Section A-

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

For the Six-Month Period Ended

June 30, 2018

Contents

Board of Directors' Report on the State of the Company's Affairs for the Six-Month Period Ended June 30, 2018

Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the six-month period ended June 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 340 branches throughout the country, of which 276 are branches of Shufersal and 64 are branches of New Pharm. The Shufersal branches operate in a number of formats. The Group has 517 thousand square meters of selling areas of which approximately 495[2] thousand square meters are Shufersal branches and 22 thousand square meters are New Pharm branches, as well as 4 online storage facilities over an area of 12 thousand square meters[3]. The Group employs about 13.5 thousand employees (calculated positions) and has annual revenues of about NIS 12.5 billion.
As at June 30, 2018 and the date of issuing this report, the Company does not have a controlling shareholder. See also 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[4].
For details regarding the aforesaid operating segments, see Note 6 to the Company's consolidated financial statements as at June 30, 2018 (hereinafter – "**the financial statements**").

1.1.2 Management's discussion of the principal results for the first half 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 half 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, including continuing to open dedicated storage facilities for that distribution channel. In the first half of the year, the significant growth of retail sales through Shufersal Online continued, and they constituted about 13.5% of the Company's retail sales (compared with 11.1% in the first half of 2017).
- Continued development and strengthening of the private label including launching products in existing and new categories. In the first half of the year, the private label accounted for 23.5% of all retail sales, which is an increase compared to the rate of those sales in the first half of 2017 (about 21.8%[5] of total retail sales).

[1] For purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (June 30, 2018) unless stated otherwise or implied otherwise by the context of the matter.
[2] Not including branches spread over about 2 thousand square meters that are closed for renovations as at the date of the report.
[3] Dedicated storage facilities for the online marketing of products through the Company's website.
[4] The data in this report with respect to the New Pharm segment do not include comparative data for 2017.
[5] Including classification of comparative data following the classification of categories to the private label.

- Examination and execution of integration of the New Pharm operation into the Company, including operating synergies, a brand refresh, and so forth.
- The Company began establishing the new credit card customer club, and about 400 thousand credit cards were issued in the first half of the year.

1.1.3 Principal events that occurred during and subsequent to the reporting period

- 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.
  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 ("**the Concentration Law**"). The Company believes that DIC no longer controlling the Company will not have any material effects on the Company's agreements, including agreements with providers of financing.
- On May 29, 2018 the Company's Board of Directors approved entering into an agreement with a third party that will supply and set up the automation activity for 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 Company's existing warehouse at Kadima (on a built area of 8,100 square meters) that will also serve as at automation center for the online activity.
  The Company's Board of Directors also gave its approval to an agreement between a wholly owned subsidiary of the Company and 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. 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.
- See Note 5.C to the financial statements for information on the distribution of a dividend to the Company's shareholders on May 8, 2018 further to the decision of the Board of Directors in March 2018.
- 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.
  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 April 24, 2018 the Company received a claim that had been filed by Leumi Card together with a motion requesting interim orders, against the Company and against the auditors of Shufersal Finance, Limited Partnership ("**the partnership**") (from the office of Kesselman & Kesselman, CPAs), the partnership and the partnership's 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.
- In March 2018 the Company completed the acquisition of a 16% interest in the partnership from Paz for the amount of NIS 117 million, so that the Company has an 80% interest in the partnership. See also Note 5.C and 5.D to the financial statements.
- On January 18, 2018, in accordance with a shelf registration statement, the Company issued NIS 476 million par value of its existing Series E bonds, by way of expansion of the series, for a total consideration (gross) of NIS 568 million.
- On January 18, 2018 the Company launched the activity with the credit card company ICC. See also Note 5.E to the financial statements.
- See Note 9.A to the financial statements for details on replacement of the Company's chairman of the board subsequent to the reporting date.
- See Note 9.B to the financial statements for details on a monetary sanction that was imposed on the Company by the Commissioner of Restrictive Trade Practices subsequent to the reporting date in respect of violations of provisions of the Law for the Promotion of Competition in the Food Sector – 2014 and an arrangement to terminate the Company's exclusive use arrangements.

1.2 Analysis of Results of Operations

In 2018 the eve of Passover was on March 30, as compared to 2017 in which the eve of Passover was on April 10. The effect of Passover is smaller in the second quarter of this year than its effect in the corresponding quarter last year. In the opinion of the Company, the analysis of the half year results better reflects the changes between the periods.

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

	Results of operations for the three months ended June 30, 2018		Results of operations for the three months ended June 30, 2017	
	%	NIS millions	%	NIS millions
Revenues		3,147		*3,002
Gross profit	27.0%	851	25.6%	768
Selling, marketing, administrative and general expenses	23.1%	(728)	21.4%	(641)*
Operating profit before other (income) expenses	**3.9%**	**123**	**4.2%**	**127**
Other income (expenses), net		-		(7)
Increase in fair value and gain on sale of investment property, net		16		3
Operating profit after other income (expenses)		**139**		**123**
Financing expenses, net		(27)		*(34)
Share in profits of equity accounted investee		1		1
Profit before taxes on income		**113**		**90**
Taxes on income		(28)		(21)
Profit for the period		**85**		**69**

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

Retail segment revenues amounted to NIS 3,002 million in the second quarter of the year, compared with NIS 2,992 million in the corresponding quarter last year, an increase of 0.3%. The sales of the Company’s stores decreased at the rate of 0.2% in the second quarter of the year as compared with the corresponding quarter last year. The difference between the increase in revenue and the decrease in sales is mainly attributable to an increase in the new member gift of the credit card club following the change in the issuer of the credit card[6].
Same store[7] sales decreased by 2.4% compared with the corresponding quarter last year, mainly as a result of the timing of the Passover holiday.
The sales per square meter[8] amounted to NIS 6,079, in the second quarter of the year[9], compared with NIS 6,200 in the corresponding quarter last year, a decrease of 1.9% that is mainly due to a decrease in sales and an increase in selling areas[10].

