

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 January 2010

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 ☒ 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 ☒

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Attached hereto and incorporated by reference are the following documents:

1. Exhibit 99.1: Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months and three months ended June 30, 2009.
2. Exhibit 99.2: The consolidated financial statements of Blue Square-Israel Ltd. for the six month period ended June 30, 2009, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are in addition to the second quarter 2009 results that were contained in a press release, dated August 17, 2009, and were submitted via Form 6-K.

This Form 6-K is hereby incorporated by reference into Blue Square's Registration Statement on Form S-8 (Registration No. 333-149175).

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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

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Elli Levinson Sela, Adv.  
General Counsel &  
Corporate Secretary

Dated: January 21, 2010

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Introduction**

*The information contained in this section should be read in conjunction with (1) our unaudited condensed interim consolidated financial statements as of June 30, 2009 and for the six months then ended and related notes included in this Report of Foreign Private Issuer on Form 6-K and (2) our Consolidated Financial Statements and related notes included in our Annual Report on Form 20-F for the year ended December 31, 2008 and the other information contained in that Annual Report, particularly the information under the caption “Item 5. Operating and Financial Review and Prospects”. Our condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). Our Condensed Interim Consolidated Financial Statements also comply with IFRS as issued by the IASB sentence.*

*We are including segment information in our financial statements according to IFRS 8. Based on our organizational structure, including internal reports in order to evaluate performance and allocate resources reviewed by our chief operating decision makers, the nature of the products and services that we provide, and the marketing channels of our sales, the Company presents three reportable segments: Supermarkets, Non-Food Retail and Wholesale (“Non-Food”) and Real Estate. Secondary information on a geographical basis is not required since all our activities are located in Israel in one geographical segment.*

*Our three operating segments consist of the following:*

- (1) Supermarkets – We are the second largest food retailer in the State of Israel. We engaged through our fully held subsidiary, Mega Retail Ltd. ("Mega Retail"), in Supermarket activities, offering a wide range of food and beverage products and “Non-Food” items, such as houseware, toys, small electrical appliances, computers and computer accessories, entertainment and leisure products and textile products and “Near-Food” products, such as health and beauty aids, infants products, cosmetics and hygiene products. As of June 30, 2009, we owned and operated 200 supermarkets in this segment. This segment also includes properties owned through our 78% held subsidiary, Blue Square Real Estate (“BSRE”), in connection with the supermarket operation of our stores (including warehouses and offices).*
- (2) Non-Food Retail and Wholesale - we engaged through our 85% held subsidiary, Bee Group Retail Ltd. ("Bee Group"), in non-food retail and wholesale activities. As of June 30, 2009, Bee Group consisted of 260 non-supermarkets outlets, mostly through franchisees, with activities in the houseware and home textile, toys, leisure, and baby and young children sectors.*
- (3) Real Estate – we engaged through our subsidiary BSRE in commercial centers, office buildings and logistics centers owned by the Company for the purpose of deriving long-term yield from lease, and land held for long-term capital appreciation.*

Key Figures

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Changes	Convenience translation <sup>(a)</sup> Six Months Ended June 30, 2009	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Changes
	NIS in millions			U.S. dollars	NIS in millions		
Sales	3,608.7	3,739.6	-3.5%	920.8	1,844.0	1,918.4	-3.9%
Gross profit	1,004.8	1,031.1	-2.6%	256.4	501.7	527.5	-4.9%
% Gross profit	27.8%	27.6%	0.2%	N.A.	27.2%	27.5%	-0.3%
Operating profit *	120.9	161.0	-24.9%	30.8	60.7	83.5	-27.3%
%Operating profit *	3.3%	4.3%	-1.0%	N.A.	3.3%	4.4%	-1.1%
EBITDA	206.2	235.1	-12.3%	52.6	103.6	122.6	-15.5%
EBITDA margin from sales	5.7%	6.3%	-0.6%	N.A.	5.6%	6.4%	-0.8%
Financial expenses	47.2	48.4	-2.5%	12.0	35.2	40.2	-12.4%
Net income	49.9	102.3	-51.2%	12.7	17.5	37.2	-53.0%

\* before other gains and losses and net from adjustment of investment property to the fair value

Overview of Our Activities During the First Six Months of 2009

- Our operating profit margin declined in the six and three months ended June 30, 2009, compared to the six and three months ended June 30, 2008 due to the macro-economic conditions in Israel, reflected by increased competition and the influence of the recession in the segments of Supermarkets and Non-Food Retail and Wholesale. In addition, the launch of “Mega Bool”, a hard discount ("HD") chain, at the end of 2008, eroded our sales prices.
- During this period, to meet competition and increase our market share, we continued the implementation of the strategic plan in the Supermarkets segment that includes:
  - o A successful launch and the expansion of the "Mega Bool" chain.
  - o The launch of a private brand "Mega" and expansion of the categories in the private brand "Mega", which constituted over 3.5% of total sales in June 2009.

RESULTS OF BLUE SQUARE - ISRAEL

Six Months Ended June 30, 2009 Compared To Six Months Ended June 30, 2008

**Revenues** for the first half of 2009 decreased by 3.5% to NIS 3,608.7 million (U.S.<sup>(A)</sup> \$920.8 million), compared to NIS 3,739.6 million in the corresponding period of 2008. The decrease was due to a 4.3% decrease in the Supermarkets segment, mainly due to a decrease in supermarket same store sales (SSS), offset by the net addition of ten new supermarkets during the twelve month period. This decrease was partially offset by a 6.8% increase in our Non-Food segment, mainly due to increased sales in Naaman Porcelain Ltd. ("Naaman"), Bee Group's 66.85% subsidiary. For more information, please see "Segment Information Analysis" below.

**Gross Profit** for the first half of 2009 amounted to NIS 1,004.8 million (U.S. \$256.4 million) (27.8% of revenues) compared to gross profit of NIS 1,031.1 million (27.6% of revenues) in the first half of 2008. The increase in the gross profit margin was due to an increase in sales in our Non- Food segment which is characterized by higher gross profit margins than those in the Supermarkets segment. In addition, gross margin increased in the Supermarkets segment from improved supplier agreements, part of which relate to the establishment of the "Mega Bool" chain, which offset the effect of the anticipated erosion in the gross profitability due to the establishment of the "Mega Bool" chain.

**Selling, General, and Administrative Expenses** for the first half of 2009 increased by 1.6% to NIS 884.0 million (U.S. \$225.6 million) (24.5% of revenues) compared to NIS 870.1 million (23.3% of revenues) in the corresponding period in 2008. The increase reflects increased expenses associated with the opening of ten new supermarkets in the Supermarkets segment, including the expenses associated with the accelerated opening of six branches of the Eden Teva Market format during the last twelve months and expenses associated with the launch of the Mega Bool format. Concurrently, we implemented several measures to increase efficiency, which resulted in a relative decrease in the usual increase in expenses as a result of opening new supermarkets.

**Operating Income** (before income and other expenses and increase in fair value of real estate) in the first half of 2009 decreased to NIS 120.9 million (U.S \$30.8 million) (3.3% of revenues) compared to operating income of NIS 161.0 million (4.3% of revenues) in the corresponding period in 2008. The decrease in operating income was due to a decrease in sales and an increase in selling and administrative expenses, mainly from the accelerated opening of supermarkets (pre-operating costs and their negative contribution in the initial operating period) and costs associated with the establishment of the "Mega Bool" chain.

**EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)<sup>(B)</sup>:** In the first half of 2009, EBITDA was NIS 206.2 million (U.S. \$ 52.6 million) (5.7 % of revenues), compared to NIS 235.1 million (6.3% of revenues) in the corresponding period of last year.

**Changes In Fair Value Of Investment Property (net):** In the first half of 2009, the Real Estate segment recorded gain from adjustment of investment property to fair value in the amount of NIS 1.7 million (U.S \$0.4 million) compared to NIS 18.0 million in the corresponding period of the previous year.

**Other Income Expenses (net):** In the first half of 2009, we recorded other expenses, net of NIS 0.6 million (U.S. \$ 0.2 million), compared to other expenses, net of NIS 1.8 million in the corresponding period of the previous year. The other expenses in this period included a provision for impairment of property and equipment in the Bee Group's Dr. Baby stores, which suffered from continuing operating losses and fierce competition, in the amount of NIS 2.8 million (U.S \$ 0.7 million) and were offset by a capital gain of NIS 0.3 million (U.S \$ 0.1 million) from the sale of 1.5% of the outstanding shares of BSRE for NIS 10.1 million (U.S \$2.6 million) and from a capital gain of NIS 2.8 million (U.S \$ 0.7 million) from the purchase of 8% of Naaman's outstanding shares that were held by the minority.

**Operating Income before financing** in the first half of 2009 decreased to NIS 122.0 million (U.S. \$31.1 million) (3.4% of revenues) compared to operating income of NIS 177.2 million (4.7% of revenues) in the first half of 2008. The decrease in operating income before financing was due to the decrease in operating income before adjustment of investment property to fair value and other income expenses, as mentioned above, and from the decrease in gains from adjustment of investment property to fair value and the increase in selling and administrative expenses, discussed above.

