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

For the Three-Month Period Ended March 31, 2018

Contents

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Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the three-month period ended March 31, 2018 (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 a retail group that owns the largest chain of supermarkets in Israel. In December 2017 the Group completed the acquisition of the entire issued share capital of New Pharm Drugstores Ltd. ("New Pharm"). The Group operates 338 branches throughout the country, of which 274 are branches of Shufersal and 64 are branches of New Pharm. The Shufersal branches operate in a number of formats. The Group has 518 thousand square meters of selling areas of which approximately 496[2] thousand square meters are Shufersal branches and 22 thousand square meters are New Pharm branches, as well as 4 online storage facilities over an area of 12 thousand square meters[3]. The Group employs about 13.4 thousand employees (calculated positions) and has annual revenues of about NIS 12.5 billion.
As at March 31, 2018 and the date of issuing 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 four operating segments that are reported as business segments in the Company's financial statements, the retail segment, the real estate segment, the loyalty program credit card management segment and the New Pharm segment[4].
For details regarding the aforesaid operating segments, see Note 6 to the Company's consolidated financial statements as at March 31, 2018 (hereinafter – "**the financial statements**").

1.1.2 Management's discussion of the principal results for the first quarter of 2018

For details on the management's review for 2017, see Paragraph 1.1.2 to the Board of Directors' report on the state of the Company's affairs as at December 31, 2017 ("**the 2017 directors' report**") as was reported on March 25, 2018 in the framework of the Company's periodic report for 2017 (reference no.: 2018-01-023709) ("**the periodic report**").
The Company's results for the first quarter of 2018 were affected by several matters:

- Seasonality (see Paragraph 1.2 hereunder).
- The Company continued the development of its digital platforms, mainly the "Shufersal Online" system, including continuing to open dedicated storage facilities for that distribution channel. In the first quarter of the year, the significant growth of retail sales through Shufersal Online continued, and they constituted about 13.6% of the Company's retail sales (compared with 11.8% in the first quarter of 2017).
- Continued development and strengthening of the private label including launching products in existing and new categories. In the first quarter of the year, the private label accounted for 23.8% of all retail sales, which is an increase compared to the rate of those sales in the first quarter of 2017 (about 22.1%[5] of total retail sales).

[1] For purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (March 31, 2018) unless stated otherwise or implied otherwise by the context of the matter.
[2] Not including branches spread over about 2 thousand square meters that are closed for renovations as at the date of the report.
[3] Dedicated storage facilities for the online marketing of products through the Company's website.
[4] The data in this report with respect to the New Pharm segment do not include comparative data for 2017.
[5] Including classification of comparative data following the classification of categories to the private label.

- Examination and execution of integration of the New Pharm operation into the Company, including operating synergies, a brand refresh, and so forth.
- The Company began establishing the new credit card customer club, and about 300 thousand credit cards were issued in the first quarter of the year.

1.1.3 Principal events that occurred during the reporting period

- On January 18, 2018, in accordance with a shelf registration statement, the Company issued NIS 476 million par value of its existing Series E bonds, by way of expansion of the series, for a total consideration (gross) of NIS 568 million.
- On January 18, 2018 the Company launched the collaboration with the credit card company ICC. See also Note 5.E to the financial statements.
- The Company completed the acquisition of a 16% interest in Shufersal Finance Limited Partnership from Paz for the amount of NIS 117 million, so that the Company has an 80% interest in the partnership. See also Note 5.C and 5.D to the financial statements.
- See Note 5.A to the financial statements for information on the Company's decision to distribute a dividend in May 2018.

1.2 Analysis of Results of Operations

In 2018 the eve of Passover was on March 30, as compared to 2017 in which the eve of Passover was on April 10. The timing of the holiday affects balance sheet items such as trade receivables, inventories, trade payables as well as sales and the intensity of special offers made in the first quarter of this year as compared to the previous year. The effect of Passover is greater in the first quarter of this year than its effect in the corresponding quarter last year.

1.2.1 Analysis of the results for the three months ended March 31, 2018 as compared to the corresponding period last year

	Results of operations for the three months ended March 31, 2018		Results of operations for the three months ended March 31, 2017	
	%	**NIS millions**	**%**	**NIS millions**
Revenues		3,169		*2,904
Gross profit	26.8%	850	25.4%	738
Selling, marketing, administrative and general expenses	23.3%	(737)	21.6%	*(628)
Operating profit before other expenses	**3.6%**	**113**	**3.8%**	**110**
Other expenses, net		(1)		(1)
Operating profit after other expenses		112		109
Financing expenses, net		(28)		*(26)
Share in profits of investee accounted for under the equity method		1		2
Profit before taxes on income		85		85
Taxes on income		(18)		(19)
Profit for the period		**67**		**66**

* See Note 3.A to the financial statements regarding the application of IFRS 15.

Retail segment revenues amounted to NIS 3,017 million in the first quarter of the year, compared with NIS 2,894 million in the corresponding quarter last year, a 4.3% increase that is mainly due to seasonality. The sales of the Company's stores increased at the rate of 3.7% in the first quarter of the year as compared with the corresponding quarter last year. The difference between the increase in revenue and the increase in sales is mainly attributable to an increase in the new member gift of the credit card club following the change in the issuer of the credit card[6].
Same store[7] sales increased by 2.8% compared to the corresponding quarter last year.
The sales per square meter[8] amounted to NIS 6,138, in the first quarter of the year[9], compared with NIS 5,856 in the corresponding quarter last year, an increase of 4.8% that is mainly due to an increase in sales and a reduction in selling areas.

Real estate segment revenues amounted to NIS 44 million in the first quarter of the year, compared with NIS 41 million in the corresponding quarter last year. The increase in revenues is mainly due to the occupation of vacant properties and to new income-producing properties.

Revenues from the loyalty program credit card management segment amounted to NIS 21 million in the first quarter of the year, compared with NIS 20 million in the corresponding quarter last year.

Revenues from the New Pharm segment amounted to NIS 140 million. The sales per square meter of New Pharm stores amounted to NIS 6,237[10] in the first quarter of the year.

The Company's revenues amounted to NIS 3,169 million in the first quarter of the year, compared with NIS 2,904 million in the corresponding quarter last year, an increase of 9.1% that is mainly due to the retail segment and the New Pharm segment that began operating this year.

Gross profit amounted to NIS 850 million in the first quarter of the year, compared with NIS 738 million in the corresponding quarter last year, an increase of NIS 112 million. The gross profit rate was 26.8% compared with 25.4% in the corresponding quarter last year. The increase in gross profit and gross profit rate is mainly due to the addition of the New Pharm activity, an improvement in trade terms, private label growth, the special offer mix and an improvement in efficiency of the operations in the logistics center and distribution chain.