Real estate segment revenues amounted to NIS 42 million in the second quarter of the year, compared with NIS 41 million in the corresponding quarter last year. The increase in revenues is mainly due to the occupation of vacant properties and to new income-producing properties.

[6] See Paragraph 3.3.3 of Part A (Description of Business Affairs) of the periodic report and Note 30.A to the financial statements as at December 31, 2017 that are included in the periodic report.
[7] Same store sales – gross sales of active stores that were opened before January 2017.
[8] The areas of the new branches are calculated proportionately from the date the branch was opened. The area of the branch is the gross area including selling areas and other operating areas.
[9] As from the financial statements as at June 30, 2017, the Company includes it sales through online storage facilities in the same store sales and in the calculation of the sales per square meter, and includes the areas of the online storage facilities in the calculation of the sales per square meter, including the comparative data.
[10] Reopening of the Be'erot Yitzhak branch in the first quarter of the year.

Revenues from the loyalty program credit card management segment amounted to NIS 19 million in the second quarter of the year, compared with NIS 21 million in the corresponding quarter last year, a decrease of 9.5%, which is mainly due to the process of strengthening the new credit card loyalty program.

Revenues from the New Pharm segment amounted to NIS 134 million in the second quarter of the year. The sales per square meter of New Pharm stores amounted to NIS 6,067[11] in that period.

The Company's revenues amounted to NIS 3,147 million in the second quarter of the year, compared with NIS 3,002 million in the corresponding quarter last year, an increase of 4.8% that is mainly due to the retail segment and the New Pharm segment that began operating this year.

Gross profit amounted to NIS 851 million in the second quarter of the year, compared with NIS 768 million in the corresponding quarter last year, an increase of NIS 83 million. The gross profit rate was 27.0% compared with 25.6% 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 728 million in the second quarter of the year, compared with NIS 641 million in the corresponding quarter last year. The ratio of expenses to revenues was 23.1% compared with 21.4% 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 before other expenses in the retail segment amounted to NIS 97 million in the second quarter of the year, a rate of 3.2% of revenues, compared with NIS 101million and a rate of 3.4% of revenues in the corresponding quarter last year, a decrease of NIS 4 million that is due to the aforesaid.

The operating profit before other income in the real estate segment amounted to NIS 35 million in the second quarter of the year, compared with NIS 32 million in the corresponding quarter last year, an increase of NIS 3 million that is due to the aforesaid.

The operating loss in the loyalty program credit card management segment amounted to NIS 2 million in the second quarter of the year, compared with a profit of NIS 15 million in the corresponding quarter 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 4 million in the second quarter of the year.

The Company's operating profit after other income (expenses) amounted to NIS 139 million in the second quarter of the year and a rate of 4.4% of revenues, compared with NIS 123 million and a rate of 4.1% of revenues in the corresponding quarter last year, an increase of NIS 16 million that is mainly due to the change in the fair value of investment property.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 192 million and a rate of 6.1% of revenues in the second quarter of the year, compared with NIS 203 million and a rate of 6.8% of revenues in the corresponding quarter last year.

[11] 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.

Financing expenses net, amounted to NIS 27 million in the second quarter of the year, compared with NIS 34 million in the corresponding quarter last year. The decrease in financing expenses is mainly due to recording income from forward transactions in the second quarter of the year compared with expenses in the corresponding period last year.

Tax expenses amounted to NIS 28 million in the second quarter of the year, compared with NIS 21 million in the corresponding quarter last year, an increase that is mainly due to an increase in the pre-tax profit.

Profit for the period amounted to NIS 85 million in the second quarter of the year, compared with NIS 69 million in the corresponding quarter last year.

The Company's basic and diluted earnings per share amounted to NIS 0.36 in the second quarter of the year, compared with NIS 0.31 in the corresponding quarter last year.

1.2.2 Analysis of the results for the six months ended June 30, 2018 as compared to the corresponding period last year

	Results of operations for the six months ended June 30, 2018		Results of operations for the six months ended June 30, 2017	
	%	**NIS millions**	**%**	**NIS millions**
Revenues		6,316		*5,906
Gross profit	26.9%	1,701	25.5%	1,506
Selling, marketing, administrative and general expenses	23.2%	(1,465)	21.5%	(1,269)*
Operating profit before other (income) expenses	**3.7%**	**236**	**4.0%**	**237**
Other expenses, net		(1)		(8)
Increase in fair value and gain on sale of investment property, net		16		3
Operating profit after other income (expenses)		**251**		**232**
Financing expenses, net		(55)		*(60)
Share in profits of equity accounted investee		2		3
Profit before taxes on income		**198**		**175**
Taxes on income		(46)		(40)
Profit for the period		**152**		**135**

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

Retail segment revenues amounted to NIS 6,019 million in the first half of the year, compared with NIS 5,886 million in the corresponding half last year, an increase of 2.3%. The sales of the Company's stores increased at the rate of 1.7% in the first half of the year as compared with the corresponding half 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[12] while on the other hand there was an increase in the activity of the franchisees.
Same store[13] sales increased by 0.3% compared with the corresponding half last year.

