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

# For the Three-Month Period Ended March 31, 2020

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**Shufersal Ltd.**

# Contents

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**Shufersal Ltd.**

We hereby submit the Directors' Report of Shufersal Ltd. (hereinafter – **"Shufersal"** or **"the Company"**) for the three-month period ended March 31, 2020 (hereinafter – **"the reporting period"**)[1], in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter –**"the reporting regulations"**). Shufersal together with its subsidiaries and associate companies are hereinafter called "**the Shufersal Group**" or "**the Group**".

# 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 296 are Shufersal branches and 81 are branches of Be Drugstores Ltd.[2] (hereinafter – "**Be**"). The Shufersal branches operate in several formats. The Group's total commercial space encompasses approximately 534 thousand square meters, of which 504 thousand square meters are Shufersal branches and 30 thousand square meters are Be branches[3]. In addition the Company has 9 hand delivery centers[4] encompassing 26 thousand square meters. The Group employs about 19 thousand employees (about 16.5 thousand calculated positions)[5] and has annual revenues of about NIS 14 billion. As at March 31, 2020 and the reporting date, the Company has no controlling shareholder. See Note 1 to the consolidated financial statements of the Company as at December 31, 2019 (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 three operating segments that are reported as business segments in its financial statements: the retail segment, the real estate segment and the Be segment.
For details regarding the aforesaid operating segments, see Note 6 to the condensed consolidated interim financial statements as of March 31, 2020 (hereinafter – "**the financial statements**").

### 1.1.2 Management's discussion of the principal results for the first quarter of 2020

For details on the management's review for 2019, see Paragraph 1.1.2 to the Board of Directors' report on the state of the Company's affairs as at December 31, 2019 ("**the 2019 directors' report**") as was reported on March 19, 2020 in the framework of the Company's periodic report for 2019 (reference no.: 2020-01-023530) ("**the periodic report**").

The Company's results for the first quarter of 2020 were affected by several principal matters:

- The effects of the coronavirus (COVID-19) outbreak (see Paragraphs 1.2 and 1.1.3 hereunder)
- Seasonality (see Paragraph 1.2 hereunder).
- Continued development of the Company's digital platforms, mainly the "Shufersal Online" system, which included continued construction of automated delivery centers for this distribution channel. In the first quarter of the year, there was a significant increase in the sales of the retail segment through Shufersal Online, and they constituted about 17.5% of sales turnover in Shufersal branches

[1] For purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (March 31, 2020) unless stated otherwise or implied otherwise by the context of the matter.
[2] The branches of Be include one branch of Bela Online Ltd., which is 51% held by Be Drugstores Ltd. as from November 2019.
[3] The decrease in the commercial space is due to the conversion of branches into online delivery centers (see Paragraph 1.1.3 hereunder for disclosure regarding the coronavirus crisis).
[4] Dedicated centers for the online marketing of products through the Company's website.
[5] Including 3,500 employees, most of them temporary, who were recruited in March 2020 in order to meet the demand that resulted from the coronavirus outbreak (see Paragraph 1.1.3 hereunder for disclosure regarding the coronavirus crisis).

(compared with 16% in the corresponding quarter last year). Most of the increase is due to the effects of the coronavirus outbreak.

- Continued development and strengthening of the private label including launching products in existing and new categories. In the first quarter of the year the private label accounted for 25.5% of total retail sales in Shufersal branches, representing an increase from the rate of those sales in the corresponding quarter last year (which was 25.1%).
- Continued development and growing the customer base of the Be chain, including rebranding, expansion of the chain and operational synergies as well as development of the digital platform.
- Continued strengthening and expansion of the customer loyalty credit card club. As at March 31, 2020, 601 thousand credit cards had been issued as part of the credit card club, compared with 550 thousand as at March 31, 2019.
- Continued development of the Group’s income-producing real estate activity.

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

- On January 16, 2020 judicial force was awarded to a mediation agreement between the Company and Leumi Card Ltd. (currently called - Max IT Finance Ltd.) (“Leumi Card”), by which the partnership relationship between Shufersal and Leumi Card was terminated such that all the holdings of Leumi Card in the partnership and in the general partner were transferred to Shufersal. See Note 15 to the annual financial statements for additional information.

- On March 19, 2020, the Company declared the distribution of a cash dividend in the total amount of NIS 80 million. The aforesaid dividend did not require court approval. The dividend was paid on April 27, 2020 to shareholders of record on April 19, 2020. See Note 5 to the financial statements for additional information.

- **Disclosure regarding the coronavirus crisis**
  In the first quarter of 2020 an epidemic began spreading around the world that was caused by an outbreak of the coronavirus (COVID-19) ("**the coronavirus crisis**") and was declared by the World Health Organization as a pandemic. Accordingly, in the first quarter the Government of Israel issued emergency regulations, which are issued from time to time, that in the first quarter and subsequently prohibited or restricted the activity of businesses, considerably restricted the number of employees at work places, shut down the education system and imposed restrictions on leaving homes. The coronavirus outbreak and the uncertainty relating to the rate of it spreading, the amount of time that will be required for the process of returning to normal, the concern regarding an additional outbreak and the actions taken by the countries for dealing with the outbreak, have caused a global economic crisis, including in Israel.
  Taking note of the restrictions that were imposed on leaving homes, quarantines that were imposed on cities in Israel (and even on the entire county for certain periods of time) as well as the shutting down of various businesses (including in the food industry), the coronavirus crisis has had an effect on the Company's operations in the reporting period and is continuing to have an effect also in the period subsequent to the reporting period (based on information available to the Company subsequent to the reporting period).

  Presented hereunder are the Board of Directors' explanations of the effect of the coronavirus crisis on the operations of the Shufersal Group[6]. As regards quantitative data for the reporting period in relation to the effect of the coronavirus crisis, the Group performed a measurement for the period beginning on March 15, 2020 and ending on March 31, 2020 ("**the quarter's crisis period**"). Furthermore, the measurement of the change in the crisis period (which the Company attributes to the crisis) is based on a comparison to the relevant corresponding period, in other words comparison

[6] This disclosure is provided in accordance with Accounting Staff Position 99-7 of the Securities Authority from May 11, 2020.

of the results in the quarter's crisis period to the results in the period from March 15, 2019 to March 31, 2019 taking into account seasonality and other data, all to the best of the Company's judgement.

**Retail segment revenues**: In the quarter's crisis period and in view of the nature of the coronavirus crisis as described above (travel restrictions, quarantine and closing food businesses) the food retail industry in Israel including the Company experienced an increase in demand for food and toiletries.

In the reporting period the revenues of the retail segment amounted to NIS 3,520 million compared with NIS 2,974 million in the corresponding period last year, while in the Company's opinion NIS 320-360 million of the increase in revenues is attributable to additional revenues in the quarter's crisis period. The increase in revenues reflects an increase of 18.4% compared with the corresponding period last year while in the Company's opinion the contribution of the coronavirus to this increase is 11% to 12%. See Paragraph 1.2 hereunder for information regarding Retail segment revenues.

The Company believes that the increase in the retail segment revenues (in view of, inter alia, the economic situation that was created and the fact that food businesses have not yet reopened fully) continued also in April 2020 (but at a rate lower than the rate of the increase in the quarter's crisis period). In the opinion of the Company there was an increase of NIS 50-60 million in the retail segment revenues in April 2020 (compared with April 2019) which is attributable to the additional revenues in the crisis period (an increase of 4% to 5%).

**Workforce costs**: In the quarter's crisis period and in April 2020, about 1,000 of the Company's employees had to be in quarantine for various periods of time as a result of the instructions of the Ministry of Health, which increased the Company's expenses in the quarter's crisis period and in April 2020 by an immaterial amount. In view of the aforesaid, and in view of the increase in demand for food following the coronavirus crisis the Company recruited 3,500 temporary employees during the quarter's crisis period, while at the end of April 2020 it reduced the number of the temporary employees by about 1,000 (it is noted that proximate to the date of issuing this report the Company is continuing to reduce the number of temporary employees). In view of the aforesaid and other circumstances (such as working nights, increasing shifts to meet demand), there was an increase of NIS 28 million in salary and labor expenses during the quarter's crisis period (there was a similar increase in the Company's salary and labor expenses in April 2020). See Paragraph 1.2 hereunder for information regarding the Group's gross and operating profit.

