Section A-

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

For the Nine-Month Period Ended September 30, 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 nine-month period ended September 30, 2020 (hereinafter – **"the reporting period"**)[1], in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.
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 385 branches throughout Israel, of which 300 are Shufersal branches and 85 are branches of Be. The Shufersal branches operate in several formats. The Group's total commercial space encompasses approximately 547 thousand square meters, of which 514 thousand square meters are Shufersal branches and 33 thousand square meters are Be branches. The Company also has 8 manual delivery centers encompassing 22 thousand square meters. The Group employs about 18 thousand employees (about 15.6 thousand calculated positions) and has annual revenues of about NIS 14 billion.

On July 26, 2020 Discount Investment Corporation Ltd. (DIC) completed the sale of all its holdings in the Company (about 26%), and as at the date of issuing this report all the Company's share capital is held by the public/institutional bodies. Subsequently, on July 30, 2020 the Company's Board of Directors appointed a special committee comprising the Company's four external directors (Messrs. Eldad Avraham who served as the committee's chairman, Mickey Bar Haim, Gideon Schurr and Ms. Michal Kamir) for the purpose of examining the board structure of the Company without a controlling block ("the board composition committee" or "the committee").

On October 19, 2020 the Company's Board of Directors decided to adopt the committee's recommendations, and approved the following board appointments effective immediately: (a) Mr. Yaki (Yakov) Vadmani was appointed as a director in the Company, and will begin serving also as the Company's Chairman of the Board immediately upon the issuance of these financial statements ("the third quarter financial statements"). At the same time that Mr. Vadmani begins serving as the Chairman of the Board, Mr. Mauricio Wior will conclude his service as the Company's Chairman of the Board and director; and (b) Mr. Yoav Chelouche was appointed as a director in the Company.

Upon the conclusion of Mr. Wior's service as aforesaid, the Company's Board of Directors appointed eight directors which is the proper number of directors that was recommended by the committee. A majority (5) of the directors are external/independent (four external directors - Messrs. Michael Bar Haim, Gideon Schurr, Eldad Avraham and Ms. Michal Kamir, and one independent director – Ms. Ayelet Ben Ezer). On October 28, 2020 the Company reported in a preliminary notice that an annual shareholders' meeting will be held in January 2021 and in it, pursuant to the Company's articles and the law, a vote will be held on all the Company's directors who are not external directors (reference no. 2020-01-116874).

In the framework of its work the committee recommended to the Board of Directors (recommendations that were accepted by the Company's Board of Directors on October 19, 2020) with respect to the proper size of the board, criteria for assuring the board's independence (including that a majority of the directors be external/independent, and at least four of them external), as well as criteria and the proper skills of the candidates to serve on the Company's board and as its Chairman, while as regards the Chairman the committee recommended criteria relating to management experience, professional background, interpersonal skills – including the ability to maintain a proper relationship between the Chairman and the CEO – and availability.

[1] For purposes of this report, "the reporting date" or "the date of the report" is the date of the statement of financial position (September 30, 2020) unless stated otherwise or implied otherwise by the context of the matter.

The committee held 30 meetings. In the course of its work the committee of its own volition approached all the institutional bodies, interested parties in the Company, so that each one could propose candidates for the Company's Board, on the basis of the profile and criteria that were established in advance by the committee, instead of Ms. Diana Elsztain and Mr. Doron Cohen who concluded their service as directors of the Company on August 19, 2020. Furthermore, and in view of the importance the committee assigns to the existence of a proper relationship between the Chairman and the CEO, the committee also heard the opinion of the CEO. The voluntary proceeding that was initiated by the Board of Directors, as aforesaid, together with all the shareholders from the public that are interested parties in the Company, reflects the considerable importance the Company's Board of Directors sees in the strict keeping of a high level of corporate governance and cooperation and transparency between the Company and its shareholders in all that concerns the structure of the board, taking note that the Company does not have a controlling block. After the committee examined the list of candidates, held interviews with them, conducted the appropriate examinations and considered the good of the Company, it decided to recommend to the Company's Board to appoint Messrs. Yaki Vadmani and Yoav Chelouche as directors in the Company, with Mr. Vadmani serving also as the Chairman of the Board, instead of Mr. Wior, immediately after the issuance of these financial statements. For further details see the immediate reports that were issued by the Company on October 19, 2020 (reference nos. 2020-01-104899, 2020-01-104905, 2020-01-104908 and 2020-01-104911).

1.1.1 <u>Description of operating segments reported as business segments in the consolidated financial statements of the Company</u>

The Company operates in three operating segments that are reported as business segments in the financial statements (per the definition of the term hereunder), 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 September 30, 2020 (hereinafter – "**the financial statements**").

1.1.2 <u>Management's discussion of the principal results for the first nine months of 2020</u>

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 nine months of 2020 were affected by several principal matters:

- The effects of the coronavirus (COVID-19) outbreak (see Paragraphs 1.1.3 and 1.2 hereunder)
- Seasonality between quarters (see Paragraph 1.2 hereunder).
- Continued development of the Company's digital platforms, mainly the "Shufersal Online" system, which included continued construction of automated delivery centers for this distribution channel. In the first nine months of the year, there was a significant increase in the sales of the retail segment through Shufersal Online, and they constituted about 19.4% of sales turnover in Shufersal branches (compared with 14.8% in the first nine months of 2019). 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 nine months of the year the private label accounted for 25.6% of total retail sales in Shufersal branches, compared with 25.1% in the corresponding period of last year.

- Continued development and growing the customer base of the Be chain, including rebranding, strengthening the private label, expansion of the chain and operational synergies as well as development of the digital platform. See Paragraph 1.1.3 hereunder regarding completion of the merger of Be with and into the Company.
- Continued strengthening and expansion of the new customer loyalty credit card club. As at September 30, 2020, 623 thousand credit cards have been issued, compared with 586 thousand as at September 30, 2019.

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 and Note 5 to the 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.
- On April 5, 2020, 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 312 million. The issue was executed at an effective annual interest rate of 2.97%.
- Further to that mentioned in Paragraph 9.1.14 of Part A of the periodic report regarding a building services for land combination venture agreement and a collaboration and joint venture agreement with Gav-Yam Bayside Land Corp. Ltd., on June 25, 2020 a detailed urban building plan for the project described in the aforesaid periodic report was awarded legal effect, and accordingly all the preconditions of the agreement have been fulfilled.
- On July 1, 2020 the merger of Be with and into the Company was completed and in this framework all the operations, assets and liabilities of Be were transferred to the Company and Be was dissolved on that date without liquidation.
- On July 26, 2020 Discount Investment Corporation Ltd. sold all its holdings in the Company. See Paragraph 1.1 above for more details.
- On August 26, 2020 the objections committee decided with respect to the appeal the Company had submitted regarding a demand of the Israel Land Authority for payments in respect of nonconforming use (allegedly) of property the Company leases in Netanya. According to the Company's evaluation of the decisions of the Government Appraiser, it recognized a net gain of NIS 7 million from a decrease in the provision that had been made in this respect. See Note 7.B(3) to the annual financial statements and Note 5 to the financial statements for more details.

- **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, the Government of Israel issued emergency regulations, which are issued from time to time, that in the first nine months of 2020 prohibited or restricted the activity of businesses, considerably restricted the number of employees at work places, imposed restrictions on the education system (which at their height, including subsequent to the reporting date, was shut down completely) and from time to time imposed restrictions on leaving homes.

In order to prevent an additional outbreak the Government of Israel issued "purple badge" regulations that impose restrictions on the number of customers and employees at various businesses, including a requirement to appoint a coronavirus supervisor, restrictions on the number of people in various spaces, a requirement to measure body temperature, and more.
Towards the end of the second quarter and during the third quarter of 2020, there was a sharp increase in morbidity in Israel that led to imposing drastic restrictions essentially similar to those that were imposed in the first quarter of 2020 at the beginning of the coronavirus crisis in Israel, and included imposing a nationwide lockdown, shutting down the education system, closing businesses and stores and imposing restrictions on the movements of people. Subsequent to the reporting date, the Government of Israel has published its plan for exiting the lockdown that was imposed in the third quarter of 2020, which is based on lifting restrictions once every two weeks taking note of the level of morbidity in Israel, with the plan continuing until the end of the first quarter of 2021.