[12] See Paragraph 3.3.3 of Part A (Description of Business Affairs) of the periodic report and Note 30.A to the financial statements as at December 31, 2017 that are included in the periodic report.
[13] Same store sales – gross sales of active stores that were opened before January 2017.

The sales per square meter[14] amounted to NIS 12,218, in the first half of the year, compared[15] with NIS 12,051 in the corresponding half last year, an increase of 1.4% that is mainly due to an increase in sales.

Real estate segment revenues amounted to NIS 86 million in the first half of the year, compared with NIS 82 million in the corresponding half 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 40 million in the first half of the year, compared with NIS 41 million in the corresponding half last year, a decrease of 2.4%.

Revenues from the New Pharm segment amounted to NIS 274 million in the first half of the year. The sales per square meter of New Pharm stores amounted to NIS 12,339[16] in that period.

The Company's revenues amounted to NIS 6,316 million in the first half of the year, compared with NIS 5,906 million in the corresponding half last year, an increase of 6.9% 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 1,071 million in the first half of the year, compared with NIS 1,506 million in the corresponding half last year, an increase of NIS 195 million. The gross profit rate was 26.9% compared with 25.5% in the corresponding half 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 1,465 million in the first half of the year, compared with NIS 1,269 million in the corresponding half last year. The ratio of expenses to revenues was 23.2% compared with 21.5% in the corresponding half 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 before other expenses in the retail segment amounted to NIS 182 million in the first half of the year, a rate of 3.0% of revenues, compared with NIS 185million and a rate of 3.1% of revenues in the corresponding half last year, a decrease of NIS 3 million that is due to the aforesaid.

The operating profit before other income in the real estate segment amounted to NIS 71 million in the first half of the year, compared with NIS 64 million in the corresponding half last year that is due to the aforesaid.

The operating loss in the loyalty program credit card management segment amounted to NIS 15 million in the first half of the year, compared with a profit of NIS 28 million in the corresponding half 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 6 million in the first half of the year.

[14] 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.
[15] 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.
[16] 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 Company’s operating profit after other income (expenses) amounted to NIS 251 million in the first half of the year and a rate of 4.0% of revenues, compared with NIS 232 million and a rate of 3.9% of revenues in the corresponding half 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 385 million and a rate of 6.1% of revenues in the first half of the year, compared with NIS 391 million and a rate of 6.6% of revenues in the corresponding half last year.

Financing expenses net, amounted to NIS 55 million in the first half of the year, compared with NIS 60 million in the corresponding half last year. The decrease in financing expenses is mainly due to recording income from forward transactions in the first half 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 46 million in the first half of the year, compared with NIS 40 million in the corresponding half last year, an increase that is mainly due to an increase in the pre-tax profit.

Profit for the period amounted to NIS 152 million in the first half of the year, compared with NIS 135 million in the corresponding half last year.

The Company’s basic and diluted earnings per share amounted to NIS 0.64 in the first half of the year, compared with NIS 0.62 in the corresponding half last year.

1.3 Financial Position, Liquidity and Sources of Finance

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

Cash flow from operating activities
Net cash used in operating activities amounted to NIS 97 million in the second quarter of 2018, compared with net cash from operating activities in the amount of NIS 71 million in the corresponding quarter last year. The decrease in cash flow from operating activities is mainly due to changes in working capital items, particularly because of the timing of the Passover holiday.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 243 million in the second quarter of 2018, compared with net cash used in investing activities in the amount of NIS 83 million in the corresponding quarter last year. Cash used in investing activities in the second quarter of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 108 million and an investment in short-term deposits in the amount of NIS 101 million.
The cash used in investing activities in the second quarter of 2017 included mainly acquisition of property, plant and equipment in the amount of NIS 66 million.

Cash flow from financing activities
Net cash used in financing activities amounted to NIS 224 million in the second quarter of 2018, compared with net cash from financing activities in the amount of NIS 184 million in the corresponding quarter last year. The cash used in financing activities in the second quarter of 2018 included mainly repayment of bonds and interest payments in the amount of NIS 64 million and a dividend payment in the amount of NIS 160 million.
The cash from financing activities in the second quarter of 2017 included mainly net proceeds from issuance of share capital in the amount of NIS 348 million and on the other hand a dividend payment in the amount of NIS 160 million.

1.3.2 Cash flow – Analysis of the results for the first half of 2018 as compared to the corresponding half last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 229 million in the first half of 2018, compared with NIS 267 million in the corresponding half last year. The decrease in cash flow from operating activities is mainly due to changes in working capital items.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 650 million in the first half of 2018, compared with net cash used in investing activities in the amount of NIS 87 million in the corresponding half last year. Cash used in investing activities in the first half of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 243 million and an investment in deposits in the amount of NIS 352 million. The cash used in investing activities in the first half of 2017 included mainly acquisition of property, plant and equipment in the amount of NIS 157 million and on the other hand proceeds from withdrawal of deposits in the amount of NIS 98 million.

