Section A-

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

For the Six-Months Period Ended

June 30, 2017

Shufersal Ltd.

Contents

Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the six months ended June 30, 2017 (hereinafter - **"the reporting period"**)[1] in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

1. Explanations of the Board to the Company's Business 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 273 branches throughout the country in the framework of a few formats over a total area of approximately 489[2] thousand square meters and operates 4 online warehouses over a total area of approximately 9 thousand square meters[3]. The Company employs about 12.2 thousand employees (calculated positions) and has annual sales of about NIS 11.8 billion. As at June 30, 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 credit card customers' club management segment.

For details regarding the aforesaid operating segments, see Note 6 to the Company's consolidated financial statements as at June 30, 2017 (hereinafter – "**the financial statements**").

1.1.2 Management's discussion of the principal results for the first half 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 half of 2017 were affected by several matters:

- Seasonality between quarters (see Paragraph 1.2 below).
- The Company continued to develop the digital platform, mainly the "Shufersal Online" system, including opening warehouses that are dedicated to this channel of distribution. Shufersal Online sales in the first half of 2017 accounted for 11.1% of the Company's sales compared to 8.6% in the corresponding half last year.

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1 For the purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position as at June 30, 2017 unless stated otherwise or implied otherwise by the context of the matter.

2 The commercial areas do not include branches that are closed for renovation as of the date of the report (about 10 thousand square meters).

3 Dedicated warehouses for the purpose of marketing products online through the Company's website.

- Continued expansion and strengthening of the private label. Private label products accounted for 21% of total retail sales in the first half of the year comparing to 19% in the corresponding half last year.

1.1.3 Significant events that occurred during the reporting period

- On June 29, 2017, the Securities Authority approved the Company's request to extend the period of the Company's shelf prospectus from June 26, 2015, by an additional 12 months, that is until June 25, 2018.
- In June 2017, the Company issued in a private placement to financial institutions 7,963,595 ordinary shares of NIS 0.1 par value each of the Company, which represented on the date of their issue 3.43% of the issued and paid-up capital of the Company (3.34% fully diluted). The total gross immediate proceeds received for the allocated ordinary shares under the private placement were NIS 140 million (approx. NIS 139 million net of issue expenses).
- On June 26, 2017, a payment demand and assessment was received from the Israeli Land Authority. For more information, see note 5 to the financial statements.
- 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 financial statements.
- In April 2017, the company issued 12,026,300 ordinary shares of NIS 0.1 par value each of the Company, which represented on the date of their issue 5.36% of the issued and paid-up capital of the Company (5.22% fully diluted) 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 209 million, net of issuance expenses).
- In April 2017, the Company engaged in a transaction to acquire the entire share capital of New-Pharm Drugstores Ltd. For more information, see note 5 to the financial statements.

1.2 Analysis of results of operations

In 2017, the eve of Passover fell on April 10, as compared to 2016 in which the eve of Passover took place on April 22. The timing of the holiday affects balance sheet items such as trade receivables, inventories, trade payables as well as sales and the intensity of special offers. The effect of Passover is smaller in the second quarter of this year than its effect in the corresponding quarter last year. The company believes that the assessment for half year results represents the variances between the periods in a more appropriate manner.

1.2.1 Analysis of results for the three months ended June 30, 2017 as compared with the corresponding period last year

	Results of operations for the three months ended June 30			
	2017		2016	
	%	NIS millions	%	NIS millions
Revenues		3,001		3,072
Gross profit	25.6%	767	24.0%	*737
Selling, marketing, administrative and general expenses	21.4%	(642)	20.2%	*(621)
Operating profit before other income (expense)	**4.2%**	**125**	**3.8%**	**116**
Other Expenses, net		(7)		-
Increase in fair value and gain on sale of investment property, net		3		1
Operating profit after other income (expense)		**121**		**117**
Net financing expense		(33)		(35)
Share of profit of equity accounted investee		1		-
Profit before taxes on income		**89**		**82**
Taxes on income		(21)		(20)
Profit for the period		**68**		**62**

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

Retail segment revenues Retail segment revenue in the second quarter were NIS 2,991 million, down 2.3% from NIS 3,062 million in the corresponding quarter last year. Store turnover in the second quarter was down 2.7% compared to the corresponding quarter last year. After offsetting seasonality effect (the timing of Passover), turnover increased by 0.3%. The gap between lower revenue and lower turnover of the Company is mainly attributed to lower activity of franchisers[4] .

Same store sales[5] of stores that fully operated in the second quarter and the corresponding quarter last year were reduced by 2.4%, mainly due to the timing of Passover. After offsetting seasonality effect (the timing of Passover), same store sales decrees by 1.6%.

Sales per square meter[6] in stores of the Company in the second quarter are NIS 6,200, compared to NIS 6,216 in the corresponding quarter last year, decrease of 0.3%.

Beginning with these financial statements, the Company includes information on sales through online logistics center within same store sales and sales per square meter, and also includes the online logistics centers within the calculation of sales per square meter, including comparative figures.

4 See Paragraph 3.1 of section A (Description of the Entity's Business) in the periodic report.
5 Same store sales - gross sales of active stores opened before January 2016.
6 The areas of the new branches are calculated proportionately from the date of opening the branch. The area of the branch is the gross area that includes sales areas and additional operating areas.

Real estate segment revenues amounted to NIS 41 million in the second quarter of the year, similar to the corresponding quarter last year.

Revenues from the credit card customers' club management segment amounted to NIS 21 million in the second quarter of the year, compared with NIS 18 million in the corresponding quarter last year, an increase of 16.7%, which is mainly due to fees on credit spreads.

The Company's revenues amounted to NIS 3,001 million in the second quarter of the year, compared with NIS 3,072 million in the corresponding quarter last year, a decrease of 2.3%, mainly from the retail segment.

The gross profit amounted to NIS 767 million in the second quarter of the year, compared with NIS 737 million in the corresponding quarter last year, an increase of NIS 30 million. The gross profit rate was 25.6%, compared with 24.0% in the corresponding quarter last year. The increase in the gross profit and in its rate is mainly due to the timing of Passover, the campaigns mix, increase in the share of the private label, an improvement in trade agreements and basket components.

Selling, marketing, administrative and general expenses amounted to NIS 642 million in the second quarter of the year, compared with NIS 621 million in the corresponding quarter last year. The ratio of expenses to revenues was 21.4% compared with 20.2% in the corresponding quarter last year. The increase in expenses is due to an increase in payroll expenses, including minimum wages (See paragraph 7.8 of section A (Description of the Entity's Business) in the periodic report).