**Financial Expenses (net)** for the first half of 2009 decreased to NIS 47.2 million (U.S. \$12 million) compared to financial expenses (net) of NIS 48.4 million in the corresponding period of the previous year. The decrease in financial expenses in the first half of this year compared to the corresponding period last year was mainly due to the effect of the change in the fair value of hedging transactions on the CPI index that were effected in the fourth quarter of 2008 and the change in the fair value of derivative financial instruments that contributed in the first half of 2009 to income in the amount of NIS 24.0 million (U.S \$6.1 million) compared to an expense of NIS 11.1 million in the corresponding period last year and from a decrease in financial expenses on debentures and CPI linked loans, of NIS 9.1 million (U.S \$ 2.3 million) in the first half of 2009 compared to the corresponding period last year (increase in the known index in the first half of 2009 amounted to 1.1% compared to 2.8% in the corresponding period last year). The decrease in financial expenses was offset by an increase in the fair value of the conversion option of the Company's convertible debentures (following the increase in our share price) which contributed in the first half of 2009 to an expense of NIS 13.1 million (U.S \$3.3 million) compared to income in the amount of NIS 24.7 million in the corresponding period last year.

**Taxes on Income** for the first half of 2009 were NIS 24.8 million (U.S. \$6.3 million) (33.2% effective tax rate compared to a statutory tax rate of 26%) compared to NIS 26.5 million (effective tax rate of 20.6% compared to a statutory tax rate of 27%) in the corresponding half last year. The increase in the effective tax rate in the first half of 2009 compared to the corresponding period last year was mainly due to recording financial expenses from revaluation of the conversion component in our convertible debentures and to losses from the Bee Group's Dr. Baby stores for which no deferred taxes were recorded due to the uncertainty of their offset in the future.

Pursuant to the Israeli Law for Economic Efficiency (Legislation Amendments for the Implementation of Economic Plan for 2009- 2010) 5769 – 2009, adopted by the Israeli Parliament (Knesset) on July 14, 2009, the corporate tax rate is to gradually decrease to 18% for the 2016 tax year and onward.

The implications of the change in the tax rate will be reflected in the results of the third quarter of 2009 by a decrease in deferred tax liability and recognition of income from taxes in the amount of NIS 20.3 million (U.S \$ 5.4 million), out of which the portion attributed to our shareholders is NIS 15.2 million (U.S \$ 4.0 million).

**Net Income** for the first half of 2009 decreased to NIS 49.9 million (U.S. \$12.7 million) compared to net income of NIS 102.3 million in the first half of 2008. The decrease in the net income in the first half of 2009 compared to the corresponding period last year was due to a decrease in operating income, a decrease in gain from adjustment of investment property to fair value and an increase in income tax expenses, as mentioned above. The net income for the first half of 2009, attributable to shareholders, was NIS 39.6 million (U.S. \$10.1 million), or NIS 0.91 per ADS (U.S. \$0.23), while the portion attributable to the share of minority interests was NIS 10.3 million (U.S. \$2.6 million).

**Results for the Second Quarter of 2009**

**Revenues** for the second quarter of 2009 decreased by 3.9 % to NIS 1,844 million (U.S.\$470.5 million), compared to NIS 1,918.4 million in the corresponding quarter of 2008. The decrease was due to a 3.8% decrease in the Supermarkets segment, mainly due to a decrease in supermarket same store sales (SSS), offset by the net addition of ten new supermarkets during the twelve month period. The decrease in Company revenues was also due to a decrease of 6.3% in our Non-Food segment, mainly due to the timing of Passover as explained on page 10. For more information, please see "Segment Information Analysis" below.

**Gross Profit** for the second quarter of 2009 amounted to NIS 501.7 million (U.S. \$128 million) (27.2% of revenues) compared to gross profit of NIS 527.5 million (27.5% of revenues) in the corresponding quarter of 2008. The decrease in the gross profit and gross profit margin was mainly due to a decrease in sales in our Supermarkets segment, that have relatively higher gross profit margins (in our "Mega" and "Mega In Town" format) and an increase in the volume of sales at our HD formats which were mitigated by improved supplier agreements and discounts and the contribution of the private brand of "Mega" which as of June 30, 2009 constituted over 3% of our total sales.

**Selling, General, and Administrative Expenses** for the second quarter of 2009 decreased by 0.7% to NIS 441 million (U.S. \$112.5 million) (23.9% of revenues) compared to NIS 444.0 million (23.1% of revenues) in the corresponding quarter. The decrease was due to the effect of efficiency measures that we implemented in the Supermarkets segment during the quarter, which is mitigated by increased expenses associated with the opening of ten new supermarkets during the last year, including the expenses associated with the accelerated opening of six supermarkets of the Eden Teva Market format and an increase in selling expenses due to the increase in sales of our private "Mega" brand products.



**Operating Income** (before other income and expenses and increase in the fair value of real estate) in the second quarter of 2009 decreased by 27.3% to NIS 60.7 million (U.S \$ 15.5 million) (3.3% of revenues) compared to the operating income of NIS 83.5 million (4.4% of revenues) in the corresponding period.

**EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization):** In the second quarter of 2009, EBITDA was NIS 103.6 million (U.S. \$ 26.4 million) (5.6 % of revenues) compared to NIS 122.6 million (6.4% of revenues) in the corresponding period of last year.

**Changes of Investment Property:** During the second quarter of 2009, the Company recorded gain from adjustment of investment property to fair value amounted to NIS 1.7 million (U.S \$ 0.4 million) compared to NIS 5.2 million in the corresponding quarter of the previous year.

**Other Income Expenses, Net:** In the second quarter of 2009, the Company recorded other expenses, net of NIS 2.8 million (U.S. \$ 0.7 million), compared to other expenses of NIS 0.6 million in the corresponding quarter of the previous year. The expenses in the second quarter of 2009 included a provision for impairment of property and equipment in our Bee Group's Dr. Baby stores which suffered from continuing operating losses and fierce competition in the amount of NIS 2.8 million (U.S. \$0.7 million) and were offset by a capital gain in the amount of NIS 0.3 million (U.S. \$0.1 million) from the sale of 1.5% of the outstanding shares of BSRE for NIS 10.1 million (U.S. \$2.6 million).

**Operating Income before financing** in the second quarter of 2009 was NIS 59.6 million (U.S. \$ 15.2 million) (3.2% of revenues) compared to operating income of NIS 88.2 million (4.6% of revenues) in the second quarter of 2008 and compared to NIS 62.3 million (3.5% of revenues) in the first quarter of 2009.

**Financial Expenses (net)** for the second quarter of 2009 decreased by 12.4% to NIS 35.2 million (U.S. \$9 million) compared to financial expenses (net) of NIS 40.2 million in the corresponding quarter of the previous year. The decrease in financial expenses in this quarter compared to the corresponding quarter last year was mainly due to the effect of the change in the fair value of hedging transactions on the CPI index and derivative financial instruments that contributed in the current quarter to income in the amount of NIS 14.9 million (U.S \$3.8 million) compared to an expense of NIS 1.9 million in the corresponding quarter in 2008 and from a decrease in financial expenses on debentures and CPI linked loans, of NIS 5.6 million (U.S \$ 1.4 million) in this quarter compared to the corresponding quarter in 2008. The decrease in the financial expenses was offset mainly by the effect of the change in the fair value of the conversion option of the Company's convertible debentures (following the increase in the company's share price) which contributed in the current quarter to an expense of NIS 9.8 million (U.S \$ 2.5 million) compared to income in the amount of NIS 3.8 million in the corresponding quarter last year.

**Taxes on Income** for the second quarter of 2009 were NIS 6.9 million (U.S. \$1.8 million) (28.2% effective tax rate compared to a statutory tax rate of 26%) compared to NIS 10.7 million (effective tax rate of 22.2% compared to a statutory tax rate of 27%) in the corresponding quarter last year. The increase in the effective tax rate in this quarter compared to the corresponding quarter last year was mainly due to recording financial expenses from revaluation of the conversion component in our convertible debentures and from losses of Bee Group's Dr. Baby stores, for which no deferred taxes were recorded.

**Net Income** for the second quarter of 2009 decreased by 53.0% to NIS 17.5 million (U.S. \$4.5 million) compared to net income of NIS 37.2 million in the second quarter of 2008. The decrease in the net income in this quarter compared to the corresponding quarter last year was due to the decrease in operating income and increase in income tax expenses, as mentioned above. The net income for the second quarter of 2009 attributable to our shareholders, was NIS 13.1 million (U.S. \$3.3 million), or NIS 0.3 per ADS (U.S. \$ 0.08), while the portion attributable to the share of minority interests was NIS 4.4 million (U.S. \$1.1 million).