Selling, marketing, administrative and general expenses amounted to NIS 737 million in the first quarter of the year, compared with NIS 628 million in the corresponding quarter last year. The ratio of expenses to revenues was 23.3% compared with 21.6% in the corresponding quarter last year. The increase in expenses is mainly due to the addition of the New Pharm activity, the costs of launching the ICC credit card and an increase in payroll expenses including minimum wages (see Paragraph 7.8 of Part A (Description Business Affairs) in the periodic report).

The operating profit before other expenses in the retail segment amounted to NIS 85 million in the first quarter of the year, a rate of 2.8%, compared with NIS 84 million and a rate of 2.9% in the corresponding quarter last year.

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[6] See Paragraph 3.3.3 of Part A (Description of Business Affairs) of the periodic report and Note 30.A to the financial statements as at December 31, 2017 that are included in the periodic report.
[7] Same store sales – gross sales of active stores that were opened before January 2017.
[8] The areas of the new branches are calculated proportionately from the date the branch was opened. The area of the branch is the gross area including selling areas and other operating areas.
[9] As from the financial statements as at June 30, 2017, the Company includes it sales through online storage facilities in the same store sales and in the calculation of the sales per square meter, and includes the areas of the online storage facilities in the calculation of the sales per square meter, including the comparative data.
[10] The area of the branch is the gross area including selling areas and other operating areas. As aforesaid, the data for the New Pharm segment do not include comparative data for 2017.

The operating profit in the real estate segment amounted to NIS 36 million in the first quarter of the year, compared with NIS 32 million in the corresponding quarter last year, and is due to the aforesaid.

The operating loss in the loyalty program credit card management segment amounted to NIS 13 million in the first quarter of the year, compared with a profit of NIS 13 million in the corresponding quarter last year, and is due to the costs of launching the ICC credit card.

The Company's operating profit after other expenses amounted to NIS 112 million in the first quarter of the year and a rate of 3.5%, compared with NIS 109 million and a rate of 3.8% in the corresponding quarter last year, an increase of NIS 3 million that is due to the aforesaid.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 193 million and a rate of 6.1% in the first quarter of the year, compared with NIS 188 million and a rate of 6.5% in the corresponding quarter last year.

Financing expenses net, amounted to NIS 28 million in the first quarter of the year, compared with NIS 26 million in the corresponding quarter last year. The increase in financing expenses is due to income being recorded in the corresponding quarter last year from reversal of impairment on a loan to an associate company in the amount of NIS 14 million, while on the other hand the financing expenses decreased mainly because of income from forward transactions in the first quarter of the year.

Tax expenses amounted to NIS 18 million in the first quarter of the year, compared with NIS 19 million in the corresponding quarter last year.

Profit for the period amounted to NIS 67 million in the first quarter of the year, compared with NIS 66 million in the corresponding quarter last year.

The Company's basic and diluted earnings per share amounted to NIS 0.28 in the first quarter of the year, compared with NIS 0.31 in the corresponding quarter last year.

1.3 Financial Position, Liquidity and Sources of Finance

1.3.1 Cash flow – Analysis of the results for the first quarter of 2018 as compared with the corresponding quarter last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 326 million in the first quarter of 2018, compared with NIS 196 million in the corresponding quarter last year. The increase in cash flow from operating activities is mainly due to changes in working capital items, particularly because of the timing of the Passover holiday.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 407 million in the first quarter of 2018, compared with NIS 4 million in the corresponding quarter last year. Cash used in investing activities in the first quarter of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 135 million and an investment in deposits in the amount of NIS 251 million.
The cash used in investing activities in the first quarter of 2017 included mainly acquisition of property, plant and equipment in the amount of NIS 91 million and on the other hand realization of short-term deposits in the amount of NIS 94 million.

Cash flow from financing activities

Net cash from financing activities amounted to NIS 446 million in the first quarter of 2018, compared with cash used in financing activities in the amount of NIS 191 million in the corresponding quarter last year. The cash from financing activities in the first quarter of 2018 included mainly net consideration from an issuance of bonds in the amount of NIS 563 million and on the other hand fulfillment of a liability to partners in the amount of NIS 117 million.

The cash used in financing activities in the first quarter of 2017 included mainly repayment of bonds in the amount of NIS 172 million and interest payments in the amount of NIS 15 million.

1.3.2 Liquid asset balances and financial ratios

As at the end of the first quarter of 2018, the net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 1,097 million, compared with NIS 395 million in the corresponding quarter last year. The increase in net liquid assets is mainly due to an increase in cash following the issuance of Series E bonds of the Company, by way of an expansion of the series, that was executed in January 2018.

As at the end of 2017, net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 482 million.

As at the end of the first quarter of 2018, the liabilities to the holders of bonds and to banks, including interest payable (hereinafter – "**the financial debt**") amounted to NIS 2,763 million, compared with NIS 2,308 million in the corresponding quarter last year. The ratio of the Company's financial debt to its total assets was approximately 33.3% at the end of the first quarter of 2018, compared with 32.4% in the corresponding quarter last year.

Total financial debt at the end of 2017 amounted to NIS 2,192 million, and the ratio of financial debt to total assets was approximately 30.5% at that time

The Company's equity amounted to NIS 1,735 million as at the end of the first quarter of 2018, compared with NIS 1,224 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 21% at the end of the first quarter of 2018, compared with 17% in the corresponding quarter last year.

As at the end of 2017 the Company's equity amounted to NIS 1,808 million and the ratio of the Company's equity to its total assets was approximately 25%.

1.3.3 Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as at March 31, 2018

As at March 31, 2018, the Company has a working capital deficit (on a consolidated basis) of NIS 296 million, compared with a working capital deficit of NIS 788 million as at December 31, 2017 and a working capital deficit of NIS 592 million as at March 31, 2017, and it has a working capital deficit (on a stand-alone basis) as at March 31, 2018 of NIS 307 million, compared with a working capital deficit of NIS 494 million as at December 31, 2017 and of NIS 711 million as at March 31, 2017.

The decrease in the working capital deficit as at March 31, 2018 is due to an expansion of the Company's Series E bonds for a net consideration of NIS 563 million.

The Company ended the quarter with a positive cash flow from operating activities (see paragraph 1.3.1 above).

As stated in the Company's previous directors' reports, as a result of actions taken by the Company including replacing bonds having a shorter average duration with bonds having a longer average duration, the Company's bond maturities became "flatter" and the average duration longer.

In March and April 2017, the Company entered into agreements with three banking institutions (with each one separately) to receive a guaranteed two-year credit facility for the Company of up to NIS 100 million from each banking institution that may be utilized by short-term credit withdrawals. As at the date of issuing this report, these credit facilities have not yet been utilized. It is further noted that in 2017 the Company issued ordinary shares of the Company for a net consideration of NIS 348 million (see Paragraph 1.1.3 above). Furthermore, in January 2018 the Company completed an expansion of its Series E bonds for a net consideration of NIS 563 million.

In view of all the aforesaid, 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, 2018, the Board of Directors decided that notwithstanding the working capital deficit as at March 31, 2018 the Company does not have a liquidity problem.

