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

For the Three-Month Period Ended March 31, 2019

Contents

Board of Directors' Report on the State of the Company's Affairs for the Three-Month Period Ended March 31, 2019

Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the three-month period ended March 31, 2019 (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. The Group operates 365 branches throughout Israel, of which 288 are Shufersal branches and 77 are Be branches. The Shufersal branches operate in several formats. The Group's total commercial space encompasses approximately 538 thousand square meters, of which 510 thousand square meters are Shufersal branches and 28 thousand square meters are Be branches, as well as 4 delivery centers[2] encompassing 12 thousand square meters. The Group employs about 14 thousand employees (calculated positions) and has annual revenues of about NIS 13 billion. As at March 31, 2019 and the reporting date, the Company has no controlling shareholder. See Note 1 to the consolidated financial statements of the Company as at December 31, 2018 (hereinafter – "**the annual 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 its financial statements: the retail segment, the real estate segment, the loyalty program credit card management segment and the Be segment.
For details regarding the aforesaid operating segments, see Note 6 to the condensed consolidated interim financial statements as of March 31, 2019 (hereinafter – "**the financial statements**").

1.1.2 Management's discussion of the principal results for the first quarter of 2019

For details on the management's review for 2018, see Paragraph 1.1.2 to the Board of Directors' report on the state of the Company's affairs as at December 31, 2018 ("**the 2018 directors' report**") as was reported on March 17, 2019 in the framework of the Company's periodic report for 2018 (reference no.: 2019-01-021672) ("**the periodic report**").

The Company's results for the first quarter of 2019 were affected by several matters:

- Seasonality (see Paragraph 1.2 hereunder).
- Continued development of the Company's digital platforms, mainly the "Shufersal Online" system, which included continued construction of automated delivery centers for this distribution channel. In the first quarter of the year, the significant growth of the retail sales segment through Shufersal Online continued, and they constituted about 16% of sales turnover in Shufersal branches (compared with 13.6% in the first quarter of 2018).
- Continued development and strengthening of the private label including launching products in existing and new categories. In the first quarter of the year, the private label accounted for 25.1% of total retail sales in Shufersal branches, representing growth in the rate of those sales from the first quarter of 2018 (which represented 23.8% of total retail sales).
- Continued development and rowing the customer base of the Be chain, including operational synergy, rebranding, expansion of the range of products, opening concept branches and expansion of the chain.

[1] For purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (March 31, 2018) unless stated otherwise or implied otherwise by the context of the matter.
[2] Dedicated centers for the online marketing of products through the Company's website.

- Continued expansion of the customer loyalty credit card club. As at March 31, 2019, 550 thousand credit cards had been issued as part of the new credit card club.
- Continued development of the Group's income-producing real estate activity.

1.1.3 Principal events that occurred during the reporting period

- Commencing January 1, 2019, the Company applies International Financial Reporting Standard 16 (hereinafter – "IFRS 16") in its financial statements. The Company elected to apply the standard using the modified retrospective approach, while adjusting the opening balance of retained earnings as at January 1, 2019, without restating the comparative data. See Note 3 to the financial statements for additional information.

- Further to that mentioned in Note 7b to the financial statements as at December 31, 2018, regarding a monetary demand and assessment from the Israel Land Authority in respect of property it leases in Netanya, on January 1, 2019, a decision was reached by the Central Appraiser. In the Company's estimation, after performing an analysis, the determinations in the Government Appraiser's ruling deduce a right-to-use fee amount of NIS 17 million for the said demand. The Company filed a second appeal of this ruling on February 14, 2019.

- According to a shelf offering issued by the Company on January 16, 2019, the Company issued bonds, by way of a new series (Series G), at a total par value of NIS 555 million. The net issue proceeds (after deducting issue costs of NIS 6 million) amounted to NIS 549 million. See Note 17 to the annual financial statements for information on the terms of the bonds.

- On March 17, 2019, the Company's board of directors decided to distribute a dividend in the amount of NIS 160 million, representing NIS 0.67 per share to shareholders on March 26, 2019. The dividend was paid on April 8, 2019.

1.2 Analysis of Results of Operations

In 2019, the eve of Passover was on April 19, as compared to 2018 in which the eve of Passover was on March 30. The timing of the holiday affects balance sheet items such as trade receivables, inventories, trade payables as well as sales and the concentration of special offers made in the first quarter of this year as compared to the previous year. The effect of Passover is greater in the first quarter of this year is less than its effect in the corresponding quarter last year.

1.2.1 Analysis of the results for the three months ended March 31, 2019 as compared to the corresponding period last year

	Results of operations for the three months ended March 31, 2019		Results of operations for the three months ended March 31, 2018	
	%	**NIS millions**	**%**	**NIS millions**
Revenues		3,149		3,169
Gross profit	27.3%	860	26.8%	850
Selling, marketing, administrative and general expenses	23.2%	(731)	23.3%	(737)
Operating profit before other expenses	**4.1%**	**129**	**3.6%**	**113**
Other expenses, net		(1)		(1)
Operating profit after other expenses		(128)		112
Financing expenses, net		(64)		(28)
Share in profits of equity invested investee under the equity method		1		1
Profit before taxes on income		65		85
Taxes on income		(17)		(18)
Profit for the period		**48**		**67**

Retail segment revenues amounted to NIS 2,974 million in the first quarter of the year, compared with NIS 3,017 million in the corresponding quarter last year, a 1.4% decrease that is mainly due to seasonality. The sales of the Company's stores decreased by 0.4% in the first quarter of the year as compared with the corresponding quarter last year. The difference between the decrease in Company revenues and the decrease in sales is mainly attributable to an increase in the activities of licensees and a decrease in the ranting of gifts for new member joining the credit card club compared with last year[3].
Same store sales[4] decreased by 3.8% compared to the corresponding quarter last year. The decrease was due to the timing of the Passover holiday.
The sales per square meter[5] amounted to NIS 5,901, in the first quarter of the year, compared with NIS 6,138 in the corresponding quarter last year, a decrease of 3.9% that is mainly due the timing of the Passover holiday.

Real estate segment revenues amounted to NIS 44 million in the first quarter of the year, similar to the corresponding quarter last year.

Revenues from the loyalty program credit card management segment amounted to NIS 19 million in the first quarter of the year, compared with NIS 21 million in the corresponding quarter last year.

Revenues from the Be segment amounted to NIS 163 million, compared with NIS 140 million in the corresponding quarter last year. The increase in revenues was due to the opening of new stores, an increase in same-store sales, and offset by seasonality. The sales per square meter of Be stores amounted to NIS 5,839[6] in the first quarter of the year, compared with NIS 6,271 in the corresponding quarter last year, a decrease of 6.9%, due mainly to the opening of new stores and the timing of the Passover holiday. Same-store Be sales increased by 1.4% over last year.

The Group's revenues amounted to NIS 3,149 million in the first quarter of the year, compared with NIS 3,169 million in the corresponding quarter last year, a decrease of 0.6% that is mainly due to the retail segment.

