# Section A-

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

# For the Nine-Month Period Ended September 30, 2018

# Contents

**Board of Directors' Report on the State of the Company's Affairs for the Nine-Month Period Ended September 30, 2018**

**Shufersal Ltd.**

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the nine-month period ended September 30, 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 344 branches throughout the country, of which 280 are branches of Shufersal and 64 are branches of New Pharm. The Shufersal branches operate in a number of formats. The Group has 522 thousand square meters of selling areas of which approximately 500 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[2]. The Group employs about 13.6 thousand employees (calculated positions) and has annual revenues of about NIS 13 billion.
As at September 30, 2018 and the date of issuing this report, the Company is a company with no controlling shareholder. See Note 1 to the financial statements.

### 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[3].
For details regarding the aforesaid operating segments, see Note 6 to the Company's consolidated financial statements as at September 30, 2018 (hereinafter – "**the financial statements**").

### 1.1.2 Management's discussion of the principal results for the first nine months 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 nine months of 2018 were affected by several matters:

- Seasonality between quarters (see Paragraph 1.2 hereunder).
- The Company continued the development of its digital platforms, mainly the "Shufersal Online" system. In the first nine months of the year, the significant growth of retail sales through Shufersal Online continued, and they constituted about 13.3% of the Company's retail sales (compared with 11.2% in the corresponding period last year).
- Continued development and strengthening of the private label including launching products in existing and new categories. In the first nine months of the year, the private label accounted for 23.6% of all retail sales, which is an increase compared to the rate of those sales in the corresponding period last year (about 21.9%[4] 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 (September 30, 2018) unless stated otherwise or implied otherwise by the context of the matter.
[2] Dedicated storage facilities for the online marketing of products through the Company's website.
[3] The data in this report with respect to the New Pharm segment do not include comparative data for 2017.
[4] 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 460 thousand credit cards were issued in the first nine months of the year in the framework of the new credit card club.

### 1.1.3 Principal events that occurred during the reporting period

- Further to that mentioned in Note 15 to the Company's consolidated financial statements as at December 31, 2017, which are included in the periodic report ("**the annual financial statement**"), 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.
  Further to that mentioned in the aforesaid note regarding Leumi Card's announcement that it plans to participate in the acquisition of Paz's holdings in the partnership (20%) (meaning that the Company will acquire 16% of the rights in the partnership that are held by Paz and Leumi Card will acquire 4% of the rights in the partnership that are held by Paz), and regarding the arrangement between the Company and Paz in this respect, that if Leumi Card does not acquire those holdings in Paz (4%) within a specified period of time the Company will acquire them according to a value that was determined in negotiations between the parties, meaning for NIS 29 million. In October 2018, subsequent to the date of the statement of financial position, the Company paid Paz an amount of NIS 29 million for the balance of Paz's holdings in the partnership (4%) (see also Note 5.C to the financial statements).
  Further to the aforesaid and as at the date of issuing this report, the Company holds 84% of the partnership.
- On July 30, 2018 the Commissioner of Restrictive Trade Practices ("the Commissioner") imposed a monetary sanction on the Company of about NIS 9 million in respect of violations of provisions of the Food Law concerning the extension of certain lease agreements that include an exclusive use clause. The Commissioner's payment demand was issued as an agreed demand (agreed notice on intent to charge and demand for payment), and after talks were held with the Company, and without the Company's agreement being considered an admission or acknowledgement that it had violated the provisions of the Food Law. It is noted that at the same time as the talks with the Company regarding the monetary sanction, talks were held between the Company and the Commissioner regarding the exclusive use arrangements of the Company, and in this respect the parties reached understandings by which the Company would terminate all the exclusive use arrangements it has and will be permitted to enter into exclusive use arrangements in a limited number of new branches and for a limited period, and at prescribed terms. On November 19, 2018 the Restrictive Trade Practices Court decided to approve the understandings between the Company and the Commissioner and awarded them effect of an order. According to the agreed order, the Company is required to terminate the exclusive use arrangements within six months from the date of issuing the order. In the opinion of the Company, termination of the exclusive use arrangements will not have a material effect on its operations and results.
- On July 26, 2018 the Company's Board of Directors convened at the request of 3 acting directors who requested to hold a discussion on how the Board of Directors operates including replacement of the present Chairman with one of the Company's other directors. In the meeting and before any decision was made on the matter, the Chairman of the Board, Mr. Israel Berman, announced his resignation. Further to the aforesaid, Mr. Mauricio Wior, who served as Deputy Chairman of the Board, was appointed as the Company's Chairman of the Board.
- On June 20, 2018 DIC completed the sale of 39,106,269 of the Company's ordinary shares (about 16.5% of the issued share capital) to classified investors following a bidding proceeding DIC held for classified investors and at a price per share of NIS 21.83. Upon completing the sale of the Company's shares as aforesaid, DIC's interest in the Company declined from about 50.12% to about 33.56% of the issued share capital and DIC ceased being the controlling shareholder of the Company, per the definition of "control" in the Securities Law – 1968.

Accordingly, as from the date of completing the sale, the Company is no longer classified as a "second-tier company" (and is also not a "first-tier company") within the meaning of these terms in the Law for the Promotion of Competition and Reduction of Concentration – 2013. In the opinion of the Company, DIC no longer controlling the Company will not have any material effects on the Company's agreements, including agreements with providers of financing.

- On June 5, 2018 a wholly owned subsidiary entered into an agreement with Amot Investments Ltd. ("Amot"), by which the subsidiary will acquire 25% of Amot's lease rights in available land in the industrial zone of Modi'in, on which the parties will construct (as a joint venture) 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 in this item – "the project") in which the parties will have undivided co-ownership at the rate of 25% for the subsidiary and 75% for Amot. The logistics center will be leased by the Company from the joint venture under a long-term lease, and it will serve as an automation center for the Company's online activity as aforesaid.
  Furthermore, on June 12, 2018 the Company entered into an agreement with a third party that will supply and set up the automation activity for a new automation center in Modi'in (over 34,000 square meters) that the Company will establish (see hereunder) for its online activity, and for the warehouse at Kadima (on a built area of 8,100 square meters) that will also serve as an automation center for the 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, with most of the aforesaid amount constituting payment for the automation equipment and for setting it up, and they will be spread over a period of about four years.
- On April 26, 2018 a wholly owned subsidiary 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 indirectly controlled by DIC. 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: (a) the authorized bodies of both parties approving the transaction and (b) a detailed urban building plan for the project having legal effect. On June 5, 2018 the general meetings of the Company and entrepreneur approved the building services for land combination venture agreement as well as the collaboration and joint venture agreement.
- 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.
- 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 annual financial statements for information on the terms of the bonds.
- Further to that mentioned in Note 15 to the annual financial statements, according to a partnership agreement from August 31, 2006 ("the partnership agreement") between the Company, Leumi Card and Paz Oil Company Ltd., in the event of termination of the "Leumi Card agreement", 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.
  Since 60 days have passed without an agreed valuer being appointed and obviously not being contacted according to the partnership agreement, 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.B to the financial statements regarding a legal proceeding initiated by Leumi Card against Shufersal with respect to, inter alia, expiry of the options).

- Further to that mentioned in Note 30.A to the annual financial statements, 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). See also Paragraph 1.1.3 above.

## 1.2 Analysis of Results of Operations

In 2018 the Jewish holidays of Tishrei took place in September, compared with 2017 in which the holidays took place in September and October. The effect of the holidays in the third quarter of this year is greater than its effect in the corresponding quarter last year.