**Segment Information Analysis**

**Segment Information Analysis for the first six months of 2009**

**Supermarkets Segment**

	Six months Ended June 30		Change %	Convenience translation
	2009	2008		2009
	NIS in thousands			U.S. dollars
Segment Revenues	3,358,964	3,508,507	-4.3%	857,097
Segment profit	101,546	149,876	-32.2%	25,911
Segment profit as a percentage of segment revenues	3.0%	4.3%	-1.2%	3.0%
	For the six months ended June 30			Convenience translation <sup>(a)</sup> for the six months ended June 30
	2009	2008		2009
	NIS	NIS		U.S.\$
	(Unaudited)			
Increase (decrease) in same store sales*		(6.8)%		4.4%
				NA
Number of stores at end of period		200		190
Stores opened during the period		7		5
Stores closed during the period		1		-
				NA
Total square meters at end of period		362,300		350,200
Square meters added during the period, net		7,900		7,000
				NA
Sales per square meter		9,366		10,142
				2,390
Sales per employee (in thousands)		484		479
				123

\* Compared with the same period in the prior fiscal year.

**Revenues** for the Supermarkets segment for the first half of 2009 decreased by 4.3% to NIS 3,359.0 million (U.S. \$857.1 million), compared to NIS 3,508.5 million in the corresponding period of 2008. The decrease was mainly due to a 6.8% decrease in Supermarket same store sales (SSS) as a result of the recession in the market, increased competition and erosion of the sales prices in HD chains. This decrease in sales was offset by the net addition of ten new supermarkets during the 12-month period of approximately 12,100 square meters.

**Profit** for the Supermarkets segment in the first half of 2009 decreased by 32.5% to NIS 101.1 million (U.S \$ 25.8 million) (3.0% of segment revenues) compared to the segment profit of NIS 149.9 million (4.3% of segment revenues) in the corresponding quarter last year. The decrease in the segment profit was due to a decrease in sales and increase in the selling and administrative expenses, mainly from accelerated opening of supermarkets (pre-operating costs and their negative contribution in the initial operating period) and costs associated with the establishment of the "Mega Bool" format.

**Non Food Retail and Wholesale Segment**

	Six months Ended June 30		% Change	Convenience translation
	2009	2008		2009
	NIS in thousands			U.S. dollars
Segment Revenues	270,259	252,939	6.8%	68,961
Segment profit	17,936	20,444	-12.3%	4,577
Segment profit as a percentage of segment revenues	6.6%	8.1%	-1.4%	6.6%

**Revenues** for the non Food Retail and wholesale segment for the first half of 2009 increased by 6.8% to NIS 270.3 million (U.S. \$69.0 million), compared to NIS 252.9 million in the corresponding period of 2008. The increase was mainly due to increased sales in our stores operated by Naaman, Bee Group’s 66.85% subsidiary, which operates our houseware division.

**Profit** for the non Food Retail and wholesale segment in the first half of 2009 amounted to NIS 17.9 million (U.S \$ 4.6 million) (6.6% of segment revenues) compared to the segment profit of NIS 20.4 million (8.1% of segment revenues) in the corresponding period in 2008. The decrease in the segment profit was due to an increase in the losses of Bee Group's Dr. Baby stores compared to the corresponding period, and was offset by increased sales in Bee Groups’ houseware division, as mentioned above.

Real Estate Segment

	Six months Ended June 30			Convenience translation
	2009	2008	% Change	2009
	NIS in thousands			U.S. dollars
Segment Revenues	10,641	9,738	9.3%	2,715
Appreciation of Investment Property	1,740	17,970	-90.3%	444
Segment profit	7,571	22,335	-66.1%	1,932
Segment profit as a percentage of segment revenues	71.1%	229.4%	-158.2%	71.1%

**Revenues** for the real estate segment for the first half of 2009 increased by 9.3% to NIS 10.6 million (U.S. \$2.7 million), compared to NIS 9.7 million in the corresponding period of 2008. The increase was mainly due to an increase in revenue from existing lease agreements (which are linked to the Israeli consumer price index ("CPI") and therefore were affected by the increase in the CPI), new rent agreements and improvements of renewed rent agreements.

**Adjustment of Investment Property to fair value:** In the first half of 2009, the Real Estate segment recorded gain from appreciation of investment property in the amount of NIS 1.7 million (U.S \$ 0.4 million) compared to NIS 18.0 million in the corresponding period of the previous year.

**Profit** for the real estate segment in the first half of 2009 decreased by 66.1% to NIS 7.6 million (U.S \$ 1.9 million) compared to the segment profit of NIS 22.3 million in the corresponding period. The decrease in the segment profit was due to the decrease in gain from appreciation, as described above.

Segment Information Analysis for the second quarter

Supermarkets Segment

	Three months Ended June 30 2009	2008	% Change	Convenience translation 2009 U.S. dollars
	NIS in thousands			
Segment Revenues	1,731,387	1,800,539	-3.8%	441,793
Segment profit	57,099	79,481	-28.2%	14,570
Segment profit as a percentage of segment revenues	3.3%	4.4%	-1.1%	3.3%
				Convenience translation (a)
				for the three months ended June 30
	For the three months ended June 30 2009	2008		2009
	NIS	NIS		U.S.\$
	(Unaudited)			
Increase (decrease) in same store sales*		(6.1)%	8.2%	NA
Number of stores at end of period	200	190		NA
Stores opened during the period	2	2		NA
Stores closed during the period	1	-		NA
Total square meters at end of period	362,300	350,200		NA
Square meters added during the period, net	2,800	2,700		NA
Sales per square meter	4,624	5,141		1,180
Sales per employee (in thousands)	244	241		62

\* Compared with the same period in the prior fiscal year.

**Revenues** for the Supermarkets segment for the second quarter of 2009 decreased by 3.8% to NIS 1,731.4 million (U.S \$ 441.8 million), compared to NIS 1,800.5 million in the corresponding quarter of 2008. The decrease was mainly due to a 6.1% decrease in Supermarket same store sales (SSS) compared to the corresponding quarter in 2008 resulting from the recession and increased competition mainly in our "Mega" format (stores that were not yet converted into one of the formats erosion of prices in HD formats and the timing of Passover which this year fell on April 8 compared to April 20 last year, which resulted in only a partial an increase in sales in the second quarter this year compared to a full contribution to an increase in sales in the second quarter last year. The decrease in sales was offset by the opening of ten new supermarkets during the twelve month period of approximately 12,100 square meters.

**Profit** for the Supermarkets segment in the second quarter of 2009 decreased by 30.1% to NIS 55.6 million (U.S \$ 14.2 million) (3.2% of segment revenues) compared to the segment profit of NIS 79.5 million (4.4% of segment revenues) in the corresponding quarter. The decrease in the segment profit was due to a decrease in sales and a decrease in the selling and administrative expenses, which decreased at a lower rate lower than the decrease in sales. The decrease in the selling and administrative expenses was due to the effect of our implementation of efficiency measures during the quarter, which is mitigated by increased expenses associated with the opening of ten new supermarkets during the twelve month period, including the expenses associated with the accelerated opening of six supermarkets of the Eden Teva Market format and expenses due to the increase in the sales prices of private "Mega" brand.

**Non Food Retail and Wholesale Segment**

	Three months Ended June 30			Convenience translation
	2009	2008	% Change	2009
	NIS in thousands			U.S. dollars
Segment Revenues	117,519	125,398	-6.3%	29,987
Segment profit	742	8,930	-91.7%	189
Segment profit as a percentage of segment revenues	0.6%	7.1%	-6.5%	0.6%

**Revenues** for the non Food Retail and wholesale segment for the second quarter of 2009 decreased by 6.3 % to NIS 117.5 million (U.S \$ 30.0 million), compared to NIS 125.4 million in the corresponding quarter of 2008. The decrease was mainly due to the timing of Passover which this year fell on April 8 compared to April 20 last year, which resulted in only a partial contribution to an increase in sales in the second quarter this year compared to full contribution to an increase in sales in the second quarter last year, and due to a decrease in inter-segment sales to the Supermarkets segment in this quarter compared to the corresponding quarter.

**Profit** for the non Food Retail and wholesale segment in the second quarter of 2009 decreased by 91.7% to NIS 0.7 million (U.S \$ 0.2 million) (0.6% of segment revenues) compared to the segment profit of NIS 8.9 million (7.1% of segment revenues) in the corresponding quarter in 2008. The decrease in the segment profit was due to a decrease in sales resulting from the timing of Passover as mentioned above and an increase in the losses of Bee Group's Dr. Baby stores.

Real Estate Segment

	Three months Ended June 30		% Change	Convenience translation 2009 U.S. dollars
	2009	2008		
	NIS in thousands			
Segment Revenues	5,361	5,051	6.1%	1,368
Appreciation of Investment Property	1,740	5,225	-66.7%	
Segment profit	5,166	8,081	-36.1%	1,318
Segment profit as a percentage of segment revenues	96.4%	160.0%	-63.6%	96.4%

**Revenues** for the real estate segment for the second quarter of 2009 increased by 6.1 % to NIS 5.4 million (U.S \$ 1.4 million), compared to NIS 5.1 million in the corresponding quarter of 2008. The increase was mainly due to an increase in existing lease agreements (which are linked to the Israeli CPI and therefore were affected by the increase to the CPI), revenue from new lease agreements and improvements of renewed rent agreements.