The assessment of the Company's accessibility to sources of credit (including issuing additional bonds, insofar 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, the Company's past experience in raising capital, raising debt and refinancing, the Company's ability to realize real estate and the fact that the Company and its subsidiaries own significant unencumbered real estate properties. It is noted that as at the date of issuing this report, there is only a small number of liens of an insignificant amount on the assets of the Company and its subsidiaries.

It is emphasized that the information on the Company's accessibility to sources of financing is forward-looking information, within its meaning in the Securities Law – 1968, which 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 19 of Part A to the periodic report.

2. Market Risk Exposure and Management

2.1 Company officer responsible for market risk management

The Company's CFO, Ms. Talya Huber, is responsible for the management of financial market risks in the Company.

2.2 Description of market risks

No material changes have occurred during the reporting period as regarding the exposure of the Company to market risks and the management thereof in relation to the Company's reports on this matter in the directors' report for 2017. 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 ("the CPI") mainly in respect of CPI-linked bonds issued by the Company that amount to NIS 1.4 billion as at March 31, 2018 (the same as NIS 1.4 billion as at March 31, 2017), and in respect of CPI-linked payments in the annual amount of NIS 427 million.

As at March 31, 2018 the Company has swap transactions for exchanging CPI-linked NIS cash flows with fixed NIS cash flows in respect of the expansion of the Company's Series F bonds. The amount of the hedging and hedged instruments is NIS 600 million. The transactions are accounted for as accounting hedges.
In the first quarter of 2018, the Company incurred financing expenses in relation to those transactions in the amount of NIS 2 million, compared with NIS 3 million in the corresponding quarter last year.

2.2.2 Foreign currency risks

The Company's policy is to hedge the currency exchange rates in respect of import of goods from outside of Israel.
As at March 31, 2018, the Company has forward contracts on the rate of the dollar in the amount of US$17.2 million for settlement until December 2018, cylinder transaction on the rate of the dollar in the amount of US$12 million for settlement until November 2018 and forward contracts on the exchange rate of the euro in the amount of €14.8 million for settlement until December 2018.

In the first quarter of 2018, the Company incurred financing income in the amount of NIS 2 million in respect of those contracts, compared with financing expenses of NIS 5 million in the corresponding quarter last year.
The Company's exposure to currency risks is insignificant.

2.2.3 Interest risks

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

2.2.4 Price risks of securities in Israel

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

The Company's current investment policy, as was approved by the Company's Investments Committee in January 2018, is as follows: [a] money intended for the repayment of bonds, investments and current payments within a period of 6 months will be invested in bank deposits according to cash flow needs; and [b] money intended for such needs after more than 6 months will be invested according to a revised investment policy that mainly provides as follows: up to 15% of the Company's investment portfolio may be invested in exchange traded notes (or other financial instruments) that track share indices (TA 35, TA 90 and the TA 125 index). The rest of the investment portfolio will be mainly invested in government bonds, bank deposits and short-term bills with the balance being invested mainly in corporate bonds rated A and higher.

2.3 Linkage bases report

Presented below is the Company's linkage bases report as at March 31, 2018:

	March 31, 2018				
	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	715	-	22	-	737
Marketable securities	6	4	-	-	10
Deposits	350	-	-	-	350
Trade receivables	1,372	-	-	-	1,372
Other receivables, including derivatives	40	7	11	110	168
Inventories	-	-	-	829	829
Non-current assets:					
Receivables and debit balances	7	-	-	-	7
Investment in an associate company	37	-	-	16	53
Loan in associate company	34	-	-	-	34
Investment in shares measured at fair value	16	-	-	-	16
Investment property	-	-	-	593	593
Property, plant and equipment	-	-	-	3,003	3,003
Intangible assets and deferred expenses	-	-	-	1,122	1,122
Deferred taxes	-	-	-	6	6
	2,577	11	33	5,679	8,300
Current liabilities:					
Current maturities of bonds	131	175	-	-	306
Trade payables	2,025	-	64	-	2,089
Other payables	516	-	-	747	1,263
Liability to acquire rights in partnership	59	-	-	-	59
Provisions	-	-	-	45	45
Non-current liabilities:					
Bonds	1,226	1,231	-	-	2,457
Employee benefits	-	-	-	165	165
Other liabilities	-	-	-	58	58
Provisions	-	-	-	14	14
Deferred taxes	-	-	-	109	109
Equity	-	-	-	1,735	1,735
	3,957	1,406	64	2,873	8,300
Net exposure (*)	(1,380)	(1,395)	(31)	2,806	-

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

2.4 Sensitivity tests

No material changes have occurred in the sensitivity tests as presented in the periodic report.

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

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

- For details regarding provisions for claims and legal proceedings against the Company in the first quarter of 2018 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.
- For details regarding events subsequent to the date of the Company’s statement of financial position as at March 31, 2018, see Note 9 to the financial statements.

4. Specific Disclosure for Holders of Bonds

Data as at March 31, 2018

Series	Date of issuance	Par value on date of issuance (NIS millions)	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 date 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 Mar. 31 of each year between 2006 and 2019	CPI
	Nov. 2005	280	299	20	16	19	1	20	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on Mar. 31 of each year between 2006 and 2019	CPI
	March 2006	184	200	13	10	13	1	13	Fixed	5.02%	5.2%	March 31, 2015	March 31, 2019	Annual interest on Mar. 31 of each year between 2006 and 2019	CPI
	Feb. 2007	436	499	31	24	30	2	32	Fixed	4.3%	5.2%	March 31, 2015	March 31, 2019	Annual interest on Mar. 31 of each year between 2007 and 2019	CPI
	Dec. 2010	306	421	22	17	21	1	22	Fixed	2.81%	5.2%	March 31, 2015	March 31, 2019	Annual interest on Mar. 31 of each year between 2011 and 2019	CPI

Series	Date of issuance	Par value on date of issuance (NIS millions)	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 date of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series D	Oct. 2013	472	468	357	354	354	5	396	Fixed	3.12%	2.99%	Oct. 8, 2014	Oct. 8, 2029	Annual interest on Oct. 8 of each year between 2014 and 2029	CPI
Series E	Oct. 2013	448	444	342	336	336	8	398	Fixed	5.23%	5.09%	Oct. 8, 2014	Oct. 8, 2029	Annual interest on Oct. 8 of each year between 2014 and 2029	Unlinked
	Nov.2016	463	**473	450	427	427	10	506	Fixed	4.81%	5.09%	Oct. 8, 2017	Oct. 8, 2029	Annual interest on Oct. 8 of each year between 2017 and 2029	Unlinked
	Jan. 2018	476	567	565	476	476	12	563	Fixed	2.12%	5.09%	Oct. 8, 2018	Oct. 8, 2029	Annual interest on Oct. 8 of each year between 2018 and 2029	Unlinked

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Series	Date of issuance	Par value on date of issuance (NIS millions)	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 date of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series F	Sep. 2015	317	313	321	317	317	6	381	Fixed	4.44%	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 of each year between 2016 and 2028	CPI
	Jul.2016	601	**643	607	601	601	12	723	Fixed	3.82%	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 of each year between 2016 and 2028	CPI
		4,483	4,825	2,763	2,606	2,628	59	3,091							

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

** No cash consideration was received in respect of those issues, which were performed as part of an exchange offer for Series B bonds of the Company as discussed in Note 17 to the Company’s consolidated financial statements as at December 31, 2017. The considerations above refer to the par value of Series B bonds exchanged in the purchase offer (including accrued interest).