Operating profit in the retail segment before other expenses amounted to NIS 99 million in the second quarter of the year, a rate of 3.3%, compared with NIS 88 million and a rate of 2.9% in the corresponding quarter last year, an increase of NIS 11 million that is due to the aforesaid.

Operating profit before other income in the real estate segment amounted to NIS 32 million in the second quarter of the year, compared with NIS 34 million in the corresponding quarter last year.

Operating profit in the credit card club customers' management segment amounted to NIS 14 million in the second quarter of the year compared with NIS 12 million in the corresponding quarter last year.

The Company's operating profit after other income (expense) amounted to NIS 121 million and a rate of 4.0% of revenues in the second quarter of the year, compared with NIS 117 million and a rate of 3.8% of revenues in the corresponding quarter last year, an increase of NIS 4 million that is mainly due to the aforesaid.

Operating profit before depreciation and amortization (EBITDA) amounted to NIS 201 million and a rate of 6.7**%** of revenues in the second quarter of the year, compared with NIS 186 million and a rate of 6.1% of revenues in the corresponding quarter last year. The increase is mainly due to the improvement in operating profit as aforesaid.

Net financing expenses in the second quarter of the year were NIS 33 million, compared to NIS 35 million in the corresponding quarter las year. The decrease in net financing expense was mainly driven by a decrease in financial expanses in respect of the Company's debentures. On the other hand, financing expenses increase as a result of swap transaction.

Tax expenses amounted to NIS 21 million in the second quarter of the year, compared with NIS 20 million in the corresponding quarter last year.

Profit for the period amounted to NIS 68 million in the second quarter of the year, compared with NIS 62 million in the corresponding quarter last year.

The Company’s basic and diluted earnings per share amounted to NIS 0.31 in the second quarter of the year, compared with NIS 0.29 in the corresponding quarter last year.

1.2.2 Analysis of results for the six months ended June 30, 2017 as compared with the corresponding period last year

	Results of operations for the six months ended June 30			
	2017		2016	
	%	NIS millions	%	NIS millions
Revenues		5,904		5,932
Gross profit	25.5%	1,504	24.5%	*1,454
Selling, marketing, administrative and general expenses	21.5%	(1,271)	21.0%	*(1,244)
Operating profit before other income (expense)	**3.9%**	**233**	**3.5%**	**210**
Other Expenses, net		(8)		-
Increase in fair value and gain on sale of investment property, net		3		2
Operating profit after other income (expense)		**228**		**212**
Net financing expense		(58)		(56)
Share of profit of equity accounted investee		3		-
Profit before taxes on income		**173**		**156**
Taxes on income		(40)		(41)
Profit for the period		**133**		**115**

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

Retail segment revenues in the first half were NIS 5,884 million, compared to NIS 5,911 million in the first half of last year, a 0.5% decrease. Turnover of the Company in the first half of the year was lower by 0.9% year over year. The gap between the reduced revenue and reduced turnover of the Company is mainly attributed to slower franchisers activity[7].

Same store sales[8], in stores that were fully operational in both the first half of this year and last year was reduced by 0.8%.

Sales per square meter[9] in Company stores in the first half of the year were NIS 12,051, compared to NIS 11,929 in the corresponding half last year, a 1.0% increase, resulting mainly from reduction of commercial space.

See above for changes in Company policy regarding to presentation of same store sales and sales per square meter.

Real estate segment revenues amounted to NIS 82 million in the first half of the year, compared with NIS 84 million in the corresponding half last year, as a result of an increase in vacant areas of properties.

7 See Paragraph 3.1 of section A (Description of the Entity's Business) in the periodic report.
8 Same store sales - gross sales of active stores opened before January 2016.
9 The areas of the new branches are calculated proportionately from the date of opening the branch. The area of the branch is the gross area that includes sales areas and additional operating areas.

Revenues from the credit card customers' club management segment amounted to NIS 41 million in the first half of the year, compared with NIS 36 million in the corresponding half last year, an increase of 13.9%, which is mainly due to fees on credit spreads.

The Company's revenues amounted to NIS 5,904 million in the first half of the year, compared with NIS 5,932 million in the corresponding half last year

The gross profit amounted to NIS 1,504 million in the first half of the year, compared with NIS 1,454 million in the corresponding half last year, an increase of NIS 50 million. The gross profit rate was 25.5%, compared with 24.5% in the corresponding half last year. The increase in the gross profit and in its rate is mainly due to an increase in the share of the private label, an improvement in trade agreements, basket components and the campaigns' mix.

Selling, marketing, administrative and general expenses amounted to NIS 1,271 million in the first half of the year, compared with NIS 1,244 million in the corresponding half last year. The ratio of expenses to revenues was 21.5% compared with 21.0% in the corresponding half last year. The increase in expenses is due to an increase in activity and to an increase in payroll expenses including in minimum wages (see paragraph 7.8, section A (Description of Corporate Business) in the periodic report).

Operating profit before other expenses in the retail segment amounted to NIS 181 million in the first half of the year, a rate of 3.1% of revenues, compared with NIS 154 million and a rate of 2.6% of revenues in the corresponding half last year, an increase of NIS 27 million that is due to the aforesaid.

Operating profit before other income in the real estate segment amounted to NIS 64 million in the first half of the year, compared with NIS 67 million in the corresponding half last year.

Operating profit in the credit card club customers' management segment amounted to NIS 26 million in the first half of the year compared with NIS 23 million in the corresponding half last year.

The Company's operating profit after other income (expense) amounted to NIS 228 million and a rate of 3.9% of revenues in the first half of the year, compared with NIS 212 million and a rate of 3.6% of revenues in the corresponding half last year, an increase of NIS 16 million that is mainly due to the aforesaid.

Operating profit before depreciation and amortization (EBITDA) amounted to NIS 387 million and a rate of 6.6% of revenues in the first half of the year, compared with NIS 354 million and a rate of 6.0% of revenues in the corresponding half last year. The increase is mainly due to the improvement in operating profit as aforesaid.

Net financing expenses amounted to NIS 58 million in the first half of the year, compared with NIS 56 million in the corresponding half last year. The increase in the net financing expenses is mainly due to an increase in SWAP and forward transaction. On the other hand, financing expenses decreased following a reversal of impairment of a NIS 14 million loan to an associate.

Tax expenses amounted to NIS 40 million in the first half of the year, compared with NIS 41 million in the corresponding half last year.

Profit for the period amounted to NIS 133 million in the first half of the year, compared with NIS 115 million in the corresponding half last year.