**Adjustment of Investment Property to fair value:** During the second quarter of 2009, the Company recorded gain from appreciation of investment property of NIS 1.7 million (U.S \$ 0.4 million) compared to NIS 5.2 million in the corresponding quarter of the previous year.

**Profit** for the real estate segment in the second quarter of 2009 decreased by 63.6% to NIS 5.2 million (U.S \$ 1.3 million) (96.4% of segment revenues) compared to the segment profit of NIS 8.1 million (160.0% of segment revenues) in the corresponding quarter. The decrease in the segment profit was mainly due to the decrease in gain from appreciation, as described above.

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL REQUIREMENTS OF BLUE - SQUARE ISRAEL

The following discussion presents an analysis of our cash flows for the six months and three months ended June 30, 2009 compared to six months and three months ended June 30, 2008.

Cash Flows in the first half of 2009

**Cash Flows from Operating Activities:** Net cash flows derived from operating activities in the first half of 2009 amounted to NIS 167.9 million (U.S. \$ 42.8 million) compared to NIS 278.2 million in the corresponding period last year. The decrease in cash flows from operating activities was due to a decrease in operating income and a lower increase in accounts payable.

**Cash Flows from Investing Activities:** Net Cash flows used in investing activities in the first half of 2009 amounted to NIS 482.1 million (U.S. \$123 million) compared to net cash flows of NIS 38.5 million used in investing activities in the corresponding period last year. Cash flows used in investing activities in the first half of 2009 included mainly an investment in a restricted deposit in the amount of NIS 390 million (U.S. \$99.5 million), purchase of property and equipment, other assets and investment property in a total amount of NIS 111.9 million (U.S. \$28.5 million) net of proceeds from sale of property and equipment and investment property in the amount of NIS 7.2 million (U.S. \$1.8 million) and proceeds from realization of investment in a subsidiary in the amount of NIS 10.1 million (U.S. \$2.6 million). Cash flows used in investing activities in the first half of 2008 included mainly purchase of property and equipment, other assets and investment property amounting to NIS 155.7 million net of proceeds from realization of short term deposits in the amount of NIS 100.4 million.

**Cash Flows from Financing Activities:** Net Cash flows provided by financing activities in the first half of 2009 amounted to NIS 361.7 million (U.S \$ 92.3 million) compared to net cash used in financing activities of NIS 67.3 million in the corresponding period last year. Cash flows provided by financing activities in the first half of 2009 included mainly increase in short term credit of NIS 476.6 million (U.S \$ 121.6 million), net of repayment of long term loans of NIS 66.4 million (U.S \$ 16.9 million), payment of interest in the amount of NIS 45.9 million (U.S \$ 11.7 million) and dividend paid to minority in subsidiaries in the amount of NIS 10.5 million (U.S \$ 2.7 million). Net Cash flows used in financing activities in the first half of 2008 included mainly repayment of long term loans of NIS 46.0 million and payment of interest in the amount of NIS 39.6 million and dividend paid to minority in subsidiaries in the amount of NIS 11.1 million net of receipt of long term loans amounting to NIS 13.7 million and short term credit from banks amounting to NIS 16.6 million.

Cash Flows in the Second Quarter of 2009

**Cash Flows from Operating Activities:** Net cash flows deriving from operating activities in the second quarter of 2009 amounted to NIS 133.4 million (U.S. \$ 34 million) compared to NIS 255.0 million in the corresponding quarter last year. The decrease in cash flows from operating activities derived mainly from decrease in operating income and faster repayment of accounts payable which was partially offset by decrease in receivables.



**Cash Flows from Investing Activities:** Net Cash flows provided by investing activities in the second quarter of 2009 amounted to NIS 45.6 million (U.S. \$11.6 million) compared to net cash flows of NIS 60.2 million used in investing activities in the corresponding quarter last year. Cash flows provided by investing activities in the second quarter of 2009 included mainly proceeds from restricted deposit in the amount of NIS 80 million (U.S. \$20.4 million) and proceeds from realization of investment in a subsidiary in the amount of NIS 10.1 million (U.S. \$2.6 million), net of purchase of property and equipment, other assets and investment property in a total amount of NIS 52.2 million (U.S. \$13.3 million). Cash flows used in investing activities in the second quarter of 2008 included mainly purchase of property and equipment, other assets and investment property amounting to NIS 52.2 and net investment in marketable securities in the amount of NIS 10.5 million.

**Cash Flows from Financing Activities:** Net Cash flows used in financing activities in the second quarter of 2009 amounted to NIS 101 million (U.S. \$ 25.8 million) compared to net cash used in financing activities of NIS 19.2 million in the corresponding quarter last year. Cash flows used in financing activities in the second quarter of 2009 included mainly decrease in short term credit of NIS 52.8 million (U.S. \$ 13.5 million), repayment of long term loans of NIS 35.9 million (U.S. \$ 9.2 million) dividend paid to minority in subsidiaries in the amount of NIS 6.2 million (U.S. \$ 1.6 million) and payment of interest in the amount of NIS 10.5 million (U.S. \$ 2.7 million) net of receipt of long term loans in the amount of NIS 2.5 million (U.S. \$ 0.6 million). Net Cash flows used in financing activities in the second quarter of 2008 included mainly repayment of long term loans of NIS 22.8 million, dividend paid to minority in subsidiaries in the amount of NIS 11.1 million and payment of interest in the amount of NIS 8.2 million net of receipt of long term loans amounting to NIS 5.0 million and short term credit from banks amounting to NIS 18.4 million.

**Capital Resources and Requirements**

Our capital resources consist of a variety of short and long-term financial instruments, including loans from financial institutions, commercial paper, debentures and convertible debentures. In addition, other capital resources consist of liquid resources such as cash and cash equivalents, future cash flows from operating activities and current available-for-sale financial assets.

Our capital requirements include, among others, scheduled debt service, regular capital spending, ongoing cash requirements from operating activities, and dividend payments.

Total debt relates to our notes and debentures, loans from banks, and other financial indebtedness such as commercial paper. Total debt is comprised of short-term debt and current maturities of long-term debt as well as long-term debt, as stated on the consolidated balance sheets.

Total liquidity refers to the liquid financial assets we had available at the respective balance sheet dates to fund our business operations and pay for near-term obligations. Total liquidity is comprised of cash and cash equivalents as well as current available-for-sale financial assets, as stated on the consolidated balance sheets.

Net debt results from total debt less total liquidity. Management uses the net debt measure for internal corporate finance management, as well as for external communication with rating agencies, and accordingly we believe that presentation of net debt is useful for investors. Net debt should not be considered in isolation as an alternative to short-term debt and long-term debt as presented in accordance with IFRS.

	For the Six months ended June 30,		Convenience translation for the six months ended June 30,	For the nine months ended September 30,
	2009	2008	2009	2009
	NIS In thousands		U.S. dollars	NIS In thousands
Credit and loans from banks and others (current)	725,528	184,057	185,131	309,643
Current maturities of convertible debentures	29,064	72,450	7,416	75,811
Long-term from banks, net of current maturities	289,885	224,763	73,969	542,400
Convertible debentures, net of current maturities	128,070	144,916	32,679	141,004
Debentures, net of current maturities	1,001,537	796,888	255,559	953,256
Total debt	2,174,084	1,423,074	554,754	2,022,114
Cash and cash equivalents	137,241	228,754	35,019	445,085
Short-term bank deposit	207	1,231	53	864
Marketable securities	173,726	195,857	44,329	188,909
Total liquidity	311,174	425,842	79,401	634,858
Net debt	1,862,910	997,232	475,353	1,387,256

For further information on changes in net debt please refer to “Cash flow — First six months of 2009 compared to first six months of 2008 — Financing activities” above.

We believe that our cash balances and cash generated from operations will be sufficient to meet our anticipated cash requirements for the next 12 months.

**Subsequent events**

- We are launching additional enrollment options to "YOU" club, which, as of November 2009, has enrolled 350,000 new club members, totaling in 500,000 members
- We began implementing the synergy process in our Non-Food segment under the “Bee Group” by way of centralizing the financial activity, import, information systems and more under the headquarters of “Bee Group” and providing these services to its subsidiaries.
- We completed, in September 2009, the reorganization plan of our real estate activity and its centralization under the BSRE, under which the real estate properties of the subsidiary “Mega Retail”, were transferred to BSRE.

Along with the approval of the property transfer transaction the following were approved as well:

1. Lease agreement to lease the transferred properties that are not leased to third parties to “Mega Retail” for ten years from the closing date of the purchase agreement and an option to the lessee to extend the lease agreement for five additional years, and,
2. An agreement to extend the term of the existing lease agreements between “Mega Retail” and BSRE to an identical period (ten years from the closing date of the purchase agreement and an option to the lessee to extend the lease agreement for five additional years).

The completion of the transaction was performed as a split pursuant to Section 105 to the Income Tax Ordinance which confers upon “Mega Retail” an exemption from the payment of land appreciation tax at this stage and its deferment under the split agreement with BSRE until the realization of the properties (as far as realized) or by the depreciation rate of the depreciable properties by BSRE. In addition, the payment of purchase tax for the transaction will be at a reduced tax rate of 0.5%.

