Section A-

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

For the Nine-Month Period Ended September 30, 2019

Board of Directors' Report on the State of the Company's Affairs for the Nine-Month Period Ended September 30, 2019

Shufersal Ltd.

Contents

Board of Directors' Report on the State of the Company's Affairs for the Nine-Month Period Ended September 30, 2019

Shufersal Ltd.

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the nine-month period ended September 30, 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 377 branches throughout Israel, of which 294 are Shufersal branches and 83 are Be branches. The Shufersal branches operate in several formats. The Group's total commercial space encompasses approximately 544 thousand square meters, of which 514 thousand square meters are Shufersal branches and 30 thousand square meters are Be branches. The Company also has 5 manual delivery centers[2] encompassing 14 thousand square meters. The Group employs about 14 thousand employees (calculated positions) and has annual revenues of about NIS 13 billion.

As at September 30, 2019 and the date of issuing this report, 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 the Company's 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 Company's condensed consolidated interim financial statements as at September 30, 2019 (hereinafter – "**the financial statements**").

1.1.2 Management's discussion of the principal results for the first nine months 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 nine months of 2019 were affected by several matters:

- Seasonality between quarters (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 nine months of the year, the significant growth of the retail sales segment through Shufersal Online continued, and they constituted about 14.8% of sales turnover in Shufersal branches (compared with 13.3% in the first nine months of 2018).
- Continued development and strengthening of the private label including launching products in existing and new categories. In the first nine months of the year, the private label accounted for 25.1% of total retail sales in Shufersal branches, representing growth in the rate of those sales from the first nine months of 2018 (which represented 23.6% of total retail sales).
- Continued development and growing the customer base of the Be chain, including rebranding, expansion of the range of products, opening concept branches, expansion of the chain and operational synergies including development of the digital platform.

[1] For purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (September 30, 2019) 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 September 30, 2019, 586 thousand credit cards have been issued as part of the new credit card club, compared with 462 thousand credit cards as at September 30, 2018.
- 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 7.B(2) 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.
- 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 of record on March 26, 2019. The dividend was paid on April 8, 2019.
- On May 28, 2019 the Company's board of directors resolved to approve the "Shufersal Ltd – Equity Compensation Plan 2019" and to submit it to the Tax Authority, and after receiving the approval of the compensation committee, to allot stock options and restricted performance share units, non-marketable, to the Company's Chairman, CEO and seven other officers of the Company. The allotment to the Chairman and CEO was approved by the Company's general meeting of shareholders on July 16, 2019. See Note 5.E to the financial statements for more details.

1.2 Analysis of Results of Operations

In 2019 the Jewish holidays of Tishrei took place in September and October, compared with 2018 in which the holidays took place in September.

1.2.1 Analysis of the results for the three months ended September 30, 2019 as compared to the corresponding period last year

	Results of operations for the three months ended September 30, 2019		Results of operations for the three months ended September 30, 2018	
	%	NIS millions	%	NIS millions
Revenues		3,443		3,304
Gross profit	27.0%	931	26.5%	877
Selling, marketing, administrative and general expenses	23.0%	(793)	23.1%	(763)
Operating profit	**%4.0**	**138**	**%3.5**	**114**
Financing expenses, net		(65)		(28)
Share of profits of equity accounted investee		1		1
Profit before taxes on income		**74**		**87**
Taxes on income		(19)		(23)
Profit for the period		**55**		**64**

Retail segment revenues amounted to NIS 3,241 million in the third quarter of the year, compared with NIS 3,154 million in the corresponding quarter last year, an increase of 2.8%. The sales of the Company's stores increased at the rate of 2.8% in the third quarter of the year as compared with the corresponding quarter last year.
Same store[3] sales decreased by 0.6% compared with the corresponding quarter last year.
The sales per square meter[4] amounted to NIS 6,342, in the third quarter of the year, compared with NIS 6,394 in the corresponding quarter last year, a decrease of 0.8% that is mainly due to the change in same store sales and the increase in selling areas.

Real estate segment revenues amounted to NIS 47 million in the third quarter of the year, compared with NIS 45 million in the corresponding quarter last year. The increase in revenues is mainly due to the occupation of vacant properties.

Revenues from the loyalty program credit card management segment amounted to NIS 35 million in the third quarter of the year, compared with NIS 18 million in the corresponding quarter last year, an increase of 94.4%, which is mainly due to the increase in the segment's activity and non-recurring revenue.

Revenues from the Be segment amounted to NIS 189 million in the third quarter of the year, compared with NIS 137 million in the corresponding quarter last year, an increase of 38% that is due to the opening of new stores and an increase in same-store sales. The sales per square meter[5] of Be stores amounted to NIS 6,024 in the third quarter of the year, compared with NIS 6,181 in the corresponding quarter last year, a decrease of 2.5%, due mainly to the opening of new stores. Same-store Be sales increased by 8.6% compared with last year.

[3] Same store sales – gross sales of stores that were active in the corresponding periods of the two compared years.
[4] 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. It is noted that in the third quarter the sales per square meter take into account also Marketplace sales, meaning on the expanded shopping site for online selling of nonfood products.
[5] The area of the branch is the gross area including selling areas and other operating areas.

The Group's revenues amounted to NIS 3,443 million in the third quarter of the year, compared with NIS 3,304 million in the corresponding quarter last year, an increase of 4.2% that is mainly due to the aforesaid.

Gross profit amounted to NIS 931 million in the third quarter of the year, compared with NIS 877 million in the corresponding quarter last year, an increase of NIS 54 million. The gross profit rate was 27.0% compared with 26.5% in the corresponding quarter last year. The increase in gross profit is mainly due to an increase in the Group's revenues. The increase in the gross profit rate is mainly due to the increase in the revenues from the loyalty program credit card management segment.

Selling, marketing, administrative and general expenses amounted to NIS 793 million in the third quarter of the year, compared with NIS 763 million in the corresponding quarter last year. The ratio of expenses to revenues was 23.0% compared with 23.1% in the corresponding quarter last year. The increase in expenses is mainly due to an increase in the number of stores, and on the other hand a decrease in the costs of launching the ICC credit card and the initial application of IFRS 16.

The operating profit in the retail segment amounted to NIS 98 million in the third quarter of the year, a rate of 3.0% of revenues, compared with NIS 95 million and a rate of 3.0% of revenues in the corresponding quarter last year, an increase of NIS 3 million that is due to the aforesaid.