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, CPA and Adv., e-mail: ori@slcpa.co.il

3. In the first three months of 2018 and up to the date of this report, the Company is in compliance with all the conditions and liabilities under the trust deeds of the outstanding bonds and there is no cause for demanding immediate repayment of the Company's outstanding bonds.

4. All the Company's outstanding Series D, E and F bonds, 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. 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.

8. See Note 17 to the 2017 financial statements, which was a part of the periodic report, 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.

9. In January 2018 the Company completed an issuance of Series E bonds by way of an expansion of the series, for a total gross consideration of NIS 568 million.

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 in accordance with the credit facility agreements with three banks – see Paragraph 1.3.3 of this report) as aforesaid, as at March 31, 2018 and proximate to the date of signing the financial statements:

Financial covenant	**Calculation results**	
	As at March 31, 2018	**Proximate to the date of signing the financial statements***
Ratio of net debt to total balance sheet shall not exceed 60%	20%	20%
The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,735 million	NIS 1,735 million

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

Presented hereunder are the results of calculating the dividend distribution restrictions that apply to the Company in accordance with the terms of the Series D, E and F bonds (and in accordance with the credit facility agreements with three banks – see Paragraph 1.3.3 of this report):

Restriction	**Calculation results as at March 31, 2018**
The Company's total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,735 million
Ratio of the Company's net debt to EBITDA shall not exceed 7	2.2 (*)

(*) Revenue in the amount of NIS 3 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 March 19, 2018 Ma'alot issued an updated rating report in which it raised the rating of the Company's bonds from "ilAA-" to "ilAA". It is noted that the Company's rating remained unchanged at "ilAA-" with a stable outlook, like in the rating report issued by Ma'alot on January 15, 2018. The said rating reports are attached to this report by way of reference to the Company's immediate reports from March 20, 2018 (reference no. 2018-01-021540) and January 17, 2018 (reference no. 2018-15-005884).

11. Information on the rating of outstanding bonds

Series	Name of rating company	Current rating	Rating on date of issuance	Additional ratings between the original date of issuance and the reporting date	
				Date	Rating
Series B – Bonds listed for trade	Ma'alot	ilAA	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 rating outlook)	ilA+ Negative
				December 2, 2012 (affirmation of rating and rating 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 rating outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				September 20, 2016 (raising of rating and raising of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA

Series	Name of rating company	Current rating	Rating on date of issuance	Additional ratings between the original date of issuance and reporting date	
				Date	**Rating**
Series D – Bonds listed for trade	Ma'alot	ilAA	ilA+ Negative	October 3, 2013 (initial rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of rating outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				September 20, 2016 (raising of rating and raising of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA
Series E – Bonds listed for trade	Ma'alot	ilAA	ilA+ Negative	October 3, 2013 (initial rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of rating outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				September 20, 2016 (raising of rating and affirmation of rating outlook)	ilA+ Stable
				November 15, 2016 (initial rating for expansion of series)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				January 21, 2018 (expansion of series)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA
Series F – Bonds listed for trade	Ma'alot	ilAA	ilA Stable	September 2, 2015 (initial rating)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				July 11, 2016 (initial rating for expansion of the series)	ilA
				September 20, 2016 (raising of rating and affirmation of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive

Series	Name of rating company	Current rating	Rating on date of issuance	Additional ratings between the original date of issuance and reporting date	
				Date	**Rating**
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA

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 issued by the Company on the date of issuing the financial statements, which the information included in it 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 29, 2018

Shufersal Ltd

Condensed Consolidated Interim Financial Statements As at March 31, 2018

(Unaudited)

Condensed Consolidated Interim Financial Statements as at March 31, 2018 (Unaudited)

Contents

Auditors' Review Report to the Shareholders of Shufersal Ltd.

Introduction

We have reviewed the accompanying financial information of Shufersal Ltd. and its subsidiaries (hereinafter – "the Group") comprising of the condensed consolidated interim statement of financial position as of March 31, 2018 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the financial statements of a consolidated company, whose assets included in consolidation constitute approximately 2.6% and approximately NIS 214 million of total consolidated assets as of March 31, 2018, and whose revenues included in consolidation constitute approximately 4% and approximately NIS 40.1 million of total consolidated revenues for the period ended March 31, 2018. Furthermore, we did not review the financial statements of an equity accounted investee the investment in which amounted to NIS 53 million as at March 31, 2018, and the Company's share in its profits amounted to NIS 1 million for the three month period ended March 31, 2018. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to the financial information of those companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primar ily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Sincerely,

Haifa
May 29, 2018

Kesselman & Kesselman
Certified Public Accountants (Isr.)
Member Firm of PricewaterhouseCoopers International

Condensed Consolidated Interim Statement of Financial Position

	March 31 2018	March 31 2017	December 31 2017
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**737**	385	372
Short-term deposits	**350**	-	100
Marketable securities	**10**	10	10
Trade receivables	**1,372**	1,314	1,097
Other receivables	**168**	*155	141
Inventory	**829**	812	719
Total current assets	**3,466**	2,676	2,439
Receivables and debit balances	**7**	-	9
Investment in associate company	**53**	87	52
Loan to associate company	**34**	-	34
Investment in shares measured at fair value	**16**	18	16
Investment property	**593**	527	577
Property, plant and equipment	**3,003**	2,880	2,956
Intangible assets and deferred expenses	**1,122**	*896	1,112
Deferred taxes	**6**	36	9
Total non-current assets	**4,834**	4,444	4,765
Total assets	**8,300**	7,120	7,204

* See Note 3.A regarding the application of IFRS 15.

Signed on behalf of the Board of Directors:

Israel Berman	Chairman of the Board of Directors
Itzik Abercohen	Chief Executive Officer
Talya Huber	Chief Financial Officer

Date of approval: May 29, 2018

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

Condensed Consolidated Interim Statement of Financial Position

	March 31 2018	March 31 2017	December 31 2017
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities of long-term loans	**-**	2	-
Current maturities in respect of bonds	**306**	192	173
Trade payables	**2,089**	1,871	1,901
Other payables	**1,263**	*1,187	733
Liability to acquire rights in partnership	**59**	162	176
Provisions	**45**	50	48
Total current liabilities	**3,762**	3,464	3,031
Bonds	**2,457**	2,114	2,019
Employee benefits, net	**165**	138	160
Provisions	**14**	30	15
Other liabilities	**58**	56	66
Deferred taxes	**109**	94	105
Total non-current liabilities	**2,803**	2,432	2,365
Equity			
Share capital	**242**	240	242
Share premium	**945**	560	945
Reserves	**15**	11	8
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**618**	*498	698
Total equity	**1,735**	1,224	1,808
Total liabilities and equity	**8,300**	7,120	7,204

* See Note 3.A regarding the application of IFRS 15.