The Company's basic and diluted earnings per share amounted to NIS 0.62 in the first half of the year, compared with NIS 0.54 in the corresponding half last year.

1.3 Financial position, liquidity and financing sources

1.3.1 Cash flows - Analysis of results for the second quarter of 2017 as compared with the corresponding quarter last year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 70 million in the second quarter of 2017, compared with NIS 253 million in the corresponding quarter last year. The decrease in cash flow from operating activities stemmed mainly from the changes in working capital that is mostly due to the timing of the Passover holiday, as well as from date of payment to the suppliers.

Cash flow used in investing activities

Net cash used in investing activities amounted to NIS 82 million in the second quarter of 2017, compared with NIS 105 million in the corresponding quarter last year. The cash used in investing activities in the second quarter of 2017 included mainly the purchase of fixed assets in the amount of NIS 66 million.
The cash used in investing activities in the second quarter of 2016 included mainly the purchase of fixed assets in the amount of NIS 86 million.

Cash flow from financing activities

Net cash from financing activities amounted to NIS 184 million in the second quarter of 2017, compared with net cash used in financing activities amounted to NIS 107 million in the corresponding quarter last year. The cash from financing activities in the second quarter of 2017 included mainly net proceeds from the issue of share capital in the amount of NIS 348 million, and the payment of a dividend in the amount of NIS 160 million.
The cash used in financing activities in the second quarter of 2016 included mainly the payment of a dividend in the amount of NIS 100 million.

1.3.2 Cash flows - Analysis of results for the first half of 2017 as compared with the corresponding half last year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 265 million in the first half of 2017, compared with NIS 481 million in the corresponding half last year. The decrease in cash flow from operating activities stemmed mainly from the decrease in working capital and the date of payment to the suppliers.

Cash flow used in investing activities

Net cash used in investing activities amounted to NIS 85 million in the first half of 2017, compared with net cash from investing activities amounted to NIS 86 million in the corresponding half last year. The cash used in investing activities in the first half of 2017 included mainly the acquisition of fixed assets in the amount of NIS 157 million, and on the other hand the proceeds from the sale of deposits in the amount of NIS 98 million.

Cash from investing activities in the first half 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 166 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 7 million in the first half of 2017, compared with NIS 766 million in the corresponding half last year. The cash used in financing activities in the first half of 2017 included mainly repayment of debentures and interest payments in the amount of NIS 187 million, payment of dividends in the amount of NIS 160 million, on the other hand, net proceeds from issuance of share capital in the amount of NIS 348 million.

The cash used in financing activities in the first half of 2016 included mainly the repayment of debentures and interest payments in the amount of NIS 628 million, a dividend payment in the amount of NIS 100 million and acquisition (through Shufersal Real Estate Ltd.) of the entire interest of Bailsol Investments (1987) Ltd. in Shufersal Bailsol Investments Ltd. for an amount of NIS 30 million.

1.3.3 Liquid assets balances and financial ratios

As at the end of the second quarter of 2017, the net liquid assets (cash and cash equivalents and marketable securities) amounted to NIS 567 million, compared with NIS 557 million in the corresponding quarter last year.

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

As at the end of the second quarter of 2017, the Company’s liabilities to banks and to the holders of debentures, including interest payable (hereinafter – “**the financial debt**”), amounted to NIS 2,332 million, compared with NIS 2,551 million in the corresponding quarter last year.

The ratio of the Company’s financial debt to its total assets was approximately 33.8% at the end of the second quarter of 2017, compared with approximately 37.6% in the corresponding quarter last year. 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 at the end of the second quarter of 2017 amounted to NIS 1,630 million, compared with NIS 1,161 million in the corresponding quarter last year. The ratio of the Company’s equity to its total assets was approximately 24% at the end of the second quarter of 2017, compared with approximately 17% in the corresponding quarter last year.

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

1.3.4 Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as at June 30, 2017

As at June 30, 2017 the Company has a working capital deficit (on a consolidated basis) in the amount of NIS 378 million compared with a working capital deficit of NIS 440 million as at December 31, 2016 and a working capital deficit of NIS 779 million as at June 30, 2016, and it has a working capital deficit (on a stand-alone basis) of NIS 311 million, compared with working capital deficit of NIS 365 million as at December 31, 2016 and a working capital deficit of NIS 699 million as at June 30, 2016.

The reduction in the working capital deficit as at June 30, 2017 is mainly due to the maturity of debentures and interest payments in the amount of NIS 187 million and on the other hand, the presentation of the liability in respect of an option to acquire a partnership in the amount of NIS 165 million as a short-term liability.

The Company concluded the second quarter of 2017 and the first half of the year with a positive cash flow from operating activities (see Paragraph 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 debentures, and mainly the Company's Series B and C debentures, created a high burden of future payments between the years 2016 and 2019 (inclusive), However, following the issue of a new, long-duration debenture 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 debentures (Series B) with longer-duration ones (Series F and Series E), the debentures 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 debentures.

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. As of the date of issuing this report, those credit facilities have yet to be utilized. We further note that in the first half of 2017, the Company issued ordinary shares with net proceeds in the total amount of NIS 348 million (see Paragraph 1.1.3 above).

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 June 30, 2017, the Board of Directors decided that notwithstanding the working capital deficit as of June 30, 2017 the Company does not have a liquidity problem.

The assessment of the Company's accessibility to sources of credit (including issuing additional debentures 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 debentures are traded, the Company's rating, past experience of the Company with debt issuance and credit 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 debentures 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 is in charge of the management of financial market risks in the Company is the Company's CFO, Mrs. 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 debentures that were issued by the Company, amounting to approximately NIS 1.5 billion as at June 30, 2017 (compared to NIS 2 billion as of June 30, 2016), and CPI-linked payments in an annual amount of NIS 385 million.

As of June 30, 2017, the Company has swap transactions to exchange NIS-linked cash flows with fixed cash flows for debentures (Series F). The value of hedged and hedging instruments is NIS 600 million. The transactions are accounted for as an accounting hedge.

In the second quarter of 2017, the Company incurred financing expenses of NIS 2 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 at June 30, 2017, the Company has forward contracts on the rate of the dollar in the amount of US$ 13 million for settlement until March 2018 and forward contracts in the amount of € 11 million for settlement until May 2018.

In the second quarter of 2017, and at the corresponding period last year the Company incurred an immaterial amount of financing expenses in respect of these contracts.

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

2.2.3 Interest rate risks

The Company is exposed to fluctuations in interest rates on short-term investments and deposits.