The operating profit in the real estate segment amounted to NIS 40 million in the third quarter of the year, compared with NIS 35 million in the corresponding quarter last year, an increase of NIS 5 million.

The operating profit in the loyalty program credit card management segment amounted to NIS 26 million in the third quarter of the year, compared with NIS 2 million in the corresponding quarter last year. The increase in profit is due to an increase in the segment's revenues and a decrease in the costs of launching the ICC credit card.

The operating loss in the Be segment amounted to NIS 12 million in the third quarter of the year, compared with NIS 10 million in the corresponding quarter last year. The increase in the loss is 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 upgrading the chain's stores.

The Group's operating profit amounted to NIS 138 million in the third quarter of the year and a rate of 4.0% of revenues, compared with NIS 114 million and a rate of 3.5% of revenues in the corresponding quarter last year, an increase of NIS 24 million that is due to an increase in the operating profit for the period and the initial application of IFRS 16 this year.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 320 million and a rate of 9.3% of revenues in the third quarter of the year, compared with NIS 202 million and a rate of 6.1% of revenues in the corresponding quarter last year. The increase is mainly due to the initial application of IFRS 16.

Financing expenses net, amounted to NIS 65 million in the third quarter of the year, compared with NIS 28 million in the corresponding quarter last year. The increase in financing expenses is mainly due to the initial application of IFRS 16 and the effect on forward transactions of the decrease in the exchanges rates of the dollar and euro (compared with an increase in those exchange rates in the corresponding quarter last year), and on the other hand the effect of the decrease in the CPI during the period

Tax expenses amounted to NIS 19 million in the third quarter of the year, compared with NIS 23 million in the corresponding quarter last year.

Profit for the period amounted to NIS 55 million in the third quarter of the year, compared with NIS 64 million in the corresponding quarter last year, a decrease of NIS 9 million that is mainly due to the initial application of IFRS 16 this year.

The Company's basic and diluted earnings per share amounted to NIS 0.23 in the third quarter of the year, compared with NIS 0.27 in the corresponding quarter last year.

1.2.2 Analysis of the results for the nine months ended September 30, 2019 as compared to the corresponding period last year

	Results of operations for the nine months ended September 30, 2019		Results of operations for the nine months ended September 30, 2018	
	%	NIS millions	%	NIS millions
Revenues		10,021		9,620
Gross profit	%27.1	2,711	%26.8	2,578
Selling, marketing, administrative and general expenses	%23.0	(2,306)	23.2%	(2,228)
Operating profit before other income (expenses)	**%4.0**	**405**	**%3.6**	**350**
Other expenses, net		(1)		(1)
Increase in fair value of investment property, net		-		16
Operating profit after other income (expenses)		**404**		**365**
Financing expenses, net		(202)		(83)
Share of profits of equity accounted investee		4		3
Profit before taxes on income		**206**		**285**
Taxes on income		(55)		(69)
Profit for the period		**151**		**216**

Retail segment revenues amounted to NIS 9,456 million in the first nine months of the year, compared with NIS 9,173 million in the corresponding period last year, an increase of 3.1%. The sales of the Company's stores increased at the rate of 3.7% in the first nine months of the year as compared with the corresponding period last year. The difference between the increase in revenue and the increase in sales is mainly attributable to the continued increase in the activities of franchisees and a decrease in the gift granted to new members that join the credit card club compared with last year and on the other hand an increase in the revenues from the loyalty program credit card management segment compared with last year[6].
Same store[7] sales increased by 0.1% compared with the corresponding period last year.
The sales per square meter[8] amounted to NIS 18,666, in the first nine months of the year, compared with NIS 18,613 in the corresponding period last year, an increase of 0.3% that is mainly due to the change in same store sales.

[6] See Paragraph 3.3.3 of Part A (Description of Business Affairs) of the periodic report and Note 30.A to the annual financial statements that are included in the periodic report.
[7] Same store sales – gross sales of stores that were active in the corresponding periods of the two compared years.
[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. The sales per square meter include the Marketplace sales, meaning on the expanded shopping site for online selling of nonfood products.

Real estate segment revenues amounted to NIS 137 million in the first nine months of the year, compared with NIS 131 million in the corresponding period last year. The increase in revenues is mainly due to the occupation of vacant income-producing properties.

Revenues from the loyalty program credit card management segment amounted to NIS 78 million in the first nine months of the year, compared with NIS 58 million in the corresponding period last year, an increase of 34.5%, which is mainly due to the increase in the segment's activity and non-recurring revenue.

Revenues from the Be segment amounted to NIS 528 million in the first nine months of the year, compared with NIS 411 million in the corresponding period last year, an increase of 28.5% that is due to the opening of new stores and an increase in same-store sales. The sales per square meter of Be stores amounted to NIS 17,752 in the this period, compared with NIS 18,295 in the corresponding period last year, a decrease of 3.0%, due mainly to the opening of new stores. Same-store Be sales increased by 5.7% compared with last year.

The Group's revenues amounted to NIS 10,021 million in the first nine months of the year, compared with NIS 9,620 million in the corresponding period last year, an increase of 4.2% that is mainly due to the aforesaid.

Gross profit amounted to NIS 2,711 million in the first nine months of the year, compared with NIS 2,578 million in the corresponding period last year, an increase of NIS 133 million. The gross profit rate was 27.1% compared with 26.8% in the corresponding period last year. The increase in gross profit is mainly due to an increase in the Group's revenues. The increase in the gross profit rate is mainly due to the increase in the revenues from the loyalty program credit card management segment.

Selling, marketing, administrative and general expenses amounted to NIS 2,306 million in the first nine months of the year, compared with NIS 2,228 million in the corresponding period last year. The ratio of expenses to revenues was 23.0% compared with 23.2% in the corresponding period last year. The increase in expenses is mainly due to an increase in the number of stores, and on the other hand a decrease in the costs of launching the ICC credit card and the initial application of IFRS 16.

The operating profit in the retail segment amounted to NIS 298 million in the first nine months of the year, a rate of 3.2% of revenues, compared with NIS 277 million and a rate of 3.0% of revenues in the corresponding period last year, an increase of NIS 21 million that is due to the aforesaid.

The operating profit before other income in the real estate segment amounted to NIS 113 million in the first nine months of the year, compared with NIS 106 million in the corresponding period last year, an increase of NIS 7 million that is due to the aforesaid.