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

Condensed Consolidated Interim Statement of Income

	Three months ended		Year ended
	March 31 2018	March 31 **2017	December 31 2017
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Sales and rentals	**3,169**	2,904	11,852
Cost of sales and services	**2,319**	2,166	8,793
Gross profit	**850**	738	3,059
Selling and marketing expenses	**697**	*590	2,430
General and administrative expenses	**40**	*38	166
Total selling, marketing, general and administrative expenses	**737**	628	2,596
Operating profit before other income (expenses)	**113**	110	463
Other expenses, net	**(1)**	(1)	(20)
Increase in fair value and gain on sale of investment property, net	**-**	-	36
Total other income (expenses), net	**(1)**	(1)	16
Operating profit after other income (expenses)	**112**	109	479
Financing expenses	**(32)**	(44)	(152)
Financing income	**4**	18	28
Financing expenses, net	**(28)**	(26)	(124)
Share in profits of investee accounted for using equity method	**1**	2	5
Profit before taxes on income	**85**	85	360
Taxes on income	**(18)**	(19)	(85)
Profit for the period	**67**	66	275
Basic earnings per share (in NIS)	**0.28**	0.31	1.22
Diluted earnings per share (in NIS)	**0.28**	0.31	1.21

* See Note 2.C regarding reclassification.
** See Note 3.A regarding the application of IFRS 15.

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 2018	March 31 2017	December 31 2017
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Profit for the period	**67**	66	275
Other comprehensive income (loss) items that after initial recognition in comprehensive income were or will be transferred to profit or loss			
Effective portion of the change in fair value of cash flow hedges	**2**	(3)	(8)
Taxes on other comprehensive income items that were initially recognized in comprehensive income and will be transferred to profit or loss	**-**	-	2
Total other comprehensive income (loss) for the period that after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax	**2**	(3)	(6)
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	**-**	-	(16)
Revaluation reserve for fixed assets classified as investment property	**6**	-	-
Taxes on other comprehensive income items that will not be transferred to profit or loss	**(1)**	-	4
Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax	**5**	-	(12)
Other comprehensive income (loss) for the period, net of tax	**7**	(3)	(18)
Total comprehensive income for the period	**74**	63	257

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total equity
	NIS millions					
For the three months ended March 31, 2018 (unaudited)						
Balance as at January 1, 2018	**242**	**945**	**8**	**(85)**	**698**	**1,808**
Initial adoption of IFRS 9 (1)	**-**	**-**	**-**	**-**	**13**	**13**
Balance as at January 1, 2018 after adoption of IFRS 9	**242**	**945**	**8**	**(85)**	**711**	**1,821**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(160)**	**(160)**
Share-based payment						
Profit for the period	**-**	**-**	**-**	**-**	**67**	**67**
Other comprehensive income for the period, net of tax	**-**	**-**	**7**	**-**	**-**	**7**
Balance as at March 31, 2018	**242**	**945**	**15**	**(85)**	**618**	**1,735**
For the three months ended March 31, 2017 (unaudited)						
Balance as at January 1, 2017	240	560	14	(85)	586	1,315
Initial adoption of IFRS 15 (1)	-	-	-	-	5	5
Balance as at January 1, 2017 after adoption of IFRS 15	240	560	14	(85)	591	1,320
Share-based payment	-	-	-	-	1	1
Dividends to shareholders	-	-	-	-	(160)	(160)
Profit for the period	-	-	-	-	66	66
Other comprehensive loss for the period, net of tax	-	-	(3)	-	-	(3)
Balance as at March 31, 2017	240	560	11	(85)	498	1,224

(1) See Note 3 regarding the application of IFRS 15 and IFRS 9.
* Indicates an amount lower than NIS 1 million.
The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total equity
			NIS millions			
For the year ended December 31, 2017 (audited)						
Balance as at January 1, 2017	240	560	14	(85)	586	1,315
Initial adoption of IFRS 15 (1)	-	-	-	-	5	5
Balance as at January 1, 2017 after adoption of IFRS 15	240	560	14	(85)	591	1,320
Share-based payment	-	-	-	-	4	4
Exercise of employee options	*-	39	-	-	-	39
Dividends to shareholders	-	-	-	-	(160)	(160)
Issue of shares, net	2	346	-	-	-	348
Profit for the year	-	-	-	-	275	275
Other comprehensive loss for the year, net of tax	-	-	(6)	-	(12)	(18)
Balance as at December 31, 2017	242	945	8	(85)	698	1,808

(1) See Note 3 regarding the application of IFRS 15 and IFRS 9.
* Indicates an amount lower than NIS 1 million.

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 2018	**March 31 2017**	**December 31 2017**
	Unaudited	**Unaudited**	**Audited**
	NIS millions	**NIS millions**	**NIS millions**
Cash flows from operating activities			
Profit for the period	**67**	*66	275
Adjustments for:			
Depreciation of property, plant and equipment	**76**	68	285
Impairment losses on property, plant and equipment	**-**	-	15
Amortization of intangible assets and deferred expenses	**7**	8	34
Taxes on income	**18**	19	85
Income taxes paid, net	**(9)**	(8)	(27)
Financing expenses, net	**28**	*26	124
Share in profits of investees accounted for using the equity method	**(1)**	(2)	(5)
Change in fair value and gain on sale of investment property, net	**-**	-	(36)
Change in employee benefits	**4**	(3)	(6)
Gain on sale of property, plant and equipment	**-**	-	(1)
Share-based payment	**-**	1	4
Change in provision for onerous contracts	**(3)**	(5)	(26)
Change in trade receivables	**(273)**	*(230)	18
Change in other receivables	**(29)**	(58)	(26)
Change in inventory	**(111)**	(135)	34
Change in trade payables	**198**	79	(59)
Change in other payables, provisions and other	**354**	370	63
Net cash from operating activities	**326**	196	751
Cash flows from investing activities			
Purchase of property, plant and equipment	**(135)**	(91)	(364)
Proceeds from sale of property, plant and equipment	**-**	1	8
Investment in deferred expenses and intangible assets	**(19)**	*(6)	(47)
Investment in investment property, net	**(3)**	(3)	(16)
Acquisition of subsidiary, net of cash acquired	**-**	-	(121)
Long-term loan repayment	**1**	-	1
Proceeds from withdrawal of (investment in) short-term deposits, net	**(251)**	94	(4)
Interest received and dividend income	**-**	1	2
Net cash used in investing activities	**(407)**	(4)	(541)

* See Note 3.A regarding the application of IFRS 15.