The coronavirus outbreak and it spreading in Israel and the world have created uncertainty regarding the amount of time that will be required for the process of returning to normal. The outbreaks of the coronavirus and the actions taken by the countries for dealing with the pandemic have caused a global economic crisis, including in Israel.

Presented hereunder are the Board of Directors' explanations of the effect of the coronavirus crisis on the operations of the Shufersal Group. The assessment of the effect of the crisis in the third quarter and first nine months of the year is based on a comparison to the relevant corresponding period, taking into account seasonality and other data, all to the best of the Company's judgement, and on the data the Company has up to the date of issuing this report.

Retail segment revenues: During the third quarter (and in the first nine months of the year), in view of the nature of the coronavirus crisis as described above, the food retail industry in Israel including the Company experienced an increase in demand for food and toiletries.

In the third quarter the revenues of the retail segment amounted to NIS 3,713 million compared with NIS 3,241 million in the corresponding period last year (while in the first nine months of the year the revenues of the retail segment amounted to NIS 10,718 million compared with NIS 9,456 million in the corresponding period last year). In the Company's opinion NIS 380-420 million of the increase in revenues in the third quarter is attributable to additional revenues that are a result of the coronavirus crisis (while NIS 1,010-1,050 million of the increase in revenues in the first nine months of the year is attributable to additional revenues that are a result of the coronavirus crisis). The increase in revenues in the third quarter as aforesaid reflects an increase of 14.6% compared with the corresponding quarter last year, while in the Company's opinion the contribution of the coronavirus crisis to this increase is 12% to 13%. The increase in revenues in the first nine months of the year as aforesaid reflects an increase of 13.3% compared with the corresponding period last year while in the Company's opinion the contribution of the coronavirus crisis to this increase is 11%. See Paragraph 1.2 hereunder for further information regarding retail segment revenues.

The Company believes that the increase in the retail segment revenues continued also subsequent to the reporting period. In the opinion of the Company the retail segment revenues in October 2020 include additional revenues of NIS 130 million to NIS 170 million (an increase of 13% to 14%).

Workforce costs: In the third quarter, about 3,700 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. In view of the aforesaid, and in view of the increase in demand for food following the coronavirus crisis, the Company recruits temporary employees from time to time. The effect of the aforesaid and other circumstances (such as working nights and increasing shifts to meet demand), led to an increase of NIS 49 million in salary and labor expenses during the third quarter (an increase of NIS 123 million in the first nine months of the year). The increase in salary and labor expenses as a result of the effect of the coronavirus crisis continued also in October 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 first nine months of the year 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 converted branches into online delivery centers. Online sales during the third quarter amounted to 20.8% of the sales at the Company's branches in that period, compared with 14.8% of the sales at the Company's branches in the corresponding quarter last year (19.4% of the sales at the Company's branches in the first nine months of the year, compared with 14.8% of the sales at the Company's branches in the corresponding period last year). The Company believes that in October 2020 the online sales constituted about 20.1% of the sales at the Company's branches.

The real estate segment: In general, the effect of the coronavirus crisis on the Company's real estate segment, in the third quarter, in the first nine months of the year and subsequent to the reporting date, was immaterial. The Group granted relaxations to tenants during the first nine months of the year and during October 2020. Further to instructions of the Ministry of Health, the Lev Hamifratz mall closed down in September 2020 (after it was reopened in May 2020).
As at the reporting date the Company has examined the effects on the forecast of contractual cash flows expected from tenants of the Group'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 material 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 third quarter, in the first nine months of the year and subsequent to the reporting date 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 results of this segment in the first nine months of the year (on the one hand there was less activity at the stores in shopping centers and hospitals 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: 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. See also Paragraph 1.3.4 hereunder.

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 present date, the coronavirus crisis is taking its toll of the Israeli economy including a high rate of unemployment (which among other things affects private consumption in Israel), a decrease in productivity, an increase in the national deficit, etc., and it can be assumed that the coronavirus will continue to have a negative effect on growth in Israel. 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 the outbreak of the virus continuing. As at the date of this report, it is difficult to forecast the full effects of the coronavirus crisis on the Group, also 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 - 1968 ("the Securities Law"). This information is based on the Company's assessments and initial data regarding the amount of sales that the Company has as at the date of 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

The timing of the Jewish holidays of Tishrei in 2020 was similar to their timing in 2019 and did not have a material effect on the results of operation for the third quarter, compared with the corresponding period last year.
During the reporting period, as a result of the outbreak of the coronavirus, the sales of the Company have increased in general and its online sales in particular (see Paragraph 1.1.3 above).

1.2.1 Analysis of the results for the three months ended September 30, 2020 as compared to the corresponding period last year

	Results of operations for the three months ended September 30, 2020		Results of operations for the three months ended September 30, 2019	
	%	NIS millions	%	NIS millions
Revenues		3,942		3,443
Gross profit	%26.1	1,029	%27.0	931
Selling, marketing, administrative and general expenses	%21.5	(849)	%23.0	(793)
Operating profit before other income	**%4.6**	**180**	**%4.0**	**138**
Other income		10		-
Operating profit after other income	**%4.8**	**190**	**%4.0**	**138**
Financing expenses, net		(60)		(65)
Share of profits of equity accounted investee		-		1
Profit before taxes on income		**130**		**74**
Taxes on income		(33)		(19)
Profit for the period		**97**		**55**

Retail segment revenues amounted to NIS 3,713 million in the third quarter of the year, compared with NIS 3,241 million in the corresponding quarter last year, an increase of 14.6% that is mainly due to the effect of the coronavirus outbreak. The sales of the Company's stores increased at the rate of 15.4% in the third quarter of the year as compared with the corresponding quarter last year. The difference between the increase in the Company's revenue and the increase in its sales is mainly attributable to the increase in the activities of franchisees.
Same store[2] sales increased by 13.6% in the third quarter of the year compared with the corresponding quarter last year. The increase is mainly due to the effect of the coronavirus outbreak. The sales per square meter[3] amounted to NIS 7,170 in the third quarter of the year, compared with NIS 6,355 in the corresponding quarter last year, an increase of 12.8% that is mainly due to the aforesaid.

Real estate segment revenues amounted to NIS 46 million in the third quarter of the year, compared with NIS 47 million in the corresponding quarter last year.

[2] Same store sales – gross sales of stores that were active in the corresponding periods of the two compared years.
[3] 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.

Revenues from the Be segment amounted to NIS 216 million in the third quarter of the year, compared with NIS 189 million in the corresponding quarter last year, an increase of 14.3% that is mainly due to the opening of new stores and an increase in same store sales (including the effect of the increase in the online activity). Same-store sales of Be stores[4] increased by 14.9% compared with last year pursuant to the aforesaid. The sales per square meter[5] of Be stores amounted to NIS 6,270 in the third quarter of the year, compared with NIS 6,024 in the corresponding quarter last year, an increase of 4.1%.

The Group's revenues amounted to NIS 3,942 million in the third quarter of the year, compared with NIS 3,443 million in the corresponding quarter last year, an increase of 14.5% that is mainly due to the retail segment. The Group's same store sales[4] increased by 13.6% in the third quarter of the year, compared with the corresponding quarter last year.

Gross profit amounted to NIS 1,029 million in the third quarter of the year, compared with NIS 931 million in the corresponding quarter last year, an increase of NIS 98 million. The increase in gross profit is mainly due to an increase in the Group's revenues. The gross profit rate is 26.1% compared with 27% in the corresponding quarter last year. The decrease of 0.9% in the gross profit rate is mainly due to the increase in sales on the online platform and a reduction in prices.

Selling, marketing, administrative and general expenses amounted to NIS 849 million in the third quarter of the year, compared with NIS 793 million in the corresponding quarter last year. The ratio of expenses to revenues is 21.5% compared with 23% 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 income (expenses) in the retail segment amounted to NIS 133 million in the third quarter of the year, a rate of 3.6% of revenues, compared with NIS 98 million and a rate of 3% of revenues in the corresponding quarter last year, an increase of NIS 35 million and a rate of 0.6% of revenues that is due to the aforesaid.