### 1.2.1 Analysis of the results for the three months ended September 30, 2018 as compared to the corresponding period last year

| | Results of operations for the three months ended September 30, 2018 | | Results of operations for the three months ended September 30, 2017 | |
|---|---|---|---|---|
| | % | NIS millions | % | NIS millions |
| **Revenues** | | 3,304 | | *3,021 |
| **Gross profit** | 26.5% | 877 | 25.8% | 778 |
| Selling, marketing, administrative and general expenses | 23.1% | (763) | 22.0% | (664)* |
| **Operating profit** | **3.5%** | **114** | **3.8%** | **114** |
| Financing expenses, net | | (28) | | *(29) |
| Share in profits of equity accounted investee | | 1 | | 1 |
| **Profit before taxes on income** | | 87 | | 86 |
| Taxes on income | | (23) | | (23) |
| **Profit for the period** | | **64** | | **63** |

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

**Retail segment revenues** amounted to NIS 3,154 million in the third quarter of the year, compared with NIS 3,009 million in the corresponding quarter last year, an increase of 4.8%. The sales of the Company’s stores increased at the rate of 5.2% in the third 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[5] while on the other hand there was an increase in the activity of the franchisees.

Same store[6] sales increased by 3.6% compared with the corresponding quarter last year, and is mainly attributable to an increase in the food market and the timing of the holidays.

[5] See Paragraph 3.3.3 of Part A (Description of Business Affairs) of the periodic report and Note 30.A to the annual financial statements.

[6] Same store sales – gross sales of active stores that were opened before January 2017.

The sales per square meter[7] amounted to NIS 6,394, in the third quarter of the year[8], compared with NIS 6,174 in the corresponding quarter last year, an increase of 3.6% that is mainly due to an increase in sales and on the other hand an increase in selling areas.

**Real estate segment revenues** amounted to NIS 45 million in the third quarter of the year, compared with NIS 44 million in the corresponding quarter last year.

**Revenues from the loyalty program credit card management segment** amounted to NIS 18 million in the third quarter of the year, compared with NIS 23 million in the corresponding quarter last year, a decrease of 21.7%, which is mainly due to the process of strengthening the new credit card loyalty program.

**Revenues from the New Pharm segment** amounted to NIS 137 million in the third quarter of the year. The sales per square meter of New Pharm stores amounted to NIS 6,181[9] in that period.

**The Company's revenues** amounted to NIS 3,304 million in the third quarter of the year, compared with NIS 3,021 million in the corresponding quarter last year, an increase of 9.4% that is mainly due to an increase in the retail segment and the New Pharm segment that began operating this year.

**Gross profit** amounted to NIS 877 million in the third quarter of the year, compared with NIS 778 million in the corresponding quarter last year, an increase of NIS 99 million. The gross profit rate is 26.5% compared with 25.8% in the corresponding quarter last year. The increase in gross profit and gross profit rate is mainly due to an improvement in trade terms, private label growth, the special offer mix, an improvement in efficiency of the operations in the logistics center and distribution chain and the consolidation of New Pharm's activity.

**Selling, marketing, administrative and general expenses** amounted to NIS 763 million in the third quarter of the year, compared with NIS 664 million in the corresponding quarter last year. The ratio of expenses to revenues was 23.1% compared with 22.0% in the corresponding quarter last year. The increase in expenses is mainly due to the consolidation 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 of Business Affairs) in the periodic report).

**The operating profit in the retail segment** amounted to NIS 95 million in the third quarter of the year, a rate of 3.0% of revenues, compared with NIS 82 million and a rate of 2.7% of revenues in the corresponding quarter last year, an increase of NIS 13 million that is due to the aforesaid.

**The operating profit in the real estate segment** amounted to NIS 35 million in the third quarter of the year, compared with NIS 37 million in the corresponding quarter last year.

**The operating profit in the loyalty program credit card management segment** amounted to NIS 2 million in the third quarter of the year, compared with a profit of NIS 12 million in the corresponding quarter last year, and is due to the costs of launching the ICC credit card and the process of strengthening the new credit card loyalty program.

[7] 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.
[8] 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.
[9] 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 loss in the New Pharm segment** amounted to NIS 10 million in the third quarter of the year.

**The Company’s operating profit** amounted to NIS 114 million in the third quarter of the year and a rate of 3.5% of revenues, compared with NIS 114 million and a rate of 3.8% of revenues in the corresponding quarter last year.

**The operating profit before depreciation and amortization (EBITDA)** amounted to NIS 202 million and a rate of 6.1% of revenues in the third quarter of the year, compared with NIS 194 million and a rate of 6.4% of revenues in the corresponding quarter last year.

**Financing expenses net,** amounted to NIS 28 million in the third quarter of the year, compared with NIS 29 million in the corresponding quarter last year.

**Tax expenses** amounted to NIS 23 million in the third quarter of the year like in the corresponding quarter last year.

**Profit for the period** amounted to NIS 64 million in the third quarter of the year, compared with NIS 63 million in the corresponding quarter last year.

**The Company’s basic and diluted earnings per share** amounted to NIS 0.27 in the third quarter of the year like in the corresponding quarter last year.

### 1.2.2 Analysis of the results for the nine months ended September 30, 2018 as compared to the corresponding period last year

| | Results of operations for the nine months ended September 30, 2018 | | Results of operations for the nine months ended September 30, 2017 | |
|---|---|---|---|---|
| | **%** | **NIS millions** | **%** | **NIS millions** |
| **Revenues** | | 9,620 | | *8,927 |
| **Gross profit** | 26.8% | 2,578 | 25.6% | 2,284 |
| Selling, marketing, administrative and general expenses | 23.2% | (2,228) | 21.7% | (1,933)* |
| **Operating profit before other income (expenses)** | **3.6%** | **350** | **3.9%** | **351** |
| Other income (expenses), net | | (1) | | (8) |
| Increase in fair value and gain on sale of investment property, net | | 16 | | 3 |
| **Operating profit after other income (expenses)** | | **365** | | **346** |
| Financing expenses, net | | (83) | | *(89) |
| Share in profits of equity accounted investee | | 3 | | 4 |
| **Profit before taxes on income** | | 285 | | 261 |
| Taxes on income | | (69) | | (63) |
| **Profit for the period** | | **216** | | **198** |

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

**Retail segment revenues** amounted to NIS 9,173 million in the first nine months of the year, compared with NIS 8,895 million in the corresponding period last year, an increase of 3.1%. The sales of the Company's stores increased at the rate of 2.9% in the first nine months of the year as compared with the corresponding period 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[10] while on the other hand there was an increase in the activity of the franchisees.
Same store[11] sales increased by 1.3% compared with the corresponding period last year, and is mainly attributable to an increase in the food market and the timing of the holidays.
The sales per square meter[12] amounted to NIS 18,613 in the first nine months of the year, compared[13] with NIS 18,225 in the corresponding period last year, an increase of 2.1% that is mainly due to an increase in sales and on the other hand an increase in selling areas.

**Real estate segment revenues** amounted to NIS 131 million in the first nine months of the year, compared with NIS 126 million in the corresponding period last year. The increase in revenues is mainly due to the occupation of vacant income-producing properties.

**Revenues from the loyalty program credit card management segment** amounted to NIS 58 million in the first nine months of the year, compared with NIS 64 million in the corresponding period last year, a decrease of 9.4%, which is mainly due to the process of strengthening the new credit card loyalty program.

**Revenues from the New Pharm segment** amounted to NIS 411 million in the first nine months of the year. The sales per square meter of New Pharm stores amounted to NIS 18,295[14] in that period.

**The Company's revenues** amounted to NIS 9,620 million in the first nine months of the year, compared with NIS 8,927 million in the corresponding period last year, an increase of 7.8% that is mainly due to the retail segment and consolidation of the New Pharm segment that began operating this year.

**Gross profit** amounted to NIS 2,578 million in the first nine months of the year, compared with NIS 2,284 million in the corresponding period last year, an increase of NIS 294 million. The gross profit rate was 26.8% compared with 25.6% in the corresponding period last year. The increase in gross profit and gross profit rate is mainly due to an improvement in trade terms, private label growth, the special offer mix, an improvement in efficiency of the operations in the logistics center and distribution chain and the consolidation of New Pharm's activity.

**Selling, marketing, administrative and general expenses** amounted to NIS 2,228 million in the first nine months of the year, compared with NIS 1,933 million in the corresponding period last year. The ratio of expenses to revenues was 23.2% compared with 21.7% in the corresponding period last year. The increase in expenses is mainly due to the consolidation 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 of Business Affairs) in the periodic report).