**Online activity**: In view of the nature of the coronavirus crisis and the restrictions on travel and social distancing that were imposed on the population, in the quarter's crisis period and in April 2020 there was a significant increase in the online purchases of the Company's customers. In order to strengthen the online activity and as described above, the Company increased its online activity workforce, increased the number of shifts (an increase that included night shifts) and temporarily converted branches into online delivery centers (proximate to the date of issuing this report the Company is considering converting these stores back into regular stores for public use (one store has already been converted back into a regular branch). Online sales during the quarter's crisis period amounted to 18.1% of the sales at the Company's branches in that period (while this rate was 17.5% of the sales at Shufersal branches during the entire first quarter of the year), compared with 16% of the sales at the Company's branches in the entire corresponding period last year The Company believes that in April 2020 the online sales constituted about 19.7% of the sales at the Company's branches, a number that reflects continuation of the increase in the trend of purchasing by means of the Company's online platform in the period of the coronavirus crisis.

**The real estate segment**: In general, the effect of the coronavirus crisis on the Company's real estate segment, in the reporting period and subsequent to the reporting date, was immaterial. The

Group granted relaxations to tenants of properties during the period of the crisis in the first quarter and during April 2020. Proximate to the date of issuing the report, further to instructions of the Ministry of Health, the Lev Hamifratz mall reopened after being closed in the first quarter and in April 2020 during the period of the crisis.
As at the reporting date the Company has examined the effects on the forecast of contractual cash flows expected from tenants of the Company's properties and has examined, together with external appraisers, the effects of the aforesaid on the assumptions that were the basis for determining the fair value of the real estate that were used by the appraisers as the basis for their valuation in the annual financial statements, and has reached the conclusion that as at the date of the report, there is no effect on the fair value presented in the financial statements. It is clarified that the aforesaid is true for the date of the report, but due to the uncertainty regarding the overall effects of the coronavirus crisis on the real estate segment and the rental market in the future, certain uncertainty exists regarding the effects in periods subsequent to the reporting date.

**Be segment**: In the quarter's crisis period and in April 2020 there was a certain increase in demand for Be products mainly by means of the online platform. Be is continuing with its work plans as were approved and it expects that the fourth quarter of 2020 will be operationally balanced. It is noted that the coronavirus crisis had an immaterial (net) positive effect on the operating profit of this segment in the reporting period (on the one hand there was less activity at the stores in shopping centers while on the other hand there was an increase in online activity, including projects of delivering medicines to homes and an increase in the activity of stores located on streets).

**Liquidity and sources of finance**: In the first quarter and in April 2020 the Company increased its liquidity and acted to increase its access to additional sources of finance. See Paragraph 1.3 of this report for additional information. As at the reporting date, the Company believes that the effects of the coronavirus crisis will not have a negative effect on the Company's sources of finance or adversely affect its liquidity.

**Material/strategic investments**: As at the reporting date, the Company does not expect a material delay in the automated warehouses project (see Paragraph 8.15 of part A to the periodic report for 2019) and does not expect any change in the Company's strategy and work plans as these are described in Paragraph 12 of part A to the periodic report for 2019).

As at the date of this report it can be assumed that the coronavirus will have a negative effect on growth in Israel and will have many effects on the economy. The coronavirus crisis may have an adverse effect on the Group's operations and on its financial results following, inter alia, the possibility of the economy entering a slowdown and recession as well as an additional outbreak of the virus. As aforesaid, as at the date of this report, it is difficult to forecast the full effects of the coronavirus crisis on the Group, because of the indirect effects of the crisis on the economy of the world and of Israel and on growth and naturally also on the Group.

**The information regarding the effects of the coronavirus on the Group in the period subsequent to the reporting period, is forward looking information within its definition in the Securities Law. This information is based on the Company's assessments and initial data regarding the amount of sales in the second quarter of 2020 that the Company is in the process of obtaining as at the date of issuing this report. The actual effects may be materially different from those forecasted as aforesaid, due to various reasons of which the main ones are an additional outbreak of the coronavirus, returning to stricter restrictions, the intensity of the indirect effects on the Group following a possible damage to growth, the economy entering a slowdown and so forth.**

## 1.2 Analysis of Results of Operations

In 2020, the eve of Passover was on April 8, as compared to 2019 in which the eve of Passover was on April 19. The timing of the holiday affects balance sheet items such as trade receivables, inventories, trade payables as well as sales and the intensity of special offers made in the first quarter of this year as compared to the previous year. The effect of Passover is greater in the first quarter of this year than its effect in the corresponding quarter last year.
In the period from the outbreak of the coronavirus until the date of the report, the sales of the Company have increased in general and its online sales in particular, following the public stocking up on food and various hygiene products (see Paragraph 1.1.3 above).

### 1.2.1 Analysis of the results for the three months ended March 31, 2020 as compared to the corresponding period last year

| | Results of operations for the three months ended March 31, 2020 | | Results of operations for the three months ended March 31, 2019 | |
|---|---|---|---|---|
| | % | NIS millions | % | NIS millions |
| **Revenues** | | 3,731 | | 3,149 |
| **Gross profit** | %26.8 | 999 | %27.3 | 860 |
| Selling, marketing, administrative and general expenses | 22.2% | (828) | 23.2% | (731) |
| **Operating profit before other expenses** | **%4.6** | **171** | **%4.1** | **129** |
| Other expenses, net | | (1) | | (1) |
| **Operating profit after other expenses** | **%4.6** | **170** | **%4.1** | **128** |
| Financing expenses, net | | (50) | | (64) |
| Share in profits (losses) of equity accounted investee | | (2) | | 1 |
| **Profit before taxes on income** | | 118 | | 65 |
| Taxes on income | | (28) | | (17) |
| **Profit for the period** | | **90** | | **48** |

**Retail segment revenues** amounted to NIS 3,520 million in the first quarter of the year, compared with NIS 2,974 million in the corresponding quarter last year, an increase of 18.4% that is mainly due to the coronavirus outbreak and seasonality. The sales of the Company's stores increased by 19.3% in the first quarter of the year as compared with the corresponding quarter last year. The difference between the increase in Company revenues and the increase in sales is mainly attributable to an increase in the activities of franchisees. Same store sales[7] increased by 17.6% compared to the corresponding quarter last year. The increase is mainly due to the increase in the Company's activity following the effect of the coronavirus outbreak and to seasonality. The sales per square meter[8] amounted to NIS 6,910 in the first quarter of the year, compared with NIS 5,914 in the corresponding quarter last year, an increase of 16.8% that is mainly due to the aforesaid.

[7] Same store sales – gross sales of active stores that operated 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 non-food products.

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

**Revenues from the Be segment** amounted to NIS 201 million in the first quarter of the year, compared with NIS 163 million in the corresponding quarter last year, an increase of 23.3% that is mainly due to the opening of new stores, an increase in same-store sales and the effect of the coronavirus outbreak. Same stores sales[7] of Be stores increased by 15.8% compared to last year, pursuant to the aforesaid, The sales per square meter of Be stores[8] amounted to NIS 6,340 in the first quarter of the year, compared with NIS 5,839 in the corresponding quarter last year, an increase of 8.6% that is mainly due to the improvement in same store sales.

**The Group's revenues** amounted to NIS 3,731 million in the first quarter of the year, compared with NIS 3,149 million in the corresponding quarter last year, an increase of 18.5% that is mainly due to the retail segment. The Group's same store sales[7] increased by 17.5% in the first quarter of the year, compared with the corresponding quarter last year.

**Gross profit** amounted to NIS 999 million in the first quarter of the year, compared with NIS 860 million in the corresponding quarter last year, an increase of NIS 139 million. The increase in gross profit resulted mainly from the increase in the Group's revenues. The gross margin was 26.8% compared with 27.3% in the corresponding quarter last year, a decrease of 0.5% that is mainly due to a change in the mix of the Group's sales.