2.2.4 Israeli securities price risks

The Company is exposed to changes in the prices of securities in Israel, since some of the Company's monetary balances are invested in government debentures and in corporate debentures that are linked to the Israeli CPI, and in corporate debentures bearing fixed shekel interest that are rated at least “A” and at least “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 at June 30, 2017:

	June 30, 2017				
	Israeli currency		Foreign currency		
	Unlinked	Linked	Mainly euro	Other items	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets:					
Cash and cash equivalents	548	-	9	-	557
Marketable securities	6	4	-	-	10
Trade receivables	1,063	-	-	-	1,063
Other receivables, including derivatives	20	5	4	100	129
Current tax assets	-	-	-	13	13
Inventories	-	-	-	667	667
Non-current assets:					
Investment in an associate	88	-	-	-	88
Other investments	18	-	-	-	18
Investment property	-	-	-	540	540
Property, plant and Equipment	-	-	-	2,878	2,878
Intangible assets and deferred expenses	-	-	-	907	907
Deferred tax assets	-	-	-	24	24
	1,743	9	13	5,129	6,894
Current liabilities:					
Current maturities of long-term loans	-	1	-	-	1
Current maturities in respect of debentures	93	125	-	-	218
Trade payables	1,590	-	64	-	1,654
Other payables	282	3	2	445	732
Provisions	-	-	-	47	47
Liability in respect of option to acquire partnership	165	-	-	-	165
Non-current liabilities:					
Debentures	768	1,345	-	-	2,113
Employee benefits	-	-	-	145	145
Provisions	-	-	-	26	26
Deferred tax liabilities	-	-	-	97	97
Other liabilities	9	-	-	57	66
Equity	-	-	-	1,630	1,630
	2,907	1,474	66	2,447	6,894
Net exposure (*)	(1,164)	(1,465)	(53)	2,682	-

(*) 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 aspects

3.1 Financial statements approval process

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 **(**External Director and Chairman of the Committee), Mr. Isaac Idan (Independent Director) and Mr. Gideon Shor (External Director)

On August 17, 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 six months of 2017, the Board of Directors held 10 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 half 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 June 30, 2017, see note 9 to the financial statements.
- As of August 7, 2017 Shufersal's share is included in the TA-35 index.

5. Specific Disclosure for Holders of Debentures

Data as at June 30, 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 rate	Payment dates of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series B	April 2005	500	498	35	28	34	1	37	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	-	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	13	10	12	-	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	1	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	-	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	389	384	384	8	419	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	375	364	364	13	426	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	486	463	463	17	542	Fixed	4.81%	5.09%	October. 8, 2017	October. 8, 2029	Annual interest on October 8 in each of the years 2017-2029	Unlinked
Series F	September 2015	317	313	324	317	317	10	376	Fixed	4.44%	4.3%	October. 8, 2020	October. 8, 2028	Annual interest on October 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 rate	Payment dates of principal		Interest payment dates	Type of linkage
												First date	Last date		
	July 2016	601	**643	638	601	601	19	713	Fixed	3.82%	4.3%	October 8, 2020	October 8, 2028	Annual interest on October 8 in each of the years 2016-2028	CPI
Total		**4,007**	**4,258**	**2,331**	**2,224**	**2,245**	**69**	**2,600**							

* 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 debentures 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 debentures (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 debentures (Series B) that were swapped in the above exchange offers (including interest payable).

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 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 Adv. and CPA, e-mail: ori@slcpa.co.il
3. In the first six 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 debentures.
4. Outstanding Series D, E and F debentures of the Company, 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. 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 debentures do not include financial covenants. The Series D, E and F debentures include financial covenants as stated hereunder.
7. On February 3, 2017, the Company repaid NIS 113,663,143 par value of Series C debentures. After that payment, Series C debentures are fully repaid. As of March 31, 2017, the company repaid NIS 47,352,600 par value of Series B debentures.
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 periodic report for the year ended 2016 for further details regarding the terms of the Company's Series D, E and F debentures, including a commitment to comply with financial covenants, a commitment to not create a current pledge, and restrictions relating to dividend distribution.

Presented hereunder are the results of calculating the financial covenants required from the Company in accordance with the terms of the Series D, E and F debentures (and the terms of the credit line agreement with three banking corporations, see paragraph 1.1.3), as of June 30, 2017 and proximate to the date of signing the financial statements:

Financial covenant	**Calculation results**	
	As at June 30, 2017	**Proximate to the date of signing the financial statements***
Ratio of net debt to total balance sheet shall not exceed 60%	26%	26%
The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,630 million	NIS 1,630 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 the calculation of the restrictions for the dividend that the Company undertook to comply with according to the terms of the Series D, E and F debentures (and the terms of the credit line agreement with three banking corporations, see paragraph 1.1.3) :

Restriction	Calculation results as at June 30, 2017
The Company's total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,630 million
Ratio of the Company's net debt to the EBITDA in the past 12 months shall not exceed 7	2.4 (*)

(*) Revenue in the amount of NIS 8 million that derives from a change in an onerous contract was deducted from the EBITDA in the calculation of the ratio of the Company's net debt to EBITDA.

10. Details regarding the credit rating of the Company

On May 28, 2017 Ma'alot published an updated rating report for the Company that affirmed the Company's "ilA+" rating and changed the rating outlook to positive because of an ongoing improvement in the financial ratios. The rating report is attached to this report by way of reference to the Company's immediate reporting dated May 28, 2017 (reference no. 2017-01-044968).

11. Information on the rating of outstanding debentures

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between the original date of issuance and reporting date	
				Date	Rating
Series B debentures – listed for trading	Ma'alot	ilA+ Positive	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 downgrading of Company rating outlook)	ilAA Negative
				December 21, 2010 and December 26, 2010 (downgrading of rating and expansion of series, respectively)	ilAA- Stable
				October 4, 2011 (affirmation of rating)	ilAA- Stable
				March 5, 2012 (affirmation of rating and downgrading of outlook)	ilAA- Negative
				September 20, 2012 (downgrading 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 (downgrading 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
				May 28, 2017 (affirmation of rating and upgrade of outlook)	ilA+ Positive
Series D debentures - listed for trading	Ma'alot	ilA+ Positive	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
				May 28, 2017 (affirmation of rating and upgrading outlook)	ilA+ Positive