The operating profit in the loyalty program credit card management segment amounted to NIS 49 million in the first nine months of the year, compared with a loss of NIS 13 million in the corresponding period last year. The increase in profit is due to an increase in the segment's revenues and a decrease in the costs of launching the ICC credit card.

The operating loss before other expenses in the Be segment amounted to NIS 40 million in the first nine months of the year, compared with a loss of NIS 16 million in the corresponding period last year. The increase in the loss is 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 upgrading the chain's stores.

The Group's operating profit after other income (expenses) amounted to NIS 404 million in the first nine months of the year and a rate of 4.0% of revenues, compared with NIS 365 million and a rate of 3.8% of revenues in the corresponding period last year, an increase of NIS 39 million that is mainly due to an increase in the operating profit for the period as a result of the initial application of IFRS 16 this year, and on the other hand an increase in the fair value of investment property last year.

The operating profit before depreciation and amortization (EBITDA) amounted to NIS 944 million and a rate of 9.4% of revenues in the first nine months of the year, compared with NIS 587 million and a rate of 6.1% of revenues in the corresponding period last year. The increase is mainly due to the initial application of IFRS 16.

Financing expenses net, amounted to NIS 202 million in the first nine months of the year, compared with NIS 83 million in the corresponding period last year. The increase in financing expenses is mainly due to the initial application of IFRS 16 and the effect on forward transactions of the decrease in the exchanges rates of the dollar and euro (compared with an increase in those exchange rates in the corresponding period last year).

Tax expenses amounted to NIS 55 million in the first nine months of the year, compared with NIS 69 million in the corresponding period last year.

Profit for the period amounted to NIS 151 million in the first nine months of the year, compared with NIS 216 million in the corresponding period last year, that is mainly due to the initial application of IFRS 16 this year, an increase in the financing expenses and an increase in the fair value of investment property last year.

The Company’s basic and diluted earnings per share amounted to NIS 0.63 in the first nine months of the year, compared with NIS 0.91 in the corresponding period last year.

1.3 Financial Position, Liquidity and Sources of Finance

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

Cash flow from operating activities
Net cash from operating activities amounted to NIS 334 million in the third quarter of 2019, compared with net cash from operating activities in the amount of NIS 323 million in the corresponding quarter last year. The increase in cash flow from operating activities is mainly due to changes in working capital items as a result of the timing of the Jewish holidays of Tishrei and to the initial application of IFRS 16 this year.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 49 million in the third quarter of 2019, compared with NIS 104 million in the corresponding quarter last year. Cash used in investing activities in the third quarter of 2019 included mainly acquisition of property, plant and equipment in the amount of NIS 108 million and on the other hand withdrawal of deposits in the amount of NIS 93 million.
The cash used in investing activities in the third quarter of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 196 million and on the other hand withdrawal of deposits in the amount of NIS 103 million.

Cash flow used in financing activities
Net cash used in financing activities amounted to NIS 173 million in the third quarter of 2019, compared with NIS 20 million in the corresponding quarter last year. The cash used in financing activities in the third quarter of 2019 included repayment of a lease liability in the amount of NIS 110 million and repayment of credit from banks in the amount of NIS 52 million.

The cash used in financing activities in the third quarter of 2018 included a distribution of profits in the amount of NIS 20 million to partners in a partnership.

1.3.2 Cash flow – Analysis of the results for the first nine months of 2019 as compared to the corresponding period last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 805 million in the first nine months of 2019, compared with net cash from operating activities in the amount of NIS 552 million in the corresponding period last year. The increase in cash flow from operating activities is mainly due to changes in working capital items and the initial application of IFRS 16 this year.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 796 million in the first nine months of 2019, compared with net cash used in investing activities in the amount of NIS 754 million in the corresponding period last year. Cash used in investing activities in the first nine months of 2019 included mainly acquisition of property, plant and equipment in the amount of NIS 382 million, an investment in deposits in the amount of NIS 257 million and an investment in securities held to maturity in the amount of NIS 99 million. The cash used in investing activities in the first nine months of 2018 included mainly acquisition of property, plant and equipment in the amount of NIS 439 million and an investment in deposits in the amount of NIS 249 million.

Cash flow used in financing activities
Net cash used in financing activities amounted to NIS 8 million in the first nine months of 2019, compared with net cash from financing activities in the amount of NIS 202 million in the corresponding period last year. The cash used in financing activities in the first nine months of 2019 included net proceeds from issuance of bonds in the amount of NIS 549 million and on the other hand repayment of lease liabilities in the amount of NIS 324 million, a dividend payment in the amount of NIS 160 million and repayment of bonds and interest in the amount of NIS 73 million.
The cash from financing activities in the first nine months of 2018 included 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, a payment for acquiring rights in a partnership in the amount of NIS 117 million and repayment of bonds and interest in the amount of NIS 64 million.

1.3.3 Liquid asset balances and financial ratios

As at the end of the third quarter of 2019, the net liquid assets (cash and cash equivalents, short-term deposits and marketable securities less credit from banks) amounted to NIS 570 million, compared with NIS 764 million in the corresponding quarter last year.
As at the end of 2018, net liquid assets amounted to NIS 337 million.
As at the end of the third quarter of 2019, the liabilities to the holders of bonds and to banks, including interest payable (hereinafter – "**the financial debt**") amounted to NIS 3,103 million, compared with NIS 2,753 million in the corresponding quarter last year.
The ratio of the Company's financial debt to its total assets was approximately 25.5% at the end of the third quarter of 2019, compared with 34.6% in the corresponding quarter last year. As at the end of the third quarter of 2019 the Company's total assets are NIS 4,190 million higher than in the corresponding quarter last year, mainly as a result of the initial application of IFRS 16 this year.
Total financial debt 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
The Company's equity amounted to NIS 1,795 million as at the end of the third quarter of 2019, compared with NIS 1,888 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 14.8% at the end of the third quarter of 2019, compared with 23.7% in the corresponding quarter last year.
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 25.4%.

1.3.4 Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as at September 30, 2019

As at September 30, 2019, the Company has a working capital deficit (consolidated) of NIS 564 million, compared with a working capital deficit of NIS 532 million as at December 31, 2018 and a working capital deficit of NIS 334 million as at September 30, 2018. Furthermore, the Company has a working capital deficit (on a stand-alone basis) as at September 30, 2019 of NIS 726 million, compared with a working capital deficit of NIS 656 million as at December 31, 2018 and of NIS 344 million as at September 30, 2018.