**Selling, marketing, administrative and general expenses** amounted to NIS 828 million in the first quarter of the year, compared with NIS 731 million in the corresponding quarter last year. The ratio of expenses to revenues was 22.2% compared with 23.2% in the corresponding quarter last year. The increase in expenses is mainly due to the increase in the Group's activity. The decrease in the ratio of expenses to revenues is due to the ratio of the increase in expenses to the increase in revenues.

**The operating profit before other expenses in the retail segment** amounted to NIS 129 million in the first quarter of the year, a rate of 3.7%, compared with NIS 98 million and a rate of 3.3% in the corresponding quarter last year, an increase of NIS 31 million that is due to the aforesaid.

**The operating profit in the real estate segment** amounted to NIS 37 million in the first quarter of the year, compared with NIS 36 million in the corresponding quarter last year.

**The operating loss before other expenses in the Be segment** amounted to NIS 8 million in the first quarter of the year, compared with NIS 16 million in the corresponding quarter last year. The decrease in the loss was due to the increase in revenues and to the decrease in the ratio of selling, marketing, general and administrative expenses to revenues that is due to, inter alia, improving operating efficiency and deepening the operating synergy with the Company.

**The Group's operating profit after other expenses** amounted to NIS 170 million in the first quarter of the year and a rate of 4.6% of revenues, compared with NIS 128 million and a rate of 4.1% of revenues in the corresponding quarter last year, an increase of NIS 42 million that is mainly due to the aforesaid.

**The operating profit before depreciation and amortization (EBITDA)** amounted to NIS 362 million and a rate of 9.7% of revenues in the first quarter of the year, compared with NIS 305 million and a rate of 9.7% of revenues in the corresponding quarter last year. The increase was mainly due to an increase in the operating profit.

**Financing expenses net,** amounted to NIS 50 million in the first quarter of the year, compared with NIS 64 million in the corresponding quarter last year, a decrease of NIS 14 million that was mainly due to financing income on forward transactions hedging transactions linked to a foreign currency, compared with financing expenses in the corresponding quarter last year.

**Tax expenses** amounted to NIS 28 million in the first quarter of the year, compared with NIS 17 million in the corresponding quarter last year, an increase that is mainly due to the increase in the profit for the period.

**Profit for the period** amounted to NIS 90 million in the first quarter of the year, compared with NIS 48 million in the corresponding quarter last year, an increase that is due to the aforesaid.

**The Company's basic and diluted earnings per share** amounted to NIS 0.38 in the first quarter of the year, compared with NIS 0.2 in the corresponding quarter last year.

## 1.3 Financial Position, Liquidity and Sources of Finance

### 1.3.1 Cash flow – Analysis of the results for the first quarter of 2020 as compared with the corresponding quarter last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 534 million in the first quarter of the year, compared with NIS 197 million in the corresponding quarter last year. The increase in cash flow from operating activities is mainly due to changes in working capital items and increase in the profit for the period (for more information see the consolidated statements of cash flows that are included in the financial statements).

Cash flow from investing activities
Net cash from investing activities amounted to NIS 79 million in the first quarter of the year, compared with net cash used in investing activities in the amount of NIS 567 million in the corresponding quarter last year. Cash from investing activities in the first quarter of the year included mainly withdrawal of deposits in the amount of NIS 200 million and on the other hand acquisition of property, plant and equipment in the amount of NIS 95 million.
Cash used in investing activities in the corresponding quarter last year included mainly acquisition of property, plant and equipment in the amount of NIS 133 million and an investment in deposits in the amount of NIS 400 million.

Cash flow used in financing activities
Net cash used in financing activities amounted to NIS 217 million in the first quarter of the year, compared with cash from in financing activities in the amount of NIS 379 million in the corresponding quarter last year. The cash used in financing activities in the first quarter of the year included mainly repayment of a lease liability in the amount of NIS 114 million and repayment of short-term credit in the amount of NIS 93 million.
The cash from financing activities in the corresponding quarter last year included mainly net consideration from an issuance of bonds in the amount of NIS 549 million, offset by repayment of a lease liability in the amount of NIS 108 million and repayment of bonds in the amount of NIS 59 million.

### 1.3.2 Liquid asset balances and financial ratios

As at the end of the first quarter of 2020, the net liquid assets (cash and cash equivalents, marketable securities and short-term deposits less credit from banks) amounted to NIS 547 million, compared with NIS 745 million in the corresponding quarter last year. As at the end of 2019, the net liquid assets amounted to NIS 262 million.

As at the end of the first quarter of 2020, the liabilities to the holders of bonds and to banks, including interest payable (hereinafter – "**the financial debt**") amounted to NIS 2,900 million, compared with NIS 3,047 million in the corresponding quarter last year. The ratio of the Company's financial debt to its total assets was approximately 22.5% at the end of the first quarter of 2020, compared with 25.7% in the corresponding quarter last year.
Total financial debt as at the end of 2019 amounted to NIS 2,981 million, and the ratio of financial debt to total assets was approximately 24.9% at that time.

As at the end of the first quarter of 2020, the Company's equity amounted to NIS 1,930 million, compared with NIS 1,729 million in the corresponding quarter last year. The ratio of the Company's equity to its total assets was approximately 15% as at the end of the first quarter of 2020, like in the corresponding quarter last year.

As at the end of 2019, the Company's equity amounted to NIS 1,914 million and the ratio of the Company's equity to its total assets was approximately 16%.

### 1.3.3 Board of Directors' discussion of the Company's liquidity in view of the working capital deficit as at March 31, 2020

As at March 31, 2020, the Company has a working capital deficit (on a consolidated basis) of NIS 912 million, compared with a working capital deficit of NIS 898 million as at December 31, 2019 and a working capital deficit of NIS 487 million as at March 31, 2019. The Company has a working capital deficit (on a stand-alone basis) as at March 31, 2020 of NIS 1,016 million, compared with a working capital deficit of NIS 1,068 million as at December 31, 2019 and of NIS 616 million as at March 31, 2019.
The increase in the working capital deficit (on a consolidated and stand-alone basis) as at March 31, 2020 compared with March 31, 2019 is due mainly to the issuance of a new series of banks (Series G) in January 2019 for proceeds of NIS 549 million (net of issuance expenses) and to changes in working capital that are mainly due to the effect of the coronavirus crisis (for details see Paragraph 1.1.3 above).
The Company ended the quarter with a positive cash flow from operating activities (see Paragraph 1.3.1 above).

As at the reporting date the Company has agreements with four banking institutions (with each one separately) to provide to the Company a guaranteed credit facility for periods ending between March and May 2021, of up to an amount of NIS 200 million from each banking institution, that may be utilized by short-term credit withdrawals. As at March 31, 2020 and the date of issuing this report these credit facilities have not yet been utilized.

It is further noted that in April 2020 the Company completed a private placement by way of expansion of the Company's Series G bonds for net proceeds of NIS 313 million.

In view of all the aforesaid, and taking into account the Company's accessibility to additional sources of credit and financing, and in view of the Group's balances of cash and cash equivalents and the Group's cash flow forecast for the two year period beginning March 31, 2020, the Board of Directors decided that notwithstanding the working capital deficit as at March 31, 2020, the Company does not have a liquidity problem even after examining the effect of the coronavirus crisis.

The assessment of the Company's accessibility to sources of credit (including issuing additional bonds, insofar as needed) and the assessment of the Company's accessibility to possible additional sources of financing, took into consideration the yield to maturity at which the Company's bonds are traded, the Company's rating, the Company's past experience in raising capital, raising debt and refinancing, the Company's aforesaid credit facilities, the Company's ability to realize real estate and the fact that the Company and its subsidiaries own significant unencumbered real estate properties and an investment portfolio. It is noted that as at the issue date of this report, there is only a small number of liens of an insignificant amount on the assets of the Company and its subsidiaries.

**It is emphasized that the information on the Company's accessibility to sources of financing is forward-looking information, within its meaning in the Securities Law – 1968, which is mainly based on the Company's forecasts. This assessment may not be realized or may be realized in a different manner than was assessed, including materially different, as a result of market behavior and realization of the risk factors mentioned in Paragraph 18 of Part A to the periodic report.**

# 2. Market Risk Exposure and Management

## 2.1 Company officer responsible for market risk management

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

## 2.2 Description of market risks

No material changes have occurred during the reporting period regarding the Company's exposure to and management of market risks in relation to the Company's reports on this matter in the directors' report for 2019. Market risks include changes in the value of financial instruments that are caused by fluctuations in interest rates, the Consumer Price Index, foreign currency exchange rates and prices of securities.