The operating profit before other income (expenses) in the real estate segment amounted to NIS 40 million in the third quarter of the year like in the corresponding quarter last year.

The operating loss before other income (expenses) in the Be segment amounted to NIS 5 million in the third quarter of the year, compared with NIS 12 million in the corresponding quarter last year. The decrease in the loss is 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 income (expenses) amounted to NIS 190 million in the third quarter of the year and a rate of 4.8% of revenues, compared with NIS 138 million and a rate of 4% of revenues in the corresponding quarter last year, an increase of NIS 52 million that is due to the aforesaid and to other income in the amount of NIS 10 million from reducing a provision relating to an appeal the Company had submitted regarding a demand of the Israel Land Authority for payments in respect of nonconforming use (allegedly) of property the Company leases in Netanya.

[4] Same store sales – gross sales of stores that were active in the corresponding periods of the two compared years.
[5] The areas of the new branches are calculated proportionately from the date the branch was opened. The area of the branch is the gross area including selling areas and other operating areas. The sales per square meter include the Marketplace sales, meaning on the expanded shopping site for online selling of non-food products.

The operating profit before other income (expenses), depreciation and amortization (EBITDA) amounted to NIS 376 million and a rate of 9.5% of revenues in the third quarter of the year, compared with NIS 320 million and a rate of 9.3% of revenues in the corresponding quarter last year. The increase is mainly due to the increase in the operating profit.

Financing expenses net, amounted to NIS 60 million in the third quarter of the year, compared with NIS 65 million in the corresponding quarter last year, a decrease of NIS 5 million. The decrease is mainly due to income from forward transactions that hedge foreign currency linked transactions compared with expenses in the corresponding quarter last year and on the other hand the effect of changes in the Consumer Price Index on the balances of the Company's linked bonds (the Consumer Price Index increased at the rate of 0.1% in the third quarter of the year compared with a decrease of 0.7% in the corresponding quarter last year).

Tax expenses amounted to NIS 33 million in the third quarter of the year, compared with NIS 19 million in the corresponding quarter last year, an increase that is mainly due to the increase in profit for the period.

Profit for the period amounted to NIS 97 million in the third quarter of the year, compared with NIS 55 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 0.41 in the third quarter of the year, compared with NIS 0.23 in the corresponding quarter last year.

1.2.2 Analysis of the results for the nine months ended September 30, 2020 as compared to the corresponding period last year

	Results of operations for the nine months ended September 30, 2020		Results of operations for the nine months ended September 30, 2019	
	%	NIS millions	%	NIS millions
Revenues		11,362		10,021
Gross profit	%26.4	2,996	%27.1	2,711
Selling, marketing, administrative and general expenses	%21.8	(2,480)	%23.0	(2,306)
Operating profit before other income (expenses)	**%4.5**	**516**	**%4.0**	**405**
Other income (expenses), net		9		(1)
Increase in fair value of investment property, net		4		-
Operating profit after other income (expenses)	**%4.7**	**529**	**%4.0**	**404**
Financing expenses, net		(170)		(202)
Share of profits (losses) of equity accounted investee		(6)		4
Profit before taxes on income		**353**		**206**
Taxes on income		(86)		(55)
Profit for the period		**267**		**151**

Retail segment revenues amounted to NIS 10,718 million in the first nine months of the year, compared with NIS 9,456 million in the corresponding period last year, an increase of 13.3% that is mainly due to the effect of the coronavirus outbreak. The sales of the Company's stores increased at the rate of 14.2% in the first nine months of the year as compared with the corresponding period last year. The difference between the increase in revenue and the increase in sales is mainly attributable to the increase in the activities of franchisees.
Same store[6] sales increased by 12.3% in the first nine months of the year compared with the corresponding period last year. The increase is mainly due to the increase in the Company's activity following the effect of the coronavirus outbreak.
The sales per square meter[7] amounted to NIS 20,805 in the first nine months of the year, compared with NIS 18,695 in the corresponding period last year, an increase of 11.3% that is due to the aforesaid.

Real estate segment revenues amounted to NIS 135 million in the first nine months of the year, compared with NIS 137 million in the corresponding period last year.

Revenues from the Be segment amounted to NIS 609 million in the first nine months of the year, compared with NIS 528 million in the corresponding period last year, an increase of 15.3% that is mainly due to the opening of new stores and an increase in same store sales (including the increase in the online activity). The sales per square meter of Be stores amounted to NIS 18,565 in the first nine months of the year, compared with NIS 17,752 in the corresponding period last year, an increase of 4.6% that is mainly due to the improvement in same store sales, which increased by 14.3% compared with last year.

The Group's revenues amounted to NIS 11,362 million in the first nine months of the year, compared with NIS 10,021 million in the corresponding period last year, an increase of 13.4% that is mainly due to the retail segment. The Group's same store sales[6] increased by 12.4% in the first nine months of the year compared with the corresponding period last year.

Gross profit amounted to NIS 2,996 million in the first nine months of the year, compared with NIS 2,711 million in the corresponding period last year, an increase of NIS 285 million. The increase in gross profit is mainly due to an increase in the Group's revenues. The gross profit rate is 26.4% of revenues, compared with 27.1% in the corresponding period last year. The decrease of 0.7% in the gross profit rate is mainly due to the increase in online sales and a reduction in prices.

Selling, marketing, administrative and general expenses amounted to NIS 2,480 million in the first nine months of the year, compared with NIS 2,306 million in the corresponding period last year. The ratio of expenses to revenues was 21.8% compared with 23% in the corresponding period 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 income (expenses) in the retail segment amounted to NIS 387 million in the first nine months of the year, a rate of 3.6% of revenues, compared with NIS 298 million and a rate of 3.2% of revenues in the corresponding period last year, an increase of NIS 89 million that is due to the aforesaid.

The operating profit before other income (expenses) in the real estate segment amounted to NIS 114 million in the first nine months of the year, compared with NIS 113 million in the corresponding period last year.

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[6] Same store sales – gross sales of stores that were active in the corresponding periods of the two compared years.
[7] The areas of the new branches are calculated proportionately from the date the branch was opened. The area of the branch is the gross area including selling areas and other operating areas. The sales per square meter include the Marketplace sales, meaning on the expanded shopping site for online selling of non-food products.

The operating loss before other income (expenses) in the Be segment amounted to NIS 19 million in the first nine months of the year, compared with NIS 40 million in the corresponding period last year. The decrease in the loss is 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 income (expenses) amounted to NIS 529 million in the first nine months of the year and a rate of 4.7% of revenues, compared with NIS 404 million and a rate of 4% of revenues in the corresponding period last year, an increase of NIS 125 million that is mainly due to the aforesaid and to other income in the amount of NIS 10 million from reducing a provision relating to an appeal the Company had submitted regarding a demand of the Israel Land Authority for payments in respect of nonconforming use (allegedly) of property the Company leases in Netanya.

The operating profit before other income (expenses), depreciation and amortization (EBITDA) amounted to NIS 1,103 million and a rate of 9.7% of revenues in the first nine months of the year, compared with NIS 944 million and a rate of 9.4% of revenues in the corresponding period last year. The increase is mainly due to the increase in the operating profit.

Financing expenses net, amounted to NIS 170 million in the first nine months of the year, compared with NIS 202 million in the corresponding period last year, a decrease of NIS 32 million that is mainly due to income from forward transactions that hedge foreign currency linked transactions compared with expenses in the corresponding period last year, as well as the effect of the changes in the Consumer Price Index on the balances of the Company's linked bonds (the Consumer Price Index decreased at the rate of 0.6% in the current period compared with an increase of 0.5% in the corresponding period last year).

Tax expenses amounted to NIS 86 million in the first nine months of the year, compared with NIS 55 million in the corresponding period last year, an increase that is mainly due to the increase in profit for the period.

Profit for the period amounted to NIS 267 million in the first nine months of the year, compared with NIS 151 million in the corresponding period last year, an increase that is due to the aforesaid.