Cash flow used in financing activities
Net cash from financing activities amounted to NIS 222 million in the first half of 2018, compared with net cash used in financing activities in the amount of NIS 7 million in the corresponding half last year. The cash from financing activities in the first half 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, fulfillment 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 half of 2017 included mainly repayment of bonds and interest payments in the amount of NIS 188 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 second quarter of 2018, the net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 662 million, compared with NIS 567 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 second quarter of 2018, the liabilities to the holders of bonds and to banks, including interest payable (hereinafter – "**the financial debt**") amounted to NIS 2,726 million, compared with NIS 2,332 million in the corresponding quarter last year.
The ratio of the Company's financial debt to its total assets was approximately 35.5% at the end of the second quarter of 2018, compared with 33.8% 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 1,827 million as at the end of the second quarter of 2018, compared with NIS 1,637 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 23.8% at the end of the second quarter of 2018, compared with 23.7% 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 June 30, 2018

As at June 30, 2018, the Company has a working capital deficit (on a consolidated basis) of NIS 265 million, compared with a working capital deficit of NIS 592 million as at December 31, 2017 and a working capital deficit of NIS 737 million as at June 30, 2017, and it has a working capital deficit (on a stand-alone basis) as at June 30, 2018 of NIS 315 million, compared with a working capital deficit of NIS 494 million as at December 31, 2017 and of NIS 306 million as at June 30, 2017.
The decrease in the working capital deficit as at June 30, 2018 is 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 liability to partners in the amount of NIS 117 million and repayment of bonds and interest in the amount of NIS 64 million.
The Company ended the quarter with a negative cash flow from operating activities (see paragraph 1.3.1 above).

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

In March and April 2017, the Company entered into agreements with three banking institutions (with each one separately) to receive a guaranteed two-year credit facility for the Company of up to NIS 100 million from each banking institution that may be utilized by short-term credit withdrawals. As at the date of issuing this report, there are unutilized credit facilities. 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.

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 June 30, 2018, the Board of Directors decided that notwithstanding the working capital deficit as at June 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 1.3 billion as at June 30, 2018 (compared with NIS 1.5 billion as at June 30, 2017), and in respect of CPI-linked payments in the annual amount of NIS 427 million.
As at June 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 second quarter of 2018, the Company incurred financing expenses in relation to those transactions in the amount of NIS 3 million, compared with NIS 2 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 June 30, 2018, the Company has forward contracts on the rate of the dollar in the amount of US$ 10.8 million for settlement until February 2019 and cylinder transaction on the rate of the dollar in the amount of US$ 20.3 million for settlement until February 2019. Furthermore it has forward contracts on the exchange rate of the euro in the amount of € 55.7 million for settlement until November 2020 and cylinder transactions on the rate of the euro in the amount of € 8.1 million for settlement until February 2019.
In the second quarter of 2018, the Company incurred financing income in the amount of NIS 5 million in respect of those contracts.
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 (up to 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 June 30, 2018:

	June 30, 2018				
	Israeli currency		Foreign currency		
	Unlinked	Linked	Mainly dollar	Other items	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets:					
Cash and cash equivalents	151	-	22	-	173
Marketable securities	34	5	-	-	39
Short-term deposits	450	-	-	-	450
Trade receivables	1,183	-	-	-	1,183
Other receivables	62	10	10	98	180
Inventories	-	-	-	761	761
Non-current assets:					
Investment in an associate company	37	-	-	15	52
Loan to associate company	34	-	-	-	34
Investment in shares measured at fair value	16	-	-	-	16
Investment property	-	-	-	626	626
Property, plant and equipment	-	-	-	3,038	3,038
Intangible assets and deferred expenses	-	-	-	1,127	1,127
	1,967	15	32	5,665	7,679
Current liabilities:					
Current maturities of bonds	148	125	-	-	273
Trade payables	1,842	-	63	-	1,905
Other payables	318	-	-	448	766
Provisions	-	-	-	48	48
Liability to acquire rights in partnership	59	-	-	-	59
Non-current liabilities:					
Bonds	1,221	1,232	-	-	2,453
Employee benefits, net	-	-	-	174	174
Provisions	-	-	-	4	4
Deferred taxes	-	-	-	123	123
Other liabilities	-	-	-	47	47
Equity	-	-	-	1,827	1,827
	3,588	1,357	63	2,671	7,679
Net exposure (*)	(1,621)	(1,342)	(31)	2,994	-

(*) 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 half 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 June 30, 2018, see Note 9 to the financial statements.

4. Specific Disclosure for Holders of Bonds

Data as at June 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	18	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	360	354	354	9	397	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	346	336	336	12	391	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	455	427	427	16	497	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	568	476	476	18	553	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	324	317	317	10	384	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	613	601	601	19	729	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**	**2,726**	**2,559**	**2,570**	**84**	**3,013**							

* 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 six 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. 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 1.1.3 of this report) as aforesaid, as at June 30, 2018 and proximate to the date of signing the financial statements:

Financial covenant	**Calculation results**	
	As at June 30, 2018	**Proximate to the date of signing the financial statements***
Ratio of net debt to total balance sheet shall not exceed 60%	27%	27%
The Company’s total equity (including non-controlling interests) shall not fall below NIS 550 million	NIS 1,827 million	NIS 1,827 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 1.1.3 of this report):

Restriction	**Calculation results as at June 30, 2018**
The Company’s total equity (including non-controlling interests) shall not fall below NIS 750 million	NIS 1,827 million
Ratio of the Company’s net debt to EBITDA shall not exceed 7	2.7 (*)

(*) Revenue in the amount of NIS 16 million that derives from a change in a provision for onerous contracts was deducted from the EBITDA in the calculation of the ratio of the Company’s net debt to EBITDA.

