,842
Intangible assets and deferred expenses	**895**	860	895
Deferred taxes	**36**	73	46
Total non-current assets	**4,443**	4,320	4,415
Total assets	**7,120**	6,871	6,764

* See Note 2.c regarding reclassification.

Signed on behalf of the Board of Directors:

Israel Berman Chairman of the Board of Directors	Yitzak Aber-Cohen Chief Executive Officer	Talya Huber Chief Financial Officer

Date of approval: May 24, 2017

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

Shufersal Ltd.

Condensed Consolidated Interim Statement of Financial Position

	March 31 2017	March 31 2016	December 31 2016
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities of long-term loans	**2**	2	2
Current maturities in respect of bonds	**192**	598	295
Trade payables	**1,871**	1,964	1,787
Other payables	**1,193**	753	656
Liability for option to acquire partnership	**162**	-	-
Provisions	**50**	67	49
Total current liabilities	**3,470**	3,384	2,789
Banks and other institutions	**-**	2	-
Bonds	**2,114**	1,915	2,173
Employee benefits	**138**	141	140
Provisions	**30**	48	35
Liability for option to acquire partnership	-	135	159
Other liabilities	**56**	56	61
Deferred taxes	**94**	88	92
Total non-current liabilities	**2,432**	2,385	2,660
Equity			
Share capital	**240**	240	240
Share premium	**560**	560	560
Reserves	**11**	12	14
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**492**	375	586
Total equity	**1,218**	1,102	1,315
Total liabilities and equity	**7,120**	6,871	6,764

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

Convenience translation of original financial statements in Hebrew

Shufersal Ltd.

Condensed Consolidated Interim Statement of Income

	Three months ended		Year ended
	March 31 2017	**March 31 2016**	**December 31 2016**
	Unaudited	**Unaudited**	**Audited**
	NIS millions	**NIS millions**	**NIS millions**
Sales and rentals	**2,903**	2,860	11,842
Cost of sales and services	**2,166**	*2,143	*8,917
Gross profit	**737**	717	2,925
Selling and marketing expenses	**592**	*592	*2,354
General and administrative expenses	**37**	31	152
Total selling, marketing, general and administrative expenses	**629**	623	2,506
Operating income before other income	**108**	94	419
Other income (expenses), net	**(1)**	-	1
Increase in fair value and gain on sale of investment property, net	**-**	1	26
Total other income (expenses), net	**(1)**	1	27
Operating income after other income	**107**	95	446
Financing expenses	**(44)**	(26)	(154)
Financing income	**19**	5	36
Financing expenses, net	**(25)**	(21)	(118)
Share in the income of investee, accounted for using equity method	**2**	-	2
Income before taxes on income	**84**	74	330
Taxes on income	**(19)**	(21)	(68)
Profit for the period	**65**	53	262
Basic and diluted earnings (loss) per share (in NIS)	**0.31**	0.25	1.23

* See note 2(c) on reclassification.

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

Condensed Consolidated Interim Statement of Other Comprehensive Income

	Three months ended		Year ended
	March 31 2017	March 31 2016	December 31 2016
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Profit for the period	**65**	53	262
Other comprehensive income (loss) items that will be transferred to profit or loss			
Effective part of the change in fair value of instruments used for hedging cash flows	**(3)**	-	2
Total other comprehensive income (loss) items that will be transferred to profit or loss	**(3)**	-	2
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	**-**	(7)	(11)
Revaluation reserve for property and equipment, classified as investment property	**-**	6	6
Total other comprehensive income (loss) items that will not be transferred to profit or loss	**-**	(1)	(5)
Other comprehensive loss for the period, net of tax	**(3)**	(1)	(3)
Total comprehensive income for the period	**62**	52	259