Gross profit amounted to NIS 860 million in the first quarter of the year, compared with NIS 850 million in the corresponding quarter last year, an increase of NIS 10 million. The gross profit rate was 27.3% compared with 26.8% in the corresponding quarter last year. The increase in gross profit and gross margin resulted mainly from an improvement in trade terms, which was due to mainly to the timing of the holiday.

Selling, marketing, administrative and general expenses amounted to NIS 731 million in the first quarter of the year, compared with NIS 737 million in the corresponding quarter last year. The ratio of expenses to revenues was 23.2% compared with 23.3% in the corresponding quarter last year. The decrease in expenses is mainly due to the decrease in the costs of launching the ICC credit card, initial application of IFRS 16 in this quarter, offset by the continued rollout and an increase in the customer base of the Be chain and an increase in number of stores.

The operating profit before other expenses in the retail segment amounted to NIS 98 million in the first quarter of the year, a rate of 3.3%, compared with NIS 85 million and a rate of 2.8% in the corresponding quarter last year.

---

[3] 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, 2018 that are included in the periodic report.
[4] Same store sales – gross sales of active stores that operated in the corresponding periods of the two compared years.
[5] 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.
[6] The area of the branch is the gross area including selling areas and other operating areas.

The operating profit in the real estate segment amounted to NIS 36 million in the first quarter of the year, similar to the corresponding quarter last year.

The operating profit in the loyalty program credit card management segment amounted to NIS 9 million in the first quarter of the year, compared with a loss of NIS 13 million in the corresponding quarter last year. The increase in profit was due to the decrease in the costs of launching the ICC credit card.

The operating loss in the Be segment amounted to NIS 16 million, compared with a loss of NIS 2 million in the corresponding quarter last year. The increase in the loss was due to the continued rollout and growing of the customer base of the Be chain, rebranding, expanding the range of products, opening concept stores and expansion of the chain.

The Company's operating profit after other expenses amounted to NIS 128 million in the first quarter of the year and a rate of 4.1%, compared with NIS 112 million and a rate of 3.5% in the corresponding quarter last year, an increase of NIS 16 million that is due to the aforesaid.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 305 million and a rate of 9.7% in the first quarter of the year, compared with NIS 193 million and a rate of 6.1% in the corresponding quarter last year. The growth was due mainly to initial application of IFRS 16 in this quarter and the aforesaid.

Financing expenses net, amounted to NIS 64 million in the first quarter of the year, compared with NIS 28 million in the corresponding quarter last year. The increase in financing expenses is due to mainly to the initial application of IFRS 16 in this quarter and to the increase in financing expenses on forward trades in the first quarter of the year, compared with the corresponding quarter last year.

Tax expenses amounted to NIS 17 million in the first quarter of the year, compared with NIS 18 million in the corresponding quarter last year.

Profit for the period amounted to NIS 48 million in the first quarter of the year, compared with NIS 67 million in the corresponding quarter last year.

The Company's basic and diluted earnings per share amounted to NIS 0.2 in the first quarter of the year, compared with NIS 0.28 in the corresponding quarter last year.

1.3 Financial Position, Liquidity and Sources of Finance

1.3.1 Cash flow – Analysis of the results for the first quarter of 2019 as compared with the corresponding quarter last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 197 million in the first quarter of 2019, compared with NIS 326 million in the corresponding quarter last year. The decrease in cash flow from operating activities is mainly due to changes in working capital items, from the timing of the Passover holiday, offset by an increase due to the initial application of IFRS 16 in this quarter.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 567 million in the first quarter of 2019, compared with NIS 407 million in the corresponding quarter last year. Cash used in investing activities in the first quarter of 2019 included mainly acquisition of property, plant and equipment in the amount of NIS 133 million and an investment in deposits in the amount of NIS 400 million.

The cash used in investing activities in the first quarter of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 135 million and an investment in deposits in the amount of NIS 251 million.

Cash flow from financing activities

Net cash from financing activities amounted to NIS 379 million in the first quarter of 2019, compared with cash used in financing activities in the amount of NIS 446 million in the corresponding quarter last year. The cash from financing activities in the first quarter of 2019 included mainly net consideration from an issuance of bonds in the amount of NIS 549 million, offset by repayment of a lease liability in the amount of NIS 108 million and from initial application of IFRS 16 in this quarter and repayment of bonds in the amount of 59 million.

The cash used in financing activities in the first quarter of 2018 included mainly net consideration from the issuance of bonds in the amount of NIS 563 million, offset by the payment for fulfillment of a liability to partners in the amount of NIS 117 million.

1.3.2 Liquid asset balances and financial ratios

As at the end of the first quarter of 2019, the net liquid assets (cash and cash equivalents, short-term deposits and marketable securities) amounted to NIS 745 million, compared with NIS 1,097 million in the corresponding quarter last year. As at the end of the first quarter of 2018, the net liquid assets amounted to NIS 337 million.

As at the end of the first quarter of 2019, the liabilities to the holders of bonds and to banks, including interest payable (hereinafter – "**the financial debt**") amounted to NIS 3,047 million, compared with NIS 2,763 million in the corresponding quarter last year. The ratio of the Company's financial debt to its total assets was approximately 25.8% at the end of the first quarter of 2019, compared with 33.3% in the corresponding quarter last year.

Total financial debt as at the end of 2018 amounted to NIS 2,534 million, and the ratio of financial debt to total assets was approximately 32.9% at that time.

As at the end of the first quarter of 2019, the Company's equity amounted to NIS 1,731 million, compared with NIS 1,735 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 15% as at the end of the first quarter of 2019, compared with 21% in the corresponding quarter last year. The decrease in the ratio of equity to total assets in comparison with the corresponding quarter last year was due to the increase in the Company's total assets, due to initial application of IFRS 16 and to a decrease in retained earnings, resulting from the declaration of a dividend and the effect of initial application of IFRS 16, offset by the profits of the period.

As at the end of 2018, the Company's equity amounted to NIS 1,956 million and the ratio of the Company's equity to its total assets was approximately 25%.

1.3.3 Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as at March 31, 2019

As at March 31, 2019, the Company has a working capital deficit (on a consolidated basis) of NIS 582 million, compared with a working capital deficit of NIS 532 million as at December 31, 2018 and a working capital deficit of NIS 296 million as at March 31, 2018. The Company has a working capital deficit (on a stand-alone basis) as at March 31, 2019 of NIS 686 million, compared with a working capital deficit of NIS 656 million as at December 31, 2018 and of NIS 307 million as at March 31, 2018.

The increase in the working capital deficit (on a consolidated and stand-alone basis) as at March 31, 2019 compared with March 31, 2018 is due mainly to the initial application of IFRS 16. The effect of the initial application of IFRS 16 on the working capital deficit as at March 31, 2019, relative to the working capital deficit as at December 31, 2018, was offset with the effect of the issuance of Series G bonds in January 2019.