We and our subsidiaries, “Mega Retail” and BSRE will be subject to the restrictions prescribed by the provisions regarding the split pursuant to Section 105 to the Ordinance.

BSRE pledged certain of the transferred properties as collateral for a loan taken in order to finance the transaction. Transaction costs including purchase tax were recorded as expense in the statement of operations.

- On October 1, 2009, Standard & Poors Maalot ratified the rating of ilA+ for the debentures Series A and B of the company and updated the rating forecast from stable to negative.
- On October 18, 2009, BSRE issued the public Series C debentures in the total amount of NIS 300 million; the debentures were issued through a tender in accordance a shelf offering report of BSRE, which was published in accordance with a shelf prospectus of the company of May 20, 2009.
- We announced, in November 2009, the commencement of the second stage in the development of the "Eden Teva Market" chain, planning to open "Eden" branches in the company stores under the concept of a "store within a store".
- We declared, in January 2010, a dividend in the amount of NIS 75 million (NIS 1.7156 per share). The dividend will be payable on or about February 25, 2010 to shareholders of record as of close of businesses on February 11, 2010. Convertible debentures - following the dividend distribution, the conversion ratio of the Company's 5.9% convertible debentures issued in August 2003 (outstanding principal amount of 13,268,880 as of September 30, 2009) will be adjusted on February 12, 2010, due to the dividend described above. Following the adjustment, each NIS 18.379 par value of the convertible debentures will be convertible into one ordinary share of the Company.

Option plan – following the dividend distribution, the option’s exercise price per share for employees and managers will be adjusted on February 12, 2010. Following the adjustments, the exercise price per share will be NIS 33.56 for the employees and NIS 36.47 for the managers. The dividend per share, the conversion ratio adjustment of convertible debentures and the adjustment of options exercise price are subject to number of outstanding shares as of close of business on February 11, 2010.

- We decided, in January 2010, that in view of the changes and development of the Company since 2003, including Reorganization of the Real Estate properties in a separate company (that operates under debt to EBITDA ratios appropriate for real estate companies and currently holds a major part of the consolidated debt), the purchase of the BEE Group (non food retailer), and the reorganization of food retail activities in its subsidiary Mega Retail Ltd, that the net debt (total debt less cash and cash equivalent and other liquid financial assets) to EBITDA ratio is to be calculated by deducting the debt related by the company to real estate that is not in use by the Company (being equal to 75% of the investment property as recorded on the balance sheet). On September 30th, 2009, the net debt to EBITDA was less than 2. The board of directors further resolved that the net debt to EBITDA ratio for dividend distribution will not exceed 4.5 instead of 3.0 that was decided in 2003 and was appropriate for the company’s former structure. As of September 30, 2009 the Company met the new ratio.

####

**NOTE A: Convenience Translation to Dollars**

The convenience translation of New Israeli Shekel (NIS) into U.S. dollars was made at the exchange rate prevailing at June 30, 2009: U.S. \$1.00 equals NIS 3.919. The translation was made solely for the convenience of the reader.

**NOTE B: Reconciliation to EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization):**

Use of financial measures that are not in accordance with Generally Accepted Accounting Principles.

	For the Six months ended June 30,		For the Three months ended June 30,		Convenience translation for the three months ended June 30,
	2009	2008	2009	2008	2009
	NIS In thousands		NIS In thousands		U.S. dollars
Income for the period	49,860	102,270	17,512	37,233	4,468
Taxes on income (tax benefit)	24,780	26,474	6,879	10,650	1,755
Finance income	(37,995)	(45,231)	(27,016)	(16,004)	(6,894)
Finance expenses	85,222	93,658	62,246	56,187	15,883
Other losses (gains)	638	1,809	2,800	555	714
Changes in fair value of investment property	(1,740)	(17,970)	(1,740)	(5,225)	(444)
Depreciation and amortization	79,766	71,440	39,992	36,848	10,205
Benefit component in grant of employee options	5,619	2,666	2,933	2,397	748
EBITDA	206,150	235,116	103,606	122,641	26,435

EBITDA is a measure that is not in accordance with Generally Accepted Accounting Principles (Non-GAAP) and is defined as income before financial income (expenses) net, other gain (losses) net, changes in fair value of investment property taxes, depreciation and amortization. It is presented because it is a measure commonly used in the retail industry and is presented as an additional performance measure since it enables comparisons of operating performances between periods and companies while neutralizing potential differences resulting from changes in capital structures, taxes, age of property and equipment and its related depreciation expenses. EBITDA, however, should not be considered as an alternative to operating income or income for the year as an indicator of our operating performance. Similarly, EBITDA should not be considered as an alternative to cash flow from operating activities as a measure of liquidity. EBITDA is not a measure of financial performance under Generally Accepted Accounting Principles (GAAP) and may not be comparable to other similarly titled measures for other companies. EBITDA may not be indicative of our historic operating results nor is it meant to be predictive of potential future results. Reconciliation between our income for the period and EBITDA is presented in the attached condensed financial reports.

**This Management’s Discussion and Analysis contains forward-looking statements within the meaning of safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, plans or projections about our business and our future revenues, expenses and profitability. Forward-looking statements may be, but are not necessarily, identified by the use of forward-looking terminology such as "may," "anticipates," "estimates," "expects," "intends," "plans," "believes," and words and terms of similar substance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual events, results, performance, circumstance and achievements to be materially different from any future events, results, performance, circumstance and achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the following: the effect of the recession in Israel on the sales in our stores and on our profitability; our ability to compete effectively against low-priced supermarkets and other competitors; quarterly fluctuations in our operating results that may cause volatility of our ADS and share price; risks associated with our dependence on a limited number of key suppliers for products that we sell in our stores; the effect of an increase in minimum wage in Israel on our operating results; the effect of any actions taken by the Israeli Antitrust Authority on our ability to execute our business strategy and on our profitability; the effect of increases in oil, raw material and product prices in recent years; the effects of damage to our reputation or to the reputation to our store brands due to reports in the media or otherwise; and other risks, uncertainties and factors disclosed in our filings with the U.S. Securities and Exchange Commission, including, but not limited to, risks, uncertainties and factors identified under the heading "Risk Factors" in our Annual Report on Form 20-F for the year ended December 31, 2008. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Management’s Discussion and Analysis. Except for our ongoing obligations to disclose material information under the applicable securities laws, we undertake no obligation to update the forward-looking information contained in this Management’s Discussion and Analysis.**

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BLUE SQUARE - ISRAEL LTD.  
CONDENSED CONSOLIDATED INTERIM REPORT  
(Unaudited)  
AS OF JUNE 30, 2009

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**BLUE SQUARE – ISRAEL LTD.**  
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2009

	December 31,	June 30,		Convenience translation (note 2d) June 30,
	2008	2008	2009	2009
	(Audited)	(Unaudited)		(Unaudited)
		NIS		U.S. dollars
		In thousands		
Assets				
CURRENT ASSETS:				
Cash and cash equivalents	95,325	228,754	137,241	35,019
Short-term bank deposit	206	1,231	207	53
Marketable securities	171,849	195,857	173,726	44,329
Restricted deposit	-	-	440,015	112,277
Trade receivables	729,970	826,136	773,892	193,799
Other accounts receivable	87,624	109,626	96,308	28,248
Income taxes receivable	74,446	46,951	87,635	22,362
Inventories	497,080	491,591	527,798	134,677
Total current assets	1,656,500	1,900,146	2,236,822	570,764
NON-CURRENT ASSETS:				
Investments in associates	4,915	4,931	4,827	1,231
Derivative financial instruments	5,248	925	19,381	4,945
Prepaid expenses in respect of operating leases	192,426	196,684	190,605	48,636
Other long-term receivables	1,554	3,810	1,356	346
Property, plant and equipment	1,701,222	1,658,553	1,739,071	443,754
Investment property	434,232	409,297	435,386	111,096
Intangible assets	404,422	287,635	404,934	103,326
Deferred taxes	44,508	35,401	46,504	11,866
Total non-current assets	2,788,527	2,597,236	2,842,064	725,200
Total assets	4,445,027	4,497,382	5,078,886	1,295,964

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

January 20, 2010			
Date of approval of the financial statements	David Wiessman Chairman of the Board of Directors	Zeev Vurembrand President and Chief Executive Officer	Dror Moran Vice President and Chief Financial Officer