11. **Information on the rating of outstanding debentures (cont'd)**

Series E debentures - listed for trading	Ma'alot	ilA+ Positive	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 outlook upgrade)	ilA Positive
				September 20, 2016 (rating upgrade and outlook upgrade)	ilA+ Stable
				November 15, 2016 (initial rating for series extension)	ilA+ Stable
				May 28, 2017 (affirmation of rating and upgrading outlook)	ilA+ Positive
Series F debentures – listed for trading	Ma'alot	ilA+ Positive	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
				May 28, 2017 (affirmation of rating and upgrading outlook)	ilA+ Positive

6. Additional information regarding the Company's investment property

IRSA Inversiones y Representaciones Sociedad Anonima ("IRSA", a foreign company incorporated in Argentina) is the controlling shareholder at IDB DEVELEPMENT LTD ("IDB"), the Company's controlling shareholder (indirectly). IRSA consolidates the financial statements of IDB in its financial statements (including the financial statements of Shufersal Ltd. ("the Company") as from September 30, 2015. As the company has been informed, IRSA accounting policy regarding investment property is the fair value model. Accordingly, As the company has been informed, as part of IRSA's reporting requirements, it is required to include in the framework of the information it provides to the Argentine public, details of the Company's investment properties, including the fair value as of March 31, 2017. This information is not required in accordance with the reporting requirements applicable to the Company and therefore is not included in the financial statements published by the Company.

Below is the fair value that the Company provided to IRSA as detailed above, as of March 31 2017:

	Fair value as at March 31, 2017
Investment Property	**NIS million**
Ha'Sharon	254
Ha'Shfela	98
Others	133
Total	**485**

	NIS million
Investment property under construction	**42**

Quarterly report regarding the status of liabilities by maturity dates

For information regarding the Company's liabilities, see immediate report regarding the status of liabilities according to repayment dates published by the Company on the date of publication of 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	Itzhak Aberkohen Chief Executive Officer

August 24, 2017

Section B-
Shufersal Ltd.

Condensed Consolidated Interim Financial Statements As at June 30, 2017

(Unaudited)

Convenience translation of original financial statements in Hebrew

Shufersal Ltd.

Condensed Consolidated Interim Financial Statements as at June 30, 2017 (unaudited)

Contents

Condensed Consolidated Interim Statements of Financial Position

	June 30 2017	June 30 2016	December 31 2016
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**557**	547	384
Short-term deposits	**-**	-	100
Marketable securities	**10**	10	10
Trade receivables	**1,063**	1,159	1,083
Other receivables	**129**	* 91	87
Current tax assets	**13**	8	8
Inventory	**667**	* 638	677
Total current assets	**2,439**	2,453	2,349
Investment in associate	**88**	69	71
Other investments	**18**	11	18
Investment property	**540**	504	543
Property, Plant and Equipment	**2,878**	2,817	2,842
Intangible assets and deferred expenses	**907**	862	895
Deferred tax assets	**24**	61	46
Total non-current assets	**4,455**	4,324	4,415
Total assets	**6,894**	6,777	6,764

* See Note 2C regarding reclassification.

Signed on behalf of the Board of Directors:

Israel Berman Chairman of the Board of Directors	Itzhak Aberkohen Chief Executive Officer	Talya Huber Chief Financial Officer

Date of approval: August 24, 2017

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

Condensed Consolidated Interim Statements of Financial Position

	June 30 2017	June 30 2016	December 31 2016
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities of long-term loans	**1**	3	2
Current maturities in respect of debentures	**218**	633	295
Trade payables	**1,654**	1,847	1,787
Other payables	**732**	692	656
Liability in respect of option to acquire partnership	**165**	-	-
Provisions	**47**	57	49
Total current liabilities	**2,817**	3,232	2,789
Bank loans	**-**	1	-
Debentures	**2,113**	1,914	2,173
Employee benefits	**145**	147	140
Provisions	**26**	36	35
Liability in respect of option to acquire partnership	**-**	138	159
Other liabilities	**66**	58	61
Deferred tax liabilities	**97**	90	92
Total non-current liabilities	**2,447**	2,384	2,660
Equity			
Share capital	**242**	240	240
Share premium	**906**	560	560
Capital reserves	**9**	12	14
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**558**	434	586
Total equity	**1,630**	1,161	1,315
Total liabilities and equity	**6,894**	6,777	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 Statements of Income

	Six months ended		Three months ended		Year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales and rentals	**5,904**	5,932	**3,001**	3,072	11,842
Cost of sales and services	**4,400**	* 4,478	**2,234**	* 2,335	*8,917
Gross profit	**1,504**	1,454	**767**	737	2,925
Selling and marketing expenses	**1,188**	* 1,173	**596**	* 581	*2,354
General and administrative expenses	**83**	71	**46**	40	152
Total selling, marketing, general and administrative expenses	**1,271**	1,244	**642**	621	2,506
Operating profit before other income	**233**	210	**125**	116	419
Other income (expenses), net	**(8)**	-	**(7)**	-	1
Increase in fair value and gain on sale of investment property, net	**3**	2	**3**	1	26
Total other income (expenses), net	**(5)**	2	**(4)**	1	27
Operating profit after other income (expenses)	**228**	212	**121**	117	446
Financing expenses	**(82)**	(67)	**(38)**	(41)	(154)
Financing income	**24**	11	**5**	6	36
Financing expenses, net	**(58)**	(56)	**(33)**	(35)	(118)
Share of profits of equity-accounted investee	**3**	-	**1**	-	2
Profit before taxes on income	**173**	156	**89**	82	330
Taxes on income	**(40)**	(41)	**(21)**	(20)	(68)
Profit for the period	**133**	115	**68**	62	262
Basic and diluted earnings per share (in NIS)	**0.62**	0.54	**0.31**	0.29	1.23

* See Note 2C regarding reclassification.