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

The Company entered into agreements with three banking institutions (with each one separately) to provide to the Company a guaranteed credit facility for a two-year period ending between March and May 2021, in the

amount of NIS 100 million from each banking institution that may be utilized by short-term credit withdrawals. As at March 31, 2019 and as at the issue date of this report, these credit facilities have not yet been utilized. It is further noted that in January 2019, the Company issued a new series of bonds (Series G), to be repaid (principal) commencing from February 2022 until October 2030, against net proceeds of NIS 549 million (for additional information, see Note 17(3) to the financial statements as at December 31, 2018).
In view of all the aforesaid, and taking into account the Company's accessibility to additional sources of credit and financing, and in view of the Group's balances of cash and cash equivalents and the Group's cash flow forecast for the two year period beginning March 31, 2019, the Board of Directors decided that notwithstanding the working capital deficit as at March 31, 2019, 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 into consideration 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 issue date of 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 regarding the Company's exposure to and management of market risks in relation to the Company's reports on this matter in the directors' report for 2018. 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 the CPI-linked bonds issued by the Company that amount to NIS 1.3 billion as at March 31, 2019 (compared with NIS 1.4 billion as at March 31, 2018), and in respect of CPI-linked payments in the annual amount of NIS 78.7 million.

As at March 31, 2019, the Company has swap transactions for exchanging CPI-linked NIS cash flows with fixed-interest NIS cash flows in respect of the expansion of the Company's Series F bonds. The amount of the hedging and hedged instruments is NIS 600 million. The transactions are accounted for as accounting hedges.
In the first quarter of 2019, the Company incurred financing expenses from these transactions in the amount of NIS 2.7 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 March 31, 2019, the Company has forward contracts on the dollar exchange rate in the amount of US$14.6 million for settlement until December 2020, cylinder transactions on the dollar exchange rate in the amount of US$11 million for settlement until December 2019, forward contracts on the exchange rate of the euro in the amount of €63.5 million for settlement until December 2021 and cylinder transactions on the euro exchange rate in the amount of €9 million for settlement until February 2020.

In the first quarter of 2019, the Company incurred financing expenses in the amount of NIS 10 million in respect of those contracts, compared with financing income of NIS 2 million in the corresponding quarter last year.
The Company’s exposure to currency risks is immaterial.

2.2.3 Interest risks

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

2.2.4 Israel capital market risks

The Company is exposed to changes in prices of securities in Israel, since part of the Company’s monetary balances is invested in securities. As at the reporting date, the Company’s securities portfolio is comprised of short-term bills, funds that track share indices, government bonds and in corporate bonds that are rated at least "A" and at least "A2" by Ma’alot and Midroog Ltd., respectively. As at 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; [b] money intended for such needs after more than 6 months will be invested according to the investment policy that mainly provides as follows: up to 15% of the Company’s investment portfolio (but not more than NIS 30 million) may be invested in shares tracks, such as ETF’s/tracking funds (tracking the TA 35 index, the TA 90 index and the TA 125 index) (it is noted that the policy allows an investment of up to 20% of the shares tracks in investments in ETF’s in US and Europe); at least 55% of the investments portfolio will be invested in government bonds, bank deposits and short-term bills, with the balance (up to 30% of the portfolio) being invested in corporate bonds rated at least “A”.

2.3 Linkage bases report

Presented below is the Company's linkage bases report as at March 31, 2019:

	March 31, 2019				
	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	166	-	5	-	171
Marketable securities	15	9	-	-	24
Short-term deposits	550	-	-	-	550
Trade receivables	1,297	-	-	-	1,297
	39	18	10	100	167
Other receivables	* -	1	-	-	1
Inventories	-	-	-	995	995
Non-current assets:					
Receivables and debit balances	6	47	1	4	58
Investment in equity-accounted investee	37	-	-	20	57
Loan in equity-accounted investee	32	-	-	-	32
Other investments	13	6	-	-	19
Investment property	-	-	-	665	665
Property, plant and equipment	-	-	-	3,259	3,259
Intangible assets and deferred expenses	-	-	-	1,182	1,182
Right-of-use asset	-	-	-	3,311	3,311
Deferred taxes	-	-	-	41	41
	2,155	81	16	9,577	11,829
Current liabilities:					
Current maturities of bonds	142	53	-	-	195
Current maturities of lease liability	-	426	-	-	426
Trade payables	1,948	-	70	-	2,018
Other payables	539	-	4	552	1,095
Liability to acquire partnership interests	11	-	-	-	11
Provisions	-	-	-	42	42
Non-current liabilities:					
Bonds	1,649	1,203	-	-	2,852
Lease liability	-	3,092	7	-	3,099
Employee benefits net	-	-	-	200	200
Other liabilities	-	-	-	42	42
Deferred taxes	-	-	-	118	118
Equity	-	-	-	1,731	1,731
	4,289	4,774	81	2,685	11,829
Net exposure (**)	(2,134)	(4,693)	(65)	6,892	-

(*) The amount is less than NIS 1 million.
(**) The net exposure does not include off-balance sheet liabilities.

2.4 Sensitivity tests

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

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

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

- For details regarding provisions for claims and legal proceedings against the Company in the first quarter of 2019 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.
- On May 28, 2019, the board of directors approved the "Shufersal Ltd. – Equity Compensation Plan 2019" and submitting it to the Tax Authority, as well as the allotment of option warrants and restricted performance share units, non-marketable, to the Company's Chairman and CEO and seven additional officers of the Company. See Note 9 to the financial statements for additional information.

4. Specific Disclosure for Holders of Bonds

Data as at March 31, 2019

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	Principal payment date		Interest payment dates	Type of linkage
												First date	Last date		
Series D	Oct. 2013	472	468	327	325	325	5	368	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	313	308	308	7	360	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	412	392	392	10	457	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	568	513	436	436	11	509	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**	**321**	**317**	**317**	**6**	**385**	**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**	**608**	**601**	**601**	**12**	**730**	**Fixed**	**4.5%**	**4.3%**	**Oct. 8, 2020**	**Oct. 8, 2028**	**Annual interest on Oct. 8 of each year between 2016 and 2028**	CPI
Series G	**Jan. 2019**	**555**	**549**	**553**	**555**	**555**	**4**	**576**	**Fixed**	**3.69%**	**3.52%**	**Feb. 20, 2022**	**Aug. 20 , 2030**	**Semi-annual interest on Aug. 20 and Feb. 20 of each year between 2019-2030**	Unlinked
		3,332	**3,458**	**3,047**	**2,934**	**2,934**	**55**	**3,385**							

* 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 and Series G bonds are not linked to the CPI).

** No cash consideration was received in respect of those issues, which were executed 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. In January 2019, the Company completed the issuance of a new series of bonds (Series G), in consideration for NIS 555 million (net proceeds of NIS 549 million).

2. On March 31, 2019, the Company repaid the entire balance of Series B bonds (principal and interest).

3. Payments on account of bond principal in Series D, E and F are annual payments. The payments on account of the Series G bonds are 18 semi-annual unequal payments to be paid from February 20 to August 20 of each of the years 2022 through 2030 (inclusive) (six are payments of 2% of the principal, two payments are 3% of the principal, two payments are 6% of the principal, two payments are 7% of the principal, four are 9% of the principal and two are 10% of principal).