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[10] See Paragraph 3.3.3 of Part A (Description of Business Affairs) of the periodic report and Note 30.A to the annual financial statements.
[11] Same store sales – gross sales of active stores that were opened before January 2017.
[12] 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.
[13] 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.
[14] 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 before other expenses in the retail segment** amounted to NIS 277 million in the first nine months of the year, a rate of 3.0% of revenues, compared with NIS 267 million and a rate of 3.0% of revenues in the corresponding period last year, an increase of NIS 10 million that is due to the aforesaid.

**The operating profit before other income in the real estate segment** amounted to NIS 106 million in the first nine months of the year, compared with NIS 101 million in the corresponding period last year that is due to the aforesaid.

**The operating loss in the loyalty program credit card management segment** amounted to NIS 13 million in the first nine months of the year, compared with a profit of NIS 40 million in the corresponding period last year, and is due to the costs of launching the ICC credit card.

**The operating loss before other expenses in the New Pharm segment** amounted to NIS 16 million in the first nine months of the year.

**The Company's operating profit after other income (expenses)** amounted to NIS 365 million in the first nine months of the year and a rate of 3.8% of revenues, compared with NIS 346 million and a rate of 3.9% of revenues in the corresponding period last year, an increase of NIS 19 million that is mainly due to the change in the fair value of investment property and the aforesaid.

**The operating profit before depreciation and amortization (EBITDA)** amounted to NIS 587 million and a rate of 6.1% of revenues in the first nine months of the year, compared with NIS 585 million and a rate of 6.6% of revenues in the corresponding period last year.

**Financing expenses net,** amounted to NIS 83 million in the first nine months of the year, compared with NIS 89 million in the corresponding period last year. The decrease in financing expenses is mainly due to recording income from forward transactions in the first nine months of the year compared with expenses in the corresponding period last year, while on the other hand income was recorded in the corresponding period last year from reversal of impairment of a loan to an associate company in the amount of NIS 14 million.

**Tax expenses** amounted to NIS 69 million in the first nine months of the year, compared with NIS 63 million in the corresponding period last year, an increase that is mainly due to an increase in the pre-tax profit.

**Profit for the period** amounted to NIS 216 million in the first nine months of the year, compared with NIS 198 million in the corresponding period last year.

**The Company's basic and diluted earnings per share** amounted to NIS 0.91 in the first nine months of the year, compared with NIS 0.89 in the corresponding period last year.

## 1.3 Financial Position, Liquidity and Sources of Finance

### 1.3.1 Cash flow – Analysis of the results for the third quarter of 2018 as compared to the corresponding quarter last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 323 million in the third quarter of 2018, compared with NIS 446 million in the corresponding quarter last year. The decrease in cash flow from operating activities is mainly due to changes in working capital items that are mainly due to seasonality.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 104 million in the third quarter of 2018, compared with NIS 91 million in the corresponding quarter last year. Cash used in investing activities in the third quarter of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 196 million and on the other proceeds from withdrawal of deposits in the amount of NIS 103 million.
The cash used in investing activities in the third quarter of 2017 included mainly acquisition of property, plant and equipment in the amount of NIS 76 million.

Cash flow used in financing activities
Net cash used in financing activities amounted to NIS 20 million in the third quarter of 2018 and included partners' withdrawals from a partnership in the amount of NIS 20 million, compared with NIS 1 million in the corresponding quarter last year.

### 1.3.2 Cash flow – Analysis of the results for the first nine months of 2018 as compared to the corresponding period last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 552 million in the first nine months of 2018, compared with NIS 713 million in the corresponding period last year. The decrease in cash flow from operating activities is mainly due to changes in working capital items that are mainly due to seasonality.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 754 million in the first nine months of 2018, compared with NIS 178 million in the corresponding period last year. Cash used in investing activities in the first nine months of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 439 million and an investment in deposits in the amount of NIS 249 million.
The cash used in investing activities in the first nine months of 2017 included mainly acquisition of property, plant and equipment in the amount of NIS 233 million and on the other hand proceeds from withdrawal of deposits in the amount of NIS 95 million.

Cash flow used in financing activities
Net cash from financing activities amounted to NIS 202 million in the first nine months of 2018, compared with net cash used in financing activities in the amount of NIS 8 million in the corresponding period last year. The cash from financing activities in the first nine months of 2018 included mainly net proceeds from issuance of bonds in the amount of NIS 563 million and on the other hand a dividend payment in the amount of NIS 160 million, payment of a liability to partners in the amount of NIS 117 million and repayment of bonds and interest payments in the amount of NIS 64 million.
The cash used in financing activities in the first nine months of 2017 included mainly repayment of bonds and interest payments in the amount of NIS 187 million, a dividend payment in the amount of NIS 160 million and on the other hand net proceeds from issuance of share capital in the amount of NIS 348 million.

### 1.3.3 Liquid asset balances and financial ratios

As at the end of the third quarter of 2018, the net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 764 million, compared with NIS 921 million in the corresponding quarter last year.
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 third quarter of 2018, the liabilities to the holders of bonds and to banks, including interest payable (hereinafter – "**the financial debt**") amounted to NIS 2,753 million, compared with NIS 2,355 million in the corresponding quarter last year.
The ratio of the Company's financial debt to its total assets was approximately 34.6% at the end of the third quarter of 2018, compared with 31.5% 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 30.4% at that time.
The Company's equity amounted to NIS 1,888 million as at the end of the third quarter of 2018, compared with NIS 1,691 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 23.7% at the end of the third quarter of 2018, compared with 23% 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%.

### 1.3.4 Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as at September 30, 2018

As at September 30, 2018, the Company has a working capital deficit (on a consolidated basis) of NIS 334 million, compared with a working capital deficit of NIS 592 million as at December 31, 2017 and a working capital deficit of NIS 322 million as at September 30, 2017, and it has a working capital deficit (on a stand-alone basis) as at September 30, 2018 of NIS 344 million, compared with a working capital deficit of NIS 494 million as at December 31, 2017 and of NIS 266 million as at September 30, 2017.
The decrease in the working capital deficit as at September 30, 2018 is mainly due to an expansion of the Company's Series E bonds for a net consideration of NIS 563 million, and on the other hand payment of a dividend in the amount of NIS 160 million, payment of a liability to partners in the amount of NIS 117 million and repayment of bonds and interest in the amount of NIS 64 million, current investments in branches and payment for setting up the automation activity for the Company's new automation center in Modi'in that will serve its online activity.
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. It is further noted that in 2017 the Company issued ordinary shares of the Company for a net consideration of NIS 348 million. Furthermore, in January 2018 the Company completed an expansion of its Series E bonds for a net consideration of NIS 563 million.

As at the date of issuing this report, there are unutilized credit facilities.

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 September 30, 2018, the Board of Directors decided that notwithstanding the working capital deficit as at September 30, 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 September 30, 2018 (compared with NIS 1.5 billion as at September 30, 2017), and in respect of CPI-linked payments in the annual amount of NIS 427 million.
As at September 30, 2018 the Company has swap transactions for exchanging CPI-linked NIS cash flows with fixed NIS cash flows in respect 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 third 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 September 30, 2018, the Company has forward contracts on the rate of the dollar in the amount of US$ 8.2 million for settlement until February 2019 and cylinder transaction on the rate of the dollar in the amount of US$ 18 million for settlement until July 2019. Furthermore it has forward contracts on the exchange rate of the euro in the amount of € 34.2 million for settlement until November 2020 and cylinder transactions on the rate of the euro in the amount of € 8.9 million for settlement until May 2019.
In the third quarter of 2018, the Company incurred financing expenses in the amount of NIS 2 million compared with NIS 3 million in the corresponding period 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, in share indices, 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 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 (on 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 September 30, 2018:

| | September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | 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** | **364** | **-** | **8** | **-** | **372** |
| **Marketable securities** | **38** | **4** | **-** | **-** | **42** |
| **Short-term deposit** | **350** | **-** | **-** | **-** | **350** |
| **Trade receivables** | **1,256** | **-** | **-** | **-** | **1,256** |
| **Other receivables** | **38** | **10** | **10** | **105** | **163** |
| **Inventories** | **-** | **-** | **-** | **764** | **764** |
| **Non-current assets:** | | | | | |
| **Other receivables** | **-** | **-** | **-** | **5** | **5** |
| **Investment in an associate company** | **37** | **-** | **-** | **16** | **53** |
| **Loan to associate company** | **33** | **-** | **-** | **-** | **33** |
| **Other investments** | **11** | **-** | **-** | **-** | **11** |
| **Investment property** | **-** | **-** | **-** | **631** | **631** |
| **Property, plant and equipment** | **-** | **-** | **-** | **3,147** | **3,147** |
| **Intangible assets and deferred expenses** | **-** | **-** | **-** | **1,134** | **1,134** |
| | **2,127** | **14** | **18** | **5,802** | **7,961** |
| **Current liabilities:** | | | | | |
| **Current maturities of bonds** | **162** | **139** | **-** | **-** | **301** |
| **Trade payables** | **1,886** | **-** | **72** | **-** | **1,958** |
| **Other payables** | **281** | **-** | **-** | **645** | **926** |
| **Current taxes** | **-** | **-** | **-** | **6** | **6** |
| **Provisions** | **-** | **-** | **-** | **51** | **51** |
| **Liability in respect of option to acquire partnership** | **39** | **-** | **-** | **-** | **39** |
| **Non-current liabilities:** | | | | | |
| **Bonds** | **1,219** | **1,233** | **-** | **-** | **2,452** |
| **Employee benefits** | **-** | **-** | **-** | **175** | **175** |
| **Provisions** | **-** | **-** | **-** | **2** | **2** |
| **Deferred taxes** | **-** | **-** | **-** | **118** | **118** |
| **Other liabilities** | **-** | **-** | **-** | **45** | **45** |
| **Equity** | **-** | **-** | **-** | **1,888** | **1,888** |
| | **3,587** | **1,372** | **72** | **2,930** | **7,961** |
| **Net exposure (*)** | **(1,460)** | **(1,358)** | **(54)** | **2,862** | **-** |

(*) 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 nine months 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 September 30, 2018, see Note 9 to the financial statements.

## 4. Specific Disclosure for Holders of Bonds

### Data as at September 30, 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 | 17 | 14 | 17 | 0 | 18 | 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 | 10 | 8 | 10 | 0 | 10 | 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 | 6 | 5 | 6 | 0 | 7 | 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 | 15 | 12 | 15 | 0 | 16 | 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 | 11 | 9 | 11 | 0 | 11 | 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 | 353 | 354 | 354 | 11 | 403 | 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 | 334 | 336 | 336 | 17 | 397 | 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 | 438 | 427 | 427 | 21 | 504 | 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 | 547 | 476 | 476 | 24 | 562 | Fixed | 2.12% | 5.09% | Oct. 8, 2018 | Oct. 8, 2029 | Annual interest on Oct. 8 of each year between 2018 and 2029 | Unlinked |

| 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 | 315 | 317 | 317 | 13 | 387 | 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 | 596 | 601 | 602 | 25 | 733 | 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** | **2,642** | **2,559** | **2,571** | **111** | **3,048** | | | | | | | |

* 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 nine 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.

10. On October 8, 2018, subsequent to the date of the statement of financial position, the Company repaid (principal and interest) NIS 40 million par value Series D bonds, NIS 166 million par value Series E bonds and also paid interest in the amount of NIS 40 million on Series F bonds.

11. 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 1.3.4 of this report) as aforesaid, as at September 30, 2018 and proximate to the date of signing the financial statements:

| **Financial covenant** | **Calculation results** | |
|---|---|---|
| | **As at September 30, 2018** | **Proximate to the date of signing the financial statements*** |
| Ratio of net debt to total balance sheet shall not exceed 60% | 25% | 25% |
| The Company's total equity (including non-controlling interests) shall not fall below NIS 550 million | NIS 1,888 million | NIS 1,888 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 1.3.4 of this report):

| **Restriction** | **Calculation results as at September 30, 2018** |
|---|---|
| The Company's total equity (including non-controlling interests) shall not fall below NIS 750 million | NIS 1,888 million |
| Ratio of the Company's net debt to EBITDA shall not exceed 7 | 2.6 (*) |

(*) Revenue in the amount of NIS 19 million that derives from a change in an onerous contract was deducted from the EBITDA in the calculation of the ratio of the Company's net debt to EBITDA.

12. **<u>Details regarding the credit rating of the Company</u>**
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).

## 13. 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 |

**Shufersal Ltd.**

| 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 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 | 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 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 |
| | | | | 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.

| | |
|---|---|
| Mauricio Wior<br>Chairman of the Board of Directors | Itzik Abercohen<br>CEO |

November 25, 2018

# Section B-
# Shufersal Ltd.

# Condensed Consolidated Interim Financial Statements As at September 30, 2018

# (Unaudited)

Convenience translation of original financial statements in Hebrew

**Shufersal Ltd.**

**Condensed Consolidated Interim Financial Statements as at September 30, 2018 (unaudited)**

**Contents**

## Condensed Consolidated Interim Statements of Financial Position

| | September 30 2018 | September 30 2017 | December 31 2017 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Assets** | | | |
| Cash and cash equivalents | **372** | 911 | 372 |
| Short-term deposits | **350** | - | 100 |
| Marketable securities | **42** | 10 | 10 |
| Trade receivables | **1,256** | 1,230 | 1,097 |
| Other receivables | **163** | *154 | 141 |
| Inventory | **764** | 706 | 719 |
| **Total current assets** | **2,947** | 3,011 | 2,439 |
| Receivables and debit balances | **5** | - | 9 |
| Investment in associate company | **53** | 89 | 52 |
| Loan to associate company | **33** | - | 34 |
| Other investments | **11** | 18 | 16 |
| Investment property | **631** | 545 | 577 |
| Property, plant and equipment | **3,147** | 2,886 | 2,956 |
| Intangible assets and deferred expenses | **1,134** | 910 | 1,112 |
| Deferred taxes | **-** | 17 | 9 |
| **Total non-current assets** | **5,014** | 4,465 | 4,765 |
| **Total assets** | **7,961** | 7,476 | 7,204 |

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

Signed on behalf of the Board of Directors:

Mauricio Wior — Chairman of the Board of Directors

Itzik Abercohen — Chief Executive Officer

Talya Huber — Chief Financial Officer

Date of approval: November 25, 2018

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

## Condensed Consolidated Interim Statements of Financial Position

| | September 30 2018 | September 30 2017 | December 31 2017 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Liabilities** | | | |
| Current maturities in respect of bonds | **301** | 244 | 173 |
| Trade payables | **1,958** | 1,967 | 1,901 |
| Other payables | **932** | *909 | 733 |
| Liability in respect of option to acquire partnership | **39** | 167 | 176 |
| Provisions | **51** | 46 | 48 |
| **Total current liabilities** | **3,281** | 3,333 | 3,031 |
| Bonds | **2,452** | 2,111 | 2,019 |
| Employee benefits | **175** | 150 | 160 |
| Provisions | **2** | 25 | 15 |
| Other liabilities | **45** | 67 | 66 |
| Deferred taxes | **118** | 99 | 105 |
| **Total non-current liabilities** | **2,792** | 2,452 | 2,365 |
| **Equity** | | | |
| Share capital | **242** | 242 | 242 |
| Share premium | **945** | 906 | 945 |
| Reserves | **22** | 4 | 8 |
| Treasury shares | **(85)** | (85) | (85) |
| Retained earnings | **764** | *624 | 698 |
| **Total equity** | **1,888** | 1,691 | 1,808 |
| **Total liabilities and equity** | **7,961** | 7,476 | 7,204 |