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

	Six months ended		Three months ended		Year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**133**	115	**68**	62	262
Other comprehensive income (loss) items that after initial recognition in Comprehensive income (loss) were or will be transferred to profit or loss					
Effective portion of changes in fair value of Cash Flow hedges	**(5)**	-	**(2)**	-	2
Total other comprehensive income (loss) for the period after initial recognition in Comprehensive income (loss) was or will be transferred to Profit or loss, net of tax	**(5)**	-	**(2)**	-	2
Remeasurement of defined benefit plan	**(4)**	(13)	**(4)**	(6)	(11)
Revaluation reserve for Property, plant and equipment, classified as investment property	**-**	6	**-**	-	6
Taxes on other comprehensive income items that will not be transferred to profit or loss	**1**	1	**1**	1	-
Total other comprehensive loss for the period that will not be transferred to profit or loss, net of tax	**(3)**	(6)	**(3)**	(5)	(5)
Other comprehensive loss for the period, net of tax	**(8)**	(6)	**(5)**	(5)	(3)
Total comprehensive income for the Period	**125**	109	**63**	57	259

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

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to owners of the Company							
	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the six months ended June 30, 2017 (unaudited)								
Balance as at January 1, 2017	**240**	**560**	**14**	**(85)**	**586**	**1,315**	**-**	**1,315**
Share based payment	**-**	**-**	**-**	**-**	**2**	**2**	**-**	**2**
Dividend to owners	**-**	**-**	**-**	**-**	**(160)**	**(160)**	**-**	**(160)**
Issue of ordinary shares	**2**	**346**	**-**	**-**	**-**	**348**	**-**	**348**
Profit for the period	**-**	**-**	**-**	**-**	**133**	**133**	**-**	**133**
Other comprehensive loss for the period, net of tax	**-**	**-**	**(5)**	**-**	**(3)**	**(8)**	**-**	**(8)**
Balance as at June 30, 2017	**242**	**906**	**9**	**(85)**	**558**	**1,630**	**-**	**1,630**
For the six months ended June 30, 2016 (unaudited)								
Balance as at January 1, 2016	240	560	7	(85)	439	1,161	9	1,170
Share based payment	-	-	-	-	4	4	-	4
Dividend to owners	-	-	-	-	(100)	(100)	-	(100)
Acquisition of non-controlling interests	-	-	-	-	(13)	(13)	(9)	(22)
Profit for the period	-	-	-	-	115	115	-	115
Other comprehensive loss for the period, net of tax	-	-	5	-	(11)	(6)	-	(6)
Balance as at June 30, 2016	240	560	12	(85)	434	1,161	-	1,161

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

Shufersal Ltd.

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to owners of the Company							
	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three months ended June 30, 2017 (unaudited)								
Balance as at April 1, 2017	**240**	**560**	**11**	**(85)**	**492**	**1,218**	**-**	**1,218**
Share based payment	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
Issue of ordinary shares	**2**	**346**	**-**	**-**	**-**	**348**	**-**	**348**
Profit for the period	**-**	**-**	**-**	**-**	**68**	**68**	**-**	**68**
Other comprehensive loss for the period, net of tax	**-**	**-**	**(2)**	**-**	**(3)**	**(5)**	**-**	**(5)**
Balance as at June 30, 2017	**242**	**906**	**9**	**(85)**	**558**	**1,630**	**-**	**1,630**
For the three months ended June 30, 2016 (unaudited)								
Balance as at April 1, 2016	240	560	12	(85)	375	1,102	-	1,102
Share based payment	-	-	-	-	2	2	-	2
Profit for the period	-	-	-	-	62	62	-	62
Other comprehensive loss for the period, net of tax	-	-	-	-	(5)	(5)	-	(5)
Balance as at June 30, 2016	240	560	12	(85)	434	1,161	-	1,161
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 owners	-	-	-	-	(100)	(100)	-	(100)
Acquisition non-controlling interests	-	-	-	-	(13)	(13)	(9)	(22)
Profit for the year	-	-	-	-	262	262	-	262
Other comprehensive profit 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 Statements of Cash Flows

	Six months ended		Three months ended		Year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit for the period	**133**	115	**68**	62	262
Adjustments for:					
Depreciation of fixed assets	**135**	127	**67**	65	257
Impairment losses on fixed assets	**11**	12	**11**	1	15
Amortization of intangible assets and deferred expenses	**16**	13	**8**	8	28
Income tax expense	**40**	41	**21**	20	68
Income taxes paid, net	**(17)**	17	**(9)**	20	6
Net financing expense	**58**	56	**33**	35	118
Share of profits of equity accounted investee	**(3)**	-	**(1)**	-	(2)
Change in fair value and gain on sale of investment property, net	**(3)**	(2)	**(3)**	(1)	(26)
Change in employee benefits	**(1)**	-	**2**	(2)	(6)
Share based payment	**2**	4	**1**	2	8
Change in provision for onerous contracts	**(8)**	(22)	**(3)**	(18)	(28)
Change in trade receivables	**23**	(10)	**252**	5	70
Change in other receivables	**(46)**	(22)	**12**	*7	(17)
Change in inventory	**10**	18	**145**	*109	(21)
Change in trade payables	**(150)**	27	**(229)**	(102)	(35)
Change in other payables, provisions and other liabilities	**65**	107	**(305)**	42	70
Net cash from operating activities	**265**	481	**70**	253	767

* See Note 2C regarding reclassification.

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

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended		Three months ended		Year ended
	June 30 2017	**June 30 2016**	**June 30 2017**	**June 30 2016**	**December 31 2016**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Cash flows from investing activities					
Purchase of fixed assets	**(157)**	(166)	**(66)**	(86)	(325)
Proceeds from sale of fixed assets	**2**	1	**1**	**-**	1
Investment in deferred expenses and intangible assets	**(21)**	(11)	**(16)**	(8)	(31)
Investment in investment property	**(5)**	(11)	**(2)**	(8)	(26)
Taxes paid on sale of investment property and fixed assets	**-**	(2)	**-**	(2)	(2)
Purchase of marketable securities	**(4)**	(1)	**(1)**	**-**	(4)
Proceeds from sale of marketable securities	**4**	1	**1**	**-**	4
Cash payments from futures transactions, net	**(3)**	(1)	**(1)**	(1)	(2)
Proceeds from realization of short-term deposits, net	**98**	270	**2**	**-**	164
Interest and dividend received	**1**	6	**-**	**-**	6
Net cash from (used in) investing activities	**(85)**	86	**(82)**	(105)	(215)

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

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended		Three months ended		Year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows used in financing activities					
Acquisition of non-controlling interests	-	(22)	-	-	(22)
Repayment of capital note	-	(8)	-	-	(8)
Transaction costs in relation to replaced debentures	-	-	-	-	(3)
Repayment of debentures	**(172)**	(529)	-	-	(587)
Interest paid	**(15)**	(99)	-	-	(174)
Dividend paid	**(160)**	(100)	**(160)**	(100)	(100)
Proceeds from issue of ordinary shares, net	**348**	-	**348**	-	-
Repayment of long-term loans from banks	**(1)**	(1)	-	-	(3)
Partners' withdrawals from partnership	**(7)**	(7)	**(4)**	(7)	(17)
Net cash from (used in) financing activities	**(7)**	(766)	**184**	(107)	(914)
Net increase (decrease) in cash and cash equivalents	**173**	(199)	**172**	41	(362)
Cash and cash equivalents as at the beginning of the period	**384**	746	**385**	506	746
Cash and cash equivalents as at the end of the period	**557**	547	**557**	547	384