The effect of the initial application of IFRS 16 on the working capital deficit as at September 30, 2019, relative to the working capital deficit as at December 31, 2018 and relative to the working capital deficit as at September 30, 2018 amounted to NIS 343 million on a consolidated basis and NIS 301 million on a stand-alone basis.
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 two-year periods 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 September 30, 2019 these facilities are not utilized, and also as at the issue date of this report the credit facilities are not 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 2020 until August 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 September 30, 2019, the Board of Directors decided that notwithstanding the working capital deficit as at September 30, 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 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 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 CPI-linked bonds issued by the Company that amount to NIS 1.3 billion as at September 30, 2019 (compared with NIS 1.4 billion as at September 30, 2018), and in respect of CPI-linked payments in the annual amount of NIS 440 million.
As at September 30, 2019 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 instruments is NIS 600 million. The transactions are accounted for as accounting hedges.
In the third quarter of 2019, the Company incurred financing expenses in relation to those transactions in the amount of NIS 7 million, compared with financing expenses of NIS 3 million in the corresponding quarter last year.

2.2.2 Foreign currency risks

The Company's policy is to hedge the currency exchange rates in respect of import of goods from outside of Israel.
As at September 30, 2019, the Company has forward contracts on the rate of the dollar in the amount of US$ 21 million for settlement until July 2020, cylinder transaction on the rate of the dollar in the amount of US$ 3 million for settlement until December 2019, forward contracts on the rate of the euro in the amount of € 65 million for settlement until November 2021, and cylinder transactions on the rate of the euro in the amount of € 1 million for settlement until February 2020.
In the third quarter of 2019, the Company incurred financing expenses in the amount of NIS 8 million in respect of those contracts, compared with financing expenses of NIS 1 million in the corresponding quarter last year.
The Company's exposure to currency risks is insignificant.

2.2.3 Interest risks

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

2.2.4 Capital market risks 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 securities. As at the reporting date, the Company's securities portfolio is comprised of held-to-maturity corporate bonds that are rated at least AA-. 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; and [b] money intended for such needs after more than 6 months will be invested according to an investment policy that mainly provides as follows: up to 15% of the Company's investment portfolio (but no more than NIS 30 million) may be invested in shares tracks, such as exchange traded notes/funds that track share indices (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 the investment portfolio in ETF's in the 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 September 30, 2019:

	September 30, 2019				
	Israeli currency		Foreign		
	Unlinked	Linked	currency	Other items	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets:					
Cash and cash equivalents	159	-	4	-	163
Short-term deposits	407	-	-	-	407
Trade receivables	1,609	-	-	-	1,609
Other receivables	66	23	-	98	187
Other investments	3	6	-	-	9
Inventories	-	-	-	944	944
Non-current assets:					
Other receivables	6	72	-	4	82
Investment in an associate company	37	-	-	23	60
Loan to associate company	31	-	-	-	31
Other investments	50	40	-	9	99
Investment property	-	-	-	681	681
Property, plant and equipment	-	-	-	3,329	3,329
Right-of-use asset	-	-	-	3,297	3,297
Intangible assets and deferred expenses	-	-	-	1,202	1,202
Deferred taxes	-	-	-	51	51
	2,368	141	4	9,638	12,151
Current liabilities:					
Current maturities of bonds	172	78	-	-	250
Current maturities of lease liability	-	359	1	-	360
Trade payables	2,049	-	82	-	2,131
Other payables	301	-	18	773	1,092
Provisions	-	-	-	39	39
Liability to acquire rights in partnership	11	-	-	-	11
Non-current liabilities:					
Bonds	1,640	1,213	-	-	2,853
Lease liability	4	3,204	7	-	3,215
Employee benefits, net	-	-	-	239	239
Deferred taxes	-	-	-	121	121
Other liabilities	4	-	-	41	45
Equity	-	-	-	1,795	1,795
	4,181	4,854	108	3,008	12,151
Net exposure (*)	(1,813)	(4,713)	(104)	6,630	-

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

2.4 Sensitivity tests

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

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

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

For details regarding provisions for claims and legal proceedings against the Company in the first nine months of 2019 and subsequent to the date of the statement of financial position, see Note 7 to the financial statements.

4. Specific Disclosure for Holders of Bonds

Data as at September 30, 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	Payment date of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series D	Oct. 2013	472	468	334	325	327	10	379	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	321	308	308	15	369	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	421	391	391	20	469	Fixed	4.5%	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	518	436	436	22	523	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	331	317	319	13	388	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	626	601	606	25	736	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	552	555	555	2	627	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**	**3,103**	**2,933**	**2,942**	**107**	**3,491**							

* 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 G 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. 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. On October 8, 2019 the Company paid principal and interest on the Series D bonds in the total amount of NIS 39 million, on the Series E bonds in the total amount of NIS 161 million and on the Series F bonds in the total amount of NIS 40 million.
4. Payments on account of bond principal in Series D, E and F are annual payments. The principal payments on account of the Series G bonds are 18 semi-annual unequal payments to be paid on February 20 and 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).
5. 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.
6. In the first nine 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.
7. 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.
8. 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 being at least NIS 40 million); all according to the terms provided in the trust deeds under which the relevant bond series were issued.
9. 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.
10. The Series D, E, F and G bonds include financial covenants as stated hereunder. See Note 17 to the financial statements as at December 31, 2018, 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 September 30, 2019:

Financial covenant	Calculation results as at September 30, 2019
Ratio of net (financial) debt to total balance sheet shall not exceed 60%	20.8%
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 1,795 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 September 30, 2019:

Restriction	Calculation results as at September 30, 2019
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 1,795 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)	2.2

11. **<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" (see immediate report from March 20, 2018 reference no. 2018-01-021540 and from January 16, 2019 reference no. 2019-01-005362). On October 6, 2019 Ma'alot affirmed the Company's "ilAA-" rating with a stable outlook (see immediate report from October 6, 2019 reference no. 2019-01-101776).

12. 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 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 and current outlook	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
Series G – Bonds listed for trade	Ma'alot	ilAA	ilA Stable	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

November 27, 2019

Shufersal Ltd.

Condensed Consolidated Interim Financial Statements As at September 30, 2019

(Unaudited)

Shufersal Ltd.