	December 31, 2008 (Audited)	June 30, 20082009 (Unaudited)		Convenience translation (note 2d) June30, 2009 (Unaudited) U.S. dollars
		NIS		
		In thousands		
Liabilities and equity				
CURRENT LIABILITIES:				
Credit and loans from banks and others	210,901	184,057	725,528	185,131
Current maturities of convertible debentures	25,999	72,450	29,064	7,416
Trade payables	1,006,386	1,086,936	1,025,728	261,732
Other accounts payable and accrued expenses	* 426,217	481,124	493,312	125,878
Income taxes payable	6,933	4,254	3,449	880
Provisions	43,397	36,677	42,457	10,834
Total current liabilities	1,719,833	1,865,498	2,319,538	591,871
LONG-TERM LIABILITIES:				
Long-term loans from banks, net of current maturities	341,586	224,763	289,885	73,969
Convertible debentures, net of current maturities	130,525	144,916	128,070	32,679
Debentures, net of current maturities	985,844	796,888	1,001,537	255,559
Other liabilities	39,925	10,834	45,506	11,612
Derivatives financial instruments	* 21,074	7,954	8,725	2,226
Liabilities in respect of employee benefits, net of amounts founded	49,911	37,095	49,619	12,661
Deferred taxes	60,327	59,675	66,354	16,931
Total long-term liabilities	1,629,192	1,282,125	1,589,696	405,637
Total liabilities	3,349,025	3,147,623	3,909,234	997,508
EQUITY:				
equity attributed to equity holders of the company:				
Ordinary shares of NIS 1 par value	57,094	57,094	57,438	14,656
Additional paid-in capital	1,018,405	1,018,405	1,030,259	262,888
Other reserves	(261)	4,039	8,183	2,088
Accumulated deficit	(154,719)	(16,940)	(109,711)	(27,995)
	920,519	1,062,598	986,169	251,637
Minority interest	175,483	287,161	183,483	46,819
Total equity	1,096,002	1,349,759	1,169,652	298,456
Total liabilities and equity	4,445,027	4,497,382	5,078,886	1,295,964

\*) Reclassified (see Note 3a).

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

BLUE SQUARE – ISRAEL LTD.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX AND THREE MONTH PERIODS ENDED JUNE 30, 2009

	Year ended December 31, 2008 (Audited)	For the Six months Ended June 30, 20082009 (Unaudited)		For the Three months Ended June 30, 20082009 (Unaudited)		Convenience Translation (note 2d) for the six months ended June 30, 2009 (Unaudited) U.S. dollars
		NIS				
		In thousands (except share and per share data)				
Sales	7,429,121	3,739,561	3,608,739	1,918,403	1,843,951	920,832
Cost of sales	5,369,149	2,708,484	2,603,905	1,390,880	1,342,204	664,431
Gross profit	2,059,972	1,031,077	1,004,834	527,523	501,747	256,401
Selling, general and administrative expenses	1,794,720	870,050	883,981	443,983	441,062	225,563
Operating profit before other gains and losses and net gain from adjustment of investment property to fair value	265,252	161,027	120,853	83,540	60,685	30,838
Other gains	12,233	617	4,464	392	1,739	1,139
Other losses	(14,716)	(2,426)	(5,102)	(947)	(4,539)	(1,302)
Changes in fair value of investment property, net	19,067	17,970	1,740	5,225	1,740	444
Operating profit	281,836	177,188	121,955	88,210	59,625	31,119
Finance income	60,700	45,231	37,995	16,004	27,016	9,695
Finance expenses	(166,295)	(93,658)	(85,222)	(56,187)	(62,246)	(21,746)
Share in losses of associates	(33)	(17)	(88)	(144)	(4)	(22)
Income before taxes on income	176,208	128,744	74,640	47,883	24,391	19,046
Taxes on income	43,806	26,474	24,780	10,650	6,879	6,323
Net income for the period	132,402	102,270	49,860	37,233	17,512	12,723
Attributable to:						
Equity holders of the Company	104,586	87,613	39,606	29,505	13,071	10,106
Minority interests	27,816	14,657	10,254	7,728	4,441	2,617
Earnings per ordinary share of ADS attributable to equity holders of the company (note 8)						
Basic	2.41	2.02	0.91	0.68	0.30	0.23
Fully diluted	1.62	1.50	0.91	0.64	0.30	0.23

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

BLUE SQUARE – ISRAEL LTD.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX AND THREE MONTH PERIODS ENDED JUNE 30, 2009

	Year ended December 31, 2008	For the six months ended June 30,		For the three months ended June 30,		Convenience translation (note 2d) for the six months ended June 30,
		2008	2009	2008	2009	2009
	(Audited)	(Unaudited)				(Unaudited)
		NIS				U.S. dollars
		In thousands				
Net income:	132,402	102,270	49,860	37,233	17,512	12,723
Other comprehensive income:						
Available-for-sale financial assets, net of tax	(2,214)	2,902	9,925	1,659	2,974	2,533
Actuarial gain (loss) on employee rights obligations , net of tax	(10,346)	110	-	-	-	-
Total other comprehensive income, net of tax	(12,560)	3,012	9,925	1,659	2,974	2,533
Total comprehensive income for the period	119,842	105,282	59,785	38,892	20,486	15,256
Total comprehensive income attributable to:						
Equity holders of the Company	92,898	90,347	48,049	31,036	15,607	12,261
Minority interest	26,944	14,935	11,736	7,856	4,879	2,995

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

**BLUE SQUARE – ISRAEL LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2009**

	Equity attributable to equity holders of the Company					Minority interest	Total equity
	Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total		
				NIS in thousands			
BALANCE AT JANUARY 1, 2009 (audited)	57,094	1,018,405	(261)	(154,719)	920,519	175,483	1,096,002
CHANGES DURING THE SIX- MONTHS ENDED							
JUNE 30, 2009 (unaudited):							
Total comprehensive income for the period	-	-	8,444	39,605	48,049	11,736	59,785
Employee share-based payment	-	-	-	5,403	5,403	-	5,403
Transaction with minority interest	-	-	-	-	-	2,445	2,445
Issuance of shares upon conversion of convertible debentures	344	11,854	-	-	12,198	-	12,198
Dividends distributed to minority interest of subsidiaries	-	-	-	-	-	(6,181)	(6,181)
BALANCE AT JUNE 30, 2009 (unaudited)	57,438	1,030,259	8,183	(109,711)	986,169	183,483	1,169,652

	Equity attributable to equity holders of the Company					Minority interest	Total equity
	Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total		
				NIS in thousands			
BALANCE AT JANUARY 1, 2008 (audited)	57,094	1,018,405	1,415	(107,262)	969,652	278,028	1,247,680
CHANGES DURING THE SIX- MONTHS ENDED JUNE 30, 2008 (unaudited):							
Total comprehensive income for the period	-	-	2,624	87,723	90,347	14,935	105,282
Employee share-based payment	-	-	-	2,599	2,599	67	2,666
Exercise of convertible debentures of subsidiary	-	-	-	-	-	5,248	5,248
Dividends distributed to minority interest of subsidiaries	-	-	-	-	-	(11,117)	(11,117)
BALANCE AT JUNE 30, 2008 (unaudited)	57,094	1,018,405	4,039	(16,940)	1,062,598	287,161	1,349,759

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

BLUE SQUARE – ISRAEL LTD.  
CONDENSED STATEMENTS OF CHANGES IN EQUITY  
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2009

	Equity attributable to equity holders of the Company						
	Ordinary Shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total	Minority interest	Total equity
				NIS in thousands			
BALANCE AT JANUARY 1, 2008 (audited)	57,094	1,018,405	1,415	(107,262)	969,652	278,028	1,247,680
CHANGES DURING 2008 (audited):							
Comprehensive income for the period	-	-	(1,676)	94,574	92,898	26,944	119,842
Employee share-based payment	-	-	-	7,969	7,969	206	8,175
Transaction with minority interest	-	-	-	-	-	(103,264)	(103,264)
Dividends paid	-	-	-	(150,000)	(150,000)	-	(150,000)
Dividends distributed to minority interest of subsidiaries	-	-	-	-	-	(26,431)	(26,431)
BALANCE AT DECEMBER 31, 2008 (audited)	57,094	1,018,405	(261)	(154,719)	920,519	175,483	1,096,002

	Equity attributable to equity holders of the Company						
	Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total	Minority interest	
Convenience translation into U.S. dollars in thousands (note 2d)							
BALANCE AT JANUARY 1, 2009 (audited)	14,568	259,863	(67)	(39,479)	234,885	44,777	279,662
CHANGES DURING THE SIX- MONTHS ENDED							
JUNE 30, 2009 (unaudited):							
Total comprehensive income for the period	-	-	2,155	10,106	12,261	2,995	15,256
Employee share-based payment	-	-	-	1,378	1,378	-	1,378
Transaction with minority interest	-	-	-	-	-	624	624
Issuance of shares upon conversion of convertible debentures	88	3,025	-	-	3,113	-	3,113
Dividends distributed to minority interest of subsidiaries	-	-	-	-	-	(1,577)	(1,577)
BALANCE AT JUNE 30, 2009 (unaudited)	14,656	262,888	2,088	(27,995)	251,637	46,819	298,456

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

BLUE SQUARE – ISRAEL LTD.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE SIX AND THREE MONTH PERIODS ENDED JUNE 30, 2009