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

Note 1 - General

The reporting entity

Shufersal Ltd. (hereinafter – the "Company" and/or "Shufersal") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 30 Benyamin Shmotkin Street, Rishon-Le-Zion. The condensed consolidated interim financial statements of the Group as at June 30, 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 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, as well as manages a credit card customers' club (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. Basis of Preparation

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, 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 August 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 amounts were reclassified for consistency, such that an amount of NIS 112 million, NIS 55 million and NIS 28 million were reclassified from selling and marketing expenses to cost of sales and services for the year ended December 31, 2016 and for the six and three-month period ended June 30, 2016, respectively. That classification had no impact on the total operating income and profit for the period

Note 2 - Basis of Preparation (cont'd)

C. Reclassification (cont'd)

(2) The Group reclassified consignment inventory that is held by third party in the statement of financial position from other receivable to inventory. Comparative amounts were reclassified for consistency, such that an amount of NIS 13 million was reclassified from other receivables to inventory as of June 30, 2016

Note 3 - Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements were applied with 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.

A. IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

Further to Note 3R(2) to the group's 2016 consolidated financial statements regarding the expected application of IFRS 15 "Revenue from Contracts with Customers", the Group completed the examination of the implementation implications of IFRS 15 on its financial statements. The implementation of the standard is not expected to have a material effect on the consolidated financial statements.

B. IFRS 9 (2014), Financial Instruments ("the final version of IFRS 9")

Note 3R(1) to the group's 2016 consolidated financial statements provides information on the expected application of IFRS 9 "Financial Instruments" in and after the first quarter of 2018. Accordingly, the expected impact before tax of the final version of IFRS 9 will be NIS 20 million, which will be recognized directly as an increase of retained earnings (in relation to debentures replacements in 2016. See also note 17(4) to the group's 2016 consolidated financial statements).

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.

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.

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

C. In the reported period, a number of indications were identified of change in the value of an investment in an equity accounted investee, 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 investee. The income was classified to financing income in the income statement.

D. 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 undermine 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 approval application to the Commissioner was filed. On July 30, 2017, the Company and Hamashbir agreed to amend the agreement and extend the period for obtaining the Commissioner's approval through August 31, 2017, to postpone the date of providing the interim financial statements of New-Pharm to the Company through August 25, 2017, and to push back the deadline regarding the condition as to termination of the agreement due to "material adverse change" to August 30, 2017. As of the date of issuing this report, the Commissioner's approval has not yet been received.

Further to the condition precedent as to obtaining the approval of the Commissioner by the deadline that was set as above, the agreement is dependent on not having any the terms met that may lead to termination (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 within 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 further 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 August 25, 2017 an audited interim report of New-Pharm as of June 30, 2017 (the "interim report").

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

D. **(cont'd)**

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 August 30, 2017 (or at the request of any of the parties seven days after that, at the latest), that disparity or violation exists in any presentation or of any obligation of the seller in the agreement that may constitute material 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, material adverse change. It was additionally 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, it will discontinue marketing the loyalty club and credit card of the seller. The agreement includes certain presentations, as is common in those types 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

E. In April 2017, the Company issued to the public 12,026,300 ordinary shares of NIS 0.1 par value via a shelf prospectus. The overall immediate proceeds received for the ordinary shares allocated under the shelf prospectus are NIS 215 million (approx. NIS 209 million less issuance expenses).

F. In June 2017, the Company issued to financial institutions 7,963,595 ordinary shares of NIS 0.1 par value via a private placement. The overall immediate consideration received in respect of the ordinary shares allocated in the private placement is approx. NIS 140 million (approx. NIS 139 million less issuance expenses).

G. On June 26, 2017, a monetary demand and assessment was received from the Israel Land Authority (ILA) in respect to an asset that the Company leases in Netanya, Israel, claiming that payments are due to the ILA for using the asset for commerce and hi-tech rather than for industrial purposes. According to the demand letter, the amount charged for nonconforming use in past periods is NIS 40 million (before VAT), and for the period ending January 28, 2018 is NIS 2.35 million (before VAT). After that date, the Company will be required to provide an approval by the local zoning committee for that nonconforming use. On August 16 2017, The Company filled an objection against the amounts in demand letter and its underlying assumptions. The Company relied, inter alia, on its legal advisors and created an appropriate provision in these financial statements.

Note 6 – Operating Segments

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 six months ended June 30, 2017 (unaudited):

	Retail	Real estate	Credit card customers' club management	Reconciliations	Total consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	**5,884**	**20**	**41**	**(41)**	**5,904**
Inter-segment rental revenues	**-**	**62**	**-**	**(62)**	**-**
Segment revenues	**5,884**	**82**	**41**	**(103)**	**5,904**
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	**155**	**64**	**-**	**(12)**	**207**
Operating profit from management of credit card customers' club	**26**	**-**	**26**	**(26)**	**26**
Operating profit before other income (expenses)	**181**	**64**	**26**	**(38)**	**233**
Other income (expenses), net	**(8)**	**5**	**-**	**(2)**	**(5)**
Operating profit after other income (expenses)	**173**	**69**	**26**	**(40)**	**228**
Financing expenses					**(82)**
Financing income					**24**
Share of profit of equity accounted investee					**3**
Taxes on income					**(40)**
Profit for the period					**133**

Note 6 – Operating Segments (cont'd)

For the six months ended June 30, 2016 (unaudited):

	Retail	Real estate	Credit card customers' club management	Reconciliations	Total consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	5,911	21	36	(36)	5,932
Inter-segment rental revenues	-	63	-	(63)	-
Segment revenues	5,911	84	36	(99)	5,932
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	131	67	-	(11)	187
Operating profit from management of credit card customers' club	23	-	23	(23)	23
Operating profit before other income (expenses)	154	67	23	(34)	210
Other income (expenses), net	(2)	6	-	(2)	2
Operating profit after other income (expenses)	152	73	23	(36)	212
Financing expenses					(67)
Financing income					11
Taxes on income					(41)
Profit for the period					115

Note 6 - Operating Segments (cont'd)

For the three months ended June 30, 2017 (unaudited):