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

Condensed Consolidated Interim Statement of Changes in Equity

	Attributable to the Company's owners							
	Share capital	Share premium	Equity reserves	Treasury shares	Retained earnings	Total	controlling interests	Total equity
	NIS millions							
For the three months ended March 31, 2017 (unaudited)								
Balance as at January 1, 2017	**240**	**560**	**14**	**(85)**	**586**	**1,315**	**-**	**1,315**
Share-based payment	-	-	-	-	**1**	**1**	-	**1**
Dividend to shareholders	-	-	-	-	**(160)**	**(160)**	-	**(160)**
Profit for the period	-	-	-	-	**65**	**65**	-	**65**
Other comprehensive loss for the period, net of tax	-	-	**(3)**	-	-	**(3)**	-	**(3)**
Balance as at March 31, 2017	**240**	**560**	**11**	**(85)**	**492**	**1,218**	**-**	**1,218**
For the three months ended March 31, 2016 (unaudited)								
Balance as at January 1, 2016	240	560	7	(85)	439	1,161	9	1,170
Share-based payment	-	-	-	-	2	2	-	2
Dividend to shareholders	-	-	-	-	(100)	(100)	-	(100)
Acquisition of non-controlling interest	-	-	-	-	(13)	(13)	(9)	(22)
Profit for the period	-	-	-	-	53	53	-	53
Other comprehensive loss for the period, net of tax	-	-	5	-	(6)	(1)	-	(1)
Balance as at March 31, 2016	240	560	12	(85)	375	1,102	-	1,102
For the year ended December 31, 2016 (audited)								
Balance as at January 1, 2016	240	560	7	(85)	439	1,161	9	1,170
Share-based payment	-	-	-	-	8	8	-	8
Dividend to shareholders	-	-	-	-	(100)	(100)	-	(100)
Acquisition of non-controlling interest	-	-	-	-	(13)	(13)	(9)	(22)
Profit for the year	-	-	-	-	262	262	-	262
Other comprehensive loss for the year, net of tax	-	-	7	-	(10)	(3)	-	(3)
Balance as at December 31, 2016	240	560	14	(85)	586	1,315	-	1,315

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

Condensed Consolidated Interim Statement of Cash Flows

	Three months ended		Year ended
	March 31 2017	March 31 2016	December 31 2016
	Unaudited	Unaudited	Audited
		NIS millions	
Cash flows from operating activity			
Profit for the period	**65**	53	262
Adjustments for:			
Depreciation of property and equipment	**68**	62	257
Impairment losses on property and equipment	**-**	11	15
Amortization of intangible assets and deferred expenses	**8**	5	28
Taxes on income	**19**	21	68
Income tax paid	**(8)**	(3)	(23)
Income tax received	**-**	-	29
Financing expenses, net	**25**	21	118
Share in income of investee, accounted for using the equity method	**(2)**	-	(2)
Change in fair value and gain on sale of investment property, net	**-**	(1)	(26)
Change in employee benefits	**(3)**	2	(6)
Share-based payment	**1**	2	8
Change in provision for onerous contracts	**(5)**	(4)	(28)
Change in trade receivables	**(229)**	(15)	70
Change in other receivables	**(58)**	*(29)	(17)
Change in inventory	**(135)**	*(91)	(21)
Change in trade payables	**79**	129	(35)
Change in other payables, provisions and other liabilities	**370**	65	70
Net cash from operating activity	**195**	228	767
Cash flows from investing activity			
Purchase of property and equipment	**(91)**	(80)	(325)
Proceeds from sale of property and equipment	**1**	1	1
Investment in deferred expenses and intangible assets	**(5)**	(3)	(30)
Investment in investment property and investment property under construction	**(3)**	(3)	(26)
Taxes paid on sale of investment property and property and equipment	**-**	-	(2)
Purchase of marketable securities	**(3)**	(1)	(4)
Proceeds from sale of marketable securities	**3**	1	4
Cash payments from futures transactions, net	**(2)**	-	(2)
Bank deposit as collateral for derivative financial instrument	**(4)**	-	(6)
Interest received	**1**	2	2
Proceeds from withdrawal of investment in short-term Deposits	**100**	270	170
Acquisition of operation	**-**	-	(1)
Dividend income from other investments	**-**	4	4
Net cash from (used in) investing activities	**(3)**	191	(215)

* See Note 2(c) regarding reclassification.