	Year ended December 31, 2008 (Audited)	For the six months ended June 30 20082009		For the three months ended June 30 20082009		Convenience translation (note 2d) for the six months ended June 30, 2009 (Unaudited) U.S. dollars
		(Unaudited)		(Unaudited)		
		NIS				
		In thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:						
Income before taxes on income	176,208	128,744	74,640	47,883	24,391	19,046
Income tax paid	(94,212)	(48,044)	(34,775)	(29,410)	(19,642)	(8,873)
Adjustments required to reflect the cash flows from operating activities (a)	327,777	197,529	128,026	236,561	128,654	32,668
Net cash provided by operating activities	409,773	278,229	167,891	255,034	133,403	42,841
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property, plant and equipment	(211,646)	(104,306)	(99,424)	(44,517)	(46,092)	(25,369)
Purchase of investment property	(69,749)	(36,331)	(3,307)	(4,158)	(978)	(844)
Purchase of minority shares in subsidiaries	(186,403)	-	(6,607)	-	-	(1,686)
Purchase of intangible assets	(30,372)	(15,108)	(9,194)	(3,609)	(5,181)	(2,347)
Proceeds from collection of short-term bank deposits, net	102,531	100,426	-	256	-	-
Investment in restricted deposit	-	-	(470,000)	-	-	(119,928)
Proceeds from collection of restricted deposit	-	-	79,985	-	79,985	20,409
Proceeds from sale of property, plant and equipment	1,559	377	1,537	60	1,036	392
Proceeds from sale of investment property	6,567	6,567	5,700	-	-	1,454
Proceeds from sale of marketable securities	185,104	106,237	57,179	40,481	22,976	14,590
Investment in marketable securities	(169,747)	(100,640)	(54,339)	(50,989)	(20,946)	(13,866)
Proceeds from sale of subsidiary share to the minority	-	-	10,074	-	10,074	2,571
Interest received	17,778	4,242	6,330	2,208	4,747	1,615
Net cash provided by (used in) investing activities	(354,378)	(38,536)	(482,066)	(60,268)	45,621	(123,009)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Dividend paid to shareholders	(150,000)	-	-	-	-	-
Issuance of debentures	121,259	-	-	-	-	-
Dividend paid to minority shareholders of subsidiaries	(22,077)	(11,117)	(10,534)	(11,117)	(6,181)	(2,688)
Receipt of long-term loans	231,398	13,709	6,500	5,000	2,500	1,659
Repayment of long-term loans	(130,571)	(46,074)	(66,389)	(22,824)	(35,901)	(16,940)
Repayment of other long term liabilities	(1,740)	(870)	(870)	(435)	(435)	(222)
Short-term credit from banks and others, net	15,689	16,645	476,575	18,392	(52,843)	121,606
Proceeds from exercise of options in a subsidiary	-	-	2,306	-	2,306	588
Interest paid	(89,244)	(39,642)	(45,879)	(8,224)	(10,495)	(11,707)
Net cash provided by (used in) financing activities	(25,286)	(67,349)	361,709	(19,208)	(101,049)	92,296
INCREASE IN CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT	30,109	172,344	47,534	175,558	77,975	12,128
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT AT BEGINNING OF PERIOD	53,029	56,410	83,138	53,196	52,697	21,214
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT AT END OF PERIOD	83,138	228,754	130,672	228,754	130,672	33,342

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



BLUE SQUARE – ISRAEL LTD.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE SIX AND THREE MONTHS PERIODS ENDED JUNE 30, 2009

						Convenience translation (note 2d) for the six months ended June 30,
		Year ended December 31,	For the six months ended June 30		For the three months ended June 30	
		2008	2008	2009	2008	2009
		(Audited)	(Unaudited)		(Unaudited)	
			NIS		U.S. dollars	
			In thousands			
(b)	Supplementary information on investing and financing activities not involving cash flows:					
	Conversion of convertible debentures of the company	-	-	12,198	-	12,198
	Conversion of convertible debentures of subsidiaries	6,655	6,387	-	2,224	-
	Purchasing property, plant and equipment on credit	14,797	6,931	10,153	6,931	10,153
	Restricted deposit against receipt of a short term loan	-	-	50,000	-	50,000

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



**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - GENERAL:**

**Information on the activities of Blue Square Israel Ltd and its subsidiaries**

Blue Square-Israel Ltd. ("Blue Square") is an Israeli corporation, which, directly and through its subsidiaries (together - the Company), operates in Israel. All references to the Company include, unless the context otherwise indicates, Blue-Square and its subsidiaries. The Company operates in three operating segments: (1) Supermarkets, (2) Non-food Retail and Wholesale and (3) Real Estate (see Note 3d and Note 9). Blue Square is a limited public company incorporated and is Israeli resident. The Company is under control and ownership of Alon Israel Oil Company Ltd..The address of its registered office is 2 Amal St., Afek Industrial Zone, Rosh Ha'ayin, Israel. American Depositary Shares, each representing one ordinary share of Blue Square are listed for trading on the New-York Stock Exchange (the "NYSE"), and the ordinary shares of Blue Square are listed for trading on the Tel-Aviv Stock Exchange (the "TASE").

**NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:**

**a) Statements of compliances**

The interim condensed consolidated financial information of the Company as of 30 June , 2009 and for the six and three month periods ended on that date (hereinafter - the interim financial report) have been prepared in accordance with International Financial Reporting Standards (hereafter – "IFRS") as issued by the International Accounting Standards Board (hereafter – "IASB"). These interim financial report have been prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial report should be read in conjunction with the annual financial statements as of December 31, 2008 and for the year ended on that date and with the notes thereto.

The interim financial information is reviewed and is not audited.

**b) Translation of foreign currency balances and transactions**

1) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (hereinafter - "the functional currency"). The consolidated interim financial statements are presented in NIS, which is the company's functional and presentation currency.

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (continued)

**NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS** (continued):

Changes in the exchange rates of the US dollar and the Israeli CPI, in the reported periods are as follows:

	Exchange rate of the US dollar	Israel CPI
	%	
Six-month period ended June 30:		
2009	3.1	1.2
2008	(12.8)	2.8
Three-month period ended June 30:		
2009	(6.4)	1.9
2008	(5.7)	2.4
Year ended December 31, 2008	(1.1)	4.5

The exchange rate of the US dollar at June 30, 2009 is US\$1 = NIS 3.919

**c) Transactions and balances**

Transactions made in a currency which is different from the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end-of-period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations.

**d) Convenience translation into U.S. dollars**

The financial statements as of June 30, 2009 and for the six month period ended have been translated into U.S. dollars using the representative rate of exchange at that date (U.S. \$ 1 = NIS 3.919). The translation was made solely for the convenience of the reader.

The U.S. dollar amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standard are mandatory for the first time for the financial year beginning January 1, 2009 and were adopted by the Company as of that date:

- a) IAS 1 (revised), "presentation of financial statements" (hereafter IAS 1R). The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the statement of income and statement of comprehensive income).

The Company has elected to present two statements: a statement of income and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

In addition, the amendment to IAS 1R explains that only some, and not all, financial assets and liabilities classified as 'held for trading' under the provisions of International Accounting Standard No. 39, 'Financial Instruments – Recognition and Measurement' ("IAS 39") can be regarded as examples of assets and liabilities classified as current. As part of the application of the amendment, the Company classified financial liabilities at fair value through profit or loss in respect of CPI forward transactions in the total amount of NIS 11,106 thousands as of December 31, 2008 into long-term liabilities.

- b) IFRS 8, "operating segments". IFRS 8 replaces IAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

As a result the Company includes segment information in the financial report (see note 9).

The following new standards amendments to standard and interpretations have been issued, but are not effective for the financial year beginning January 1, 2009 and have not been early adopted.

- a) IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Company. The Company does not have any joint ventures. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

The Company will apply IFRS 3 (revised) to all business combinations from January 1, 2010. Where standards or interpretations mandatory for the first time for the financial year beginning January 1, 2009.

- b) Amendment to IAS 17 (in effect of annual periods commencing on January 1, 2010 and thereafter); the said amendment is part of the IASB's annual improvements project published in April 2009. Under the amendment to IAS 17, the requirement to automatically classify lease of land as an operating lease in any case where it is not expected that title would be passed to the lessee at the end of the lease period, would be cancelled. Accordingly, the type lease of land would be determined using the standard criteria for classification of a lease as finance or operating lease and based on the information available at time the lease was entered into with retrospective application, unless the entity does not have the information required for retrospective application of the amendment of the IAS 17.

The Company would apply the amendment to IAS 17 commencing January 1, 2010.

Company's management examines the potential effects of application of the amendment to IAS 17 on its financial statements.

**NOTE 4 - EFFECT OF SEASONALITY:**

The Company's operations are characterized by the effect of the Jewish religious holiday's timing, in particular 'Rosh-Hashanah' (New Year) and 'Passover', with increase of its sales in the quarters when these holidays take place. In view of this, the results for the six-month period ended June 30, 2009 do not necessarily provide an indication of the results to be expected for the entire year ended December 31, 2009.

**NOTE 5 – TAXES ON INCOME:**

The income of the Company's Israeli subsidiaries is taxed at the regular rate. Under the provisions of amendment of the income tax ordinance, 2005, of august 2005, the corporate tax rates have been gradually reduced; as a result the corporate tax rates applicable as from tax year 2008 are as follows: 2008- 27% , 2009- 26%, 2010 and thereafter - 25%.