Condensed Consolidated Interim Financial Statements as at September 30, 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 statement of financial position as of September 30, 2019 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine and three month periods 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 these interim periods 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 condensed interim financial information of an equity accounted investee the investment in which amounted to NIS 60 million as at September 30, 2019, and the Company's share in its profits amounted to NIS 4 million and NIS 1 million for the nine and three month periods then ended, respectively. The condensed interim financial information of that company 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 reports of 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, based on our review and the review reports of other auditors, 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
November 27, 2019

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

Condensed Consolidated Interim Statement of Financial Position

	September 30 2019	September 30 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**163**	372	162
Short-term deposits	**407**	350	150
Marketable securities	**-**	42	25
Trade receivables	**1,609**	1,256	1,244
Other receivables	**187**	163	140
Other investments	**9**	-	-
Inventory	**944**	764	820
Total current assets	**3,319**	2,947	2,541
Receivables and debit balances	**82**	5	16
Investment in associate company	**60**	53	56
Loan to associate company	**31**	33	32
Other investments	**99**	11	9
Investment property	**681**	631	664
Property, plant and equipment	**3,329**	3,147	3,214
Right-of-use asset	**3,297**	-	-
Intangible assets and deferred expenses	**1,202**	1,134	1,168
Deferred taxes	**51**	-	5
Total non-current assets	**8,832**	5,014	5,164
Total assets	**12,151**	7,961	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: November 27, 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

	September 30 2019	September 30 *2018	December 31 *2018
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Current maturities in respect of bonds	**250**	301	219
Current maturities lease liability	**360**	-	-
Trade payables	**2,131**	1,958	2,014
Other payables	**1,092**	932	779
Liability to acquire partnership interests	**11**	39	11
Provisions	**39**	51	50
Total current liabilities	**3,883**	3,281	3,073
Bonds	**2,853**	2,452	2,315
Lease liability	**3,215**	-	-
Employee benefits, net	**239**	175	199
Provisions	**-**	2	2
Other liabilities	**45**	45	43
Deferred taxes	**121**	118	117
Total non-current liabilities	**6,473**	2,792	2,676
Equity			
Share capital	**242**	242	242
Share premium	**963**	945	963
Reserves	**15**	22	23
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**660**	764	813
Total equity	**1,795**	1,888	1,956
Total liabilities and equity	**12,151**	7,961	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

	Nine months ended		Three months ended		Year ended
	September 30 2019	September 30 *2018	September 30 2019	September 30 *2018	December 31 *2018
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues and rental fees	**10,021**	9,620	**3,443**	3,304	12,847
Cost of sales and services	**7,310**	7,042	**2,512**	2,427	9,406
Gross profit	**2,711**	2,578	**931**	877	3,441
Selling and marketing expenses	**2,158**	2,096	**745**	720	2,806
General and administrative expenses	**148**	132	**48**	43	182
Total selling, marketing, general and administrative expenses	**2,306**	2,228	**793**	763	2,988
Operating profit before other income (expenses)	**405**	350	**138**	114	453
Other expenses, net	**(1)**	(1)	**-**	-	(27)
Increase in fair value of investment property, net	**-**	16	**-**	-	43
Total other income (expenses), net	**(1)**	15	**-**	-	16
Operating profit after other income (expenses)	**404**	365	**138**	114	469
Financing expenses	**(221)**	(100)	**(70)**	(34)	(130)
Financing income	**19**	17	**5**	6	14
Financing expenses, net	**(202)**	(83)	**(65)**	(28)	(116)
Share in profits of equity accounted investee	**4**	3	**1**	1	6
Profit before taxes on income	**206**	285	**74**	87	359
Taxes on income	**(55)**	(69)	**(19)**	(23)	(94)
Profit for the period	**151**	216	**55**	64	265
Basic and diluted earnings per share (in NIS)	**0.63**	0.91	**0.23**	0.27	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

	Nine months ended		Three months ended		Year ended
	September 30 2019	September 30 *2018	September 30 2019	September 30 *2018	December 31 *2018
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**151**	216	**55**	64	265
Other comprehensive income (loss) items that after initial recognition in comprehensive income were or will be transferred to profit or loss					
Effective portion of the change in fair value of cash flow hedges	**(10)**	13	**(19)**	(3)	13
Net change in fair value included in cost of hedging reserve	**(1)**	-	**(1)**	-	-
Taxes on other comprehensive income items that were initially recognized in comprehensive income and will be transferred to profit or loss	**3**	(3)	**5**	-	(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	**(8)**	10	**(15)**	(3)	10
Other comprehensive income (loss) items that will not be transferred to profit or loss					
Remeasurement of defined benefit plan	**(33)**	(6)	**(13)**	-	(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	**7**	-	**3**	-	3
Total other comprehensive loss for the period that will not be transferred to profit or loss, net of tax	**(26)**	-	**(10)**	-	(10)
Other comprehensive income (loss) for the period, net of tax	**(34)**	10	**(25)**	(3)	-
Total comprehensive income for the period	**117**	226	**30**	61	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

	Attributable to owners of the Company					
	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings (1)	Total
	NIS millions					
For the nine months ended September 30, 2019 (unaudited)						
Balance as at January 1, 2019	**242**	**963**	**23**	**(85)**	**813**	**1,956**
Initial adoption of IFRS 16 (1)	**-**	**-**	**-**	**-**	**(122)**	**(122)**
Balance as at January 1, 2019 after adoption of IFRS 16	**242**	**963**	**23**	**(85)**	**691**	**1,834**
Share-based payment	**-**	**-**	**-**	**-**	**4**	**4**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(160)**	**(160)**
Profit for the period	**-**	**-**	**-**	**-**	**151**	**151**
Other comprehensive loss for the period, net of tax	**-**	**-**	**(8)**	**-**	**(26)**	**(34)**
Balance as at September 30, 2019	**242**	**963**	**15**	**(85)**	**660**	**1,795**
For the nine months ended September 30, 2018 (unaudited)						
Balance as at January 1, 2018	242	945	8	(85)	698	1,808
Initial adoption of IFRS 9	-	-	-	-	13	13
Balance as at January 1, 2018 after adoption of IFRS 9	242	945	8	(85)	711	1,821
Share-based payment	-	-	-	-	1	1
Dividends to shareholders	-	-	-	-	(160)	(160)
Profit for the period	-	-	-	-	216	216
Other comprehensive income (loss) for the period, net of tax	-	-	14	-	(4)	10
Balance as at September 30, 2018	242	945	22	(85)	764	1,888