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

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

12. Information on the rating of outstanding bonds

Series	Name of rating company	Current rating	Rating on date of issuance	Additional ratings between the original date of issuance and the reporting date	
				Date	**Rating**
Series B – Bonds listed for trade	Ma'alot	ilAA	AA Stable	November 8, 2005 (expansion of series)	ilAA Stable
				February 7, 2007 (expansion of series)	ilAA Stable
				May 11, 2009 (affirmation of rating)	ilAA Stable
				May 24, 2010 (affirmation of rating and lowering of Company rating outlook)	ilAA Negative
				December 21, 2010 and December 26, 2010 (lowering of rating and expansion of series, respectively)	ilAA- Stable
				October 4, 2011 (affirmation of rating)	ilAA- Stable
				March 5, 2012 (affirmation of rating and lowering of outlook)	ilAA- Negative
				September 20, 2012 (lowering of rating and affirmation of rating outlook)	ilA+ Negative
				December 2, 2012 (affirmation of rating and rating outlook)	ilA+ Negative
				September 16, 2013 (affirmation of rating)	ilA+ Negative
				October 3, 2013 (affirmation of rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of rating outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				September 20, 2016 (raising of rating and raising of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA

Series	Name of rating company	Current rating	Rating on date of issuance	Additional ratings between the original date of issuance and 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 Chairman of the Board of Directors	Itzik Abercohen CEO

August 12, 2018

Section B-
Shufersal Ltd.

Condensed Consolidated Interim Financial Statements As at June 30, 2018

(Unaudited)

Convenience translation of original financial statements in Hebrew

Shufersal Ltd.

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

Contents

Condensed Consolidated Interim Statements of Financial Position

	June 30 2018	June 30 2017	December 31 2017
	Unaudited	**Unaudited**	**Audited**
	NIS millions	**NIS millions**	**NIS millions**
Assets			
Cash and cash equivalents	**173**	557	372
Short-term deposits	**450**	-	100
Marketable securities	**39**	10	10
Trade receivables	**1,183**	1,063	1,097
Other receivables	**180**	*141	141
Inventory	**761**	667	719
Total current assets	**2,786**	2,438	2,439
Receivables and debit balances	**-**	-	9
Investment in associate company	**52**	88	52
Loan to associate company	**34**	-	34
Investment in shares measured at fair value	**16**	18	16
Investment property	**626**	540	577
Property, plant and equipment	**3,038**	2,878	2,956
Intangible assets and deferred expenses	**1,127**	*909	1,112
Deferred taxes	**-**	24	9
Total non-current assets	**4,893**	4,457	4,765
Total assets	**7,679**	6,895	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: August 12, 2018

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

Condensed Consolidated Interim Statements of Financial Position

	June 30 2018	June 30 2017	December 31 2017
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities in respect of bonds and long-term loans	**273**	219	173
Trade payables	**1,905**	1,654	1,901
Other payables	**766**	*726	733
Liability to acquire rights in partnership	**59**	165	176
Provisions	**48**	47	48
Total current liabilities	**3,051**	2,811	3,031
Bonds	**2,453**	2,113	2,019
Employee benefits, net	**174**	145	160
Provisions	**4**	26	15
Other liabilities	**47**	66	66
Deferred taxes	**123**	97	105
Total non-current liabilities	**2,801**	2,447	2,365
Equity			
Share capital	**242**	242	242
Share premium	**945**	906	945
Reserves	**26**	9	8
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**699**	*565	698
Total equity	**1,827**	1,637	1,808
Total liabilities and equity	**7,679**	6,895	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

	Six months ended		Three months ended		Year ended
	June 30 2018	June 30 2017**	June 30 2018	June 30 2017**	December 31 2017
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales and rentals	**6,316**	5,906	**3,147**	3,002	11,852
Cost of sales and services	**4,615**	4,400	**2,296**	2,234	8,793
Gross profit	**1,701**	1,506	**851**	768	3,059
Selling and marketing expenses	**1,376**	*1,181	**679**	*592	2,430
General and administrative expenses	**89**	*88	**49**	*49	166
Total selling, marketing, general and administrative expenses	**1,465**	1,269	**728**	641	2,596
Operating profit before other income (expenses)	**236**	237	**123**	127	463
Other expenses, net	**(1)**	(8)	**-**	(7)	(20)
Increase in fair value and gain on sale of investment property, net	**16**	3	**16**	3	36
Total other income (expenses), net	**15**	(5)	**16**	(4)	16
Operating profit after other income (expenses)	**251**	232	**139**	123	479
Financing expenses	**(66)**	(82)	**(34)**	(38)	(152)
Financing income	**11**	22	**7**	4	28
Financing expenses, net	**(55)**	(60)	**(27)**	(34)	(124)
Share of profits of equity accounted investee	**2**	3	**1**	1	5
Profit before taxes on income	**198**	175	**113**	90	360
Taxes on income	**(46)**	(40)	**(28)**	(21)	(85)
Profit for the period	**152**	135	**85**	69	275
Basic earnings per share (in NIS)	**0.64**	0.62	**0.36**	0.31	1.22
Diluted earnings per share (in NIS)	**0.64**	0.62	**0.36**	0.31	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