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

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

	Three months ended		Year ended
	March 31 2017	**March 31 2016**	**December 31 2016**
	Unaudited	**Unaudited**	**Audited**
		NIS millions	
Cash flows from financing activity			
Acquisition of non-controlling interests	**-**	(22)	(22)
Repayment of capita note	**-**	(8)	(8)
Maturity of bonds	**(172)**	(529)	(587)
Transaction costs in relation to replaced bonds	-	-	(3)
Interest paid	**(15)**	(99)	(174)
Dividend paid	-	-	(100)
Repayment of long-term loans from banks	**(1)**	(1)	(3)
Partners' withdrawals from partnership	**(3)**	-	(17)
Net cash used in financing activities	**(191)**	(659)	(914)
Increase (decrease) in cash and cash equivalents	**1**	(240)	(362)
Balance of cash and cash equivalents at the beginning of the period	**384**	746	746
Balance of cash and cash equivalents at the end of the period	**385**	506	384

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

Note 1 - General

A. The reporting entity

Shufersal Ltd. (hereinafter – the “Company” and/or “Shufersal”) is an Israeli resident company incorporated in Israel. The address of the Company’s registered office is 30 Benyamin Shmotkin Street, Rishon-Le-Zion. The condensed consolidated interim financial statements of the Group as at March 31, 2017 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.). The Group is involved in the operation of a chain of supermarkets in Israel. The Group 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, as well as managing a loyalty club credit card (through Shufersal Finance Limited Partnership) through which it offers the Shufersal and Yesh credit cards. 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 consolidated 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, 2016. Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

These condensed consolidated interim financial statements were authorized for issue by the Company’s Board of Directors on May 24, 2017.

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, 2016.

C. Reclassification

(1) In the reported period, the Group reclassified expenses related to its online activity, mainly payroll expenses for some employees who are related to this activity, from selling and marketing expenses to cost of sales and services in the income statement in order to more appropriately reflect the expenses associated with the cost of sales and services. Comparative information was reclassified for consistency purposes, such that an amount of NIS 112 million and NIS 27 million were reclassified from selling and marketing expenses to cost of sales and services for the year ended December 31, 2016 and for the three-month period ended March 31, 2016, respectively. That classification had no impact on the total operating income and income for the period.

(2) The Group reclassified inventory on consignment that is held by third party in the statement of financial position from accounts receivable to inventory. Comparative figures were reclassified for consistency purposes, such that an amount of NIS 11 million was reclassified from accounts receivable to inventory as of March 31, 2016.

Note 3 - Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements were applied in conformity with those applied in the annual financial statements that were issued by the Group as at and for the year ended December 31, 2016.

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. On February 21, 2017, the Company's Board of Directors decided to distribute a dividend in the amount of NIS 160 million, at NIS 0.75 per share. The dividend was paid on April 4, 2017 to shareholders as of March 21, 2017. As of March 31, 2017, the dividend amount is presented as part of other payables in the statement of financial position.

b. In March and April 2017, the Company engaged with three banks (separately) for providing the Company NIS 100 million each in credit facility over a two-year period. The Company will be able to utilize the credit on call or for short periods. The facility agreements include, among others, a commitment by the Company to meet financial covenants, limits on dividend distributions, and commitment not to place floating charges. Those commitments are similar to the ones provided in the deeds of trust for Series D, E and F bonds (for those liabilities, see note 17 to the consolidated financial statements as of December 31, 2016). Note that the trigger events for immediate repayment as established by those facility agreements include a trigger event of a change of control over the Company. As of the date of approving these financial statements, the Company has yet to utilize the facilities.

c. In the reported period, a number of indications were identified of change in the value of investment in an associate accounted for using the equity method, at a higher value than the carrying amount of the investment. Following that, the Group tested the recoverable amount of the investment and recognized income from reversal of impairment of a NIS 14 million loan that was given to the associate. The income was classified to financing income in the income statement.