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

Condensed Consolidated Interim Statement of Cash Flows

	Three months ended		Year ended
	March 31 2018	March 31 2017	December 31 2017
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Cash flows from financing activities			
Proceeds from issuance of bonds, net	**563**	-	-
Exercise of option to acquire partnership	**(117)**	-	-
Short-term credit	**-**	-	(52)
Repayment of bonds	**-**	(172)	(265)
Interest paid	**-**	(15)	(108)
Dividend paid	**-**	-	(160)
Proceeds from issuance of shares	**-**	-	348
Proceeds from exercise of share options	**-**	-	39
Repayment of long-term loans from banks	**-**	(1)	(2)
Payments in respect of hedging transactions	**-**	-	(10)
Partners' withdrawals from partnership	**-**	(3)	(12)
Net cash from (used) in financing activities	**446**	(191)	(222)
Net increase (decrease) in cash and cash equivalents	**365**	1	(12)
Cash and cash equivalents at the beginning of the period	**372**	384	384
Cash and cash equivalents at the end of the period	**737**	385	372

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 March 31, 2018 comprise the Company, its subsidiaries (hereinafter together – "the Group") and an investment in an associate company. The Company is mainly held by Discount Investment Corporation Ltd., which is the Company's controlling shareholder (which is controlled by Dolphin Netherlands B.V., a company controlled by Mr. Eduardo Elsztain). 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 manages a credit card loyalty program through which it offers the "Shufersal" and "Yesh" credit cards, and also in the area of drugstores (through New Pharm Drugstores Ltd., a wholly owned company) in which it markets and sells medicine, health products and cosmetics. 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, 2017. 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 29, 2018.

B. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to exercise judgment when making the assessments, 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, 2017.

Note 2 - Basis of Preparation (cont'd)

C. Reclassification

The Group reclassified payroll and payroll-related expenses, maintenance and computer expenses and other expenses between selling and marketing expenses and general and administrative expenses in the income statement, in order to more appropriately reflect the cost allocation. Comparative information was reclassified for consistency purposes, such that an amount of NIS 1 million net, was classified from selling and marketing expenses to general and administrative expenses in the three month period ended March 31, 2017. That classification had no impact on the total operating profit and income for the period.

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, 2017, other than that mentioned hereunder:

A. IFRS 15, *Revenue from Contracts with Customers* (hereinafter – "IFRS 15" or "the "Standard")

Further to Note 3.R in the financial statements as at December 31, 2017 regarding the early adoption of IFRS 15, presented hereunder is the effect of the early adoption on the statement of financial position as at March 31, 2017:

	According to the previous policy	The change	According to IFRS 15
	NIS millions		
Other receivables	156	(1)	155
Intangible assets and deferred expenses	895	1	896
Other payables	1,193	(6)	1,187
Retained earnings	492	6	498

In the income statement for the three-month period ended March 31, 2017:

	According to the previous policy	The change	According to IFRS 15
	NIS millions		
Sales and rentals	2,903	1	2,904
Financing income	19	(1)	18
Selling and marketing expenses	*591	(1)	590

* See Note 2.C regarding reclassification.

Note 3 - Significant Accounting Policies (cont'd)

A. IFRS 15, *Revenue from Contracts with Customers* (hereinafter – "IFRS 15" or "the "Standard") (cont'd)

In the statement of cash flows for the three-month period ended March 31, 2017:

	According to the previous policy	The change	According to IFRS 15
		NIS millions	
Financing expenses, net	25	1	26
Change in trade receivables	(229)	(1)	(230)
Investment in deferred expenses and intangible assets	(5)	(1)	(6)

B. IFRS 9(2014), *Financial Instruments* (hereinafter – "IFRS 9")

Further to Note 3.S(1) to the financial statements as at December 31, 2017, as from the first quarter the Group applies IFRS 9. The Group has chosen to adopt IFRS 9 as from January 1, 2018 without amending the comparative data, but while adjusting balances of retained earnings and other components as at January 1, 2018 (the standard's initial date of application).

In accordance with the final version of IFRS 9, there are three principal categories for measuring financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The basis of classification for debt instruments is the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Investments in equity instruments will be measured at fair value through profit and loss (unless the entity elected at initial recognition to present fair value changes in other comprehensive income). As from 2012 the Group made early adoption of the classification and measurement principles for financial assets of IFRS 9 (2009), without making early adoption of the other principles of the final version of IFRS 9 as described hereunder:

Hedge accounting – general

Under the final version of IFRS 9 (2014), additional hedging strategies that are used for risk management may qualify for hedge accounting. IFRS 9 (2014) replaces the present 80%-125% test for determining hedge effectiveness, with the requirement that there be an economic relationship between the hedged item and the hedging instrument, with no quantitative threshold. In addition, IFRS 9 (2014) introduces new models that are alternatives to hedge accounting as regards credit exposures and certain contracts outside the scope of the final version of IFRS 9 (2014) and sets new principles for accounting for hedging instruments. It also provides new disclosure requirements.

Note 3 - Significant Accounting Policies (cont'd)

B. IFRS 9(2014), *Financial Instruments* (hereinafter – "IFRS 9") (cont'd)

Impairment of financial assets
The final version of IFRS 9 includes a new "expected credit loss" model for calculating impairment. For most financial assets, the new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date; while if the credit risk has increased significantly, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset.

The effect of applying IFRS 9 on a change in terms in prior periods of financial liabilities accounted for at amortized cost:

In the period of application of IAS 39, the terms of certain bonds issued by the Company were changed. In the period of application of IAS 39, it was decided that the change in terms is immaterial and therefore it was accounted for as a modification of the effective interest rate applicable to the bonds in following periods, so that the change in terms did not have an immediate effect on the financial liability in respect of the bonds. According to IFRS 9, even if the change in terms is immaterial, it has an immediate effect on the financial liability in respect of the bonds, which after the change is measured at the present value of the balance of the new contractual cash flows discounted at the original effective interest rate, with the difference between the carrying amount of the financial liability (at its original terms) and the new present value calculated being recognized as an expense/income in the statement of income.

Presented hereunder is the effect of the application of IFRS 9 on the statement of financial position as at January 1, 2018:

	According to the previous policy	The change	According to IFRS 9
		NIS millions	
Deferred tax assets	9	(4)	5
Bonds	2,192	(17)	2,175
Retained earnings	698	13	711

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 March 25, 2018, the Company's Board of Directors decided to distribute a dividend in the amount of NIS 160 million, constituting NIS 0.68 per share. The dividend was paid on May 8, 2018 to shareholders on record as at April 22, 2018. As of March 31, 2018, the dividend is presented as part of other payables.

B. The Company issued NIS 476 million par value of its existing Series E bonds in January 2018, by way of an expansion, for a total consideration (gross) of NIS 568 million. The effective interest rate is 2.12%. See Note 17 to the financial statements as at December 31, 2017 for information on the terms of the bonds.