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

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

## Condensed Consolidated Interim Statements of Income

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2018 | September 30 2017** | September 30 2018 | September 30 2017** | December 31 2017 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| Revenues and rentals | **9,620** | 8,927 | **3,304** | 3,021 | 11,852 |
| Cost of sales and services | **7,042** | 6,643 | **2,427** | 2,243 | 8,793 |
| **Gross profit** | **2,578** | 2,284 | **877** | 778 | 3,059 |
| Selling and marketing expenses | **2,096** | *1,808 | **720** | *627 | 2,430 |
| General and administrative expenses | **132** | *125 | **43** | *37 | 166 |
| Total selling, marketing, general and administrative expenses | **2,228** | 1,933 | **763** | 664 | 2,596 |
| **Operating profit before other income (expenses)** | **350** | 351 | **114** | 114 | 463 |
| Other income (expenses), net | **(1)** | (8) | **-** | - | (20) |
| Increase in fair value and gain on sale of investment property, net | **16** | 3 | **-** | - | 36 |
| Total other income (expenses), net | **15** | (5) | **-** | - | 16 |
| **Operating profit after other income (expenses)** | **365** | 346 | **114** | 114 | 479 |
| Financing expenses | **(100)** | (115) | **(34)** | (33) | (152) |
| Financing income | **17** | 26 | **6** | 4 | 28 |
| **Financing expenses, net** | **(83)** | (89) | **(28)** | (29) | (124) |
| Share of profits of equity accounted investee | **3** | 4 | **1** | 1 | 5 |
| **Profit before taxes on income** | **285** | 261 | **87** | 86 | 360 |
| Taxes on income | **(69)** | (63) | **(23)** | (23) | (85) |
| **Profit for the period** | **216** | 198 | **64** | 63 | 275 |
| **Earnings per share** | | | | | |
| **Basic earnings per share (in NIS)** | **0.91** | 0.89 | **0.27** | 0.27 | 1.22 |
| **Diluted earnings per share (in NIS)** | **0.91** | 0.88 | **0.27** | 0.27 | 1.21 |

* See Note 2.C regarding reclassification.

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

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

## Condensed Consolidated Interim Statements of Other Comprehensive Income

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2018 | September 30 2017 | September 30 2018 | September 30 2017 | December 31 2017 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Profit for the period** | **216** | 198 | **64** | 63 | 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 changes in fair value of cash flow hedges | **13** | (10) | **(3)** | (5) | (8) |
| Taxes on other comprehensive income items that were initially recognized in comprehensive income and will be transferred to profit or loss | **(3)** | - | **-** | - | 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** | **10** | (10) | **(3)** | (5) | (6) |
| Remeasurement of defined benefit plan | **(6)** | (11) | **-** | (7) | (16) |
| Revaluation reserve for property, plant and equipment, classified as investment property | **6** | - | **-** | - | - |
| Taxes on other comprehensive income items that will not be transferred to profit or loss | **-** | 3 | **-** | 2 | 4 |
| **Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax** | **-** | (8) | **-** | (5) | (12) |
| **Other comprehensive loss for the period, net of tax** | **10** | (18) | **(3)** | (10) | (18) |
| **Total comprehensive income for the period** | **226** | 180 | **61** | 53 | 257 |

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

## Condensed Consolidated Interim Statements of Changes in Equity

| | Attributable to the Company's owners | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserves | Treasury shares | Retained earnings | Total equity |
| | NIS millions | | | | | |
| **For the nine months ended September 30, 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** |
| Share-based payment | **-** | **-** | **-** | **-** | **1** | **1** |
| Dividends to shareholders | **-** | **-** | **-** | **-** | **(160)** | **(160)** |
| Profit for the period | **-** | **-** | **-** | **-** | **216** | **216** |
| Other comprehensive income (loss) for the period, net of tax | **-** | **-** | **14** | **-** | **(4)** | **10** |
| **Balance as at September 30, 2018** | **242** | **945** | **22** | **(85)** | **764** | **1,888** |
| **For the nine months ended September 30, 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 | - | - | - | - | 3 | 3 |
| Dividends to shareholders | - | - | - | - | (160) | (160) |
| Issue of shares during the period | 2 | 346 | - | - | - | 348 |
| Profit for the period | - | - | - | - | 198 | 198 |
| Other comprehensive loss for the period, net of tax | - | - | (10) | - | (8) | (18) |
| **Balance as at September 30, 2017** | 242 | 906 | 4 | (85) | 624 | 1,691 |

(1) See Note 3 regarding the application of IFRS 15 and IFRS 9.

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

## Condensed Consolidated Interim Statement of Changes in Equity

| | Attributable to the Company's owners | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserves | Treasury shares | Retained earnings | Total equity |
| | NIS millions | | | | | |
| **For the three months ended September 30, 2018 (unaudited)** | | | | | | |
| **Balance as at July 1, 2018** | **242** | **945** | **26** | **(85)** | **699** | **1,827** |
| Profit for the period | **-** | **-** | **-** | **-** | **64** | **64** |
| Other comprehensive income (loss) for the period, net of tax | **-** | **-** | **(4)** | **-** | **1** | **(3)** |
| **Balance as at September 30, 2018** | **242** | **945** | **22** | **(85)** | **764** | **1,888** |
| **For the three months ended September 30, 2017 (unaudited)** | | | | | | |
| **Balance as at July 1, 2017** | 242 | 906 | 9 | (85) | 565 | 1,637 |
| Share-based payment | - | - | - | - | 1 | 1 |
| Profit for the period (1) | - | - | - | - | 63 | 63 |
| Other comprehensive income for the period, net of tax | - | - | (5) | - | (5) | (10) |
| **Balance as at September 30, 2017** | 242 | 906 | 4 | (85) | 624 | 1,691 |

(1) See Note 3 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 Changes in Equity

| | Attributable to the Company's owners | | | | | |
|---|---|---|---|---|---|---|
| | 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.

* 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 Statements of Cash Flows

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | **September 30 2018** | **September 30 2017** | **September 30 2018** | **September 30 2017** | **December 31 2017** |
| | **Unaudited** | **Unaudited** | **Unaudited** | **Unaudited** | **Audited** |
| | **NIS millions** | **NIS millions** | **NIS millions** | **NIS millions** | **NIS millions** |
| **Cash flows from operating activities** | | | | | |
| Profit for the period | **216** | 198 | **64** | *63 | 275 |
| **Adjustments for:** | | | | | |
| Depreciation of property, plant and equipment | **234** | 207 | **80** | 72 | 285 |
| Losses (gains) on impairment/ increase in value of property, plant and equipment | **(4)** | 11 | **-** | - | 15 |
| Amortization of intangible assets and deferred expenses | **22** | *27 | **7** | *11 | 34 |
| Taxes on income | **69** | 63 | **23** | 23 | 85 |
| Income taxes paid, net | **(44)** | (22) | **(18)** | (5) | (27) |
| Net financing expense | **83** | *89 | **28** | *29 | 124 |
| Share of profits of equity accounted investee | **(3)** | (4) | **(1)** | (1) | (5) |
| Change in fair value, net | **(16)** | (3) | **-** | - | (36) |
| Change in employee benefits | **8** | (5) | **3** | (4) | (6) |
| Gain on sale of property, plant and equipment | **-** | - | **-** | - | (1) |
| Share based payment | **1** | 3 | **-** | 1 | 4 |
| Change in provision for onerous contracts | **(18)** | (12) | **(2)** | (4) | (26) |
| Change in trade receivables | **(156)** | *(145) | **(74)** | *(166) | 18 |
| Change in other receivables | **(47)** | (59) | **(22)** | (13) | (26) |
| Change in inventory | **(46)** | (29) | **(3)** | (39) | 34 |
| Change in trade payables | **74** | 153 | **76** | 303 | (59) |
| Change in other payables, provisions and other | **179** | 241 | **162** | 176 | 63 |
| **Net cash from operating activities** | **552** | 713 | **323** | 446 | 751 |