	Six months ended		Three months ended		Year ended
	June 30 2018	June 30 2017	June 30 2018	June 30 2017	December 31 2017
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**152**	135	**85**	69	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	**16**	(5)	**14**	(2)	(8)
Taxes on other comprehensive income items that were initially recognized in comprehensive income and will be transferred to profit or loss	**(3)**	-	**(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	**13**	(5)	**11**	(2)	(6)
Remeasurement of defined benefit plan	**(6)**	(4)	**(6)**	(4)	(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	**-**	1	**1**	1	4
Total other comprehensive loss for the period that will not be transferred to profit or loss, net of tax	**-**	(3)	**(5)**	(3)	(12)
Other comprehensive income (loss) for the period, net of tax	**13**	(8)	**6**	(5)	(18)
Total comprehensive income for the period	**165**	127	**91**	64	257

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total equity
			NIS millions			
For the six months ended June 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	**-**	**-**	**-**	**-**	**152**	**152**
Other comprehensive income for the period, net of tax	**-**	**-**	**18**	**-**	**(5)**	**13**
Balance as at June 30, 2018	**242**	**945**	**26**	**(85)**	**699**	**1,827**
For the six months ended June 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	-	-	-	-	2	2
Dividends to shareholders	-	-	-	-	(160)	(160)
Issue of shares during the period	2	346	-	-	-	348
Profit for the period	-	-	-	-	135	135
Other comprehensive loss for the period, net of tax	-	-	(5)	-	(3)	(8)
Balance as at June 30, 2017	242	906	9	(85)	565	1,637

(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

	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total equity
	NIS millions					
For the three months ended June 30, 2018 (unaudited)						
Balance as at April 1, 2018	**242**	**945**	**15**	**(85)**	**618**	**1,735**
Share-based payment	**-**	**-**	**-**	**-**	**1**	**1**
Profit for the period	**-**	**-**	**-**	**-**	**85**	**85**
Other comprehensive income (loss) for the period, net of tax	**-**	**-**	**11**	**-**	**(5)**	**6**
Balance as at June 30, 2018	**242**	**945**	**26**	**(85)**	**699**	**1,827**
For the three months ended June 30, 2017 (unaudited)						
Balance as at April 1, 2017	240	560	11	(85)	498	1,224
Share-based payment	-	-	-	-	1	1
Issue of shares during the period	2	346	-	-	-	348
Profit for the period	-	-	-	-	69	69
Other comprehensive loss for the period, net of tax	-	-	(2)	-	(3)	(5)
Balance as at June 30, 2017	242	906	9	(85)	565	1,637

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

Condensed Consolidated Interim Statement of Changes in Equity

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

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

* 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

	Six months ended		Three months ended		Year ended
	June 30 2018	June 30 2017	June 30 2018	June 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	**152**	*135	**85**	*69	275
Adjustments for:					
Depreciation of property, plant and eequipment	**154**	135	**78**	67	285
Losses (gains) on impairment/ increase in value of property, plant and equipment	**(4)**	11	**(4)**	11	15
Amortization of intangible assets and deferred expenses	**15**	16	**8**	8	34
Taxes on income	**46**	40	**28**	21	85
Income taxes paid, net	**(26)**	(17)	**(17)**	(9)	(27)
Net financing expense	**55**	*60	**27**	*34	124
Share of profits of equity accounted investee	**(2)**	(3)	**(1)**	(1)	(5)
Change in fair value, net	**(16)**	(3)	**(16)**	(3)	(36)
Change in employee benefits	**5**	(1)	**1**	2	(6)
Gain on sale of property, plant and equipment	**-**	-	**-**	-	(1)
Share based payment	**1**	2	**1**	1	4
Change in provision for onerous contracts	**(16)**	(8)	**(13)**	(3)	(26)
Change in trade receivables	**(82)**	*21	**191**	*251	18
Change in other receivables	**(25)**	(46)	**4**	12	(26)
Change in inventory	**(43)**	10	**68**	145	34
Change in trade payables	**(2)**	(150)	**(200)**	(229)	(59)
Change in other payables, provisions and other	**17**	65	**(337)**	(305)	63
Net cash from (used in) operating activities	**229**	267	**(97)**	71	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

	Six months ended		Three months ended		Year ended
	June 30 2018	June 30 2017	June 30 2018	June 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	**(243)**	(157)	**(108)**	(66)	(364)
Proceeds from sale of property, plant and equipment	**1**	2	**1**	1	8
Investment in deferred expenses and intangible assets	**(31)**	*(23)	**(12)**	*(17)	(47)
Acquisition of subsidiary, net of cash acquired	**-**	-	**-**	-	(121)
Investment in investment property and investment property under construction	**(6)**	(5)	**(3)**	(2)	(16)
Change in pledged deposit	**6**	-	**6**	-	-
Purchase of marketable securities	**(35)**	(4)	**(35)**	(1)	(6)
Proceeds from sale of marketable securities	**5**	4	**5**	1	6
Change in cash from futures transactions, net	**2**	(3)	**2**	(1)	-
Change in short-term deposits, net	**(352)**	98	**(101)**	2	(4)
Repayment of long-term loans	**1**	-	**-**	-	1
Interest received and dividend income	**2**	1	**2**	-	2
Net cash used in investing activities	**(650)**	(87)	**(243)**	(83)	(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