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 financial statements as at December 31, 2016 and for the year then ended. 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 three months ended March 31, 2017 (Unaudited):

	Retail segment	Real estate segment	Loyalty club credit card management segment	Reconciliation to consolidated	Consolidated
			NIS millions		
Total external revenue	2,893	10	20	(20)	2,903
Inter-segment rental revenue	-	31	-	(31)	-
Segment revenue	2,893	41	20	(51)	2,903
Operating income before other income (expenses) and excluding profit from management of loyalty club credit card	70	32	-	(6)	96
Operating income from management of loyalty club credit card	12	-	12	(12)	12
Operating income before other income (expenses)	82	32	12	(18)	108
Other expenses, net	(1)	-	-	-	(1)
Operating income after other income (expenses)	81	32	12	(18)	107
Financing expenses					(44)
Financing income					19
Share in profit of investee, accounted for using the equity method					2
Taxes on income					(19)
profit for the period					65

Note 6 - Segment Reporting (cont'd)

For the three months ended March 31, 2016 (Unaudited):

	Retail segment	Real estate segment	Loyalty club credit card management segment	Reconciliation to consolidated	Consolidated
	NIS millions				
Total external revenue	2,849	11	18	(18)	2,860
Inter-segment rental revenue	-	32	-	(32)	-
Segment revenue	2,849	43	18	(50)	2,860
Operating income before other income (expenses) and excluding profit from management of loyalty club credit card	55	33	-	(5)	83
Operating income from management of loyalty club credit card	11	-	11	(11)	11
Operating income before other income (expenses)	66	33	11	(16)	94
Other income (expenses), net	(2)	3	-	-	1
Operating income after other income (expenses)	64	36	11	(16)	95
Financing expenses					(26)
Financing income					5
Taxes on income					(21)
Profit for the period					53

Note 6 - Segment Reporting (cont'd)

For the year ended December 31, 2016: (Audited)

	Retail segment	Real estate segment	Loyalty club credit card management segment	Reconciliation to consolidated	Consolidated
	NIS millions				
Total external revenue	11,798	44	75	(75)	11,842
Inter-segment rental revenue	-	126	-	(126)	-
Segment revenue	11,798	170	75	(201)	11,842
Operating income before other income (expenses) and excluding profit from management of loyalty club credit card	259	136	-	(23)	372
Operating income from management of loyalty club credit card	47	-	47	(47)	47
Operating income before other income (expenses)	306	136	47	(70)	419
Other income (expenses), net	4	(14)	-	37	27
Operating income after other income (expenses)	310	122	47	(33)	446
Financing expenses					(154)
Financing income					36
Share in profit of investee, accounted for using the equity method					2
Taxes on income					(68)
Profit for the year					262

Note 7 - Claims and Legal Proceedings

In the ordinary course of business, the Company is involved in several legal claims against it (hereinafter in this section: "legal claims").

The managements of Group companies believe, among other things based on the legal opinion as to the likelihood of losing those the legal claims, that provisions were made in appropriate amounts for cases that required provisions, to cover the exposure from those legal claims.

Motions to certify class action lawsuits were filed against Company which did not specify the exact claimed amounts, and which create additional exposure for the Group beyond the above.
Note that since the fee for filing a motion for class action certification is not affected by the amount claimed, those claimed amounts may be significantly higher than the real exposure from those claims.

a. 1. The following is information about contingent liabilities of the Group as of March 31, 2017, classified into categories with similar characteristics:

Lawsuit category	Nature of claims	Balance of provision	Additional exposure	Exposure to claims without assessment of likelihood of success	Total
		NIS in millions			
Class action – consumer	Mainly motions to certify class actions and claims arguing charging amounts unlawfully, and damages from services or products that are provided by Group	8	**968	***449	**1,425**
Employee claims	Mainly legal claims filed by employees and former employees of the Company, concerning labor law, including recognition of various payroll elements as relevant for the calculation of different employee payments	*-	6	*-	**6**
Vendor-customer, authorities and general	Legal claims relating to commercial disputes with service and/or product vendors and legal proceedings brought by the state, government entities and agencies, mainly relating to regulation applicable to the Company and various monetary disputes regarding amounts paid by the Company to government authorities.	4	1	*-	**5**
Customer damages claims	Damages claims, handled by insurance companies	21	7	*-	**28**
Total		**33**	**982**	**449**	******1,464**

* Indicates an amount of less than NIS 1 million

** Includes claims against the Company and additional defendants at a total of NIS 9 million, where no amount was indicated as separately claimed from the Company.

*** Includes claims against the Company and another company at NIS 51 million, where no amount was indicated as separately claimed from the Company.

**** Additional claims are pending against the Company, if certified as class action lawsuits, which do not indicated the amount claimed, and that create additional exposure.

2. **The following is information about the number of contingent liabilities of the group pending as of March 31, 2017 by amounts claimed:**

Amount claimed	**No. of claims**	**Total amount claimed**
		(NIS in millions)
Up to NIS 100 million (including claims against the Company and others, where the amount claimed from the company is indicated	*809	*550
NIS 100 million to NIS 500 million	3	854
Claims with no indication of claimed amounts	7	-
Claims against the Company and others with no indication of claimed amounts	1	-
Claims against the Company and others with no indication of claimed amounts from the Company separately	4	60
Total	**824**	**1,464**

* 710 customer damages claims are pending as of March 31, 2017 with monetary value of NIS 28 million.

b. Information about claims after the statement of financial position

After the date of this report, a motion for certification of a consumer-related class action was filed against the Company without specified amount for the claim. It is not possible to assess the likelihood of the claim at this preliminary stage.
In addition, a motion to certify a consumer-related class action was filed against the Company and additional defendants. An amount of damages claimed of NIS 3 million, is attributed to the Company.
In addition, two motions to certify consumer claims as class actions were filed against the Company and other defendants, in a total amount of NIS 7 million without specifying an amount against the Company separately.

In addition, two motions to certify consumer-related class actions against the Company with a total amount of NIS 6 million were disclaimed by the court for immaterial amounts.
Additionally, two motions to certify a NIS 32 million class action against the Company and additional defendants were disclaimed by the court without specified amounts for the claims.
In addition, a motion to certify consumer-related class actions against the Company and additional defendants was disclaimed in a total amount of NIS 3 million by the court with no expenses.

Note 8 - Financial Instruments

Financial instruments measured at fair value for disclosure purposes only

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

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

	As at March 31, 2017		As at March 31, 2016		As at December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited		Unaudited		Audited	
	NIS millions		NIS millions		NIS millions	
Bonds (including accrued interest) –	**2,306**	**2,540**	2,513	2,670	2,468	2,630

The fair value of the bonds is their quoted price (level 1).

Fair value hierarchy of financial instruments measured at fair value

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

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

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

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

	As at March 31, 2017				As at March 31, 2016				As at December 31, 2016		
	Level 1	Level 2	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**	10	-	-	10	10	-	10
Investment**	**-**	**-**	**18**	**18**	-	-	11	11	-	18	18
	10	**-**	**18**	**28**	10	-	11	21	10	18	28
Financial liabilities											
Interest SWAP	-	**(5)**	-	**(5)**	-	-	-	-	-	*-	-
Forward - hedge on transactions linked to foreign currency	**-**	**(3)**	**-**	**(3)**	-	(1)	-	(1)	-	-	-
	-	**(8)**	**-**	**(8)**	-	(1)	-	(1)	-	*-	-
	10	**(8)**	**18**	**20**	10	(1)	11	20	10	18	28