C. Further to that mentioned in Note 15 to the financial statements as at December 31, 2017 regarding the Company's call option to acquire the holdings of Paz in the Shufersal Finance partnership (hereinafter: "the partnership"), in March 2018 the Company paid Paz for exercise of the option an amount of NIS 117 million for 16% of the holdings of Paz in the partnership, so that the Company's currently has a 80% holding.

D. Further to that mentioned in Note 15 to the financial statements as at December 31, 2017, according to a partnership agreement from August 31, 2006 ("**the partnership agreement**") between the Company, Leumi Card and Paz Oil Company Ltd., the Company had a call option to acquire the holdings of Leumi Card in the partnership and Leumi Card had a put option to sell its holdings in the partnership to the Company, and in order to do so each party had the right to contact an agreed valuer within 60 days from the end of the "Leumi Card agreement" (meaning until March 18, 2018) for the purpose of determining the value of Leumi Card's holdings in the partnership. As at the date of issuing the financial statements (after 60 days had passed from the end of the Leumi Card agreement), no agreed valuer has been appointed, and therefore has obviously not been contacted according to the partnership agreement. Therefore, the Company is of the opinion that the call and put options concerning Leumi Card's holdings in the partnership have expired (see also Note 7.C regarding a legal proceeding initiated by Leumi Card against Shufersal with respect to, inter alia, expiry of the options).

E. Further to that mentioned in Note 30.A to the financial statements as at December 31, 2017, on November 2, 2017 the Company and Israel Credit Cards Ltd. and Diners Club Israel Ltd. (together – "**ICC**") signed a term sheet ("**the term sheet**") for the issuance and operation of non-bank credit cards that will be issued by ICC to the Company's customers ("**the operation**"). The operation was launched on January 18, 2018 (the last date of the Leumi Card agreement).

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, Segment Reporting, in the financial statements as at December 31, 2017 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 operations of the reportable segments is presented hereunder:

For the three months ended March 31, 2018 (unaudited):

	Retail segment	Real estate segment	Loyalty club credit card management segment	New Pharm	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	3,017	12	21	140	(21)	3,169
Inter-segment rental revenues	-	32	-	-	(32)	-
Segment revenues	3,017	44	21	140	(53)	3,169
Operating profit (loss) before other expenses, excluding profit from management of loyalty program credit card activity	98	36	-	(2)	(6)	126
Operating profit (loss) from management of loyalty program credit card activity	(13)	-	(13)	-	13	(13)
Operating profit (loss) before other expenses	85	36	(13)	(2)	7	113
Other expenses, net	-	-	-	(1)	-	(1)
Operating profit (loss) after other expenses	85	36	(13)	(3)	7	112
Financing expenses						(32)
Financing income						4
Share of profits of investee company accounted for using the equity method						1
Taxes on income						(18)
Profit for the period						67

Note 6 - Segment Reporting (cont'd)

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	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	*2,894	10	20	(20)	2,904
Inter-segment rental revenues	-	31	-	(31)	-
Segment revenues	2,894	41	20	(51)	2,904
Operating profit before other expenses, excluding profit from management of loyalty program credit card activity	71	32	-	(6)	97
Operating profit from management of loyalty program credit card activity	*13	-	*13	(13)	13
Operating profit before other expenses	84	32	13	(19)	110
Other expenses, net	(1)	-	-	-	(1)
Operating profit after other expenses	83	32	13	(19)	109
Financing expenses					(44)
Financing income					*18
Share of profits of investee company accounted for using the equity method					2
Taxes on income					(19)
Profit for the period					66

* See Note 3.A regarding the application of IFRS 15.

Note 6 - Segment Reporting (cont'd)

For the year ended December 31, 2017: (audited)

	Retail segment	Real estate segment	Loyalty club credit card management segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	11,809	43	87	(87)	11,852
Inter-segment rental revenues	-	125	-	(125)	-
Segment revenues	11,809	168	87	(212)	11,852
Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity	294	136	-	(23)	407
Operating profit from management of loyalty program credit card activity	56	-	56	(56)	56
Operating profit before other income (expenses)	350	136	56	(79)	463
Other income (expenses), net	(9)	49	-	(24)	16
Operating profit after other income (expenses)	341	185	56	(103)	479
Financing expenses					(152)
Financing income					28
Share of profits of investee company accounted for using the equity method					5
Taxes on income					(85)
Profit for the year					275

Note 7 - Claims and Legal Proceedings

In the ordinary course of business, various legal claims have been filed or are pending against the Group companies (hereinafter in this section: "legal claims").
In the opinion of the managements of Group companies, which is based on, inter alia, legal opinions regarding the chances of the legal claims, adequate provisions have been included in the financial statements, where such provisions are required, for covering the exposure from such legal claims.

Motions to certify claims as class actions that do not indicate the precise amount of the claim are pending against the Company and in their respect the Company has an additional exposure.
It is noted that since filing motions to certify class actions did not require the payment of a fee based on the amount of the claim, as at the reporting date the amounts of the claims may be higher than the real exposure from the aforesaid claims.

a. 1. Presented hereunder are details of the Group's pending claims as at March 31, 2018, classified into groups having similar characteristics:

Lawsuit category	Nature of claims	Balance of provision	Amount of additional exposure	Exposure in respect of claims that their chances cannot be assessed as yet	Total
		NIS millions			
Class actions – consumer	Mainly motions to certify class actions that allege illegal collection of funds and damages from services or products provided by Group companies.	15	**1,061	***475	**1,551**
Employee claims	Mainly legal claims of present and former employees of the Company involving labor laws including demands to include various salary components in the calculation of various payments to the Company's employees.	*-	4	7	**11**
Supplier-customer, authorities and general	Legal claims involving commercial disputes with suppliers of services and/or products and legal proceedings on the part of the State, government bodies and State authorities including in respect of proceedings concerning regulation applicable to the Company and various monetary disputes concerning the Company's payments to authorities.	5	13	-	**18**
Customer claims for damages	Claims for damages that are handled by the insurance companies.	18	6	*-	**24**
Total		**38**	**1,084**	**482**	******1,604**

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

a. 1. Presented hereunder are details of the Group's pending claims as at March 31, 2018, classified into groups having similar characteristics: (cont'd)

* Indicates an amount less than NIS 1 million.

** Including claims against the Company and others in the amount of NIS 68 million in which the amount claimed from the Company is not specified.

*** Including claims against the Company and others in the amount of NIS 245 million in which the amount claimed from the Company is not specified.

**** There are additional claims against the Company in which the amount of the claim is not specified, should they be certified as class actions, in respect of which the Company has additional exposure.

2. Presented hereunder is a breakdown of the number and amounts of the Group's pending claims as at March 31, 2018, according to the amount of the claim:

Amount of claim	Number of claims	Total amount claimed
		(NIS millions)
Up to NIS 100 million (including claims against the Company and others that specify the amount claimed from the Company)	*732	*398
From NIS 100 million to NIS 500 million	3	893
Claims that do not specify an amount claimed	5	-
Claims that do not specify the amount claimed from the Company and others	3	-
Claims against the Company and other defendants together in which the amount claimed from the Company is not specified	9	313
Total	**752**	**1,604**

* As at March 31, 2018 there are 612 claims of customers for damages in the total amount of NIS 24 million.