The Company's basic and diluted earnings per share amounted to NIS 1.12 in the first nine months of the year, compared with NIS 0.63 in the corresponding period last year.

1.3 Financial Position, Liquidity and Sources of Finance

1.3.1 Cash flow – Analysis of the results for the third quarter of 2020 as compared to the corresponding quarter last year

Cash flow from operating activities
Net cash from operating activities amounted to NIS 617 million in the third quarter of 2020, compared with NIS 334 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 an increase in the profit for the period.

Cash flow used in investing activities
Net cash used in investing activities amounted to NIS 33 million in the third quarter of 2020, compared with NIS 49 million in the corresponding quarter last year. Cash used in investing activities in the third quarter of 2020 included mainly acquisition of property, plant and equipment in the amount of NIS 123 million and on the other hand cash deriving from withdrawal of deposits in the amount of NIS 100 million.
The cash used in investing activities in the third quarter of 2019 included mainly acquisition of property, plant and equipment in the amount of NIS 108 million and on the other hand cash deriving from withdrawal of deposits in the amount of NIS 93 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 133 million in the third quarter of 2020, compared with net cash used in financing activities in the amount of NIS 173 million in the corresponding quarter last year. The cash used in financing activities in the third quarter of 2020 included repayment of lease liabilities in the amount of NIS 114 million.

The cash used in financing activities in the third quarter of 2019 included mainly repayment of lease liabilities in the amount of NIS 110 million and repayment of credit from banks in the amount of NIS 52 million.

1.3.2 Cash flow – Analysis of the results for the first nine months of 2020 as compared to the corresponding period last year

Cash flow from operating activities

Net cash from operating activities amounted to NIS 1,387 million in the first nine months of 2020, compared with NIS 805 million in the corresponding period last year. The increase in cash flow from operating activities is mainly due to changes in working capital items and an increase in the profit for the period.

Cash flow used in investing activities

Net cash used in investing activities amounted to NIS 298 million in the first nine months of 2020, compared with NIS 796 million in the corresponding period last year. Cash used in investing activities in the first nine months of 2020 included mainly acquisition of property, plant and equipment in the amount of NIS 334 million and on the other hand withdrawal of deposits in the amount of NIS 100 million. The cash used in investing activities in the first nine months of 2019 included mainly acquisition of property, plant and equipment in the amount of NIS 382 million, an investment in deposits in the amount of NIS 257 million and an investment in securities held to maturity in the amount of NIS 99 million.

Cash flow used in financing activities

Net cash used in financing activities amounted to NIS 230 million in the first nine months of 2020, compared with net cash used in financing activities in the amount of NIS 8 million in the corresponding period last year.

The cash used in financing activities in the first nine months of 2020 included net proceeds from issuance of bonds in the amount of NIS 312 million and on the other hand repayment of lease liabilities in the amount of NIS 340 million, a dividend payment in the amount of NIS 80 million and repayment of credit from banks in the amount of NIS 93 million.

The cash used in financing activities in the first nine months of 2019 included net proceeds from issuance of bonds in the amount of NIS 549 million and on the other hand repayment of lease liabilities in the amount of NIS 324 million, a dividend payment in the amount of NIS 160 million and repayment of bonds and interest in the amount of NIS 73 million.

1.3.3 Liquid asset balances and financial ratios

As at the end of the third quarter of 2020, the net liquid assets (cash and cash equivalents, short-term deposits and marketable securities less credit from banks) amounted to NIS 1,114 million, compared with NIS 570 million in the corresponding quarter last year.

As at the end of 2019, net liquid assets amounted to NIS 262 million.

As at the end of the third quarter of 2020, the liabilities to the holders of bonds and to banks, including interest payable (hereinafter – “**the financial debt**”) amounted to NIS 3,258 million, compared with NIS 3,103 million in the corresponding quarter last year.

The ratio of the Company’s financial debt to its total assets was approximately 24.1% at the end of the third quarter of 2020, compared with 25.5% in the corresponding quarter last year. Total financial debt 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

The Company’s equity amounted to NIS 2,098 million as at the end of the third quarter of 2020, compared with NIS 1,795 million in the corresponding quarter last year. The ratio of the Company’s equity to its total assets was approximately 15.5% at the end of the third quarter of 2020, compared with 14.8% 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%.

1.3.4 Board of Directors’ discussion of the Company’s liquidity in view of the working capital deficit as at September 30, 2020

As at September 30, 2020, the Company has a working capital deficit (on a consolidated basis) of NIS 468 million, compared with a working capital deficit of NIS 898 million as at December 31, 2019 and a working capital deficit of NIS 564 million as at September 30, 2019, and it has a working capital deficit (on a stand-alone basis) as at September 30, 2020 of NIS 467 million, compared with a working capital deficit of NIS 1,068 million as at December 31, 2019 and of NIS 726 million as at September 30, 2019.
The decrease in the working capital deficit (on a consolidated and stand-alone basis) as at September 30, 2020 compared with September 30, 2019 is mainly due to changes in working capital that are due to the effect of the coronavirus crisis (for details see Paragraph 1.1.3 above).
The Company ended the third quarter with a positive cash flow from operating activities (see Paragraph 1.3.1 above).

As at the date of issuing this report, 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 September 30, 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 312 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 from the reporting period, the Board of Directors decided that notwithstanding the working capital deficit as at September 30, 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 as regarding the exposure of the Company to market risks and the management thereof in relation to the Company's reports on this matter in the directors' report for 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") in respect of CPI-linked bonds issued by the Company that amount to NIS 1.3 billion as at September 30, 2020 (like as at September 30, 2019) and lease liabilities that amount to NIS 3.9 billion as at September 30, 2020 (compared with NIS 3.6 billion as at September 30, 2019). In respect of the aforesaid the Company is exposed to CPI-linked payments in the annual amount of NIS 458 million in respect of lease liabilities and of NIS 179 million in respect of CPI-linked bonds.
As at September 30, 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 third quarter of 2020, the Company incurred financing expenses from these transactions in the amount of NIS 2 million, compared with expenses of NIS 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 September 30, 2020, the Company has forward contracts on the rate of the dollar in the amount of US$ 18 million for settlement until August 2021, cylinder transaction on the rate of the dollar in the amount of US$ 2 million for settlement until November 2020, forward contracts on the rate of the euro in the amount of € 57 million for settlement until July 2022, and cylinder transactions on the rate of the euro in the amount of € 7 million for settlement until May 2021.
In the third quarter of 2020, the Company incurred financing income in the amount of NIS 3 million, compared with financing expenses in the amount of NIS 8 million in the corresponding quarter last year.
The Company's exposure to currency risks is insignificant.

2.2.3 Interest risks

The Company is exposed to changes in interest rates on its balance of deposits.

2.2.4 Israel capital market risks

As at the date of the statement of financial position, the Company has invested in a securities portfolio that is comprised of held-to maturity corporate bonds that are rated at least AA-. According to the Company's investment strategy, the exposure of the portfolio 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 September 30, 2020:

	September 30, 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	**911**	**-**	**3**	**-**	**914**
Short-term deposits	**200**	**-**	**-**	**-**	**200**
Trade receivables	**1,738**	**-**	**-**	**-**	**1,738**
Other receivables	**40**	**22**	**5**	**109**	**176**
Other investments	**5**	**5**	**-**	**-**	**10**
Inventories	**-**	**-**	**-**	**1,018**	**1,018**
Non-current assets:					
Other receivables	**25**	**68**	**-**	**-**	**93**
Investment in associate	**37**	**-**	**-**	**21**	**58**
Loan to associate	**29**	**-**	**-**	**-**	**29**
Other investments	**46**	**34**	**-**	**12**	**92**
Investment property	**-**	**-**	**-**	**724**	**724**
Property, plant and equipment	**-**	**-**	**-**	**3,165**	**3,165**
Right-of-use asset	**-**	**-**	**-**	**3,836**	**3,836**
Intangible assets and deferred expenses	**-**	**-**	**-**	**1,325**	**1,325**
Deferred taxes	**-**	**-**	**-**	**127**	**127**
	3,031	**129**	**8**	**10,337**	**13,505**
Current liabilities:					
Current maturities of bonds	**159**	**179**	**-**	**-**	**338**
Current maturities of lease liability	**-**	**352**	**1**	**-**	**353**
Trade payables	**2,469**	**-**	**26**	**-**	**2,495**
Other payables	**458**	**7**	**-**	**818**	**1,283**
Provisions	**55**	**-**	**-**	**-**	**55**
Non-current liabilities:					
Bonds	**1,846**	**1,074**	**-**	**-**	**2,920**
Lease liability	**4**	**3,511**	**6**	**-**	**3,521**
Employee benefits, net	**252**	**-**	**-**	**-**	**252**
Deferred taxes	**-**	**-**	**-**	**133**	**133**
Other liabilities	**2**	**15**	**-**	**40**	**57**
Equity	**-**	**-**	**-**	**2,098**	**2,098**
	5,245	**5,138**	**33**	**3,089**	**13,505**
Net exposure (*)	**(2,214)**	**(5,009)**	**(25)**	**7,248**	**-**