4. 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
The trustee of the Series G bonds is Hermetic Trust (1975) Ltd., from 30 Sheshet Hayamim Road, Bnei Braq (tel: 03-5544553, fax. 03-5271736). The contact person at the trustee for the Series G bonds is Ms. Merav Ofer-Oren and/or Mr. Dan Avnon, e-mail: hermetic@hermetic.co.il.

5. In the first three months of 2019 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.

6. All the Company’s outstanding Series D, E, F and G bonds are material. All the series of bonds are listed for trade on the Tel Aviv Stock Exchange.

7. Among the causes for immediate repayment of the Series D, E, F and G bonds is also the event of another debt of the Company to a bank and/or other financial institution 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 initiated by the Company) (in Series D and E, the cause of cross-default of other bonds series was conditioned on the amount of the other series called for immediate repayment is at least NIS 40 million); all according to the terms provided in the trust deeds under which the relevant bond series were issued.

8. In accordance with the terms of the trust deeds of the Company’s Series D, E, F and G bonds, the Company is permitted to early redeem (fully or partially) the Series D, E, F and G 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 deed’s 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 deed’s 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, and Paragraph 9.2 of the trust deed of the Series G bonds, as detailed in the trust deed’s annex of the Company’s shelf registration statement dated January 16, 2019.

9. The Series D, E, F and G bonds include financial covenants as stated hereunder. See Note 17 to the 2018 financial statements, which are a part of the periodic report, for further details regarding the terms of the Company’s Series D, E, F and G bonds, including a commitment to comply with financial covenants, a commitment to not create a current pledge, and restrictions relating to dividend distribution.

Presented hereunder are the results of calculating the financial covenants committed to by the Company in accordance with the terms of the Series D, E, F and G bonds (and in accordance with the terms of the Company’s credit facilities) as at March 31, 2019:

Financial covenant	Calculation results
	As at March 31, 2019
Ratio of net (financial) debt to total balance sheet shall not exceed 60%	19.5%
The Company’s total equity (including non-controlling interests) shall not fall below NIS 550 million (with respect to Series D, E and F bonds) and NIS 800 million (with respect to Series G bonds)	NIS 1,731 million

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, F and G bonds (and in accordance with the Company’s credit facilities) as at March 31, 2019:

Restriction	Calculation results as at March 31, 2018
The Company’s total equity (including non-controlling interests) shall not fall below NIS 750 million (with respect to Series D, E and F bonds) and NIS 1,000 million (with respect to Series G bonds)	NIS 1,731 million
Ratio of the Company’s net (financial) debt to EBITDA shall not exceed 7 (with respect to Series D, E and F bonds) and 5 (with respect to Series G bonds)	2.6

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

On March 19, 2018 Ma’alot issued an updated rating report in which it raised the rating of the Company’s bonds from “ilAA-” to “ilAA”. It is noted that the Company’s rating remained unchanged at “ilAA-“ with a stable outlook, like in the rating report issued by Ma’alot on January 15, 2018. January 15, 2018 (reference no.: 2018-01-004839), March 20, 2018 (reference no.: 2018-01-021540), December 31, 2018 (reference no.: 2019-01-120595), January 16, 2019 (reference no.: 2019-01-005362) and January 27, 2019 (reference no.: 20198-01-007858).

Shufersal Ltd.

11. Information on the rating of outstanding bonds

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between original date of issuance and reporting date — Date	Rating
Series D – Bonds listed for trade	Ma'alot	ilAA	ilA+ Negative	October 3, 2013 (initial rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of rating outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				September 20, 2016 (raising of rating and raising of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA
Series E – Bonds listed for trade	Ma'alot	ilAA	ilA+ Negative	October 3, 2013 (initial rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of rating outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				September 20, 2016 (raising of rating and affirmation of rating outlook)	ilA+ Stable
				November 15, 2016 (initial rating for expansion of series)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				January 21, 2018 (expansion of series)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA
Series F – Bonds listed for trade	Ma'alot	ilAA	ilA Stable	September 2, 2015 (initial rating)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				July 11, 2016 (initial rating for expansion of the series)	ilA
				September 20, 2016 (raising of rating and affirmation of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA
Series G – bonds listed for trade				January 16, 2019 (initial 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

May 28, 2019

Shufersal Ltd

Condensed Consolidated Interim Financial Statements As at March 31, 2019

(Unaudited)

Condensed Consolidated Interim Financial Statements as at March 31, 2019 (Unaudited)

Contents

Auditors' Review Report to the Shareholders of Shufersal Ltd.

Introduction

We have reviewed the accompanying financial information of Shufersal Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of March 31, 2019 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting”*, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the financial statements of an equity accounted investee the investment in which amounted to NIS 57 million as at March 31, 2019, and the Group’s share in its profits amounted to NIS 1 million for the three month period ended March 31, 2019. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to the financial information of that company, is based solely on the said review reports of the other auditors.

Scope of Review

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

Conclusion

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

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

Sincerely,

Haifa
May 28, 2019

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

Condensed Consolidated Interim Statement of Financial Position

	March 31 2019	March 31 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**171**	737	162
Short-term deposits	**550**	350	150
Marketable securities	**24**	10	25
Trade receivables	**1,297**	1,372	1,244
Other receivables	**167**	168	140
Other investments	**1**	-	-
Inventory	**995**	829	820
Total current assets	**3,205**	3,466	2,541
Receivables and debit balances	**58**	7	16
Investment in equity accounted investee	**57**	53	56
Loan to equity accounted investee	**32**	34	32
Other investments	**19**	16	9
Investment property	**665**	593	664
Property, plant and equipment	**3,259**	3,003	3,214
Right-of-use asset	**3,311**	-	-
Intangible assets and deferred expenses	**1,182**	1,122	1,168
Deferred taxes	**41**	6	5
Total non-current assets	**8,624**	4,834	5,164
Total assets	**11,829**	8,300	7,705

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: May 28, 2019

*See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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

Condensed Consolidated Interim Statement of Financial Position

	March 31 2019	March 31 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities in respect of bonds	**195**	306	219
Current maturities of liabilities in respect of leases	**426**	-	-
Trade payables	**2,018**	2,089	2,014
Other payables	**1,095**	1,263	779
Liability to acquire partnership interests	**11**	59	11
Provisions	**42**	45	50
Total current liabilities	**3,787**	3,762	3,073
Bonds	**2,852**	2,457	2,315
Liabilities in respect of leases	**3,099**	-	-
Employee benefits, net	**200**	165	199
Provisions	**-**	14	2
Other liabilities	**42**	58	43
Deferred taxes	**118**	109	117
Total non-current liabilities	**6,311**	2,803	2,676
Equity			
Share capital	**242**	242	242
Share premium	**963**	945	963
Reserves	**30**	15	23
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**581**	618	813
Total equity	**1,731**	1,735	1,956
Total liabilities and equity	**11,829**	8,300	7,705

*See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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