### 2.2.1 Consumer Price Index risks

The Company is exposed to changes in the Consumer Price Index ("the CPI"), mainly in respect of the CPI-linked bonds issued by the Company that amount to NIS 1.2 billion as at March 31, 2020 (compared with NIS 1.3 billion as at March 31, 2019), and in respect of CPI-linked payments in the annual amount of NIS 447 million.

As at March 31, 2020, the Company has swap transactions for exchanging CPI-linked NIS cash flows with fixed NIS cash flows in respect of the Company's Series F bonds. The amount of the hedging and hedged instruments is NIS 600 million. The transactions are accounted for as accounting hedges.
In the first quarter of 2020, the Company incurred financing expenses from these transactions in the amount of NIS 5.6 million, compared with NIS 2.7 million in the corresponding quarter last year.

### 2.2.2 Foreign currency risks

The Company's policy is to hedge the currency exchange rates in respect of import of goods from outside of Israel.
As at March 31, 2020, the Company has forward contracts on the dollar exchange rate in the amount of US$17.8 million for settlement until December 2020, cylinder transactions on the dollar exchange rate in the amount of US$3.8 million for settlement until November 2020, forward contracts on the exchange rate of the euro in the amount of €69 million for settlement until July 2022 and cylinder transactions on the euro exchange rate in the amount of €2.5 million for settlement until December 2020.
In the first quarter of 2020, the Company incurred financing income in the amount of NIS 3 million in respect of those contracts, compared with financing expenses of NIS 10 million in the corresponding quarter last year.
The Company's exposure to currency risks is immaterial.

### 2.2.3 Interest risks

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

### 2.2.4 Israel capital market risks

As at the date of the statement of financial position, the Company's securities portfolio is comprised of held-to maturity corporate bonds that are rated at least AA-. The exposure to changes in prices of securities in Israel is immaterial.

## 2.3 Linkage bases report

Presented below is the Company's linkage bases report as at March 31, 2020:

| | March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency | | |
| | Unlinked | Linked | Mainly dollar | Other items | Total |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Current assets:** | | | | | |
| **Cash and cash equivalents** | 436 | - | 15 | - | 451 |
| **Short-term deposits** | 96 | - | - | - | 96 |
| **Trade receivables** | 1,878 | - | - | - | 1,878 |
| **Receivables and debit balances** | 36 | 23 | 7 | 116 | 182 |
| **Other investments** | 5 | 5 | - | - | 10 |
| **Inventories** | - | - | - | 1,069 | 1,069 |
| **Non-current assets:** | | | | | |
| **Receivables and debit balances** | 26 | 71 | - | 7 | 104 |
| **Investment in associate** | 37 | - | - | 25 | 62 |
| **Loan to associate** | 30 | - | - | - | 30 |
| **Other investments** | 48 | 37 | - | 12 | 97 |
| **Investment property** | - | - | - | 714 | 714 |
| **Property, plant and equipment** | - | - | - | 3,121 | 3,121 |
| **Intangible assets and deferred expenses** | - | - | - | 1,309 | 1,309 |
| **Right-of-use assets** | - | - | - | 3,638 | 3,638 |
| **Deferred taxes** | - | - | - | 120 | 120 |
| | 2,592 | 136 | 22 | 10,131 | 12,881 |
| **Current liabilities:** | | | | | |
| **Current maturities of bonds** | 131 | 155 | - | - | 286 |
| **Current maturities of lease liabilities** | - | 341 | 1 | - | 342 |
| **Trade payables** | 2,528 | - | 77 | - | 2,605 |
| **Other payables** | 518 | 6 | 8 | 785 | 1,317 |
| **Provisions** | 48 | - | - | - | 48 |
| **Non-current liabilities:** | | | | | |
| **Bonds** | 1,540 | 1,074 | - | - | 2,614 |
| **Lease liabilities** | 4 | 3,312 | 6 | - | 3,322 |
| **Employee benefits, net** | 230 | - | - | - | 230 |
| **Other liabilities** | 12 | 3 | - | 41 | 56 |
| **Deferred taxes** | - | - | - | 131 | 131 |
| **Equity** | - | - | - | 1,930 | 1,930 |
| | 5,011 | 4,891 | 92 | 2,887 | 12,881 |
| **Net exposure (*)** | (2,419) | (4,755) | (70) | 7,244 | - |

(*) 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 subsequent to the date of the statement of financial position, see Note 7 to the financial statements.
- See Note 9 to the financial statements for information on events subsequent to the date of the statement of financial position.

## 4. Specific Disclosure for Holders of Bonds

**Data as at March 31, 2020**

| Series | Date of issuance | Par value on date of issuance (NIS millions) | Proceeds on date of issuance net of issuance expenses (NIS millions) | Carrying amount (NIS millions)* | Balance of par value (NIS millions) | Balance of par value, including linkage (NIS millions) | Accumulated interest (NIS millions) | Stock market/fair value (NIS millions) | Type of interest | Effective interest rate on date of issuance | Stated interest | Principal payment date | | Interest payment dates | Type of linkage |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | First date | Last date | | |
| Series D | Oct. 2013 | 472 | 468 | 298 | 295 | 295 | 4 | 322 | 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 | 285 | 280 | 280 | 7 | 330 | 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 | 373 | 356 | 356 | 9 | 419 | 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 | 461 | 396 | 396 | 10 | 466 | 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 | 322 | 317 | 317 | 7 | 359 | 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 | 609 | 601 | 602 | 12 | 681 | 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 | 601 | 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** | **2,900** | **2,800** | **2,801** | **51** | **3,178** | | | | | | | |

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

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

**Notes:**

1. On February 20, 2020 the Company paid interest on the Series G bonds in the total amount of NIS 10 million.

2. In April 2020, subsequent to the date of the statement of financial position, the Company completed the issuance of Series G bonds by way of expansion of the series for a gross consideration of NIS 314 million (net proceeds of NIS 313 million).

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

4. The trustee of the Series D bonds and Series E bonds is Reznik Paz Nevo Trustees Ltd., from 14 Yad Haroutzim St., Tel-Aviv (tel. 03-6389200, fax. 03-6389222). The contact person at the trustee for the Series D bonds and Series E bonds is Mr. Yossi Reznik, CPA, e-mail: Trust@rpn.co.il
   The trustee of the Series F bonds is Strauss Lazar Trust Company (1992) Ltd., from 17 Yitzhak Sadeh St., Tel Aviv (tel. 03-6237777, fax. 03-5613824). The contact person at the trustee for the Series F bonds is Mr. Ori Lazer, CPA and Adv., e-mail: ori@slcpa.co.il
   The trustee of the Series G bonds is Hermetic Trust (1975) Ltd., from 30 Sheshet Hayamim Road, Bnei Braq (tel: 03-5544553, fax. 03-5271736). The contact person at the trustee for the Series G bonds is Ms. Merav Ofer-Oren and/or Mr. Dan Avnon, e-mail: hermetic@hermetic.co.il.

5. In the first quarter of 2020 and up to the date of this report, the Company is in compliance with all the conditions and liabilities under the trust deeds of the outstanding bonds and there is no cause for demanding immediate repayment of the Company's outstanding bonds.

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

7. Among the causes for immediate repayment of the Series D, E, F and G bonds is also the event of another debt of the Company to a bank and/or other financial institution being called for immediate repayment, providing that the total amount called for immediate repayment is higher than NIS 300 million, or another outstanding series of the Company's bonds being called for immediate repayment (not initiated by the Company) (in Series D and E, the cause of cross-default of other bonds series was conditioned on the amount of the other series called for immediate repayment being at least NIS 40 million); all according to the terms provided in the trust deeds under which the relevant bond series were issued.