(*) 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 material 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 September 30, 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	Payment date of principal		Interest payment dates	Type of linkage
												First date	Last date		
Series D	Oct. 2013	472	468	302	295	295	9	333	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	292	280	280	14	334	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	383	356	356	18	425	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	563	466	396	396	20	472	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	328	317	317	13	373	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	622	601	601	25	707	Fixed	4.5 %	4.3%	Oct. 8, 2020	Oct. 8, 2028	Annual interest on Oct. 8 of each year between 2016 and 2028	CPI
Series G	Jan. 2019	555	549	553	555	555	2	638	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
	Apr. 2020	300	312	312	300	300	1	345	Fixed	2.97%	3.52%	Feb. 20, 2022	Aug. 20, 2030	Semi-annual interest on Aug. 20 and Feb. 20 of each year between 2019-2030	Unlinked
		3,632	**3,765**	**3,258**	**3,100**	**3,100**	**102**	**3,627**							

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

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

Notes:

1. On February 20, 2020 the Company paid interest on the Series G bonds in the total amount of NIS 10 million.
2. On April 5, 2020 the Company completed the issuance of Series G bonds by way of expansion of the series for a gross consideration of NIS 313 million (net proceeds of NIS 312 million).
3. On October 8, 2020, subsequent to the reporting date, the Company paid principal and interest on the Series D bonds in the total amount of NIS 38 million, on the Series E bonds in the total amount of NIS 156 million and on the Series F bonds in the total amount of NIS 141 million.
4. Payments on account of bond principal in Series D, E and F are annual payments. The principal payments on account of the Series G bonds are 18 semi-annual unequal payments to be paid on February 20 and August 20 of each of the years 2022 through 2030 (inclusive) (six are payments of 2% of the principal, two payments are 3% of the principal, two payments are 6% of the principal, two payments are 7% of the principal, four are 9% of the principal and two are 10% of principal).
5. The trustee of the Series D bonds and Series E bonds is Reznik Paz Nevo Trustees Ltd., from 14 Yad Haroutzim St., Tel-Aviv (tel. 03-6389200, fax. 03-6389222). The contact person at the trustee for the Series D bonds and Series E bonds is Mr. Yossi Reznik, CPA, e-mail: Trust@rpn.co.il
   The trustee of the Series F bonds is Strauss Lazar Trust Company (1992) Ltd., from 94 Yigal Alon St., Alon Tower 2, Tel Aviv (tel. 03-6237777, fax. 03-5613824). The contact person at the trustee for the Series F bonds is Mr. Ori Lazer, CPA and Adv., e-mail: ori@slcpa.co.il
   The trustee of the Series G bonds is Hermetic Trust (1975) Ltd., from 30 Sheshet Hayamim Road, Bnei Braq (tel: 03-5544553, fax. 03-5271736). The contact person at the trustee for the Series G bonds is Ms. Merav Ofer-Oren and/or Mr. Dan Avnon, e-mail: hermetic@hermetic.co.il.
6. In the first nine months of 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.
7. The Company's outstanding Series D, E, F and G bonds are material. All the series of bonds are listed for trade on the Tel Aviv Stock Exchange.
8. Among the causes for immediate repayment of the Series D, E, F and G bonds is also the event of another debt of the Company to a bank and/or other financial institution being called for immediate repayment, providing that the total amount called for immediate repayment is higher than NIS 300 million, or another outstanding series of the Company's bonds being called for immediate repayment (not initiated by the Company) (in Series D and E, the cause of cross-default of other bonds series was conditioned on the amount of the other series called for immediate repayment being at least NIS 40 million); all according to the terms provided in the trust deeds under which the relevant bond series were issued.
9. In accordance with the terms of the trust deeds of the Company's Series D, E, F and G bonds, the Company is permitted to early redeem (fully or partially) the Series D, E, F and G bonds. For additional details, see Paragraph 9.2 of the trust deed of the Series D bonds and Paragraph 9.2 of the trust deed of the Series E bonds (as detailed in the trust deed's annex of the Company's shelf prospectus dated May 30, 2012 and as amended on September 30, 2013) and Paragraph 9.2 of the trust deed of the Series F bonds as detailed in the trust deed's annex of the Company's shelf registration statement dated September 3, 2015 that was issued in accordance with the Company's shelf prospectus dated June 25, 2015, and Paragraph 9.2 of the trust deed of the Series G bonds, as detailed in the trust deed's annex of the Company's shelf registration statement dated January 16, 2019.

10. The Series D, E, F and G bonds include financial covenants. See Note 17 to the financial statements as at December 31, 2019, which are a part of the periodic report, for further details regarding the terms of the Company's Series D, E, F and G bonds, including a commitment to comply with financial covenants, a commitment to not create a current pledge, and restrictions relating to dividend distribution
Presented hereunder are the results of calculating the financial covenants committed to by the Company in accordance with the terms of the Series D, E, F and G bonds (and in accordance with the terms of the Company's credit facilities) as at September 30, 2020:

Financial covenant	Calculation results as at September 30, 2020
Ratio of net (financial) debt to total balance sheet shall not exceed 60%	15.9%
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 2,098 million

Presented hereunder are the results of calculating the dividend distribution restrictions that apply to the Company in accordance with the terms of the Series D, E, F and G bonds (and in accordance with the Company's credit facilities) as at September 30, 2020:

Restriction	Calculation results as at September 30, 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 2,098 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)	1.5

11. **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 April 2020 and September 2020. For details regarding the rating affirmation of the Company and its bonds, see the Company's immediate report of April 5, 2020 (reference no. 2020-01-031252) and of September 24, 2020 (reference no. 2020-01-095815).

12. Information on the rating of outstanding bonds

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between the original date of issuance and the reporting date	
				Date	Rating
Series D – Bonds listed for trade	Ma'alot	ilAA	ilA+ Negative	October 3, 2013 (initial rating)	ilA+ Negative
				April 23, 2014 (affirmation of rating)	ilA+ Stable
				May 6, 2015 (lowering of rating and affirmation of rating outlook)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				September 20, 2016 (raising of rating and raising of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA
				October 6, 2019 (affirmation of rating)	ilAA
				April 5, 2020 (affirmation of rating)	ilAA
				September 24, 2020 (affirmation of rating)	ilAA

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between the original date of issuance and the reporting date	
				Date	Rating
Series 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
				April 5, 2020 (affirmation of rating)	ilAA
				September 24, 2020 (affirmation of rating)	ilAA
Series F – Bonds listed for trade	Ma'alot	ilAA	ilA Stable	September 2, 2015 (initial rating)	ilA Stable
				May 26, 2016 (affirmation of rating and raising of rating outlook)	ilA Positive
				July 11, 2016 (initial rating for expansion of the series)	ilA
				September 20, 2016 (raising of rating and affirmation of rating outlook)	ilA+ Stable
				May 28, 2017 (affirmation of rating and raising of rating outlook)	ilA+ Positive
				January 15, 2018 (raising of rating and update of rating outlook)	ilAA- Stable
				March 19, 2018 (raising of rating)	ilAA
				October 6, 2019 (affirmation of rating)	ilAA
				April 5, 2020 (affirmation of rating)	ilAA
				September 24, 2020 (affirmation of rating)	ilAA

Series	Name of rating company	Current rating and current outlook	Rating on date of issuance	Additional ratings between the original date of issuance and the reporting date	
				Date	Rating
Series G – Bonds listed for trade	Ma'alot	ilAA	ilA Stable	January 16, 2019 (initial rating)	ilAA
				October 6, 2019 (affirmation of rating)	ilAA
				April 5, 2020 (expansion of series)	ilAA
				September 24, 2020 (affirmation of rating)	ilAA

Quarterly report of outstanding liabilities by maturity dates

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

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

Mauricio Wior Chairman of the Board of Directors	Itzik Abercohen CEO

November 24, 2020

Shufersal Ltd.