Condensed Consolidated Interim Statement of Income

	Three months ended		Year ended
	March 31 2019	March 31 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Revenues and rental fees	**3,149**	3,169	12,847
Cost of sales and services	**2,289**	2,319	9,406
Gross profit	**860**	850	3,441
Selling and marketing expenses	**682**	697	2,806
General and administrative expenses	**49**	40	182
Total selling, marketing, general and administrative expenses	**731**	737	2,988
Operating profit before other income (expenses)	**129**	113	453
Other expenses, net	**(1)**	(1)	(27)
Increase in fair value of investment property, net	**-**	-	43
Total other income (expenses), net	**(1)**	(1)	16
Operating profit after other income (expenses)	**128**	112	469
Financing expenses	**(70)**	(32)	(130)
Financing income	**6**	4	14
Financing expenses, net	**(64)**	(28)	(116)
Share in profits of equity invested investee	**1**	1	6
Profit before taxes on income	**65**	85	359
Taxes on income	**(17)**	(18)	(94)
Profit for the period	**48**	67	265
<u>Earnings per share</u>			
Basic and diluted earnings per share (in NIS)	**0.20**	0.28	1.12

*See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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

Condensed Consolidated Interim Statement of Other Comprehensive Income

	Three months ended		Year ended
	March 31 2019	March 31 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Profit for the period	**48**	67	265
Other comprehensive income (loss) items that after initial recognition in comprehensive income was or will be transferred to profit or loss			
Effective portion of the change in fair value of cash flow hedges	**9**	2	13
Taxes on other comprehensive income items that were initially recognized in comprehensive income and will be transferred to profit or loss	**(2)**	-	(3)
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	**7**	2	10
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	**-**	-	(19)
Revaluation reserve for fixed assets classified as investment property	**-**	6	6
Taxes on other comprehensive income items that will not be transferred to profit or loss	**-**	(1)	3
Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax	**-**	5	(10)
Other comprehensive income for the period, net of tax	**7**	7	-
Total comprehensive income for the period	**55**	74	265

*See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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 (1)	Total equity
	NIS millions					
For the three months ended March 31, 2019 (unaudited)						
Balance as at January 1, 2019	**242**	**963**	**23**	**(85)**	**813**	**1,956**
Initial adoption of IFRS 16 (1)	**-**	**-**	**-**	**-**	**(120)**	**(120)**
Balance as at January 1, 2019 after adoption of IFRS 16	**242**	**963**	**23**	**(85)**	**693**	**1,836**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(160)**	**(160)**
Profit for the period	**-**	**-**	**-**	**-**	**48**	**48**
Other comprehensive income for the period, net of tax	**-**	**-**	**7**	**-**	**-**	**7**
Balance as at March 31, 2019	**242**	**963**	**30**	**(85)**	**581**	**1,731**
For the three months ended March 31, 2018 (unaudited)						
Balance as at January 1, 2018	242	945	8	(85)	698	1,808
Initial adoption of IFRS 9	-	-	-	-	13	13
Balance as at January 1, 2018 after adoption of IFRS 9	242	945	8	(85)	711	1,821
Dividends to shareholders	-	-	-	-	(160)	(160)
Share-based payment	-	-	-	-	*-	*-
Profit for the period	-	-	-	-	67	67
Other comprehensive income for the period, net of tax	-	-	7	-	-	7
Balance as at March 31, 2018	242	945	15	(85)	618	1,735

* Indicates an amount lower than NIS 1 million.

(1) See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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

Condensed Consolidated Interim Statement of Changes in Equity

	Attributable to owners of the Company					
	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 1, 2018	242	945	8	(85)	698	1,808
Initial adoption of IFRS 9	-	-	-	-	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
Exercise of employee options	*-	18	-	-	-	18
Dividends to shareholders	-	-	-	-	(160)	(160)
Expired rights for declared dividends not exercised	-	-	-	-	11	11
Profit for the year	-	-	-	-	265	265
Other comprehensive income (loss) for the year	-	-	15	-	(15)	-
Balance as at December 31, 2018	242	963	23	(85)	813	1,956

* Indicates an amount lower than NIS 1 million.

(1) See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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

Condensed Consolidated Interim Statement of Cash Flows

	Three months ended		Year ended
	March 31 2019	March 31 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Profit for the period	**48**	67	265
Adjustments for:			
Depreciation of property, plant and equipment	**83**	76	319
Amortization of right-to-use assets	**85**	-	-
Impairment losses on property, plant and equipment	**-**	-	(4)
Amortization of intangible assets and deferred expenses	**8**	7	32
Taxes on income	**17**	18	94
Income taxes paid, net	**(23)**	(9)	(66)
Financing expenses, net	**64**	28	116
Share in profits of equity accounted investees	**(1)**	(1)	(6)
Change in fair value and gain on sale of investment property, net	**-**	-	(43)
Change in employee benefits	**-**	4	14
Loss on sale of property, plant and equipment	**1**	-	3
Share-based payment	**-**	-	1
Change in provision for onerous contracts	**-**	(3)	(19)
Change in trade receivables	**(53)**	(273)	(146)
Change in other receivables	**(16)**	(29)	(23)
Change in inventory	**(175)**	(111)	(101)
Change in trade payables	**8**	198	83
Change in other payables, provisions and other	**151**	354	29
Net cash from operating activities	**197**	326	548
Cash flows from investing activities			
Purchase of property, plant and equipment	**(133)**	(135)	(568)
Proceeds from sale of property, plant and equipment	**-**	-	1
Investment in deferred expenses and intangible assets	**(23)**	(19)	(73)
Investment in investment property and investment property under construction	**(1)**	(3)	(19)
Change in pledged deposit	**-**	-	6
Change in cash in respect of futures contracts, net	**(1)**	-	6
Realization of (investment in) marketable securities, net	**1**	-	(16)
Investment in marketable securities held to maturity	**(11)**	-	-
Long-term loan repayment	**1**	1	3
Investment in deposits, net	**(400)**	(251)	(49)
Interest and dividend received	**-**	-	7
Net cash used in investing activities	**(567)**	(407)	(702)

* See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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

Condensed Consolidated Interim Statement of Cash Flows

	Three months ended		Year ended
	March 31 2019	March 31 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Cash flows from financing activities			
Exercise of option to acquire partnership interests	**-**	(117)	(146)
Proceeds from issuance of bonds	**549**	563	563
Repayment of bonds	**(59)**	-	(191)
Interest paid	**(3)**	-	(119)
Repayment of liabilities in respect of leasing	**(108)**	-	-
Dividend paid	**-**	-	(160)
Proceeds from exercise of share options	**-**	-	18
Payments in respect of hedging transactions	**-**	-	(10)
Partners' withdrawals from partnership	**-**	-	(11)
Net cash from (used in) financing activities	**379**	446	(56)
Net increase (decrease) in cash and cash equivalents	**9**	365	(210)
Cash and cash equivalents at the beginning of the period	**162**	372	372
Cash and cash equivalents at the end of the period	**171**	737	162

* See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been restated.

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

Note 1 - General

The reporting entity

Shufersal Ltd. (hereinafter – the "Company" and/or "Shufersal") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 30 Benyamin Shmotkin Street, Rishon-Le-Zion. The condensed consolidated interim financial statements of the Group as at March 31, 2019 comprise the Company, its subsidiaries (hereinafter together – "the Group") and the Company's interests in an equity accounted investee. As at the report date, the Company is a company without a controlling shareholder, as the term "control" is defined in Section 1 of the Securities Law, 1968.