8. In accordance with the terms of the trust deeds of the Company's Series D, E, F and G bonds, the Company is permitted to early redeem (fully or partially) the Series D, E, F and G bonds. For additional details, see Paragraph 9.2 of the trust deed of the Series D bonds and Paragraph 9.2 of the trust deed of the Series E bonds (as detailed in the trust deed's annex of the Company's shelf prospectus dated May 30, 2012 and as amended on September 30, 2013) and Paragraph 9.2 of the trust deed of the Series F bonds as detailed in the trust deed's annex of the Company's shelf registration statement dated September 3, 2015 that was issued in accordance with the Company's shelf prospectus dated June 25, 2015, and Paragraph 9.2 of the trust deed of the Series G bonds, as detailed in the trust deed's annex of the Company's shelf registration statement dated January 16, 2019.

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

Presented hereunder are the results of calculating the financial covenants committed to by the Company in accordance with the terms of the Series D, E, F and G bonds (and in accordance with the terms of the Company's credit facilities) as at March 31, 2020:

| **Financial covenant** | **Calculation results** |
|---|---|
| | **As at March 31, 2020** |
| Ratio of net (financial) debt to total balance sheet shall not exceed 60% | 18.3% |
| 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 1,930 million |

Presented hereunder are the results of calculating the dividend distribution restrictions that apply to the Company in accordance with the terms of the Series D, E, F and G bonds (and in accordance with the Company's credit facilities) as at March 31, 2020:

| **Restriction** | **Calculation results as at March 31, 2020** |
|---|---|
| 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 1,930 million |
| Ratio of the Company's net (financial) debt to annual EBITDA shall not exceed 7 (with respect to Series D, E and F bonds) and 5 (with respect to Series G bonds) | 1.8 |

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

As at the reporting date the Company's rating is (AA-) Stable and its bonds are rated (AA), in accordance with the Company's rating affirmation by Ma'alot from October 2019. For details regarding the rating affirmation of the Company and its bonds, see the Company's immediate report of October 6, 2019 (reference no. 2019-01-101776).

## 11. Information on the rating of outstanding bonds

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

| Series | Name of rating company | Current rating and current outlook | Rating on date of issuance | Additional ratings between original date of issuance and reporting date | |
|---|---|---|---|---|---|
| | | | | Date | Rating |
| Series 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 |
| | | | | October 6, 2019 (affirmation of rating) | ilAA |
| Series G – bonds listed for trade | Ma'alot | ilAA | ilA Stable | January 16, 2019 (initial rating) | ilAA |
| | | | | October 6, 2019 (affirmation of rating) | ilAA |
| | | | | April 3, 2020 (expansion of series) | ilAA |

**Quarterly report of outstanding liabilities by maturity dates**

For data regarding the outstanding liabilities of the Company, see the immediate report on outstanding liabilities by maturity dates that was issued by the Company on the date of issuing the financial statements, which the information included in it is presented in this report by way of reference.

The Company's Board of Directors and Management wish to express their appreciation and thanks to the managers and employees of the Company for their professional and dedicated work and their contribution to the Company.

Mauricio Wior
Chairman of the Board of Directors

Itzik Abercohen
CEO

May 26, 2020

# Shufersal Ltd

# Condensed Consolidated Interim Financial Statements As at March 31, 2020

(Unaudited)

## Condensed Consolidated Interim Financial Statements as at March 31, 2020 (Unaudited)

## Contents

## Auditors' Review Report to the Shareholders of Shufersal Ltd.

*Introduction*

We have reviewed the accompanying financial information of Shufersal Ltd. and its consolidated companies (hereinafter – "the Company") comprising of the condensed consolidated interim statement of financial position as of March 31, 2020 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of an equity accounted investee the investment in which amounted to NIS 62 million as at March 31, 2020, and the Group's share in its losses amounted to NIS 2 million for the three month period ended March 31, 2020. 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 (Israel) 2410, "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 the other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of the 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**
May 26, 2020

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

**Condensed Consolidated Interim Statements of Financial Position**

| | March 31 2020 | March 31 2019* | December 31 2019 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Assets** | | | |
| Cash and cash equivalents | **451** | 171 | 55 |
| Short-term deposits | **96** | 550 | 300 |
| Marketable securities | **-** | 24 | - |
| Trade receivables | **1,878** | 1,297 | 1,373 |
| Other receivables | **182** | 171 | 160 |
| Inventory | **1,069** | 995 | 910 |
| Other investments | **10** | 1 | 9 |
| **Total current assets** | **3,686** | 3,209 | 2,807 |
| Receivables and debit balances | **104** | 97 | 116 |
| Investment in associate | **62** | 57 | 64 |
| Loan to associate | **30** | 32 | 30 |
| Other investments | **97** | 19 | 96 |
| Investment property | **714** | 665 | 721 |
| Property, plant and equipment | **3,121** | 2,986 | 3,101 |
| Right-of-use assets | **3,638** | 3,584 | 3,596 |
| Intangible assets and deferred expenses | **1,309** | 1,182 | 1,310 |
| Deferred taxes | **120** | 42 | 113 |
| **Total non-current assets** | **9,195** | 8,664 | 9,147 |
| **Total assets** | **12,881** | 11,873 | 11,954 |

Signed on behalf of the Board of Directors:

| | |
|---|---|
| Mauricio Wior | Chairman of the Board of Directors |
| Itzik Abercohen | Chief Executive Officer |
| Talya Huber | Chief Financial Officer |

Date of approval: May 26, 2020

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

**Condensed Consolidated Interim Statements of Financial Position**

| | March 31 2020 | March 31 2019* | December 31 2019 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Liabilities** | | | |
| Credit from banks | **-** | - | 93 |
| Current maturities in respect of bonds | **286** | 195 | 267 |
| Current maturities of lease liabilities | **342** | 335 | 342 |
| Trade payables | **2,605** | 2,018 | 2,055 |
| Other payables | **1,317** | 1,095 | 832 |
| Liability to acquire partnership interests | **-** | 11 | 73 |
| Provisions | **48** | 42 | 43 |
| **Total current liabilities** | **4,598** | 3,696 | 3,705 |
| Bonds | **2,614** | 2,852 | 2,621 |
| Lease liabilities | **3,322** | 3,236 | 3,278 |
| Employee benefits, net | **230** | 200 | 248 |
| Other liabilities | **56** | 42 | 56 |
| Deferred taxes | **131** | 118 | 132 |
| **Total non-current liabilities** | **6,353** | 6,448 | 6,335 |
| **Equity** | | | |
| Share capital | **242** | 242 | 242 |
| Share premium | **963** | 963 | 963 |
| Reserves | **6** | 30 | 17 |
| Treasury shares | **(85)** | (85) | (85) |
| Retained earnings | **805** | 579 | 778 |
| **Total equity attributable to owners of the Company** | **1,931** | 1,729 | 1,915 |
| **Non-controlling interests** | **(1)** | - | (1) |
| **Total equity** | **1,930** | 1,729 | 1,914 |
| **Total liabilities and equity** | **12,881** | 11,873 | 11,954 |

*See Note 2.C regarding reclassification.

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

## Condensed Consolidated Interim Statements of Income

| | Three months ended | | Year ended |
|---|---|---|---|
| | March 31 2020 | March 31 2019 | December 31 2019 |
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| Revenues and rental fees | **3,731** | 3,149 | 13,360 |
| Cost of sales and services | **2,732** | 2,289 | 9,751 |
| **Gross profit** | **999** | 860 | 3,609 |
| Selling and marketing expenses | **763** | 682 | 2,884 |
| General and administrative expenses | **65** | 49 | 204 |
| Total selling, marketing, general and administrative expenses | **828** | 731 | 3,088 |
| **Operating profit before other income (expenses)** | **171** | 129 | 521 |
| Other expenses, net | **(1)** | (1) | (3) |
| Increase in fair value of investment property, net | **-** | - | 39 |
| Total other income (expenses), net | **(1)** | (1) | 36 |
| **Operating profit after other income (expenses)** | **170** | 128 | 557 |
| Financing expenses | **(56)** | (70) | (279) |
| Financing income | **6** | 6 | 20 |
| **Financing expenses, net** | **(50)** | (64) | (259) |
| Share in profits (losses) of equity accounted investee | **(2)** | 1 | 8 |
| **Profit before taxes on income** | **118** | 65 | 306 |
| Taxes on income | **(28)** | (17) | (38) |
| **Profit for the period** | **90** | 48 | 268 |
| **Profit (loss) attributable to:** | | | |
| Owners of the Company | **90** | 48 | 269 |
| Non-controlling interests | **-** | - | (1) |
| **Profit for the period** | **90** | 48 | 268 |
| **Earnings per share** | | | |
| **Basic and diluted earnings per share (in NIS)** | **0.38** | 0.20 | 1.13 |