	Six months ended		Three months ended		Year ended
	June 30 2018	June 30 2017	June 30 2018	June 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)**	-	**-**	-	-
Repayment of bonds and loans from banks	**(58)**	(173)	**(58)**	-	(267)
Proceeds from issue of bonds, net	**563**	-	**-**	-	-
Interest paid	**(6)**	(15)	**(6)**	-	(108)
Dividend paid	**(160)**	(160)	**(160)**	(160)	(160)
Proceeds from issue of share capital, net	**-**	348	**-**	348	348
Proceeds from exercise of share options	**-**	-	**-**	-	39
Payments in respect of hedging transactions	**-**	-	**-**	-	(10)
Partners' withdrawals from partnership	**-**	(7)	**-**	(4)	(12)
Net cash from (used in) financing activities	**222**	(7)	**(224)**	184	(222)
Net increase (decrease) in cash and cash equivalents	**(199)**	173	**(564)**	172	(12)
Cash and cash equivalents at the beginning of the period	**372**	384	**737**	385	384
Cash and cash equivalents at the end of the period	**173**	557	**173**	557	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 June 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 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 August 12, 2018.

B. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to exercise judgment when making the assessments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2017.

Note 2 - Basis of Preparation (cont'd)

C. Reclassification

The Group reclassified payroll and payroll-related expenses, maintenance and computer expenses and other expenses between selling and marketing expenses and general and administrative expenses in the income statement, in order to more appropriately reflect the cost allocation. Comparative information was reclassified for consistency purposes, such that amounts of NIS 5 million and NIS 3 million net, were classified from selling and marketing expenses to general and administrative expenses in the six and three month periods ended June 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. Therefore, insofar as it becomes necessary, the Group will update its disclosure in the financial statements for the third quarter of 2018 and for the entire year of 2018.

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 June 30, 2017:

	According to the previous policy	The change	According to IFRS 15
		NIS millions	
Other receivables	142	(1)	141
Intangible assets and deferred expenses	907	2	909
Other payables	732	(6)	726
Retained earnings	558	7	565

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 June 30, 2017:

	According to the previous policy	The change	According to IFRS 15
		NIS millions	
Sales	3,001	1	3,002
Selling and marketing expenses	*593	(1)	592
Financing income	5	(1)	4

* See Note 2.C regarding reclassification.

In the income statement for the six-month period ended June 30, 2017:

	According to the previous policy	The change	According to IFRS 15
		NIS millions	
Sales	5,904	2	5,906
Selling and marketing expenses	*1,183	(2)	1,181
Financing income	24	(2)	22

* See Note 2.C regarding reclassification.

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

	According to the previous policy	The change	According to IFRS 15
		NIS millions	
Financing expenses, net	33	1	34
Change in trade receivables	252	(1)	251
Investment in deferred expenses and intangible assets	(16)	(1)	(17)

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 six-month period ended June 30, 2017:

	According to the previous policy	The change	According to IFRS 15
		NIS millions	
Financing expenses, net	58	2	60
Change in trade receivables	23	(2)	21
Investment in deferred expenses and intangible assets	(21)	(2)	(23)

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. 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.

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

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, so that the Company's currently has a 80% holding.

D. Further to that mentioned in Note 15 to the financial statements as at December 31, 2017, according to a partnership agreement from August 31, 2006 ("**the partnership agreement**") between the Company, Leumi Card and Paz Oil Company Ltd., 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. As at the date of issuing the financial statements (after 60 days had passed from the end of the Leumi Card agreement), no agreed valuer has been appointed, and therefore has obviously not been contacted according to the partnership agreement. Therefore, the Company is of the opinion that the call and put options concerning Leumi Card's holdings in the partnership have expired (see also Note 7.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.

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.

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

G. On May 29, 2018 the Company's Board of Directors approved entering into an agreement with a third party that will supply and set up the automation activity for 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 Company’s existing warehouse at Kadima (on a built area of 8,100 square meters) that will also serve as at automation center for the online activity.

The Company’s Board of Directors also gave its approval to an agreement between a wholly owned subsidiary and 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. 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.