(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 (1)	Total
	NIS millions					
For the three months ended September 30, 2019 (unaudited)						
Balance as at July 1, 2019	**242**	**963**	**30**	**(85)**	**612**	**1,762**
Share-based payment	**-**	**-**	**-**	**-**	**3**	**3**
Profit for the period	**-**	**-**	**-**	**-**	**55**	**55**
Other comprehensive loss for the period, net of tax	**-**	**-**	**(15)**	**-**	**(10)**	**(25)**
Balance as at September 30, 2019	**242**	**963**	**15**	**(85)**	**660**	**1,795**
For the three months ended September 30, 2018 (unaudited)						
Balance as at July 1, 2018	242	945	26	(85)	699	1,827
Share-based payment						
Profit for the period	-	-	-	-	64	64
Other comprehensive income (loss) for the period, net of tax	-	-	(4)	-	1	(3)
Balance as at September 30, 2018	242	945	22	(85)	764	1,888

(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 (1)	Total
	NIS millions					
For the year ended December 31, 2018 (audited)						
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, net of tax	-	-	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

	Nine months ended		Three months ended		Year ended
	September 30 2019	September 30 *2018	September 30 2019	September 30 *2018	December 31 *2018
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit for the period	**151**	216	**55**	64	265
Adjustments for:					
Depreciation of property, plant and equipment	**252**	234	**84**	80	319
Amortization of right-of-use assets	**260**	-	**89**	-	-
Gain on increase in value of property, plant and equipment	**-**	(4)	**-**	-	(4)
Amortization of intangible assets and deferred expenses	**27**	22	**9**	7	32
Taxes on income	**55**	69	**19**	23	94
Income taxes paid, net	**(63)**	(44)	**(20)**	(18)	(66)
Financing expenses, net	**202**	83	**65**	28	116
Share in profits of equity accounted investees	**(4)**	(3)	**(1)**	(1)	(6)
Change in fair value of investment property, net	**-**	(16)	**-**	-	(43)
Change in employee benefits	**2**	8	**-**	3	14
Loss on sale of property, plant and equipment	**1**	-	**-**	-	3
Share-based payment	**4**	1	**3**	-	1
Change in provision for onerous contracts	**-**	(18)	**-**	(2)	(19)
Change in trade receivables	**(365)**	(156)	**(304)**	(74)	(146)
Change in other receivables	**(23)**	(47)	**(16)**	(22)	(23)
Change in inventory	**(124)**	(46)	**(41)**	(3)	(101)
Change in trade payables	**129**	74	**162**	76	83
Change in other payables, provisions and other	**301**	179	**230**	162	29
Net cash from operating activities	**805**	552	**334**	323	548

* 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

	Nine months ended		Three months ended		Year ended
	September 30 2019	**September 30 *2018**	**September 30 2019**	**September 30 *2018**	**December 31 *2018**
	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	**(382)**	(439)	**(108)**	(196)	(568)
Proceeds from sale of property, plant and equipment	**-**	1	**-**	-	1
Investment in deferred expenses and intangible assets	**(64)**	(46)	**(18)**	(15)	(73)
Investment in investment property and investment property under construction	**(17)**	(11)	**(11)**	(5)	(19)
Change in pledged deposit	**-**	6	**-**	-	6
Change in cash in respect of futures contracts, net	**(8)**	4	**(6)**	2	6
Realization of (investment in) marketable securities, net	**26**	(30)	**-**	-	(16)
Investment in securities held to maturity	**(99)**	-	**-**	-	-
Long-term loan repayment	**4**	2	**1**	1	3
Withdrawal of (investment) in deposits, net	**(257)**	(249)	**93**	103	(49)
Interest and dividend received	**1**	8	**-**	6	7
Net cash used in investing activities	**(796)**	(754)	**(49)**	(104)	(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

	Nine months ended		Three months ended		Year ended
	September 30 2019	September 30 *2018	September 30 2019	September 30 *2018	December 31 *2018
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows used in financing activities					
Acquisition of partnership interests	**-**	(117)	**-**	-	(146)
Proceeds from issuance of bonds	**549**	563	**-**	-	563
Repayment of bonds	**(59)**	(58)	**-**	-	(191)
Interest paid	**(14)**	(6)	**(11)**	-	(119)
Repayment of lease liabilities	**(324)**	-	**(110)**	-	-
Dividend paid	**(160)**	(160)	**-**	-	(160)
Credit from banks	**-**	-	**(52)**	-	-
Proceeds from exercise of share options	**-**	-	**-**	-	18
Payments in respect of hedging transactions	**-**	-	**-**	-	(10)
Partners' withdrawals from partnership	**-**	(20)	**-**	(20)	(11)
Net cash from (used in) financing activities	**(8)**	202	**(173)**	(20)	(56)
Net increase (decrease) in cash and cash equivalents	**1**	-	**112**	199	(210)
Cash and cash equivalents at the beginning of the period	**162**	372	**51**	173	372
Cash and cash equivalents at the end of the period	**163**	372	**163**	372	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 September 30, 2019 comprise the Company, its subsidiaries (hereinafter together – "the Group") and the Company's interests in an associate company. 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. It also has as a wholly-owned subsidiary (Be Drugstores Ltd.) that engages in pharma activities and markets and sells pharmaceuticals, 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, 2018. Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on November 27, 2019.

B. Use of estimates and judgments

The preparation of condensed consolidated interim 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:

1. Final version of IFRS 9 (2014), *Financial Instruments* (hereinafter "IFRS 9")

Further to Note 3.S to the annual financial statements, during the period the Group initially adopted the guidance of IFRS 9 with respect to hedge accounting. Application of the guidance does not have a material effect on the financial statements.

2. Initial application of IFRS 16, *Leases* (hereinafter "IFRS 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. Assets leased under a finance lease included mainly buildings.

In accordance with IFRS 16, the Group recognizes a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Group has a right to control identified assets for a specified period of time, other than exceptions specified in the standard. Therefore, as from the date of initial application of IFRS 16, instead of recording lease payments, which were presented as part of cost of sales and selling and marketing expenses in the income statement, the Group recognizes depreciation and amortization expenses on right-of-use assets and financing expenses on 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, discounted at the interest rate as at the date of initial application. 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. In all the Group's subleases that were classified as finance leases, the right-of-use assets in respect of the head leases were derecognized and recognized as receivables for the sublease.