The Group operates a chain of supermarkets in Israel, and also manages a credit card loyalty program, through which it offers the "Shufersal" and "Yesh" credit cards. 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, and is engaged in pharma activities (through Be Drugstores Ltd., a wholly-owned subsidiary of the Company,) which markets and sells pharmaceuticals, natural 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, 2018 (hereinafter – "the annual financial statements). Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on May 28, 2019.

B. Use of estimates and judgments

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

Except as detailed below, the significant judgments made by management in applying the Group's accounting policies and the principal assumptions used in the estimation of uncertainty are consistent with those applied to the annual financial statements.

- **Examination whether the agreement contains a lease** – see Note 3 below.
- **Determination of lease period –** see Note 3 below.
- **Determination of discount rate for lease –** See Note 3 below.

Note 3 - Significant Accounting Policies

Except as presented below, the Group's accounting policies in these condensed consolidated interim financial statements were applied in a manner consistent with those applied in the annual financial statements. Below is a description of the significant changes in accounting policy in these condensed consolidated interim financial statements.

Initial application of IFRS, "*Leases*" (hereinafter "Standard 16")

Further to Note 3T of the annual financial statements, as from January 1, 2019 (hereinafter: "the date of initial application") the Group applies International Financial Reporting Standard 16, *Leases* (hereinafter: "IFRS 16" or "the standard"), which replaced International Accounting Standard 17, *Leases* (hereinafter: "the previous standard").

The main effect of the standard's application is reflected in annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and the presentation of a unified model for lessees to account for all leases similarly to the accounting treatment of finance leases in the previous standard. Until the date of application, the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all the risks and rewards from the assets. Therefore, as from the date of initial application of IFRS 16, lease payments relating to assets leased under an operating lease, which were presented as part of general and administrative expenses in the income statement, are written down as depreciation and amortization expenses for right-of use assets and in financing expenses on the lease liabilities. Furthermore, the Group tests a right-of-use asset for impairment in accordance with IAS 36.

The Group elected to apply the standard using the modified retrospective approach, with an adjustment to the balance of retained earnings as at January 1, 2019 and without a restatement of comparative data. The Group elected to apply the transitional provisions such that on the date of initial application it recognized a lease liability at the present value of the balance of future lease payments, discounted at the interest rate as at the date of initial application, calculated according to the average duration of the remaining lease period. Concurrently, the Group recognized a right-of-use asset for some of the lease agreements, as though IFRS 16 had been applied from the commencement date of the lease. For the remaining leases, the Group recognized a right-of-use asset identical to the lease liability. The difference between the liabilities amount and the right-of-use assets amount recognized as at the initial date of recognition, considering the tax effect, was recognized in retained earnings.

Regarding assets that the Group leases to third parties (in a sublease), that the Group itself leases (in a head lease), the Group examines these subleases with respect to the right-of-use asset from the head lease. All of the Group's subleases were classified as financing leases and, therefore, the right-of-use assets in respect of the head leases were derecognized and recognized as receivables for the sublease.

The discount rate used for calculation and measurement was calculated using the nominal interest rate as at January 1, 2019 in a range of 1% - 4.6%.

It is noted that within the scope of initial application of IFRS 16, the Group elected to use the following practical mitigations for leases in which it is the lessee:

- To use a single discount rate for the portfolio of leases with reasonably similar characteristics.
- To rely on the assessment of whether the leases are onerous, when applying IAS 37 immediately before the initial application date of IFRS 16, as an alternative to examining for impairment.
- Not to apply IFRS 16 for leases with less than 12 months remaining as at the initial application date and to leases with a low base value.

Note 3 - Significant Accounting Policies (cont'd)

- To use "hindsight" for the purpose of determining the lease period in a situation in which the contract includes options to extend or cancel the lease.
- Not to include the initial direct costs in the measurement of the right-of-use asset at the time of initial application.

Likewise, it is noted that within the scope of the liability's measurement, the Group elected not to include the amounts related to elements that are not a lease.

The table below presents the cumulative effects of the items affected by the initial application on the statement of financial position for the three month period ended March 31, 2019:

	According to the previous policy	Effect of application of the standard	According to IFRS 16
		NIS millions	
Current assets			
Other receivables	**140**	**9**	**149**
Non-current assets			
Receivables and debit balances	16	40	56
Right-of-use asset	-	3,328	3,328
Deferred taxes receivable	5	36	41
	21	**3,404**	**3,425**
Current liabilities			
Current maturities of liability for lease	-	(458)	(458)
Provisions	(50)	4	(46)
	(50)	**(454)**	**(504)**
Non-current liabilities			
Liability for lease	-	(3,081)	(3,081)
Provisions	(2)	2	-
	(2)	**(3,079)**	**(3,081)**
Equity			
Retained earnings	**(813)**	**120**	**(693)**

As a result of application of Standard 16, in connection with leases classified as operating leases according to the prior standard, during the reporting period, the Group recognized right-of-use of assets and receivables, against liabilities for leases in the amount of NIS 68 million.

Note 3 - Significant Accounting Policies (cont'd)

The table below presents the cumulative effects of the items affected by the initial application on the income statement for the three month period ended March 31, 2019:

	According to the previous policy	Effect of application of the standard	According to IFRS 16
	NIS millions		
Cost of sales	2,290	(1)	2,289
Gross profit	**859**	**1**	**860**
Selling and marketing expenses	697	(15)	682
Operating profit before other income (expenses)*	**113**	**16**	**129**
Financing expenses	38	26	64
Profit before taxes on income	**75**	**(10)**	**65**
Taxes on income	19	(2)	17
Profit for the period	**56**	**(8)**	**48**

*An increase of NIS 85 million in depreciation expenses against a decrease of NIS 101 million in rental fee expenses.

The table below presents the effect on the items affected by the initial application on the statement of cash flows for the three month period ended March 31, 2019:

	According to the previous policy	Effect of application of the standard	According to IFRS 16
	NIS millions		
Cash flows from operating activities	89	108	197
Cash flows from financing activities	487	(108)	379

Note 3 - Significant Accounting Policies (cont'd)

The table below presents the effects on the financial covenants that were affected by the initial application as at March 31, 2019:

	According to the previous policy	Effect of application of the standard	According to IFRS 16
Ratio between net (financial) debt and total assets	27%	(8%)	19%
Total equity of the Company in NIS millions	1,859	(128)	1,731
Ratio between net (financial) debt and annual EBITDA	2.9	(0.3)	2.9

Presented below are the main changes in accounting policies following application of IFRS 16 as from January 1, 2019:

(1) Determining whether an arrangement contains a lease

On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

(a) The right to obtain substantially all the economic benefits from use of the identified asset; and
(b) The right to direct the identified asset's use.

(2) Leased assets and lease liabilities

Contracts that award the Group control over the use of a leased asset for a period of time in exchange for consideration, are accounted for as leases. Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus direct costs incurred in respect of the lease.