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 six months ended June 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	**6,019**	**23**	**40**	**274**	**(40)**	**6,316**
Inter-segment rental revenues	**-**	**63**	**-**	**-**	**(63)**	**-**
Segment revenues	**6,019**	**86**	**40**	**274**	**(103)**	**6,316**
Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity	**197**	**71**	**-**	**(6)**	**(11)**	**251**
Operating loss from management of loyalty program credit card activity	**(15)**	**-**	**(15)**	**-**	**15**	**(15)**
Operating profit (loss) before other income (expenses)	**182**	**71**	**(15)**	**(6)**	**4**	**236**
Other income (expenses), net	**-**	**20**	**-**	**(3)**	**(2)**	**15**
Operating profit (loss) after other income (expenses)	**182**	**91**	**(15)**	**(9)**	**2**	**251**
Financing expenses						**(66)**
Financing income						**11**
Share of profits of equity accounted investee						**2**
Taxes on income						**(46)**
Profit for the period						**152**

Note 6 - Segment Reporting (cont'd)

For the six months ended June 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	*5,886	20	41	(41)	5,906
Inter-segment rental revenues	-	62	-	(62)	-
Segment revenues	5,886	82	41	(103)	5,906
Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity	*157	64	-	(12)	209
Operating profit from management of loyalty program credit card activity	*28	-	*28	(28)	28
Operating profit before other income (expenses)	185	64	28	(40)	237
Other income (expenses), net	(8)	5	-	(2)	(5)
Operating profit after other income (expenses)	177	69	28	(42)	232
Financing expenses					(82)
Financing income					*22
Share of profits of equity accounted investee					3
Taxes on income					(40)
Profit for the period					135

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

Note 6 - Segment Reporting (cont'd)

For the three months ended June 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	3,002	11	19	134	(19)	3,147
Inter-segment rental revenues	-	31	-	-	(31)	-
Segment revenues	3,002	42	19	134	(50)	3,147
Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity	99	35	-	(4)	(5)	125
Operating loss from management of loyalty program credit card activity	(2)	-	(2)	-	2	(2)
Operating profit (loss) before other income (expenses)	97	35	(2)	(4)	(3)	123
Other income (expenses), net	-	20	-	(2)	(2)	16
Operating profit (loss) after other income (expenses)	97	55	(2)	(6)	(5)	139
Financing expenses						(34)
Financing income						7
Share of profits of equity accounted investee						1
Taxes on income						(28)
Profit for the period						85

Note 6 - Segment Reporting (cont'd)

For the three months ended June 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	*2,992	10	21	(21)	3,002
Inter-segment rental revenues	-	31	-	(31)	-
Segment revenues	2,992	41	21	(52)	3,002
Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity	*86	32	-	(6)	112
Operating profit from management of loyalty program credit card activity	*15	-	*15	(15)	15
Operating profit before other income (expenses)	101	32	15	(21)	127
Other income (expenses), net	(7)	5	-	(2)	(4)
Operating profit after other income (expenses)	94	37	15	(23)	123
Financing expenses					(38)
Financing income					*4
Share of profits of equity accounted investee					1
Taxes on income					(21)
Profit for the period					69

* 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 June 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.	19	**865	***513	**1,397**
Employee claims	Mainly legal claims of present and former employees of the Company involving labor laws including demands to include various salary components in the calculation of various payments to the Company’s employees.	*-	4	6	**10**
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		**43**	**888**	**519**	******1,450**

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 others in the amount of NIS 4 million in which the amount claimed from the Company is not specified.

*** Including claims against the Company and others in the amount of NIS 297 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 June 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)	*733	*512
From NIS 100 million to NIS 500 million	2	637
Claims that do not specify an amount claimed	6	-
Claims that do not specify the amount claimed from the Company and others	6	-
Claims against the Company and other defendants together in which the amount claimed from the Company is not specified	13	301
Total	**760**	**1,450**

* As at June 30, 2018 there are 607 claims of customers for damages in the total amount of NIS 25 million.

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

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

As at June 30, 2018, the amount claimed from the Company in those claims totals NIS 28 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.

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

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

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.

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 cannot be assessed at this early stage.

c. Information on claims subsequent to the reporting date

Subsequent to the reporting date, a motion was received to certify a consumer claim as a class action against a wholly owned subsidiary of the Company in the total amount of NIS 35 million. The chances of the claim cannot be assessed at this early stage.
Furthermore, a motion to certify a consumer claim as a class action against the Company in the total amount of NIS 3 million was rejected and settled for immaterial amounts.
In addition, two motions 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 for immaterial amounts.

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.

Note 8 - Financial Instruments (cont'd)

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

	As at June 30, 2018		As at June 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) –	**2,726**	**3,007**	2,332	2,600	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).

	As at June 30, 2018				As at June 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	**39**	**-**	**-**	**39**	10	-	-	10	10	-	-	10
Interest SWAP	**-**	**4**	**-**	**4**	-	-	-	-	-	-	-	-
Forward - hedge on transactions linked to foreign currency**	**-**	**5**	**-**	**5**	-	-	-	-	-	-	-	-
Investment**	**-**	**-**	**16**	**16**	-	-	18	18	-	-	16	16
	39	**9**	**16**	**64**	10	-	18	28	10	-	16	26
Financial liabilities												
Interest SWAP	**-**	**-**	**-**	**-**	-	(11)	-	(11)	-	(8)	-	(8)
Forward - hedge on transactions linked to foreign currency	**-**	**-**	**-**	**-**	-	(2)	-	(2)	-	*-	-	*-
	-	**-**	**-**	**-**	-	(13)	-	(13)	-	(8)	-	(8)
	39	**9**	**16**	**64**	10	(13)	18	15	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 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.

B. On July 20, 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. These understandings will be brought before the Restrictive Trade Practices Court for its approval. In the opinion of the Company, termination of the exclusive use arrangements will not have a material effect on its operations and results. A provision in the full amount of the monetary sanction was recorded by the Company in these financial statements.