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

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

## Condensed Consolidated Interim Statements of Cash Flows

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2018 | September 30 2017 | September 30 2018 | September 30 2017 | December 31 2017 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Cash flows used in investing activities** | | | | | |
| Purchase of property, plant and equipment | **(439)** | (233) | **(196)** | (76) | (364) |
| Proceeds from sale of property, plant and equipment | **1** | 2 | **-** | - | 8 |
| Investment in deferred expenses and intangible assets | **(46)** | *(30) | **(15)** | (7) | (47) |
| Acquisition of subsidiary, net of cash acquired | **-** | - | **-** | - | (121) |
| Investment in investment property and investment property under construction | **(11)** | (11) | **(5)** | (6) | (16) |
| Change in pledged deposit | **6** | - | **-** | - | - |
| Change in cash from futures transactions, net | **4** | (2) | **2** | 1 | - |
| Purchase of marketable securities | **(37)** | (4) | **(2)** | - | (6) |
| Proceeds from sale of marketable securities | **7** | 4 | **2** | - | 6 |
| Repayment of long-term loans | **2** | - | **1** | - | 1 |
| Change in short-term deposits, net | **(249)** | 95 | **103** | (3) | (4) |
| Interest and dividend received | **8** | 1 | **6** | - | 2 |
| **Net cash used in investing activities** | **(754)** | (178) | **(104)** | (91) | (541) |

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

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

## Condensed Consolidated Interim Statements of Cash Flows

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2018 | September 30 2017 | September 30 2018 | September 30 2017 | December 31 2017 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Cash flows used in financing activities** | | | | | |
| Short-term credit | **-** | - | **-** | - | (52) |
| Exercise of option to acquire partnership | **(117)** | - | **-** | - | - |
| Proceeds from issue of bonds, net | **563** | - | **-** | - | - |
| Repayment of bonds and loans from banks | **(58)** | (174) | **-** | (1) | (267) |
| Interest paid | **(6)** | (15) | **-** | - | (108) |
| Dividend paid | **(160)** | (160) | **-** | - | (160) |
| Proceeds from issue of share capital, net | **-** | 348 | **-** | - | 348 |
| Proceeds from exercise of share options | **-** | - | **-** | - | 39 |
| Payments in respect of hedging transactions | **-** | - | **-** | - | (10) |
| Partners' withdrawals from partnership | **(20)** | (7) | **(20)** | - | (12) |
| **Net cash from (used in) financing activities** | **202** | (8) | **(20)** | (1) | (222) |
| **Net increase (decrease) in cash and cash equivalents** | **-** | 527 | **199** | 354 | (12) |
| Cash and cash equivalents at the beginning of the period | **372** | 384 | **173** | 557 | 384 |
| **Cash and cash equivalents at the end of the period** | **372** | 911 | **372** | 911 | 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 September 30, 2018 comprise the Company, its subsidiaries (hereinafter together – "the Group") and an investment in an associate company.

On June 20, 2018 Discount Investment Corporation Ltd. (hereinafter: "DIC") completed the sale of 39,106,269 of the Company's ordinary shares (about 16.5% of the issued share capital) to classified investors following a bidding proceeding DIC held for classified investors and at a price per share of NIS 21.83. Upon completing the sale of the Company's shares as aforesaid, DIC's interest in the Company declined from about 50.12% to about 33.56% of the issued share capital and DIC ceased being the controlling shareholder of the Company, per the definition of "control" in the Securities Law – 1968.

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 of the Company) and as part of this activity owns shopping centers and commercial centers, 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 subsidiary of the 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 November 25, 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 Company 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 amounts of NIS 1 million and NIS 6 million net, were classified from general and administrative expenses to selling and marketing expenses in the nine and three month periods ended September 30, 2017, respectively. That classification had no impact on the total operating profit and profit 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 16, Leases (hereinafter – "IFRS 16")

The Group's annual financial statements for 2017 contain information regarding new IFRS and amendments to existing IFRS that are not yet effective and the Group has elected to not early apply.

Note 3.S(3) to the Group's 2017 financial statements provides information regarding the expected application of IFRS 16, *Leases* (hereinafter – IFRS 16) as from the first quarter of 2019. As mentioned in that note, upon its initial application IFRS 16 will replace the current guidance of IAS 17, *Leases* ("IAS 17"). IFRS 16 addresses the recognition, measurement, presentation and disclosure of leases, and is expected to have a significant effect mainly on the accounting treatment applied by the lessee in a lease transaction.

The Group plans to apply IFRS 16 as from January 1, 2019 and has chosen to apply a modified retrospective approach and to measure a right-of-use asset for part of the lease contracts as if IFRS 16 had been applied from the first date of the lease, but to use the discount rate of the initial application date. With respect to the other lease contracts – a right-of-use asset will be recognized in an amount equal to the lease liability.

It is noted that in the framework of the initial application of IFRS 16, the Group has elected to apply the following practical expedients with respect to leases in which it is the lessee:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Assessing whether a contract is onerous in accordance with IAS 37 immediately before the date of initial application instead of assessing impairment of right-of-use assets.
- Not applying IFRS 16 with respect to leases that end within 12 months from the date of initial application and leases where the underlying asset has a low value.
- Using hindsight when determining the lease term if the contract includes an extension or termination option.
- Excluding initial direct costs from measurement of the right-of-use asset at the date of initial application.

## Note 3 - Significant Accounting Policies (cont'd)

### A. IFRS 16, Leases ("IFRS 16") (cont'd)

Furthermore, it is noted that the Group has chosen to apply the exemption from recognizing short-term leases and leases where the underlying asset has a low value, and to not include amounts relating to non-lease components in the measurement of the liability.

The Group leases out to third parties (in a sublease) properties that it leases itself (in a primary lease). According to IFRS 16, the Group examines these subleases with references to the right-of-use asset from the primary lease. All the Group's subleases are classified as finance leases, and therefore the right-of-use assets in respect of the primary leases will be derecognized and assets from sublease receivables will be recognized.

The Group has not yet completed examining the expected quantitative effect of the application of IFRS 16 on its financial statements, and it is examining whether there are any additional lease arrangements in any of its other agreements. In the opinion of the Group's management, which is based on the partial examination made to date, upon the application of IFRS 16 it will recognize in the financial statements right-of-use assets of NIS 3.1-3.5 billion and lease liabilities of NIS 3.2-3.6 billion. The difference between the asset and liability will be recognized against retained earnings net of tax.

It is noted that in the opinion of the Company as at the reporting date, the adoption of IFRS 16 is not expected to cause non-compliance of the Group with financial covenants of the Group's bond holders (series D, E and F) or of other providers of financing, or with restrictions on dividend distributions.

The information provided above constitutes as assessment of the Group, and it may be different from the data that will be eventually included in the financial statements for the initial application period. As time passes and the mandatory effective date of IFRS 16 approaches, the Group will improve its understanding of its provisions, will form its policy regarding the application issues that arise from them, and will improve its ability to more accurately estimate the quantitative effect of its application.

With respect to the Group's lease agreements – see Note 29 to the Group's financial statements as at December 31, 2017.

### B. IFRS 15, *Revenue from Contracts with Customers* (hereinafter – "IFRS 15")

Further to Note 3.R to 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 September 30, 2017:

| | **According to the previous policy** | **The change** | **According to IFRS 15** |
|---|---|---|---|
| | | **NIS millions** | |
| Other receivables | 145 | (1) | 144 |
| Other payables | 915 | (6) | 909 |
| Retained earnings | 619 | 5 | 624 |

## Note 3 - Significant Accounting Policies (cont'd)

### B. IFRS 15, *Revenue from Contracts with Customers* (hereinafter – "IFRS 15") (cont'd)

In the income statement for the three-month period ended September 30, 2017:

| | According to the previous policy | The change | According to IFRS 15 |
|---|---|---|---|
| | | NIS millions | |
| Sales | 3,020 | 1 | 3,021 |
| Selling and marketing expenses | *625 | 2 | 627 |
| Financing income | 5 | (1) | 4 |

* See Note 2.C regarding reclassification.