* Represent an amount lower than NIS 1 million

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

Note 9 - Subsequent Events

a. In April 2017, after the date of this report, the Company issued 12,026,300 ordinary shares of NIS 0.1 par value through a shelf offer report. The total immediate consideration (gross) received for the ordinary shares allocated under the offer report was NIS 215 million (approx. NIS 210 million net of issuance costs).

b. On April 6, 2017, the Company entered into an agreement ("the agreement") with Hamashbir 365 Holdings Ltd (the "seller" or "Hamashbir") for the acquisition of all shares of the seller in New-Pharm Drugstores Ltd ("New-Pharm"), which constitutes 100% of the issued and paid-up equity of New-Pharm (the "sold shares"). For the transfer of the sold shares to the Company, free of any liabilities, the Company will pay the seller on completion date a total consideration of NIS 130 million (this amount shall be used, among other things, to repay a debt of the seller that is secured by the sold shares. In addition, a total of NIS 12 million of that amount will be paid to the seller by the Company, against making an identical payment to New-Pharm by a subsidiary of the seller in relation to the outstanding debt of that subsidiary to New-Pharm). The transaction is subject to approval by the Antitrust Commissioner (the "Commissioner"), and the agreement indicates in this respect that if a commissioner approval is not received within 3 months (with ability to extend by an additional month, in certain circumstances) of the date of filing the approval application to the commissioner, the agreement will be cancelled, unless the parties agree on extending the period. It is also provided that if a commissioner approval is obtained but is subject to conditions, which according to a reasonable assessment in good faith of the Company or of the seller (each regarding the conditions applicable to it), may be onerous or materially undermines the business case for the deal, the party affected by the onerous conditions may notify the other party that it does not accept the onerous conditions, and in such case, it will be seen as if no commissioner approval is obtained, except for certain exceptions in the agreement. On May 1, 2017, the Company filed the approval application to the commissioner.

As of the date of issuing the shelf offer report, a commissioner approval has yet to be obtained. The agreement taking into effect is subject to obtaining a commissioner approval through the specified date, and that none of the stopping conditions is present (together - the "conditions precedent").

The agreement also sets additional conditions for completion of the deal, including release and cancellation of all existing guarantees of New-Pharm in relation to liabilities of companies in the Hamashbir group, as well as release and cancellation of all existing guarantees of companies in the Hamashbir group relating to liabilities of New-Pharm. The agreement also provides that subject to the provisions in Opinion 2/14 of the Israel Antitrust Authority, the Company will be permitted to perform due diligence to New-Pharm during the interim period and to complete it within fifty (50) days from the date material documents and information are provided to it. The seller has also committed to provide to the Company through June 25, 2017 an audited interim report of New-Pharm as of May 31, 2017 (the "interim report").

The agreement sets two stopping conditions, as follows, which when triggered allow the Company to cancel the agreement: [1] if it becomes known, up to 14 business days from the date of receiving the relevant information as requested by the Company, that the decline in inventory and suppliers' credit in the 2016 financial statements over the preceding financial statements has material impact on the ability of New-Pharm to maintain its level of activity and sales turnover in 2016; and [2] if it becomes known through June 30, 2017 (or at the request of any of the parties seven days after that, at the latest), that disparity or violation exists of any presentation or obligation of the seller in the agreement that may constitute adverse change (as this term is defined by the agreement), or that until that date events occurred in New-Pharm that are not in the ordinary course of business and constitute or may constitute, either separately or cumulatively, an adverse change. It was also indicated in the agreement that on the date of completion, the seller will commit to a non-competition clause in the drugstore market, for a period that begins 4 years from completion date of the deal. In addition, the agreement prescribes that New-Pharm will continue to accept, even after completion date, and over the periods established in the agreement (that do not exceed one year from the date of completion), certain obligations to cooperate with the seller, however will discontinue marketing the loyalty club and credit card of the seller. The agreement includes certain presentations, as is common in those type of agreements, as well as a mechanism for indemnification by the seller to the Company, under terms and conditions set in the agreement. It is uncertain whether the deal between the parties will be completed.