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

## Condensed Consolidated Interim Statement of Other Comprehensive Income

| | Three months ended | | Year ended |
|---|---|---|---|
| | March 31 2020 | March 31 2019 | December 31 2019 |
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Profit for the period** | **90** | 48 | 268 |
| **Other comprehensive income (loss) items that after initial recognition in comprehensive income was or will be transferred to profit or loss** | | | |
| Effective portion of the change in fair value of cash flow hedges | **(14)** | 9 | (7) |
| Net change in fair value included in cost of hedging reserve | **-** | - | (1) |
| Taxes on other comprehensive income items that were initially recognized in comprehensive income and will be transferred to profit or loss | **3** | (2) | 2 |
| **Total other comprehensive income (loss) for the period that after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax** | **(11)** | 7 | (6) |
| **Other comprehensive income (loss) items that will not be transferred to profit or loss** | | | |
| Remeasurement of defined benefit plan | **18** | - | (39) |
| Taxes on other comprehensive income items that will not be transferred to profit or loss | **(4)** | - | 9 |
| **Total other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax** | **14** | - | (30) |
| **Other comprehensive income (loss) for the period, net of tax** | **3** | 7 | (36) |
| **Total comprehensive income for the period** | **93** | 55 | 232 |
| **Total comprehensive income (loss) attributable to:** | | | |
| Owners of the Company | **93** | 55 | 233 |
| Non-controlling interests | **-** | - | (1) |
| **Total comprehensive income for the period** | **93** | 55 | 232 |

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

## Condensed Consolidated Interim Statement of Changes in Equity

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Capital reserves** | **Treasury shares** | **Retained earnings*** | **Total** | **Non-controlling interests** | **Total** |
| | **NIS millions** | **NIS millions** | **NIS millions** | **NIS millions** | **NIS millions** | **NIS millions** | **NIS millions** | **NIS millions** |
| **For the three months ended March 31, 2020 (unaudited)** | | | | | | | | |
| **Balance as at January 1, 2020** | **242** | **963** | **17** | **(85)** | **778** | **1,915** | **(1)** | **1,914** |
| Share based payment | **-** | **-** | **-** | **-** | **3** | **3** | **-** | **3** |
| Dividends to shareholders | **-** | **-** | **-** | **-** | **(80)** | **(80)** | **-** | **(80)** |
| Profit for the period | **-** | **-** | **-** | **-** | **90** | **90** | **-** | **90** |
| Other comprehensive income (loss) for the period, net of tax | **-** | **-** | **(11)** | **-** | **14** | **3** | **-** | **3** |
| **Balance as at March 31, 2020** | **242** | **963** | **6** | **(85)** | **805** | **1,931** | **(1)** | **1,930** |
| **For the three months ended March 31, 2019 (unaudited)** | | | | | | | | |
| **Balance as at January 1, 2019** | 242 | 963 | 23 | (85) | 813 | 1,956 | - | 1,956 |
| Initial adoption of IFRS 16 | - | - | - | - | (122) | (122) | - | (122) |
| **Balance as at January 1, 2019 after adoption of IFRS 16** | 242 | 963 | 23 | (85) | 691 | 1,834 | - | 1,834 |
| Dividends to shareholders | - | - | - | - | (160) | (160) | - | (160) |
| Profit for the period | - | - | - | - | 48 | 48 | - | 48 |
| Other comprehensive income for the period, net of tax | - | - | 7 | - | - | 7 | - | 7 |
| **Balance as at March 31, 2019** | 242 | 963 | 30 | (85) | 579 | 1,729 | - | 1,729 |

*See Note 2.C regarding reclassification.

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

**Condensed Consolidated Interim Statement of Changes in Equity**

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserves | Treasury shares | Retained earnings | Total | Non-controlling interests | Total |
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Balance as at January 1, 2019** | 242 | 963 | 23 | (85) | 813 | 1,956 | - | 1,956 |
| Initial adoption of IFRS 16 | - | - | - | - | (122) | (122) | - | (122) |
| **Balance as at January 1, 2019 after adoption of IFRS 16** | 242 | 963 | 23 | (85) | 691 | 1,834 | - | 1,834 |
| Share based payment | - | - | - | - | 8 | 8 | - | 8 |
| Dividends to shareholders | - | - | - | - | (160) | (160) | - | (160) |
| Profit (loss) for the year | - | - | - | - | 269 | 269 | (1) | 268 |
| Other comprehensive loss for the year | - | - | (6) | - | (30) | (36) | - | (36) |
| **Balance as at December 31, 2019** | 242 | 963 | 17 | (85) | 778 | 1,915 | (1) | 1,914 |

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

## Condensed Consolidated Interim Statement of Cash Flows

| | Three months ended | | Year ended |
|---|---|---|---|
| | March 31 2020 | March 31 2019* | December 31 2019 |
| | Unaudited | Unaudited | Audited |
| | NIS millions | NIS millions | NIS millions |
| **Cash flows from operating activities** | | | |
| Profit for the period | **90** | 48 | 268 |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | **88** | 82 | 347 |
| Amortization of right-of-use assets | **92** | 86 | 359 |
| Amortization of intangible assets and deferred expenses | **11** | 8 | 39 |
| Taxes on income | **28** | 17 | 38 |
| Income taxes paid, net | **(23)** | (23) | (82) |
| Financing expenses, net | **50** | 64 | 259 |
| Share in losses (profits) of equity accounted investee | **2** | (1) | (8) |
| Change in fair value of investment property, net | **-** | - | (39) |
| Change in employee benefits | **(1)** | - | 3 |
| Loss on sale of property, plant and equipment | **-** | 1 | 1 |
| Share-based payment | **3** | - | 8 |
| Change in provision for onerous contracts | **-** | - | 4 |
| Change in trade receivables | **(578)** | (53) | (128) |
| Change in other receivables | **(20)** | (16) | (20) |
| Change in inventory | **(159)** | (175) | (88) |
| Change in trade payables | **555** | 8 | 41 |
| Change in other payables, provisions and other | **396** | 151 | 33 |
| **Net cash from operating activities** | **534** | 197 | 1,035 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | **(95)** | (133) | (518) |
| Proceeds from sale of property, plant and equipment | **-** | - | 1 |
| Investment in deferred expenses and intangible assets | **(21)** | (23) | (102) |
| Business combinations, net of cash acquired | **-** | - | **- |
| Investment in investment property | **(2)** | (1) | (18) |
| Other long-term investment | **(4)** | - | - |
| Change in cash in respect of futures contracts, net | **(2)** | (1) | (10) |
| Realization of marketable securities, net | **-** | 1 | 26 |
| Repayment of (investment in) debt instruments at amortized cost, net | **1** | (11) | (98) |
| Repayment of long-term loans, net | **-** | 1 | 3 |
| Withdrawal of (investment in) deposits, net | **200** | (400) | (150) |
| Interest and dividend received | **2** | - | 3 |
| **Net cash from (used in) investing activities** | **79** | (567) | (863) |

* See Note 2.C regarding reclassification.
** Indicates an amount lower than NIS 1 million.