In the income statement for the nine-month period ended September 30, 2017:

| | According to the previous policy | The change | According to IFRS 15 |
|---|---|---|---|
| | | NIS millions | |
| Sales | 8,924 | 3 | 8,927 |
| Financing income | 29 | (3) | 26 |

In the statement of cash flows for the three-month period ended September 30, 2017:

| | According to the previous policy | The change | According to IFRS 15 |
|---|---|---|---|
| | | NIS millions | |
| Financing expenses, net | 28 | 1 | 29 |
| Change in trade receivables | (165) | (1) | (166) |
| Amortization of intangible assets and deferred taxes | 9 | 2 | 11 |

# Note 3 - Significant Accounting Policies (cont'd)

## B. IFRS 15, *Revenue from Contracts with Customers* (hereinafter – "IFRS 15") (cont'd)

In the statement of cash flows for the nine-month period ended September 30, 2017:

| | According to the previous policy | The change | According to IFRS 15 |
|---|---|---|---|
| | | NIS millions | |
| Financing expenses, net | 86 | 3 | 89 |
| Amortization of intangible assets and deferred taxes | 25 | 2 | 27 |
| Change in trade receivables | (142) | (3) | (145) |
| Investment in deferred expenses and intangible assets | (28) | (2) | (30) |

## C. IFRS 9 (2014), *Financial Instruments* (hereinafter – "the final version of 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, additional hedging strategies that are used for risk management may qualify for hedge accounting. IFRS 9 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 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 and sets new principles for accounting for hedging instruments. It also provides new disclosure requirements.

*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.

## Note 3 - Significant Accounting Policies (cont'd)

### C. IFRS 9 (2014), *Financial Instruments* (hereinafter – "the final version of IFRS 9") (cont'd)

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.** 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.

**B.** 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.

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

**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.
Further to that mentioned in the aforesaid note regarding Leumi Card's announcement that it plans to participate in the acquisition of Paz's holdings in the partnership (20%) (meaning that the Company will acquire 16% of the rights in the partnership that are held by Paz and Leumi Card will acquire 4% of the rights in the partnership that are held by Paz), and regarding the arrangement between the Company and Paz in this respect, that if Leumi Card does not acquire those holdings in Paz (4%) within a specified period of time the Company will acquire them according to a value that was determined in negotiations between the parties, meaning for NIS 29 million. In October 2018 the Company paid Paz an amount of NIS 29 million for the balance of Paz's holdings in the partnership (4%) (see also Note 9.B).
As at the date of signing the financial statements, the Company holds 84% of the partnership.

**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., in the event of termination of the "Leumi Card agreement", 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. Since 60 days have passed without an agreed valuer being appointed and obviously not being contacted according to the partnership agreement, 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.B 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).

**F.** 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 indirectly controlled by DIC.
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.

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

**F. (cont'd)**

The agreement will come into effect subject to the following conditions being met within 24 months from the date of signing the agreement: (a) the authorized bodies of both parties approving the transaction and (b) a detailed urban building plan for the project having legal effect. On June 5, 2018 the general meetings of the Company and entrepreneur approved the building services for land combination venture agreement as well as the collaboration and joint venture agreement.

**G.** On June 5, 2018 a wholly owned subsidiary entered into an agreement with Amot Investments Ltd. ("Amot"), by which the subsidiary will acquire 25% of Amot's lease rights in available land in the industrial zone of Modi’in, on which the parties will construct (as a joint venture) 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 in this item – “the project”) in which the parties will have undivided co-ownership at the rate of 25% for the subsidiary and 75% for Amot. The logistics center will be leased by the Company from the joint venture under a long-term lease, and it will serve as an automation center for the Company’s online activity as aforesaid.

Furthermore, on June 12, 2018 the Company entered into an agreement with a third party that will supply and set up the automation activity for a new automation center in Modi’in (over 34,000 square meters) that the Company will establish (see hereunder) for its online activity, and for the warehouse at Kadima (on a built area of 8,100 square meters) that will also serve as an automation center for the 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, with most of the aforesaid amount constituting payment for the automation equipment and for setting it up, and they will be spread over a period of about four years.

**H.** On July 26, 2018 the Company's Board of Directors convened at the request of 3 acting directors who requested to hold a discussion on how the Board of Directors operates including replacement of the present Chairman with one of the Company's other directors. In the meeting and before any decision was made on the matter, the Chairman of the Board, Mr. Israel Berman, announced his resignation. Further to the aforesaid, Mr. Mauricio Wior, who served as Deputy Chairman of the Board, was appointed as the Company's Chairman of the Board.

**I.** On July 30, 2018 the Commissioner of Restrictive Trade Practices ("the Commissioner") imposed a monetary sanction on the Company of about NIS 9 million in respect of violations of provisions of the Food Law concerning the extension of certain lease agreements that include an exclusive use clause. The Commissioner's payment demand was issued as an agreed demand (agreed notice on intent to charge and demand for payment), and after talks were held with the Company, and without the Company's agreement being considered an admission or acknowledgement that it had violated the provisions of the Food Law. It is noted that at the same time as the talks with the Company regarding the monetary sanction, talks were held between the Company and the Commissioner regarding the exclusive use arrangements of the Company, and in this respect the parties reached understandings by which the Company would terminate all the exclusive use arrangements it has and will be permitted to enter into exclusive use arrangements in a limited number of new branches and for a limited period, and at prescribed terms.

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

**I. (cont'd)**

On November 19, 2018 the Restrictive Trade Practices Court decided to approve the understandings between the Company and the Commissioner and awarded them effect of an order. According to the agreed order, the Company is required to terminate the exclusive use arrangements within six months from the date of issuing the order. In the opinion of the Company, termination of the exclusive use arrangements will not have a material effect on its operations and results.

## 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 nine months ended September 30, 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** | **9,173** | **36** | **58** | **411** | **(58)** | **9,620** |
| **Inter-segment rental revenues** | **-** | **95** | **-** | **-** | **(95)** | **-** |
| **Segment revenues** | **9,173** | **131** | **58** | **411** | **(153)** | **9,620** |
| **Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity** | **290** | **106** | **-** | **(16)** | **(17)** | **363** |
| **Operating profit from management of loyalty program credit card activity** | **(13)** | **-** | **(13)** | **-** | **13** | **(13)** |
| **Operating profit before other income (expenses)** | **277** | **106** | **(13)** | **(16)** | **(4)** | **350** |
| **Other income (expenses), net** | **-** | **20** | **-** | **(3)** | **(2)** | **15** |
| **Operating profit after other income (expenses)** | **277** | **126** | **(13)** | **(19)** | **(6)** | **365** |
| **Financing expenses** | | | | | | **(100)** |
| **Financing income** | | | | | | **17** |
| **Share of profits of equity accounted investee** | | | | | | **3** |
| **Taxes on income** | | | | | | **(69)** |
| **Profit for the period** | | | | | | **216** |

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

**For the nine months ended September 30, 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 | 8,895 | 32 | 64 | (64) | *8,927 |
| Inter-segment rental revenues | - | 94 | - | (94) | - |
| Segment revenues | 8,895 | 126 | 64 | (158) | 8,927 |
| Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity | 227 | 101 | - | (17) | 311 |
| Operating profit from management of loyalty program credit card activity | 40 | - | 40 | (40) | 40 |
| Operating profit before other income (expenses) | 267 | 101 | 40 | (57) | 351 |
| Other income (expenses), net | (8) | 5 | - | (2) | (5) |
| Operating profit after other income (expenses) | 259 | 106 | 40 | (59) | 346 |
| Financing expenses | | | | | (115) |
| Financing income | | | | | 26 |
| Taxes on income | | | | | 4 |
| Share of profits of equity accounted investee | | | | | (63) |
| Profit for the period | | | | | 198 |

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

# Note 6 - Segment Reporting (cont'd)

**For the three months ended September 30, 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** | 3,154 | 13 | 18 | 137 | (18) | 3,304 |
| **Inter-segment rental revenues** | - | 32 | - | - | (32) | - |
| **Segment revenues** | 3,154 | 45 | 18 | 137 | (50) | 3,304 |
| **Operating profit excluding profit from management of loyalty program credit card activity** | 93 | 35 | - | (10) | (6) | 112 |
| **Operating profit from management of loyalty program credit card activity** | 2 | - | 2 | - | (2) | 2 |
| **Operating profit** | 95 | 35 | 2 | (10) | (8) | 114 |
| **Financing expenses** | | | | | | (34) |
| **Financing income** | | | | | | 6 |
| **Share of profits of equity accounted investee** | | | | | | 1 |
| **Taxes on income** | | | | | | (23) |
| **Profit for the period** | | | | | | 64 |

