

Contact:

Blue Square-Israel Ltd.
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Blue Square Announces the permit for Initial Public Offering of its wholly owned subsidiary, Blue Square Real Estate Ltd. ("BSRE") on the Tel Aviv Stock Exchange.

ROSH HAAYIN, Israel, August 16, 2006 - Further to the announcement by Blue Square-Israel Ltd. (NYSE: BSI) (hereinafter: "**Blue Square**") dated August 2, 2006, Blue square announced today that its wholly owned subsidiary, Blue Square Real Estate Ltd (hereinafter: "BSRE"), received all necessary permits to publicize BSRE's prospectus and perform the initial public offering of BSRE securities on the Tel Aviv Stock Exchange (hereinafter: the "**Offering**").

According to the offering terms, should the offering be complete, BSRE will receive gross proceeds of approximately NIS 911,250,000 (NIS 210,000,000 for shares, NIS 100,000,000 for convertible debentures, and NIS 601,250,000 for non-convertible debentures).

The public bid shall take place on August 24, 2006.

BSRE's prospectus is filed (in Hebrew) with the Israel Securities Authority Internet site at: www.magna.isa.gov.il.

The securities that are to be offered in such transaction have not been and will not be registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of such Act. This press release shall not be deemed an offer of securities or a solicitation of an offer to buy securities.

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Blue Square-Israel Ltd is a leading retailer in Israel. A pioneer of modern food retailing, in the region. Blue Square currently operates 172 supermarkets under different formats, each offering varying levels of services and prices. For more information, please refer to the Blue Square-Israel Ltd. website at www.bsi.co.il.

Forward Looking Statements

The statements contained in this release, except for historical facts, which are forward-looking with respect to plans, projections, or future performance of the Company, involve certain risks and uncertainties. Potential risks and uncertainties include, but are not limited to, risk of market acceptance, the effect of economic conditions, the impact of competitive pricing, supply constraints, the effect of the Company's accounting policies, as well as certain other risks and uncertainties which are detailed in the Company's filings with the Securities and Exchange Commission, particularly the Annual Report on Form 20-F for the year ended December 31, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed by the undersigned, thereunto duly authorized.

BLUE SQUARE – ISRAEL LTD.

By: /s/ Elli Levinson Sela

Elli Levinson Sela, Adv.
General Counsel &
Corporate Secretary

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of August, 2006

BLUE SQUARE - ISRAEL LTD.
(translation of registrant's name into English)

2 Amal St., Afek Industrial Park, Rosh Ha'ayin 48092, Israel
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F X Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No X