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

**Condensed Consolidated Interim Statement of Cash Flows**

| | Three months ended | | Year ended |
|---|---|---|---|
| | **March 31 2020** | **March 31 2019** | **December 31 2019** |
| | **Unaudited** | **Unaudited** | **Audited** |
| | **NIS millions** | **NIS millions** | **NIS millions** |
| **Cash flows used in financing activities** | | | |
| Short-term credit | **(93)** | - | 93 |
| Proceeds from issuance of bonds, net | **-** | 549 | 549 |
| Repayment of bonds | **-** | (59) | (192) |
| Interest paid | **(10)** | (3) | (121) |
| Repayment of lease liabilities principal and interest | **(114)** | (108) | (437) |
| Dividend paid | **-** | - | (160) |
| Payments in respect of hedging transactions | **-** | - | (10) |
| Partners' withdrawals from partnership | **-** | - | (1) |
| **Net cash from (used in) financing activities** | **(217)** | 379 | (279) |
| **Net increase (decrease) in cash and cash equivalents** | **396** | 9 | (107) |
| Cash and cash equivalents at the beginning of the period | **55** | 162 | 162 |
| **Cash and cash equivalents at the end of the period** | **451** | 171 | 55 |

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 Benjamin Shmotkin Street, Rishon-Le-Zion. The condensed consolidated interim financial statements of the Group as at March 31, 2020 comprise the Company, its subsidiaries (hereinafter together – “the Group”) and the Company’s rights in an associate company and in joint arrangements. The Company is a company without a controlling shareholder, as the term “control” is defined in the Securities Law, 1968. The Group is involved in three areas of activity: [1] Retail activity – retail marketing of food and other products in the Company's branches, management of a customer loyalty program (also by means of managing a credit card loyalty program) and the manufacture of frozen and fresh baked products that are sold mainly in the Company's branches, [2] Real estate activity (by means of Shufersal Real Estate Ltd., a wholly owned subsidiary of the Company) – upgrading and leasing out various types of real estate including commercial centers and other properties. The real estate includes also leasing out to external parties and the activity of the branches leased out to the Company by Shufersal Real Estate Ltd., [3] Be activity – activity by means of a wholly owned subsidiary (Be Drugstores Ltd.) that engages in pharma activities, in which the subsidiary markets and sells pharmaceuticals, natural products and cosmetics. The securities of the Company are registered for trade on the Tel Aviv Stock Exchange.

**Effects of the coronavirus outbreak**

In the first quarter of 2020 an epidemic began spreading around the world that was caused by an outbreak of the coronavirus (COVID-19) ("the coronavirus crisis") and was declared by the World Health Organization as a pandemic. The coronavirus outbreak and the uncertainty relating to the rate of it spreading, the amount of time that will be required for the process of returning to normal, the concern regarding an additional outbreak and the actions taken by the countries for dealing with the outbreak, have caused a global economic crisis, including in Israel.
Taking note of the restrictions that were imposed on leaving homes, quarantines that were imposed on cities in Israel (and even on the entire county for certain periods of time) as well as the shutting down of various businesses (including in the food industry), the coronavirus crisis has had an effect on the Group's operations in the reporting period and is continuing to have an effect also in the period subsequent to the reporting period (based on information available to the Company on the date of approval of the financial statements).

Presented hereunder are the effects of the coronavirus crisis on the Group's operations:

Retail segment:
During the period of the crisis and up to the date of approval of the financial statements, in view of the nature of the coronavirus crisis as described above (travel restrictions, quarantine and closing food businesses) the food retail industry in Israel including the Company experienced an increase in demand for food and toiletries.

Be segment:
The coronavirus crisis had an immaterial (net) positive effect on the revenues and operating results of this segment.

## Note 1 – General (cont'd)

**Effects of the coronavirus outbreak (cont'd)**

Real estate segment:

In general, the effect of the coronavirus crisis on the Company's real estate segment, in the reporting period and subsequent to the reporting date, was immaterial. The Group granted relaxations to tenants of properties during the period of the crisis in the first quarter and during April 2020. The Company has examined the effects on the forecast of contractual cash flows expected from tenants of the Company's properties and has examined, together with external appraisers, the effects of the aforesaid on the assumptions that were the basis for determining the fair value of the real estate that were used by the appraisers as the basis for their valuation in the annual financial statements, and has reached the conclusion that as at the date of approval of the financial statements, there is no effect on the fair value presented in the financial statements.

In accordance with the aforesaid and an examination of the effects of several scenarios that were considered, no signs were found that indicate impairment of the Company's ability to continue paying its liabilities in the foreseeable future or to meet the financial covenants required from it in connection with the debt balances that exist at the date of approval of the financial statements, and therefore there are no signs indicating possible impairment of any asset in the financial statements.

Since this is an event that is not under the control of the Group and matters such as the virus continuing to spread or stopping may affect the Group's assessments, the Group is continuing to regularly monitor the changes on the markets in Israel and the world and is examining the effects on the medium and long term business results of the Group's operating segments.

## 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, 2019 (hereinafter – "the annual financial statements). Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on May 26, 2020.

# Note 2 - Basis of Preparation

### B. Use of estimates and judgments

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

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.

### C. Change in classification

The Group reclassified amounts that were included in the statement of financial position as at March 31, 2019 with respect to the application of IFRS 16. Accordingly, mainly the following balances were reclassified: an amount of NIS 273 million of leasehold lands was reclassified from the balance of property, plant and equipment to the balance of right-of-use assets and an amount of NIS 91 million was reclassified from the balance of current maturities of lease liabilities to the balance of lease liabilities. Accordingly, the adjustments to profit that were included in the cash flows from operating activities were reclassified in the statement of cash flows for the three months ended March 31, 2019.

# Note 3 - Significant Accounting Policies

Except as described below, the Group's accounting policies in these condensed consolidated interim financial statements are the same accounting policies that were applied in the annual financial statements. Below is a description of the significant changes in accounting policy in these condensed consolidated interim financial statements and their effect.

**Initial application of new standards, amendments to standards and interpretations**

**Amendment to IFRS 3, *Business Combinations***

The Amendment clarifies when a transaction to acquire an operation is the acquisition of a business and when it is the acquisition of a group of assets that according to the standard is not considered the acquisition of a business. For the purpose of this examination, the Amendment added an optional concentration test so that if substantially all of the fair value of the acquired assets is attributable to a group of similar identifiable assets or to a single identifiable asset, this will not be the acquisition of a business. In addition, the minimum requirements for definition as a business have been clarified, and examples illustrating the aforesaid examination were added, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the Amendment narrows the reference to the outputs element required in order to meet the definition of a business and added examples illustrating the aforesaid examination. The Amendment is applicable on a prospective basis for transactions that their acquisition date is after January 1, 2020.
The initial application of the Amendment did not have a material effect on the financial statements.

## 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 seasons in Israel.

## Note 5 - Material Events in the Reporting Period

**A.** On March 19, 2020, the Company's board of directors decided to distribute a dividend in the amount of NIS 80 million, representing NIS 0.34 per share. The dividend was paid on April 27, 2020 to shareholders of record on April 19, 2020.

**B.** Further to that mentioned in Note 15 to the annual financial statements, on January 16, 2020 judicial force was awarded to a mediation agreement between the Company and Leumi Card Ltd. (currently called - Max IT Finance Ltd.) ("Leumi Card"), by which the partnership relationship between Shufersal and Leumi Card was terminated such that all the holdings of Leumi Card in the partnership and in the general partner were transferred to Shufersal. During the period, the parties closed the accounts between them so that the balance of NIS 73 million that was due to Leumi Card in accordance with the mediation agreement was fully offset from the debt of Leumi Card to the Company.

**C.** See Note 7 for updates on developments in legal claims in the reporting period.

## 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.

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

**For the three months ended March 31, 2020 (unaudited):**

| | Retail segment | Real estate segment | Be segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | 3,520 | 11 | 200 | - | 3,731 |
| **Inter-segment rental revenues** | - | 33 | 1 | (34) | - |
| **Segment revenues** | 3,520 | 44 | 201 | (34) | 3,731 |
| **Operating profit (loss) before other expenses** | 129 | 37 | (8) | 13 | 171 |
| **Other expenses, net** | - | - | (1) | - | (1) |
| **Operating profit (loss) after other expenses** | 129 | 37 | (9) | 13 | 170 |
| **Financing expenses** | | | | | (56) |
| **Financing income** | | | | | 6 |
| **Share in losses of equity accounted investee** | | | | | (2) |
| **Taxes on income** | | | | | (28) |
| **Profit for the period** | | | | | 90 |

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

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

| | Retail segment | Real estate segment | Be segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | 2,974 | 12 | 163 | - | 3,149 |
| **Inter-segment rental revenues** | - | 32 | - | (32) | - |
| **Segment revenues** | 2,974 | 44 | 163 | (32) | 3,149 |
| **Operating profit (loss) before other expenses** | 98 | 36 | (16) | 11 | 129 |
| **Other expenses, net** | (1) | - | - | - | (1) |
| **Operating profit (loss) after other expenses** | 97 | 36 | (16) | 11 | 128 |
| **Financing expenses** | | | | | (70) |
| **Financing income** | | | | | 6 |
| **Share in profits of equity accounted investee** | | | | | 1 |
| **Taxes on income** | | | | | (17) |
| **Profit for the period** | | | | | 48 |

(*) Information regarding the activity of the reportable segments in this period was restated in order to reflect the change in the segment reporting of the Group as described in Note 32 to the annual financial statements.