Condensed Consolidated Interim Financial Statements As at September 30, 2020

(Unaudited)

Shufersal Ltd.

Condensed Consolidated Interim Financial Statements as at September 30, 2020 (Unaudited)

Contents

Auditor's 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 September 30, 2020 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting"*, and are also responsible for the preparation of financial information for 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 58 million as at September 30, 2020, and the Group's share in its losses is NIS 6 million and nil for the nine and three month periods then ended, respectively. The condensed interim financial information of that company was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to the financial information of that company, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements (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 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 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	**Kesselman & Kesselman**
November 24, 2020	Certified Public Accountants (Isr.)
	Member Firm of PricewaterhouseCoopers International Limited

Condensed Consolidated Interim Statements of Financial Position

	September 30 2020	September 30 2019	December 31 2019
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**914**	163	55
Short-term deposits	**200**	407	300
Trade receivables	**1,738**	1,609	1,373
Other receivables	**176**	187	160
Inventory	**1,018**	944	910
Other investments	**10**	9	9
Total current assets	**4,056**	3,319	2,807
Receivables and debit balances	**93**	82	116
Investment in associate company	**58**	60	64
Loan to associate company	**29**	31	30
Other investments	**92**	99	96
Investment property	**724**	681	721
Property, plant and equipment	**3,165**	*3,058	3,101
Right-of-use assets	**3,836**	*3,568	3,596
Intangible assets and deferred expenses	**1,325**	1,202	1,310
Deferred taxes	**127**	51	113
Total non-current assets	**9,449**	8,832	9,147
Total assets	**13,505**	12,151	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: November 24, 2020

* 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 Financial Position

	September 30 2020	September 30 2019	December 31 2019
	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions
Liabilities			
Credit from banks	**-**	-	93
Current maturities in respect of bonds	**338**	250	267
Current maturities of lease liabilities	**353**	360	342
Trade payables	**2,495**	2,131	2,055
Other payables	**1,283**	1,092	832
Liability to acquire partnership interests	**-**	11	73
Provisions	**55**	39	43
Total current liabilities	**4,524**	3,883	3,705
Bonds	**2,920**	2,853	2,621
Lease liabilities	**3,521**	3,215	3,278
Employee benefits, net	**252**	239	248
Other liabilities	**57**	45	56
Deferred taxes	**133**	121	132
Total non-current liabilities	**6,883**	6,473	6,335
Equity			
Share capital	**242**	242	242
Share premium	**963**	963	963
Reserves	**6**	15	17
Treasury shares	**(85)**	(85)	(85)
Retained earnings	**973**	660	778
Total equity attributable to owners of the Company	**2,099**	1,795	1,915
Non-controlling interests	**(1)**	-	(1)
Total equity	**2,098**	1,795	1,914
Total liabilities and equity	**13,505**	12,151	11,954

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

Condensed Consolidated Interim Statements of Income

	Nine months ended		Three months ended		Year ended
	September 30 2020	September 30 2019	September 30 2020	September 30 2019	December 31 2019
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues and rental fees	**11,362**	10,021	**3,942**	3,443	13,360
Cost of sales and services	**8,366**	7,310	**2,913**	2,512	9,751
Gross profit	**2,996**	2,711	**1,029**	931	3,609
Selling and marketing expenses	**2,289**	2,158	**783**	745	2,884
General and administrative expenses	**191**	148	**66**	48	204
Total selling, marketing, general and administrative expenses	**2,480**	2,306	**849**	793	3,088
Operating profit before other income (expenses)	**516**	405	**180**	138	521
Other income (expenses), net	**9**	(1)	**10**	-	(3)
Increase in fair value of investment property, net	**4**	-	**-**	-	39
Total other income (expenses), net	**13**	(1)	**10**	-	36
Operating profit after other income (expenses)	**529**	404	**190**	138	557
Financing expenses	**(186)**	(221)	**(64)**	(70)	(279)
Financing income	**16**	19	**4**	5	20
Financing expenses, net	**(170)**	(202)	**(60)**	(65)	(259)
Share in profits (losses) of equity accounted investee	**(6)**	4	**-**	1	8
Profit before taxes on income	**353**	206	**130**	74	306
Taxes on income	**(86)**	(55)	**(33)**	(19)	(38)
Profit for the period	**267**	151	**97**	55	268
Profit (loss) attributable to:					
Owners of the Company	**267**	151	**97**	55	269
Non-controlling interests	***-**	-	***-**	-	(1)
Profit for the period	**267**	151	**97**	55	268
Basic and diluted earnings per share (in NIS)	**1.12**	0.63	**0.41**	0.23	1.13

* Indicates an amount lower than NIS 1 million.

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended		Three months ended		Year ended
	September 30 2020	September 30 2019	September 30 2020	September 30 2019	December 31 2019
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**267**	151	**97**	55	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)**	(10)	**-**	(19)	(7)
Net change in fair value included in cost of hedging reserve	***-**	(1)	***-**	(1)	(1)
Taxes on other comprehensive income items that were initially recognized in comprehensive income and will be transferred to profit or loss	**3**	3	**-**	5	2
Total other comprehensive loss for the period that after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax	**(11)**	(8)	***-**	(15)	(6)
Other comprehensive income (loss) items that will not be transferred to profit or loss					
Remeasurement of defined benefit plan	**-**	(33)	**-**	(13)	(39)
Taxes on other comprehensive income items that will not be transferred to profit or loss	**-**	7	**-**	3	9
Total other comprehensive loss for the period that will not be transferred to profit or loss, net of tax	**-**	(26)	**-**	(10)	(30)
Other comprehensive loss for the period, net of tax	**(11)**	(34)	**-**	(25)	(36)
Total comprehensive income for the period	**256**	117	**97**	30	232
Total comprehensive income (loss) attributable to:					
Owners of the Company	**256**	117	**97**	30	233
Non-controlling interests	***-**	-	***-**	-	(1)
Total comprehensive income for the period	**256**	117	**97**	30	232

* Indicates an amount lower than NIS 1 million.

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

Condensed Consolidated Interim 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 equity**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
For the nine months ended September 30, 2020 (unaudited)								
Balance as at January 1, 2020	**242**	**963**	**17**	**(85)**	**778**	**1,915**	**(1)**	**1,914**
Share based payment	**-**	**-**	**-**	**-**	**8**	**8**	**-**	**8**
Exercise of employee options	***-**	***-**	**-**	**-**	**-**	***-**	**-**	***-**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(80)**	**(80)**	**-**	**(80)**
Profit for the period	**-**	**-**	**-**	**-**	**267**	**267**	***-**	**267**
Other comprehensive loss for the period, net of tax	**-**	**-**	**(11)**	**-**	**-**	**(11)**	**-**	**(11)**
Balance as at September 30, 2020	**242**	**963**	**6**	**(85)**	**973**	**2,099**	**(1)**	**2,098**
For the nine months ended September 30, 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
Share based payment	-	-	-	-	4	4	-	4
Dividends to shareholders	-	-	-	-	(160)	(160)	-	(160)
Profit for the period	-	-	-	-	151	151	-	151
Other comprehensive loss for the period, net of tax	-	-	(8)	-	(26)	(34)	-	(34)
Balance as at September 30, 2019	242	963	15	(85)	660	1,795	-	1,795

* Indicates an amount lower than NIS 1 million.