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

In the ordinary course of business, various claims have been filed against the Company by employees, subcontractors, suppliers, authorities and others which deal mostly in claims for breach of provisions of the law governing termination of employment and obligatory payments to employees, claims for breach of agreements and compulsory payments to authorities.

As at March 31, 2018, the amounts that are claimed from the Company under the said claims total NIS 29 million.

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

b. Claims of employees, subcontractors, suppliers, authorities and others (cont'd)

In 2014, a claim was filed against the Company, the former Executive Vice President of Operations and Supply Chain and four other managers of the Company (who are not officers). The claim alleges violations of the Hours of Work and Rest Law – 1951 ("the law"), with respect to employees working more overtime hours than that permitted by the law. In the opinion of the Company's management, on the basis of the opinion of its legal counsel, insofar as at the conclusion of the proceeding the Company is convicted of the charges against it, the Company's exposure is to the payment of an immaterial fine.

In the reporting period, an appeal was filed on a ruling of the Haifa District Court that denied a motion to certify a class action against the Company in the amount of NIS 458 million. The chances of the appeal cannot be assessed at this early stage.

c. Information on claims subsequent to the reporting date

Subsequent to the reporting date, three motions were received to certify consumer claims as class actions against the Company in the total amount of NIS 83 million.
In addition, five motions were received to certify consumer claims as class actions against the Company and other defendants in the total amount of NIS 42 million, in which the amount claimed from the Company itself was not specified.

Furthermore, a motion was received to certify a consumer claim as a class action against the Company and other defendants in the total amount of NIS 20 million, of which an amount of NIS 5 million is claimed from the Company alone.
The chances of the claims cannot be assessed at this early stage.
Furthermore, a motion to certify a consumer claim as a class action against the Company and other defendants in the total amount of NIS 9 million was rejected and settled for immaterial amounts.

In addition, on April 24, 2018 the partnership received a claim that had been filed by Leumi Card together with a motion requesting interim orders, against the Company and against the partnership's auditors (Kesselman & Kesselman, CPAs), the partnership and the general partner (the last two as formal defendants). In the claim the court is requested, inter alia, to issue an order declaring that all the activity of the "Shufersal credit card club" (including all its revenue) belongs to the partnership and should be carried out in its framework, even if the issuing and operating services are provided by a company other than Leumi Card, or alternatively that the profits from the activity of the Shufersal credit card club be allocated to the partnership, as well as to issue an order declaring that the options awarded to Shufersal and Leumi Card pursuant to the partnership agreement are valid and have not expired, and to appoint a valuer for the purpose of valuing the partnership. Among the reliefs requested in the claim from the partnership's auditors, the court is requested to order the auditor to appoint Uri Cohen, CPA, as an agreed valuer for determining the value of the partnership and alternatively to order the partnership's auditor to appoint another auditor for determining the partnership's value. The Company denies that stated in the claim and has filed a motion to dismiss in limine. On May 28, 2018 the Company and Leumi Card notified the Court that they are transferring the disputes between them to mediation. The chances of the claim cannot be assessed at this early stage.

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, trade and other payables, short and long-term loans and borrowings are the same or proximate 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, 2018		As at March 31, 2017		As at December 31, 2017	
	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) –	**2,763**	**3,091**	2,306	2,540	2,192	2,528

The fair value of the bonds is their value on the stock exchange (level 1).

Fair value hierarchy of financial instruments measured at fair value
The table hereunder presents the financial assets that are measured at fair value, using a valuation method.

The various levels are defined as follows:
Level 1: fair value measured by quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair value measured by inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
Level 3: fair value measured by inputs that are not based on observable market data (unobservable inputs).

Note 8 - Financial Instruments (cont'd)

Fair value hierarchy of financial instruments measured at fair value (cont'd)

	As at March 31, 2018				As at March 31, 2017				As at December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	NIS millions				NIS millions				NIS millions			
	Unaudited				Unaudited				Audited			
Financial assets												
Marketable securities	**10**	**-**	**-**	**10**	10	-	-	10	10	-	-	10
Forward - hedge on transactions linked to	**-**	**1**	**-**	**1**	-	-	-	-	-	-	-	-
foreign currency**	**-**	**-**	**16**	**16**	-	-	18	18	-	-	16	16
	10	**1**	**16**	**27**	10	-	18	28	10	-	16	26
Financial liabilities												
Interest SWAP	**-**	**(7)**	**-**	**(7)**	-	(5)	-	(5)	-	(8)	-	(8)
Forward - hedge on transactions linked to	**-**	**-**	**-**	**-**	-	(3)	-	(3)	-	*-	-	*-
foreign currency	**-**	**(7)**	**-**	**(7)**	-	(8)	-	(8)	-	(8)	-	(8)
	10	**(6)**	**16**	**20**	10	(8)	18	20	10	(8)	16	18

* Represent an amount less 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 April 26, 2018 a wholly owned subsidiary of the Company entered into a building services for land combination venture and a collaboration and joint venture agreement with Gav-Yam Bayside Land Corp. Ltd. (hereinafter – the entrepreneur), a company controlled by the Company's controlling shareholders.

According to the agreement, the subsidiary shall sell to the entrepreneur 69.5% of the ownership over 8,800 square meters of land in Ra'anana, in exchange for building services of the entrepreneur. When the project is completed the subsidiary and the entrepreneur will have undivided co-ownership over the project at the rate of 30.5% for the subsidiary and 69.5% for the entrepreneur.

The agreement will come into effect subject to the following conditions being met within 24 months from the date of signing the agreement: the authorized bodies of both parties approve the transaction and a detailed urban building plan for the project having legal effect. A meeting of the Company's shareholders is scheduled to take place on June 5, 2018.

Note 9 - Subsequent Events (cont'd)

B. On May 29, 2018 the Company's Board of Directors approved entering into an agreement with an unrelated third party by which the Company will acquire 25% of the third party's lease rights in 34 dunams of available land in the industrial zone of Modi'in, on which the parties will construct a logistics center (building envelope and without the automation systems) of 34,000 square meters and an office building of 6,000 square meters (together – "the project") in which the parties will have undivided co-ownership at the rate of 25% for Shufersal and 75% for the third party. The logistics center will be leased by the Company from the project under a long-term lease, and it will serve as an automation center for the Company's online activity ("Modi'in automation center"). In addition, the Company's Board of Directors approved entering into an agreement with a third party that will supply and set up the automation activity for the Modi'in automation center, and for the Company's existing warehouse at Kadima (on a built area of 8,100 square meters) that will also serve the Company's online activity.

As at the reporting date, the investments on construction of the automation centers at Modi'in and Kadima as aforesaid are estimated to amount to NIS 600 million (it is noted that most of the aforesaid amount constitutes payment for the automation equipment and for setting it up).

They will be interpreted over a period of about four years.