Note 3 - Significant Accounting Policies (cont’d)

2. Initial application of IFRS 16, *Leases* (hereinafter “IFRS 16”) (cont'd)

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%.

As part of the initial application of the standard, the Group has chosen to apply the following expedients for leases in which it is the lessee:

- To use a single discount rate for a 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 where the underlying asset has a low value.
- 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 non-lease components.

The effects of the initial application of IFRS 16 on the Group's statement of financial position as at January 1, 2019:

	According to the previous policy	Effect of application of IFRS 16	According to the present policy
		NIS millions	
Current assets			
Other receivables	**140**	**13**	**153**
Non-current assets			
Receivables and debit balances	16	72	88
Right-of-use asset	-	3,304	3,304
Deferred tax assets	5	37	42
	21	**3,413**	**3,434**
Current liabilities			
Current maturities of lease liability	-	(345)	(345)
Provisions	(50)	4	(46)
	(50)	**(341)**	**(391)**
Non-current liabilities			
Lease liability	-	(3,209)	(3,209)
Provisions	(2)	2	-
	(2)	**(3,207)**	**(3,209)**
Equity			
Retained earnings	**(813)**	**122**	**(691)**

Note 3 - Significant Accounting Policies (cont'd)

2. Initial application of IFRS 16, *Leases* (hereinafter "IFRS 16") (cont'd)

As a result of applying IFRS 16, in relation to leases that were classified as operating leases according to the previous standard, in the reporting period the Group recognized right-of-use assets and receivables and on the other hand lease liabilities in the amount of NIS 246 million.

The effects of the initial application of IFRS 16 on the Group's results for the nine month period ended September 30, 2019:

	According to the previous policy	Effect of application of IFRS 16	According to the present policy
		NIS millions	
Cost of sales and services	(7,314)	4	(7,310)
Gross profit	**2,707**	**4**	**2,711**
Selling and marketing expenses	(2,204)	46	(2,158)
Operating profit before other income (expenses)*	**355**	**50**	**405**
Financing expenses, net	(122)	(80)	(202)
Profit before taxes on income	**236**	**(30)**	**206**
Taxes on income	(60)	5	(55)
Profit for the period	**176**	**(25)**	**151**

* An increase of NIS 260 million in depreciation expenses against a decrease of NIS 310 million in rental expenses.

Note 3 - Significant Accounting Policies (cont'd)

2. Initial application of IFRS 16, *Leases* (hereinafter "IFRS 16") (cont'd)

For the three month period ended September 30, 2019:

	According to the previous policy	Effect of application of IFRS 16	According to the present policy
		NIS millions	
Cost of sales and services	(2,514)	2	(2,512)
Gross profit	**929**	**2**	**931**
Selling and marketing expenses	(760)	15	(745)
Operating profit before other income (expenses)*	**121**	**17**	**138**
Financing expenses, net	(37)	(28)	(65)
Profit before taxes on income	**85**	**(11)**	**74**
Taxes on income	(21)	2	(19)
Profit for the period	**64**	**(9)**	**55**

* An increase of NIS 89 million in depreciation expenses against a decrease of NIS 106 million in rental expenses.

The effects of the initial application of IFRS 16 on the Group's cash flow for the nine month period ended September 30, 2019:

	According to the previous policy	Effect of application of IFRS 16	According to the present policy
		NIS millions	
Cash flows from operating activities	481	324	805
Cash flows from financing activities	316	(324)	(8)

For the three month period ended September 30, 2019:

	According to the previous policy	Effect of application of IFRS 16	According to the present policy
		NIS millions	
Cash flows from operating activities	224	110	334
Cash flows used in financing activities	(63)	(110)	(173)

Note 3 - Significant Accounting Policies (cont'd)

2. Initial application of IFRS 16, *Leases* (hereinafter "IFRS 16") (cont'd)

The effects of the initial application of IFRS 16 on the financial covenants applicable to the Company as at September 30, 2019:

	According to the previous policy	Effect of application of IFRS 16	According to the present policy
Ratio between net financial debt and total assets	%29	(%8)	%21
Total equity of the Company in NIS millions	1,942	(147)	1,795
Ratio between net financial debt and annual EBITDA	3.0	(0.8)	2.2

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)

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

2. Initial application of IFRS 16, *Leases* (hereinafter "IFRS 16") (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-of-use assets in respect of subleases that were classified by the Group as finance leases are derecognized and recognized as a receivable in assets.

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.B.(2) 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 of record on March 26, 2019. The dividend was paid on April 8, 2019.

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

E. On May 28, 2019 the Company's board of directors 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 and CEO of the Company, subject to approval by the general meeting of shareholders, and to 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 consideration. The grant date value of the options and restricted share units was estimated at NIS 27.8 million.
On July 16, 2019 the Company's general meeting of shareholders approved the allotment to the Company's Chairman and CEO.

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

E. (cont'd)

Type of f 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 option will be executed in the "net exercise" format.	5,075	Will vest in 4 equal annual installments	4 years – first and second tranches 5 years – third tranche 6 years – fourth tranche
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 performance conditions are met: [a] Company's total revenues (from all activities) in the last 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 is at least NIS 230 million for the year 2019 and NIS 240 million for the other years.	310	Will vest in 4 equal annual tranches	Restricted share units will be realized automatically on the relevant vesting date (provided that the performance conditions 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, was 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 for 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). Service conditions 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 tranche. Service conditions and performance conditions are not taken into account when determining the fair value of restricted share units.