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

Condensed Consolidated Interim 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 equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three months ended September 30, 2020 (unaudited)								
Balance as at July 1, 2020	**242**	**963**	**6**	**(85)**	**874**	**2,000**	**(1)**	**1,999**
Share based payment	**-**	**-**	**-**	**-**	**2**	**2**	**-**	**2**
Profit for the period	**-**	**-**	**-**	**-**	**97**	**97**	***-**	**97**
Other comprehensive loss for the period, net of tax	**-**	**-**	***-**	**-**	**-**	***-**	**-**	***-**
Balance as at September 30, 2020	**242**	**963**	**6**	**(85)**	**973**	**2,099**	**(1)**	**2,098**
For the three months ended September 30, 2019 (unaudited)								
Balance as at July 1, 2019	242	963	30	(85)	612	1,762	-	1,762
Share based payment	-	-	-	-	3	3	-	3
Profit for the period	-	-	-	-	55	55	-	55
Other comprehensive loss for the period, net of tax	-	-	(15)	-	(10)	(25)	-	(25)
Balance as at September 30, 2019	242	963	15	(85)	660	1,795	-	1,795

* Indicates an amount lower than NIS 1 million.

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

Condensed Consolidated Interim 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 equity**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
For the year ended December 31, 2019 (audited)								
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

	Nine months ended		Three months ended		Year ended
	September 30 2020	**September 30 2019***	**September 30 2020**	**September 30 2019***	**December 31 2019**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Cash flows from operating activities					
Profit for the period	**267**	151	**97**	55	268
Adjustments for:					
Depreciation of property, plant and equipment	**276**	249	**95**	83	347
Amortization of right-of-use assets	**277**	263	**93**	90	359
Amortization of intangible assets and deferred expenses	**37**	27	**14**	9	39
Taxes on income	**86**	55	**33**	19	38
Income taxes paid, net	**(99)**	(63)	**(36)**	(20)	(82)
Financing expenses, net	**170**	202	**60**	65	259
Share in losses (profits) of equity accounted investees	**6**	(4)	**-**	(1)	(8)
Change in fair value of investment property, net	**(4)**	-	**-**	-	(39)
Change in employee benefits	**-**	2	**-**	-	3
Loss on sale of property, plant and equipment	**-**	1	**-**	-	1
Share-based payment	**8**	4	**2**	3	8
Change in provision for onerous contracts	**-**	-	**-**	-	4
Change in trade receivables	**(437)**	(365)	**(304)**	(304)	(128)
Change in other receivables	**(20)**	(23)	**(17)**	(16)	(20)
Change in inventory	**(108)**	(124)	**(32)**	(41)	(88)
Change in trade payables	**453**	129	**311**	162	41
Change in other payables, provisions and other	**475**	301	**301**	230	33
Net cash from operating activities	**1,387**	805	**617**	334	1,035

* See Note 2.C regarding reclassification.

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

Condensed Consolidated Interim Statement of Cash Flows

	Nine months ended		Three months ended		Year ended
	September 30 2020	September 30 2019	September 30 2020	September 30 2019	December 31 2019
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows used in investing activities					
Purchase of property, plant and equipment	**(334)**	(382)	**(123)**	(108)	(518)
Proceeds from sale of property, plant and equipment	**1**	-	**1**	-	1
Investment in deferred expenses and intangible assets	**(60)**	(64)	**(19)**	(18)	(102)
Business combinations, net of cash acquired	**-**	-	**-**	-	**-
Investment in investment property	**(8)**	(17)	**(4)**	(11)	(18)
Other long-term investments	**(4)**	-	**-**	-	-
Change in cash in respect of futures contracts, net	**(6)**	(8)	**2**	(6)	(10)
Realization of marketable securities, net	**-**	26	**-**	-	26
Repayment of (investment in) debt instruments at amortized cost, net	**5**	(99)	**4**	-	(98)
Repayment of long-term loans	**2**	4	**2**	1	3
Withdrawal of (investment in) deposits, net	**100**	(257)	**100**	93	(150)
Interest and dividend received	**6**	1	**4**	-	3
Net cash used in investing activities	**(298)**	(796)	**(33)**	(49)	(863)

** 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

	Nine months ended		Three months ended		Year ended
	September 30 2020	September 30 2019	September 30 2020	September 30 2019	December 31 2019
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows used in financing activities					
Short-term credit	**(93)**	-	**-**	(52)	93
Proceeds from issuance of bonds, net	**312**	549	**-**	-	549
Repayment of bonds	**-**	(59)	**-**	-	(192)
Interest paid	**(29)**	(14)	**(19)**	(11)	(121)
Repayment of lease liabilities principal and interest	**(340)**	(324)	**(114)**	(110)	(437)
Dividend paid	**(80)**	(160)	**-**	-	(160)
Payments in respect of hedging transactions	**-**	-	**-**	-	(10)
Partners' withdrawals from partnership	**-**	-	**-**	-	(1)
Net cash used in financing activities	**(230)**	(8)	**(133)**	(173)	(279)
Net increase (decrease) in cash and cash equivalents	**859**	1	**451**	112	(107)
Cash and cash equivalents at the beginning of the period	**55**	162	**463**	51	162
Cash and cash equivalents at the end of the period	**914**	163	**914**	163	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 September 30, 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 – upgrading and leasing out various types of real estate including commercial centers and other properties (by means of Shufersal Real Estate Ltd., a wholly owned subsidiary of the Company). 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 – marketing and selling of pharmaceuticals, natural products and cosmetics by means of Be Drugstores Ltd. which was merged with and into Shufersal on July 1, 2020. The securities of the Company are registered for trade on the Tel Aviv Stock Exchange.

Effects of the spreading of coronavirus

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, the Government of Israel issued emergency regulations, which are issued from time to time, that in the first nine months of 2020 prohibited or restricted the activity of businesses, considerably restricted the number of employees at work places, imposed restrictions on the education system (which at their height, including subsequent to the reporting date, was shut down completely) and from time to time imposed restrictions on leaving homes.

Towards the end of the second quarter and during the third quarter of 2020, there was a sharp increase in morbidity in Israel that led to imposing drastic restrictions essentially similar to those that were imposed in the first quarter of 2020 at the beginning of the coronavirus crisis in Israel, and included imposing a nationwide lockdown, shutting down the education system, closing businesses and stores and imposing restrictions on the movements of people. As at the date of issuing this report, the Government of Israel has published its plan for exiting the lockdown that was imposed in the third quarter of 2020, which is based on lifting restrictions once every two weeks taking note of the level of morbidity in Israel, with the plan continuing until the end of the first quarter of 2021.

Presented hereunder are the main effects of the coronavirus crisis on the Group's operations in the reporting period up to the date of approval of the financial statements (hereinafter: "the period of the crisis").

<u>Retail segment:</u>
During the period of the crisis, in view of the nature of the coronavirus crisis as described above (travel restrictions, lockdown and closing food businesses) the food retail industry in Israel including the Company experienced an increase in demand for food and toiletries.

Note 1 - General (cont'd)

Effects of the spreading of coronavirus (cont'd)

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

Real estate segment:
In general, the effect of the coronavirus crisis on the Company's real estate segment, in the period of the crisis, was immaterial. During that period the Group granted relaxations of immaterial amounts to tenants of properties. 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 material effect on the fair value of the investment property as 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 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 November 24, 2020.

B. Use of estimates and judgments

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

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 September 30, 2019 with respect to the application of IFRS 16. Hence, an amount of NIS 271 million of leasehold lands was reclassified from the balance of property, plant and equipment to the balance of right-of-use assets. Accordingly, the adjustments to profit that were included in the cash flows from operating activities were reclassified in the statements of cash flows for the nine and three months ended September 30, 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.

Amendment to IFRS 16, *Leases*

On May 28, 2020 an amendment to IFRS 16, *Leases*, was issued that includes possible practical relief for lessees to account for a rent concession attributable to the coronavirus crisis, subject to meeting several cumulative conditions, as variable lease payments and not as a lease modification.