The Group has elected to apply the practical mitigation by which short-term leases of up to one year or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

Note 3 - Significant Accounting Policies (cont'd)

(3) The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

(4) Variable lease payments

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate existing at the commencement of the lease and are included in the measurement of the lease liability. When the cash flows of future lease payments change as the result of a change in an index or a rate, the balance of the liability is adjusted against the right-of-use asset.

Other variable lease payments that are not included in the measurement of the lease liability such as turnover-based rental fees, are recognized in profit or loss in the period in which the event or condition that triggers payment occurs.

(5) Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier

(6) Reassessment of lease liability

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Group and had an effect on the decision whether it is reasonably certain that the Group will exercise an option, which was not included before in the lease term, or will not exercise an option, which was included before in the lease term, the Group re-measures the lease liability according to the revised leased payments using a new discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset, or recognized in profit or loss if the carrying amount of the right-of-use asset was reduced to zero.

Note 3 - Significant Accounting Policies (cont'd)

(7) Lease modifications

The Group accounts for a lease modification as a separate lease when a lease modification increases the scope of the lease by adding a right to use one or more underlying assets, and the consideration for the lease increased by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the contract’s circumstances.

In all other cases, on the initial date of the lease modification, the Group allocates the consideration in the modified contract to the contract components, determines the revised lease term and measures the lease liability by discounting the revised lease payments using a revised discount rate.

For lease modifications that decrease the scope of the lease, the Group recognizes a decrease in the carrying amount of the right-of-use asset in order to reflect the partial or full cancellation of the lease, and recognizes a profit or loss that results from the difference between the decrease in the right-of-use asset and re-measurement of the lease liability.

For other lease modifications, the Group re-measures the lease liability against the right-of-use asset.

(8) Subleases

In leases in which the Group subleases the underlying asset, the Group examines whether the sublease is a finance lease or operating lease with respect to the right-of-use received from the head lease. The Group examined the subleases existing on the date of initial application based on the remaining contractual terms at that date. Right-to-use assets in respect of the sublease classified by the Group is finance leases are disposed of and recognized as a receivable.

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 – Material events in the Reporting Period

A. Further to that mentioned in Note 7 to the annual financial statements, regarding a monetary demand and assessment from the Israel Land Authority in respect of property it leases in Netanya, on January 1, 2019, a decision was reached by the Central Appraiser. In the Company's estimation, after performing an analysis, the determinations in the Government Appraiser's ruling deduce a right-to-use fee amount of NIS 17 million for the said demand. The Company filed a second appeal of this ruling on February 14, 2019.

B. According to a shelf offering issued by the Company on January 16, 2019, the Company issued bonds, by way of a new series (Series G), at a total par value of NIS 555 million. The net issue proceeds (after deducting issue costs of NIS 6 million) amounted to NIS 549 million. See Note 17 to the annual financial statements for information on the terms of the bonds.

C. On March 17, 2019, the Company's board of directors decided to distribute a dividend in the amount of NIS 160 million, representing NIS 0.67 per share to shareholders on March 26, 2019. The dividend was paid on April 8, 2019.

D. See Note 7 for updates on developments in legal claims.

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 annual financial statements except as presented below:
The effects of initial application of IFRS 16 *"Leases"*, as described in Note 3, on the results of the Group's reportable segments are not reviewed regularly by the Chief Operational Decision Maker for measurement of segment results, since management is of the opinion that the operating results excluding the standard's effects, is the most relevant measurement for assessing the segment's results. That is to say that the segment results below reflect rental expenses according to the standard that was in effect prior to the adoption of IFRS 16. The effects of IFRS 16 on the Company's reportable segments are included in the column "reconciliation to consolidated".

Information regarding the operations of the reportable segments is presented hereunder:

For the three months ended March 31, 2019 (unaudited):

	Retail segment	Real estate segment	Loyalty club credit card management segment	Be segment	Reconciliation to consolidated	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	2,974	12	19	163	(19)	3,149
Inter-segment rental revenues	-	32	-	-	(32)	-
Segment revenues	2,974	44	19	163	(51)	3,149
Operating profit (loss) before other expenses, excluding profit from management of loyalty program credit card activity	89	36	-	(16)	11	120
Operating profit (loss) from management of loyalty program credit card activity	9	-	9	-	(9)	9
Operating profit (loss) before other expenses	98	36	9	(16)	2	129
Other expenses, net	(1)	-	-	-	-	(1)
Operating profit (loss) after other expenses	97	36	9	(16)	2	128
Financing expenses						(70)
Financing income						6
Share of profits of investee company accounted for using the equity method						1
Taxes on income						(17)
Profit for the period						48

Note 6 - Segment Reporting (cont'd)

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

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

*See Note 3 regarding initial application of IFRS 16. In accordance with the transitional method elected, comparative data was not restated.

Note 6 - Segment Reporting (cont'd)

For the year ended December 31, 2018: (audited)

	Retail segment	Real estate segment	Credit card customers' club management segment	Be Segment	Reconciliation to consolidated*	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	12,246	49	86	552	(86)	12,847
Inter-segment rental revenues	-	128	-	-	(128)	-
Segment revenues	12,246	177	86	552	(214)	12,847
Operating profit before other income (expenses), excluding profit from management of loyalty program credit card activity	359	144	-	(29)	(22)	452
Operating profit from management of loyalty program credit card activity	1	-	1	-	(1)	1
Operating profit before other income (expenses)	360	144	1	(29)	(23)	453
Other income (expenses), net	(4)	58	-	(26)	(12)	16
Operating profit after other income (expenses)	356	202	1	(55)	(35)	469
Financing expenses						(130)
Financing income						14
Share in profit of equity accounted investee						6
Taxes on income						(94)
Profit for the year						265

*See Note 3 regarding initial application of IFRS 16. In accordance with the transitional method elected, comparative data was not restated.

Note 7 - Claims and Legal Proceedings

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

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

a. 1. Presented hereunder are details of the Group's pending claims as at March 31, 2019, classified into groups having similar characteristics:

Lawsuit category	Nature of claims	Balance of provision	Amount of additional exposure	Exposure in respect of claims that their chances cannot be assessed as yet	Total
		NIS millions			
Class actions – consumer	Mainly motions to certify class actions that allege illegal collection of funds and damages from services or products provided by Group companies.	16	**898	***746	**1,660**
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.	*-	7	3	**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.	21	7	*-	**28**
Total		**42**	**925**	**749**	******1,716**

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

a. 1. Presented hereunder are details of the Group's pending claims as at March 31, 2019, classified into groups having similar characteristics: (cont'd)

* Indicates an amount less than NIS 1 million.

** Including claims against the Company and others in the amount of NIS 29 million in which the amount claimed from the Company is not specified.

*** Including claims against the Company and others in the amount of NIS 234 million in which the amount claimed from the Company is not specified.