	Retail	Real estate	Credit card customers' club management	Reconciliations	Total consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	**2,991**	**10**	**21**	**(21)**	**3,001**
Inter-segment rental revenues	**-**	**31**	**-**	**(31)**	**-**
Segment revenues	**2,991**	**41**	**21**	**(52)**	**3,001**
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	**85**	**32**	**-**	**(6)**	**111**
Operating profit from management of credit card customers' club	**14**	**-**	**14**	**(14)**	**14**
Operating profit before other Income (expenses)	**99**	**32**	**14**	**(20)**	**125**
Other income (expenses), net	**(7)**	**5**	**-**	**(2)**	**(4)**
Operating profit after other income (expenses)	**92**	**37**	**14**	**(22)**	**121**
Financing expenses					**(38)**
Financing income					**5**
Share of profit of equity accounted investee					**1**
Taxes on income					**(21)**
Profit for the period					**68**

Note 6 – Operating Segments (cont'd)

For the three months ended June 30, 2016 (unaudited):

	Retail	Real estate	Credit card customers' club management	Reconciliations	Total consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	3,062	10	18	(18)	3,072
Inter-segment rental revenues	-	31	-	(31)	-
Segment revenues	3,062	41	18	(49)	3,072
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club	76	34	-	(6)	104
Operating profit from management of credit card customers' club	12	-	12	(12)	12
Operating profit before other Income (expenses)	88	34	12	(18)	116
Other income (expenses), net	-	3	-	(2)	1
Operating profit after other income (expenses)	88	37	12	(20)	117
Financing expenses					(41)
Financing income					6
Taxes on income					(20)
Profit for the period					62

Note 6 – Reporting Segments (cont'd)

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

	Retail	Real estate	Credit card customers' club management	Reconciliations	Total consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	11,798	44	75	(75)	11,842
Inter-segment rental revenues	-	126	-	(126)	-
Segment revenues	11,798	170	75	(201)	11,842
Operating profit before other income (expenses) and excluding profit from management of the credit card customers' club*	259	136	-	(23)	372
Operating profit from management of credit card customers' club*	47	-	47	(47)	47
Operating profit before other income (expenses)	306	136	47	(70)	419
Other income (expenses), net	4	(14)	-	37	27
Operating profit after other income (expenses)	310	122	47	(33)	446
Financing expenses					(154)
Financing income					36
Share of profit of equity accounted investee					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 the Group companies believe, among other things based on the legal opinion as to the likelihood of losing those 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 the Group's contingent liabilities as of June 30, 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 the Group	8	943	**376	**1,327**
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	*-	5	2	**7**
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	-	-	**4**
Customer damages claims	Damages claims, handled by insurance companies	19	6	*-	**25**
Total		**31**	**954**	**378**	*****1,363**

* Indicates an amount of less than NIS 1 million

** Includes claims against the Company and additional defendants at a total of NIS 70 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.

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

a. (cont'd)

2. The following is information about the number of contingent liabilities of the group pending as of June 30, 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)	*794	*439
NIS 100 million to NIS 500 million	3	854
Claims with no indication of claimed amounts	6	-
Claims against the Company and others with no indication of claimed amounts	3	-
Claims against the Company and others with no indication of claimed amounts from the Company separately	5	70
Total	**811**	**1,363**

* 688 customer damages claims are pending as of June 30, 2017 with monetary value of NIS 25 million.

b. Information about subsequent events claims

On September 29, 2016, the Company was served a motion to certify a class action ("the motion to certify"), which was filed to the Haifa District Court, seeking NIS 3 million in damages from the Company. On July 18, 2017, after the date of this report, the courts certify a class action in this case, and the plaintiff revised the amount of damages to NIS 14 million. At this stage, it is not possible to provide an estimate of potential monetary exposure.

Subsequent to the date of the report, two motions were filed to certify a NIS 6 million consumer class actions against the Company.

Additionally, a motion to certify a consumer class action against the Company and other defendants was served, without indication of the damages sought by the lawsuit.

Further, a motion to certify an approx. NIS 3 million consumer class action against the Company was rejected and withdrawn with approval of the court, with immaterial outflows.

Another motion to certify a consumer class action against the Company and other defendants, seeking NIS 1 million, was rejected and withdrawn with approval of the court without any outflows.

Note 8 - Financial Instruments

Financial instruments measured at fair value for disclosure purposes only
The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, other short-term investments, derivatives, trade and other payables, short and long-term loans and debt are equal or approximate to their fair value.
The fair value of the debentures and their carrying amount as presented in the statement of financial position are as follows:

	As at June 30, 2017		As at June 30, 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	
Debentures (including accrued interest)	**2,331**	**2,600**	2,547	2,747	2,468	2,630

The debentures fair value is the market value (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 June 30, 2017				As at June 30, 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
Investments**	**-**	**-**	**18**	**18**	-	-	11	11	-	18	18
	10	**-**	**18**	**28**	10	-	11	21	10	18	28
Financial liabilities											
Interest Swap	-	**(11)**	-	**(11)**	-	-	-	-	-	***-**	**-**
Forward - hedge on transactions linked to foreign currency	**-**	**(2)**	**-**	**(2)**	-	-	-	-	-	-	-
	-	**(13)**	**-**	**(13)**	-	-	-	-	-	*-	-
	10	**(13)**	**18**	**15**	10	-	11	21	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. On July 11, 2017, after balance sheet date, the Company notified Paz Oil Company Ltd. (hereinafter: "Paz") on exercising the call option that was given to the Company to acquire all holdings of Paz in Shufersal Finance Limited Partnership (and in its general partner) ("Shufersal Finance"), and that according to the partnership agreement between the Company, Paz and Leumi Card Ltd. as of the date of this report, the Company holds 64% of Shufersal Finance, and Paz and Leumi Card hold 20% and 16%, respectively. Under the partnership agreement, the exercise price of the option will be based on the value of Shufersal Finance as determined by a valuer and based on the holdings of Paz in Shufersal Finance. On July 19, 2017, the Company and Leumi Card agreed that the Company will be permitted to notify Leumi Card by August 15, 2017 that it does not wish to have an additional extension of the partnership agreement. On August 15, 2017, the parties agreed to postpone the date for such notice by the Company until August 28, 2017. Additionally, under the partnership agreement, Leumi card has a right, subject to regulatory restrictions, to notify the Company that it wishes to acquire the holdings stake of Paz in Shufersal Finance under the same terms and conditions, and in such case, the Company and Leumi Card will acquire the stake of Paz proportionally to their stake in Shufersal Finance. On July 26, 2017, the Company received Leumi Card's notice according to which Leumi Card intends to participate in the acquisition of Paz's holdings in Shufersal Finance.

b. For information about an extension of the period for obtaining an approval of the Antitrust Commissioner in relation to the acquisition of the entire share capital of New-Pharm by the Company, see note 5(d) to this report.