According to the amendment, as a practical relief, a lessee can elect to not assess whether the rent concession attributable to the coronavirus crisis is a lease modification. A lessee that elects this relief will account for any change in the lease payments that is due to the coronavirus crisis in the same manner it would have applied IFRS 16 if the change was not a lease modification. Accordingly, rent concessions the Group received in the nine and three month periods ended September 30, 2020 were accounted for as negative variable lease payments and were recognized as revenue in the income statement at the time of receiving the concession.

The initial application of the amendment to IFRS 16 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 season in Israel.

Note 5 - Material Events in the Reporting Period

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 the Company 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.

B. 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.

C. On April 5, 2020, 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 312 million. The issue was executed at an effective annual interest rate of 2.97%.

D. Further to that mentioned in Note 11.E to the annual financial statements regarding a building services for land combination venture agreement and a collaboration and joint venture agreement with Gav-Yam Bayside Land Corp. Ltd. (hereinafter – the entrepreneur), on June 25, 2020 a detailed urban building plan for the project described in the aforesaid periodic report was awarded legal effect, and accordingly all the preconditions of the agreement have been fulfilled.

E. On July 1, 2020 the merger of Be with and into the Company was completed and in this framework all the operations, assets and liabilities of Be were transferred to the Company and Be was dissolved on that date without liquidation.

F. On July 26, 2020 Discount Investment Corporation Ltd. (DIC) sold all its holdings in the Company (about 26% in the Company's equity and voting power). Upon the closing of the sale DIC ceased being an interested and related party as defined in the annual financial statements.

G. Further to that mentioned in Note 7.B(3) to the annual financial statements, on August 26, 2020 the objections committee decided with respect to the appeal the Company had submitted regarding a monetary demand and assessment of the Israel Land Authority for payments in respect of nonconforming use (allegedly) of property the Company leases in Netanya. According to the Company's evaluation of the decisions of the Government Appraiser, it included an after-tax gain of NIS 7 million in the statements of income for the nine and three month periods ended September 30, 2020 from a decrease in the provision that had been made in this respect.

H. 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 nine months ended September 30, 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	**10,718**	**38**	**606**	**-**	**11,362**
Inter-segment rental revenues	**-**	**97**	**3**	**(100)**	**-**
Segment revenues	**10,718**	**135**	**609**	**(100)**	**11,362**
Operating profit (loss) before other income (expenses)	**387**	**114**	**(19)**	**34**	**516**
Other income (expenses), net	**10**	**4**	**(1)**	**-**	**13**
Operating profit (loss) after other income (expenses)	**397**	**118**	**(20)**	**34**	**529**
Financing expenses					**(186)**
Financing income					**16**
Share in losses of equity accounted investee					**(6)**
Taxes on income					**(86)**
Profit for the period					**267**

Note 6 - Segment Reporting (cont'd)

For the nine months ended September 30, 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	9,456	38	527	-	10,021
Inter-segment rental revenues	-	99	1	(100)	-
Segment revenues	9,456	137	528	(100)	10,021
Operating profit (loss) before other expenses	298	113	(40)	34	405
Other expenses, net	(1)	-	-	-	(1)
Operating profit (loss) after other expenses	297	113	(40)	34	404
Financing expenses					(221)
Financing income					19
Share in profits of equity accounted investee					4
Taxes on income					(55)
Profit for the period					151

(*) 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 three months ended September 30, 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	3,713	14	215	-	3,942
Inter-segment rental revenues	-	32	1	(33)	-
Segment revenues	3,713	46	216	(33)	3,942
Operating profit (loss) before other income	133	40	(5)	12	180
Other income	10	-	-	-	10
Operating profit (loss) after other income	143	40	(5)	12	190
Financing expenses					(64)
Financing income					4
Share in losses of equity accounted investee					-
Taxes on income					(33)
Profit for the period					97

Note 6 - Segment Reporting (cont'd)

For the three months ended September 30, 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	3,241	14	188	-	3,443
Inter-segment rental revenues	-	33	1	(34)	-
Segment revenues	3,241	47	189	(34)	3,443
Operating profit (loss)	98	40	(12)	12	138
Financing expenses					(70)
Financing income					5
Share in profits of equity accounted investee					1
Taxes on income					(19)
Profit for the period					55

(*) 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.

A. Summary of the Group's contingent liabilities:

1. Presented hereunder are details of the Group’s pending claims as at September 30, 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.	21	**437	***574	**1,032**
Employee claims	Mainly legal claims of present and former employees of the Company involving labor laws including demands to include various salary components in the calculation of various payments to the Company’s employees.	1	3	6	**10**
Supplier-customer, authorities and general	Legal claims involving commercial disputes with suppliers of services and/or products and legal proceedings on the part of the State, government bodies and State authorities including in respect of proceedings concerning regulation applicable to the Company and various monetary disputes concerning the Company’s payments to authorities.	9	235	-	**244**
Customer claims for damages	Claims for damages that are handled by the insurance companies.	20	7	*-	**27**
Total		**51**	**682**	**580**	******1,313**

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

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

1. Presented hereunder are details of the Group's pending claims as at September 30, 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 274 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 187 million in which the amount claimed from the Company is not specified.
**** There are additional claims against the Company in which the amount of the claim is not specified, should they be certified as class actions, in respect of which the Company has additional exposure.

2. Presented hereunder is a breakdown of the number and amounts of the Group's pending claims as at September 30, 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)	*666	*405
From NIS 100 million to NIS 500 million	3	447
Claims that do not specify an amount claimed	5	-
Claims that do not specify the amount claimed from the Company and others	1	-
Claims against the Company and other defendants together in which the amount claimed from the Company is not specified	15	461
Total	**690**	**1,313**

* As at September 30, 2020, there are 529 claims of customers for damages in the total amount of NIS 27 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 336 million. On the other hand, motions to certify class actions against Group companies in the total amount of NIS 341 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 September 30, 2020, the amounts that are claimed from the Company under the said claims total NIS 223 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 was 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.

On May 12, 2020 a claim in the amount of NIS 165 million was filed against the Company. The claim brief alleges that the plaintiff and the Company had an agreement for many years by which the plaintiff developed and operated a delivery system that served the Company. The plaintiff alleges that the Company had unilaterally decided to terminate the agreement between them, without providing an advance notice, while breaching the agreement and its commitments towards the plaintiff, thus causing it damages in the amount being claimed.

D. Information on claims subsequent to the reporting date

A motion to certify a consumer claim as a class action in the total amount of NIS 2.5 million was filed against the Company and other defendants. The chances of the claims cannot be assessed at this early stage.

In addition, two motions to certify consumer claims as class actions against the Company in the total amount of NIS 7 million were settled with the court's approval.

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.

Note 8 - Financial Instruments (cont'd)

Financial instruments measured at fair value for disclosure purposes only (cont'd)
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 September 30, 2020		As at September 30, 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) –	**(3,258)**	**(3,627)**	(3,103)	(3,491)	(2,888)	(3,326)
Debt instruments at amortized cost	**90**	**92**	99	101	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).

	As at September 30, 2020				As at September 30, 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												
Interest SWAP	-	-	-	-	-	2	-	2	-	9	-	9
Forward	-	**4**	-	**4**	-	-	-	-	-	-	-	-
Investment*	-	-	**12**	**12**	-	-	9	9	-	-	8	8
	-	**4**	**12**	**16**	-	2	9	11	-	9	8	17
Financial liabilities												
Interest SWAP	-	**(24)**	-	**(24)**	-	-	-	-	-	-	-	-
Forward	-	-	-	-	-	(18)	-	(18)	-	(12)	-	(12)
	-	**(24)**	-	**(24)**	-	(18)	-	(18)	-	(12)	-	(12)
	-	**(20)**	**12**	**(8)**	-	(16)	9	(7)	-	(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 financial assets measured at fair value through profit or loss.

Note 9 - Material Events Subsequent to the Reporting Date

A. On October 27, 2020 the Company entered into several agreements to acquire control in an operation for the sale and distribution of food and cleaning products to the institutional market. Completion of the transaction depends on the fulfillment of several conditions precedent including receiving the approval of the Competition Commissioner and of a bank to which the operation's assets are pledged.

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