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

2. Presented hereunder is a breakdown of the number and amounts of the Group's pending claims as at March 31, 2019, 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)	*725	*517
From NIS 100 million to NIS 500 million	3	937
Claims that do not specify an amount claimed	7	-
Claims that do not specify the amount claimed from the Company and others	1	-
Claims against the Company and other defendants together in which the amount claimed from the Company is not specified	7	**262**
Total	**743**	**1,716**

* As at March 31, 2019, there are 604 claims of customers for damages in the total amount of NIS 28 million.

b. Information on legal proceedings

During the period, 8 motions to certify claims as class actions have been filed against Group companies in the total amount of NIS 16 million.

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

In the ordinary course of business, various claims have been filed against the Company by employees, subcontractors, suppliers, authorities and others, which deal mostly in claims for breach of provisions of the law governing termination of employment and obligatory payments to employees, claims for breach of agreements and compulsory payments to authorities. As at March 31, 2019, the amounts that are claimed from the Company under the said claims total NIS 28 million.

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

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

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

In addition, on April 24, 2018 Shufersal Finance, a limited partnership (hereinafter – "the partnership") received a claim that had been filed by Leumi Card together with a motion requesting interim orders, against the Company and against the partnership's auditors (Kesselman & Kesselman, CPAs), the partnership and the general partner (the last two as formal defendants). In the claim, the court is requested, inter alia, to issue an order declaring that all the activity of the "Shufersal credit card club" (including all its revenue) belongs to the partnership and should be carried out in its framework, even if the issuing and operating services are provided by a company other than Leumi Card, or alternatively that the profits from the activity of the Shufersal credit card club be allocated to the partnership, as well as to issue an order declaring that the options awarded to Shufersal and Leumi Card pursuant to the partnership agreement are valid and have not expired, and to appoint a valuer for the purpose of valuing the partnership. Among the reliefs requested in the claim against 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.

d. Information on claims subsequent to the reporting date

1. Two motions were received to certify consumer claims as class actions against the Company, in which the amount claimed was not specified, for which the chances of the claim cannot be assessed at this early stage.

2. A motion was received to certify consumer claims as a class action against the Company in the amount of NIS 1 million. The chances of the claim cannot be assessed at this early stage.

3. Two motions to certify consumer claims as class actions, one against the Company and the second against a subsidiary, in the total amount of NIS 38 million were rejected and dismissed with the approval of the court.

4. Two motions to certify consumer claims as a class action against the Company and other defendants, in which the amount attributed to the Company is NIS 71 million, were rejected and dismissed with the approval of the court.

Note 8 - Financial Instruments

Financial instruments measured at fair value for disclosure purposes only
The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, trade and other payables, short and long-term loans and borrowings are the same or proximate to their fair value.

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

	As at March 31, 2019		As at March 31, 2018		As at December 31, 2018	
	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) –	**3,047**	**3,385**	2,763	3,091	2,534	2,756
Securities held to maturity	**11**	**11**	-	-	-	-

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

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

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

Note 8 - Financial Instruments (cont'd)

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

	As at March 31, 2019				As at March 31, 2018				As at December 31, 2018			
	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	**24**	**-**	**-**	**24**	10	-	-	10	25	-	-	25
Interest SWAP	**-**	**12**	**-**	**12**					-	6	-	6
Forward - hedge on transactions linked to foreign currency	**-**	**-**	**-**	**-**	-	1	-	1	-	4	-	4
Investment*	**-**	**-**	**9**	**9**	-	-	16	16	-	-	9	9
	24	**12**	**9**	**45**	10	1	16	27	25	10	9	44
Financial liabilities												
Interest SWAP	**-**	**-**	**-**	**-**	-	(7)	-	(7)	-	-	-	-
Forward - hedge on transactions linked to foreign currency	**-**	**(4)**	**-**	**(4)**	-	-	-	-				
	-	**(4)**	**-**	**(4)**		(7)		(7)				
	24	**8**	**9**	**41**	10	(6)	16	20	25	6	9	40

* 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

At the meeting of the Company's board of directors on May 28, 2019, it was resolved to approve the "Shufersal Ltd – Equity Compensation Plan 2019" (hereinafter – "the Plan) and to submit it to the Tax Authority, as well as to approve the allotment of 5,075 thousand stock options (hereinafter – "the options") and 310 thousand restricted performance share units (hereinafter – "restricted share units), non-marketable, to the Chairman, CEO of the Company and seven other officers of the Company (hereinafter – "the offerees"). Out of the said amount, 554 thousand options and 34 thousand restricted share units will be allotted to the Company's Chairman and 1,661 thousand options and 102 thousand restricted share units will be allotted to the Company's CEO. The options and restricted share units for the offerees are offered under the terms of the Plan and in accordance with the provisions of the capital gains track prescribed in Section 102(B)(2) ("capital gains track") of the Income Tax Ordinance, and will be deposited with a trustee for the periods prescribed in Section 102(B)(2) of the Ordinance. The options and restricted share units were granted for no compensation. The value of the options and restricted share units, as at the date of the board of directors' resolution, was estimated at NIS 27.5 million. The allotment of the options and restricted share units to the Chairman and CEO are subject to the approval of a general meeting of the Company's shareholders, which as at the report date, had not as yet been convened.

Note 9 – Subsequent events (cont'd)

Type of instrument	Terms of the instrument	Number of instruments (in thousands)	Vesting terms*	Contractual duration of the instrument*
Option warrants	Each option may be exercised for one ordinary share, NIS 0.1 par value, at an exercise price of NIS 25.97 (exercise price will be dividend-adjusted). Exercise of the benefit will be executed in the "net exercise" format.	5,075	Will vest in 4 equal annual installments	4 years – first and second installment 5 years – third installment 6 years – fourth installment
Restricted share units	Each restricted share unit will be automatically realized for one ordinary share, NIS 0.1 par value, with no exercise fee, provided that the following two execution terms are met: [a] Company's total revenues (from all activities) in the latest calendar year ending before the relevant vesting date (hereinafter – "measurement year") are at least 90% of the Company's revenues in the calendar year preceding the measurement year; and [b] the profit (after tax) attributed to the Company's shareholders in the measurement year will be at least NIS 230 million for year 2019 and NIS 240 million for the other years.	310	Will vest in 4 equal annual installments	Restricted share units will be realized automatically on the relevant vesting date (provided that the execution terms are met)

*Commencing from date of board of directors' approval, May 28, 2019.

Information on fair value measurement of share-based payment plans

The fair value of the options and restricted share units, for the purposes of the Company's accounting recognition, will be determined on the grant date, in accordance with the following:

The fair value of the options is measured using the Black & Scholes method. The model's assumptions include the share price on the measurement date, the instrument's exercise price, expected volatility (based on the weighted average of the historical volatility in the Company's share price over the expected option term), the expected life of the instruments (life of the option relative to all the offerees will be based on the assumption that all the options will be exercised on the last day of the vesting period) and the risk-free interest rate (based on shekel-denominated Government bonds, with a remaining life equal to the expected life of the options). The service terms are not taken into account when determining fair value.

The fair value of the restricted share units is measured in accordance with the share's value on the revaluation date, after deducting the dividend expectations until the vesting date of each share. The service terms and the execution terms are not taken into account when determining the fair value.