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 mentioned 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 Operating 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 nine months ended September 30, 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	9,456	38	78	527	(78)	10,021
Inter-segment revenues	-	99	-	1	(100)	-
Segment revenues	9,456	137	78	528	(178)	10,021
Operating profit (loss) before other expenses, excluding profit from management of loyalty program credit card activity	249	113	-	(40)	34	356
Operating profit from management of loyalty program credit card activity	49	-	49	-	(49)	49
Operating profit (loss) before other expenses	298	113	49	(40)	(15)	405
Other expenses, net	(1)	-	-	-	-	(1)
Operating profit (loss) after other expenses	297	113	49	(40)	(15)	404
Financing expenses						(221)
Financing income						19
Share of profits of equity accounted investee						4
Taxes on income						(55)
Profit for the period						151

Note 6 - Segment Reporting (cont'd)

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

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

Note 6 - Segment Reporting (cont'd)

For the three months ended September 30, 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	**3,241**	**14**	**35**	**188**	**(35)**	**3,443**
Inter-segment revenues	**-**	**33**	**-**	**1**	**(34)**	**-**
Segment revenues	**3,241**	**47**	**35**	**189**	**(69)**	**3,443**
Operating profit (loss) before other expenses, excluding profit from management of loyalty program credit card activity	**72**	**40**	**-**	**(12)**	**12**	**112**
Operating profit from management of loyalty program credit card activity	**26**	**-**	**26**	**-**	**(26)**	**26**
Operating profit (loss)	**98**	**40**	**26**	**(12)**	**(14)**	**138**
Financing expenses						**(70)**
Financing income						**5**
Share of profits of equity accounted investee						**1**
Taxes on income						**(19)**
Profit for the period						**55**

Note 6 - Segment Reporting (cont'd)

For the three months ended September 30, 2018 (unaudited):

	Retail segment	Real estate segment	Loyalty club credit card management segment	Be segment	Reconciliation to consolidated*	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Total external revenues	3,154	13	18	137	(18)	3,304
Inter-segment rental revenues	-	32	-	-	(32)	-
Segment revenues	3,154	45	18	137	(50)	3,304
Operating profit (loss) excluding profit from management of loyalty program credit card activity	93	35	-	(10)	(6)	112
Operating profit from management of loyalty program credit card activity	2	-	2	-	(2)	2
Operating profit (loss)	95	35	2	(10)	(8)	114
Financing expenses						(34)
Financing income						6
Share of profits of equity accounted investee						1
Taxes on income						(23)
Profit for the period						64

* See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been 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 (loss) 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 (loss) before other income (expenses)	360	144	1	(29)	(23)	453
Other income (expenses), net	(4)	58	-	(26)	(12)	16
Operating profit (loss) after other income (expenses)	356	202	1	(55)	(35)	469
Financing expenses						(130)
Financing income						14
Share of profits of equity accounted investee						6
Taxes on income						(94)
Profit for the year						265

* See Note 3 regarding the initial adoption of IFRS 16. In accordance with the transitional method elected, comparative figures have not been 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, the amounts of the claims may be higher than the real exposure from the aforesaid claims.

A. Summary of the Group's legal claims:

1. Presented hereunder are details of the Group's legal claims as at September 30, 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	Mainly motions to certify class actions that allege illegal collection of funds and damages from services or products provided by Group companies.	15	**363	***776	**1,154**
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.	1	5	3	**9**
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.	2	28	7	**37**
Customer claims for damages	Claims for damages that are handled by the insurance companies.	21	7	*-	**28**
Total		**39**	**403**	**786**	******1,228**

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

A. Summary of the Group's contingent liabilities: (cont'd)

1. Presented hereunder are details of the Group's pending claims as at September 30, 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 79 million in which the amount claimed from the Company is not specified.

*** Including claims against the Company and other defendants in the amount of NIS 278 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, to which the Company has additional exposure.

2. Presented hereunder is a breakdown of the number and amounts of the Group's legal claims as at September 30, 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)	*718	*385
From NIS 100 million to NIS 500 million	2	479
Claims that do not specify an amount claimed	2	-
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	11	364
Total	**734**	**1,228**

* Including 599 claims of customers for damages as at September 30, 2019 in the total amount of NIS 28 million.

B. Information on class actions

During the period, motions to certify class actions were filed against Group companies in the total amount of NIS 151 million. On the other hand, motions to certify class actions against Group companies in the amount of NIS 726 million were rejected and dismissed with the approval of the court.

Furthermore, two motions to certify consumer claims as class actions against the Company, one in the amount of NIS 19 million and the other with no specified amount, were concluded in compromise agreements by which the Company paid a total amount of NIS 1 million.

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

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 September 30, 2019, the amounts that are claimed from the Company under the said claims total NIS 46 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) (hereinafter: "the managers"). 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. On August 1, 2019 a ruling was handed down by the court that acquitted the managers of the violations attributed to them whereas the Company was convicted of the violations attributed to it. On September 29, 2019 the court ruled on the Company's punishment, by which an immaterial fine was imposed on the Company. Furthermore, the Company undertook to not perform the violations indicated in the claim for a period of 3 years, or else it will be required to pay the maximum fine stipulated in the law.

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

A motion to certify a consumer claim as a class action against the Company and other defendants, of which an amount of NIS 3.5 is attributed to the Company, was concluded in a compromise agreement without a costs order for the Company.

In addition, a motion to certify a consumer claim as a class action against a subsidiary and other defendants, in the amount of NIS 15 million without specifying the amount attributed to the subsidiary, was concluded in a compromise agreement by which the subsidiary will be required to pay an immaterial amount of expenses.

Note 8 - Financial Instruments

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

The fair value of the bonds and securities held to maturity and their carrying amount, as presented in the statement of financial position, are as follows:

	As at September 30, 2019		As at September 30, 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) –	**3,103**	**3,491**	2,753	3,048	2,534	2,756
Securities held to maturity	**99**	**101**	-	-	-	-

The fair value is the 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 September 30, 2019				As at September 30, 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	**-**	**-**	**-**	**-**	42	-	-	42	25	-	-	25
Interest SWAP	**-**	**2**	**-**	**2**	-	-	-	-	-	6	-	6
Forward - hedge on transactions linked to foreign currency	**-**	**-**	**-**	**-**	-	1	-	1	-	4	-	4
Investment*	**-**	**-**	**9**	**9**	-	-	11	11	-	-	9	9
	-	**2**	**9**	**11**	42	1	11	54	25	10	9	44
Financial liabilities												
Interest SWAP	**-**	**-**	**-**	**-**	-	(1)	-	(1)	-	-	-	-
Forward - hedge on transactions linked to foreign currency	**-**	**(18)**	**-**	**(18)**	-	-	-	-	-	-	-	-
	-	**(18)**	**-**	**(18)**	-	(1)	-	(1)	-	-	-	-
	-	**(16)**	**9**	**(7)**	42	-	11	53	25	10	9	44

* 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

See Note 7.D for information on developments concerning legal claims subsequent to the reporting period.