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

**For the three months ended September 30, 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 | 3,009 | 12 | 23 | (23) | *3,021 |
| Inter-segment rental revenues | - | 32 | - | (32) | - |
| Segment revenues | 3,009 | 44 | 23 | (55) | 3,021 |
| Operating profit excluding profit from management of loyalty program credit card activity | 70 | 37 | - | (5) | 102 |
| Operating profit from management of loyalty program credit card activity | 12 | - | 12 | (12) | 12 |
| Operating profit | 82 | 37 | 12 | (17) | 114 |
| Financing expenses | | | | | (33) |
| Financing income | | | | | 4 |
| Share of profits of equity accounted investee | | | | | 1 |
| Taxes on income | | | | | (23) |
| Profit for the period | | | | | 63 |

* See Note 3.B 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 equity accounted investee | | | | | 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 until May 8, 2018 filing motions to certify class actions did not require the payment of a fee based on the amount of the claim, 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 September 30, 2018, classified into categories 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. | **23** | ****876** | *****832** | **1,731** |
| 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. | ***-** | **5** | **6** | **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. | **19** | **6** | ***-** | **25** |
| **Total** | | **47** | **900** | **838** | ******1,785** |

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

**a. 1. Presented hereunder are details of the Group's pending claims as at June 30, 2018, classified into categories having similar characteristics: (cont'd)**

* Indicates an amount less than NIS 1 million.

** Including claims against the Company and other claims in the amount of NIS 7 million in which the amount claimed from the Company is not specified.

*** Including claims against the Company and other claims in the amount of NIS 293 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 September 30, 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) | *754 | *548 |
| From NIS 100 million to NIS 500 million | 3 | 937 |
| Claims that do not specify an amount claimed | 6 | - |
| Claims that do not specify the amount claimed from the Company and others | 5 | - |
| Claims against the Company and other defendants together in which the amount claimed from the Company is not specified | 13 | 300 |
| **Total** | **781** | **1,785** |

* As at September 30, 2018 there are 621 claims of customers for damages in the total amount of NIS 25 million.

**b. Information on legal proceedings**

On August 1, 2018 the Company received a motion to certify a class action ("the motion") that had been filed against it with the central region district court on July 31, 2018. The motion is based on the allegation that Shufersal refrained from cancelling exclusive use arrangements it was party to and accordingly violated the provisions of the Law for the Promotion of Competition in the Food Industry – 2014 and the provisions of the Restrictive Trade Practices Law – 1988. The class the claim wishes to represent includes any person who purchased from the Shufersal chain any kind of product, including food products and/or baked products and/or food products sold at Shufersal's deli counters and/or fruit and vegetables, in the seven years before the filing of the motion until the date of ruling on the claim. The applicant estimated the overall damage to the class members to be NIS 300 million. In the opinion of legal counsel, at this early stage that the Company has not yet filed its reply to the motion, it is not possible to assess the chances of the claim.

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

### b. Information on legal proceedings (cont'd)

Furthermore, on September 13, 2018 the Company received the ruling of the Tel Aviv District Court (from September 12, 2018) that accepted a motion to hear as a class action a claim against New Pharm Drugstores Ltd. ("New Pharm"), a wholly owned subsidiary of the Company, and against Hamashbir Department Stores, with respect to the first two causes specified in the motion to certify a class action that was filed against them on May 17, 2016 (a date on which New Pharm was not yet owned by the Company), for alleged violation of provisions of the law concerning presentation of special sales as a discount on a discount, failure to present a final price for a product on special sale and presenting the catalogue price as the previous price (a cause that referred to only New Pharm). The relief claimed is a mandatory injunction, declaratory order and monetary compensation in the amount of NIS 20 million. New Pharm and Hamashbir are required to file a defense statement within 45 days from the date of the ruling. It is not possible at this stage to assess the extent of the exposure from acceptance of the motion.

### c. Claims of employees, subcontractors, suppliers, authorities and other claims

In the ordinary course of business, various claims have been filed against the Company by employees, subcontractors, suppliers, authorities and others which deal mostly in claims for breach of provisions of the law governing termination of employment and obligatory payments to employees, claims for breach of agreements and compulsory payments to authorities. As at September 30, 2018, the amount claimed from the Company in those claims totals NIS 29 million.

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

**c. Claims of employees, subcontractors, suppliers, authorities and other claims (cont'd)**

Furthermore, 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 that was filed by the plaintiff cannot be assessed at this early stage.

**d. Information on claims subsequent to the reporting date**

In the framework of a mediation proceeding the Company is holding with a third party in which the Company is claiming from the third party an amount of NIS 40 million, mainly in respect of damages that were caused to the Company following the third party's breaches of a sale agreement between it and the Company on the sale of an asset to the Company that was designated to serve as a branch of the Company (including damages that were due to delays in handing over the asset, taking off areas and changing for the worse the locations of the areas the parties had agreed on), in November 2018 the third party submitted to the mediator a counterclaim against the Company in the amount of NIS 40 million in respect of the balance of the consideration allegedly due to the third party according to the sale agreement, including interest for delay, liquidated damages and consideration for additional work that the third party claims was executed on the asset. The Company believes that the allegations of the third party have no factual and legal basis. The parties agreed that insofar as the mediation does not succeed, they will enter into an arbitration proceeding.

In addition, two motions to certify consumer claims as class actions were filed against the Company and other defendants, in which the amount claimed from the Company is NIS 6 million. The chances of the claims cannot be assessed at this early stage.

Furthermore, a motion to certify a consumer claim as a class action was filed against the Company and other defendants in the total amount of NIS 3 million without specifying the amount claimed from the Company itself. The chances of the claim cannot be assessed at this early stage.

In addition, a motion to certify a consumer claim as a class action was filed against the Company and other defendants in which the applicant did not estimate the damage caused to all the class members. The chances of the claim cannot be assessed at this early stage.

Furthermore, two motions to certify consumer claims as class actions against the Company in the total amount of NIS 8 million were rejected and settled for immaterial amounts with court approval.

In addition, a motion to certify a consumer claim as a class action against the Company and other defendants in the total amount of NIS 3 million were rejected and settled with court approval.

Furthermore, a court ruling approved a compromise agreement between the parties in a class action, by which Shufersal would compensate the public by means of a purchase discount, in the amount of NIS 8 million, plus legal fees and an award to the plaintiff of an immaterial amount.

## 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 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 September 30, 2018 | | As at September 30, 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) –** | **2,753** | **3,048** | 2,355 | 2,668 | 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)

| | As at September 30, 2018 | | | | As at September 30, 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 | **42** | **-** | **-** | **42** | 10 | - | - | 10 | 10 | - | - | 10 |
| Forward - hedge on transactions linked to foreign currency** | **-** | **1** | **-** | **1** | - | - | - | - | - | - | - | - |
| Investment** | **-** | **-** | **11** | **11** | - | - | 18 | 18 | - | - | 16 | 16 |
| | **42** | **1** | **11** | **54** | 10 | - | 18 | 28 | 10 | - | 16 | 26 |
| **Financial liabilities** | | | | | | | | | | | | |
| Interest SWAP | **-** | **(1)** | **-** | **(1)** | - | (22) | - | (22) | - | (8) | - | (8) |
| Forward - hedge on transactions linked to foreign currency | **-** | **-** | **-** | **-** | - | - | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | - | (22) | - | (22) | - | (8) | - | (8) |
| | **42** | **-** | **11** | **53** | 10 | (22) | 18 | 6 | 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 October 18, 2018 the Company issued an invitation to an annual and special general meeting of shareholders (appointment of external director) that will be held on November 29, 2018.

**B.** Further to that mentioned in Note 15 to the financial statements as at December 31, 2017 regarding the arrangement that was reached between the Company and Paz, on October 14, 2018 the Company acquired 4% of the holdings of Paz in consideration for NIS 29 million (see also Note 5.C).

**C.** On October 8, 2018 the Company performed a partial repayment of bonds Series D and E.