# Note 6 - Segment Reporting (cont'd)

**For the year ended December 31, 2019:**

| | Retail segment | Real estate segment | Be segment | Reconciliation to consolidated | Consolidated |
|---|---|---|---|---|---|
| | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| **Total external revenues** | 12,603 | 51 | 706 | - | 13,360 |
| **Inter-segment rental revenues** | - | 131 | 2 | (133) | - |
| **Segment revenues** | 12,603 | 182 | 708 | (133) | 13,360 |
| **Operating profit (loss) before other income (expenses)** | 397 | 150 | (70) | 44 | 521 |
| **Other income (expenses), net** | (3) | 97 | - | (58) | 36 |
| **Operating profit (loss) after other income (expenses)** | 394 | 247 | (70) | (14) | 557 |
| **Financing expenses** | | | | | (279) |
| **Financing income** | | | | | 20 |
| **Share in profits of equity accounted investee** | | | | | 8 |
| **Taxes on income** | | | | | (38) |
| **Profit for the year** | | | | | 268 |

# Note 7 - Claims and Legal Proceedings

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

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

**A. 1. Presented hereunder are details of the Group's pending claims as at March 31, 2020, 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. | 18 | **350 | ***417 | **785** |
| Employee claims | Mainly legal claims of present and former employees of the Company involving labor laws including demands to include various salary components in the calculation of various payments to the Company's employees. | *- | 5 | 4 | **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. | 6 | 28 | - | **34** |
| Customer claims for damages | Claims for damages that are handled by the insurance companies. | 21 | 7 | *- | **28** |
| **Total** | | **45** | **390** | **421** | ****856** |

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

**A. 1. Presented hereunder are details of the Group's pending claims as at March 31, 2020, 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 57 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 284 million in which the amount claimed from the Company is not specified.

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

**2. Presented hereunder is a breakdown of the number and amounts of the Group's pending claims as at March 31, 2020, 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) | *708 | *336 |
| From NIS 100 million to NIS 500 million | 1 | 179 |
| Claims that do not specify an amount claimed | 4 | - |
| Claims that do not specify the amount claimed from the Company and others | 2 | - |
| Claims against the Company and other defendants together in which the amount claimed from the Company is not specified | 12 | 341 |
| **Total** | **727** | **856** |

* As at March 31, 2020, there are 595 claims of customers for damages in the total amount of NIS 28 million.

**B. Information on legal proceedings**

During the period, motions to certify claims as class actions have been filed against Group companies in the total amount of NIS 10 million. On the other hand, motions to certify class actions against Group companies in the total amount of NIS 322 million have been rejected and dismissed with the approval of the court.

**C. Claims of employees, subcontractors, suppliers, authorities and others**

In the ordinary course of business, various claims have been filed against the Company by employees, subcontractors, suppliers, authorities and others, which deal mostly in claims for breach of provisions of the law governing termination of employment and obligatory payments to employees, claims for breach of agreements and compulsory payments to authorities. As at March 31, 2020, the amounts that are claimed from the Company under the said claims total NIS 43 million.

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

### C. Claims of employees, subcontractors, suppliers, authorities and others (cont’d)

In 2014, a claim was filed against the Company, the former Executive Vice President of Operations and Supply Chain and four other managers of the Company (who are not officers) (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 is required to undertake not to 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. On September 15, 2019 the State of Israel, which is the claimant, filed an appeal with the national labor court in which it requested to annul the ruling and convict the Company's managers of the violations attributed to them in the claim. On November 12, 2019 the claimant filed another appeal with the national labor court on "leniency of the punishment" that was imposed on the Company. In the hearing on the appeals the State withdrew the appeal against the four managers that are not officers. On March 3, 2020 the court denied the appeals the State had filed on the acquittal of the managers and on the imposing of an immaterial fine on the Company as punishment.

### D. Information on claims subsequent to the reporting date

1. A motion to certify a consumer claim as a class action in an unspecified amount was filed against the Company. The chances of the claim cannot be assessed at this early stage.

2. A claim was filed against the Company alleging the Company had unilaterally terminated an engagement with the plaintiff to develop and operate the deliveries system thus causing damages to the plaintiff in the amount of NIS 165 million. The chances of the claim cannot be assessed at this early stage.

3. A motion to certify a consumer claim as a class action was filed against the Company and other companies. The claim amounts to at least NIS 2.5 million. The chances of the claim cannot be assessed at this early stage.

4. Two motions to certify consumer claims as class actions in the total amount of NIS 5 million were filed against the Company. The chances of the claims cannot be assessed at this early stage.

5. A motion to certify a consumer claim as a class action in the amount of NIS 3 million against the Company was rejected and dismissed with the approval of the court.

## Note 8 - Financial Instruments

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

The fair value of the bonds and debt instruments at amortized cost and their carrying amount as presented in the statements of financial position are as follows:

| | As at March 31, 2020 | | As at March 31, 2019 | | As at December 31, 2019 | |
|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| | Unaudited | | Unaudited | | Audited | |
| | NIS millions | | NIS millions | | NIS millions | |
| **Bonds (including accrued interest) –** | **(2,900)** | **(3,178)** | (3,047) | (3,385) | (2,888) | (3,326) |
| **Debt instruments at amortized cost** | **95** | **93** | 11 | 11 | 97 | 99 |

The fair value of the bonds and debt instruments at amortized cost is their value on the stock exchange (level 1).

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

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

## Note 8 - Financial Instruments (cont'd)

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

| | As at March 31, 2020 | | | | As at March 31, 2019 | | | | As at December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | NIS millions | | | | NIS millions | | | | NIS millions | | | |
| | Unaudited | | | | Unaudited | | | | Audited | | | |
| **Financial assets** | | | | | | | | | | | | |
| Marketable securities | **-** | **-** | **-** | **-** | 24 | - | - | 24 | - | - | - | - |
| Interest SWAP | **-** | **-** | **-** | **-** | - | 12 | - | 12 | - | 9 | - | 9 |
| Investment* | **-** | **-** | **12** | **12** | - | - | 9 | 9 | - | - | 8 | 8 |
| | **-** | **-** | **12** | **12** | 24 | 12 | 9 | 45 | - | 9 | 8 | 17 |
| **Financial liabilities** | | | | | | | | | | | | |
| Interest SWAP | **-** | **(13)** | **-** | **(13)** | - | - | - | - | - | - | - | - |
| Forward | **-** | **(6)** | **-** | **(6)** | - | (4) | - | (4) | - | (12) | - | (12) |
| | **-** | **(19)** | **-** | **(19)** | - | (4) | - | (4) | - | (12) | - | (12) |
| | **-** | **(19)** | **12** | **(7)** | 24 | 8 | 9 | 41 | - | (3) | 8 | 5 |

* Investments in non-marketable shares of Wholesale Market for Agricultural Produce in Tel Aviv Ltd. and Shopic Technologies Ltd. in the amount of NIS 8 million and NIS 4 million, respectively. The Investments are accounted for as a financial assets measured at fair value through profit or loss.

## Note 9 - Material Events Subsequent to the Reporting Date

**A.** According to a shelf offering issued by the Company on January 16, 2019, the Company issued, by way of an expansion (private placement) NIS 300 million par value of its existing Series G bonds. The net issue proceeds (after deducting issue costs of NIS 1 million) amounted to NIS 313 million. The issue was executed at an effective annual interest rate of 2.97%.

**B.** See Note 7.D for updates on developments in legal claims subsequent to the reporting date.