On July 23, 2009 the Economic Rationalization Law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009 and 2010),2009, became effective; this law determined, inter alia a further gradual reduction of the corporate tax.

Rate as from 2011, as follows: 2011-24%, 2012- 23%, 2013- 22%, 2014- 21% 2015- 20%, 2016 and thereafter - 18%.

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

**NOTE 5 – TAXES ON INCOME (continued):**

The implication of the change in the tax rate will be reflected in the results of the third quarter of 2009 by decrease in deferred tax liability and recognition in income from taxes in the amount of NIS 20.3 million (U.S \$ 5.4 million) out of which the portion attributed to the company's owners is NIS 15.2 million (U.S \$ 4.0 million).

**NOTE 6 – DEBENTURES AND CONVERTIBLE DEBENTURES:**

- a. On June 17 2009, Company convertible debentures with a par value of NIS 6,917,483 were converted into 344,239 ordinary shares.
- b. On August 5 2009, Company convertible debentures with a par value of NIS 13,268,820 were repaid.
- c. On October 18, 2009, Blue Square Real Estate, Company's subsidiary (hereafter – BSRE) issued to the public Series C debentures in the total amount of NIS 300,000,000; the debentures were issued through a tender in accordance a shelf offering report of BSRE, which was published in accordance with a shelf prospectus of the company of May 20, 2009.

Total proceeds received in respect of the issuance of Series C debentures is NIS 294,280 thousands (net of issuance expenses of NIS 5,720 thousands). The annual effective interest rate payable on Series C debentures, taking into account the issuance expenses as above is 4.55%.

The principal of debentures (Series C) would be repaid in eight non-equal annual installments on October 31 of each of the years 2011 to 2018 (inclusive), where six installments each constituting of 7.5% of the amount of the principal of the debentures would be paid on October 31 of each of the years 2011 to 2016 and two installments each constituting 27.5% of the amount of the principal of the debentures would be paid in October of each of the years 2017 and 2018.

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (continued)

**NOTE 7 - RELATED-PARTY BALANCES**

**Balances arising from sales/purchases of goods/services:**

	December 31,	June 30,	
	2008	2008	2009
	(Audited)	(Unaudited)	
	NIS in thousands		
Trade receivables	56,550	58,196	64,207
Other receivables	8,104	7,810	4,954
	64,654	66,006	69,161

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sales. The receivables are unsecured in nature and bear no interest.

**NOTE 8 – EARNING PER SHARE:**

**a. Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31, 2008 (Audited)	For the six months ended June 30, 20082009		For the three months ended June 30, 20082009	
		(Unaudited)			
	NIS in thousands				
Profit attributable to equity holders of the Company	104,586	87,613	39,606	29,505	13,071
Weighted average number of ordinary shares in issue	43,372,819	43,372,819	43,397,543	43,372,819	43,421,996

BLUE SQUARE – ISRAEL LTD.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 – EARNING PER SHARE (continued):

b. Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company’s shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended December 31, 2008 <u>Audited</u>	For the six months ended June 30 <u>2008</u> <u>2009</u>		For the three months ended June 30 <u>2008</u> <u>2009</u>	
		<u>Unaudited</u>			
		<u>NIS   in thousands</u>			
Profit attributable to equity holders of the Company	104,586	87,613	39,606	29,505	13,071
Gain from conversion feature and Interest expense on convertible debt (net of tax)	(31,527)	(20,335)	-,-	(725)	-,-
Profit used to determine diluted earnings per share	<u>73,059</u>	<u>67,278</u>	<u>39,606</u>	<u>28,780</u>	<u>13,071</u>
Weighted average number of ordinary shares in issue adjustments for:	43,372,819	43,372,819	43,397,543	43,372,819	43,421,996
Assumed conversion of convertible debt	<u>1,664,873</u>	<u>1,420,421</u>	<u>-,-</u>	<u>1,420,421</u>	<u>-,-</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>45,037,692</u>	<u>44,793,240</u>	<u>43,397,543</u>	<u>44,793,240</u>	<u>43,421,996</u>
Options which were not included in the computation of diluted earnings per share due to anti dilutive effect	<u>4,869,000</u>	<u>4,765,500</u>	<u>4,447,000</u>	<u>4,765,500</u>	<u>4,447,000</u>
Convertible debentures which were not included in the computation of diluted earnings per share due to anti dilutive effect	<u>-,-</u>	<u>-,-</u>	<u>1,640,144</u>	<u>-,-</u>	<u>1,640,144</u>

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

**NOTE 9 – SEGMENT INFORMATION:**

The Company includes segment information, according to IFRS 8. Based on the Company's organization structure and the nature of products and services that it provides, the Company presents three reportable segments: Supermarkets, Non-food Retail and Real estate. All Company's activities located in Israel.

The Company's chief operating decision makers review the Company's internal reports in order to evaluate performance and allocate resources. Company's management has set the operating segments based on these reports.

Administrative and general expenses of Head Quarters operations, other gains (loss) and financial income and expenses are not included in the results of each of the operating segments.

Additional data provided to the chief operating decision makers except the data provided below is measured in a manner that corresponds the method of measurement used in the financial statements.

Company's three operating segments consist of the following:

- (1) Supermarkets –The Company engaged through its fully held subsidiary, Mega Retail Ltd. ("Mega Retail"), in Supermarket activities, offering a wide range of food and beverage products and “Non-food” items, such as houseware, toys, small electrical appliances, computers and computer accessories, entertainment and leisure products and textile products and “Near-Food” products, such as health and beauty aids, infants products, cosmetics and hygiene products .As of June 30, 2009, we operated 200 supermarkets in this segment.  
This segment also includes properties owned through our held subsidiary, BSRE, in connection with the supermarket operation of our stores (including warehouses and offices).
- (2) Non-food Retail and Wholesale – The company engaged through our held subsidiary, Bee Group Retail Ltd. ("Bee Group"), in Non- food Retail and wholesale activities .As of June 30, 2009, Bee Group consisted of 260 non- food Retail outlets, mostly through franchisees, with activities in the houseware and home textile, toys, leisure, and baby and young children sectors.
- (3) Real Estate – The Company engaged through our subsidiary BSRE in commercial centers, office buildings and logistics centers owned by the Company for the purpose of deriving long-term yield from lease, and land held for long-term capital appreciation.

	Six months ended June 30, 2009 (unaudited)				
	Supermarkets	Non - food Retail	Real estate	Adjustments	Total consolidated
	NIS in thousands				
Net segment revenues	3,358,964	239,134	10,641	-	3,608,739
Inter segment revenues	-	31,125	-	(31,125)	-
Changes in fair value of investment property, net			1,740		1,740
Segment profit	101,546	17,936	7,571	324	127,377
Unallocated corporate expenses					(8,504)
Unallocated corporate gain due to decrease in holdings, net					3,082
Financial income					37,995
Financial expenses					(85,222)
Share in losses of associated companies					(88)
Income before taxes on income					74,640



BLUE SQUARE – ISRAEL LTD.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 9 – SEGMENT INFORMATION (continued):

	Six months ended June 30, 2008 (unaudited)				
	Supermarkets	Non - food retail	Real estate	Adjustments	Total consolidated
	NIS in thousands				
Segment revenues	3,508,507	221,316	9,738	-	3,739,561
Inter segment revenues	-	31,623	-	(31,623)	-
Changes in fair value of investment property, net			17,970		17,970
Segment profit	149,876	20,444	22,335	(1,419)	191,236
Unallocated corporate expenses					(12,446)
Unallocated corporate losses due to decrease in holdings, net					(1,602)
Financial income					45,231
Financial expenses					(93,658)
Share in losses of associated companies					(17)
Income before taxes on income					128,744

	Three months ended June 30, 2009 (unaudited)				
	Supermarkets	Non - food Retail	Real estate	Adjustments	Total consolidated
	NIS in thousands				
Net segment revenues	1,731,387	107,203	5,361	-	1,843,951
Inter segment revenues	-	10,316	-	(10,316)	-
Changes in fair value of investment property, net			1,740		1,740
Segment profit	57,099	742	5,166	(38)	62,969
Unallocated corporate expenses					(3,882)
Unallocated corporate gains due to decrease in holdings, net					538
Financial income					27,016
Financial expenses					(62,246)
Share in losses of associated companies					(4)
Income before taxes on income					24,391

BLUE SQUARE – ISRAEL LTD.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 9 – SEGMENT INFORMATION (continued):

	Three months ended June 30, 2008 (unaudited)				
	Supermarkets	Non - food Retail	Real estate	Adjustments	Total consolidated
NIS in thousands					
Net segment revenues	1,800,539	112,813	5,051	-	1,918,403
Inter segment revenues	-	12,585	-	(12,585)	-
Changes in fair value of investment property, net			5,225		5,225
Segment profit	79,481	8,930	8,081	119	96,611
Unallocated corporate expenses					(8,278)
Unallocated corporate losses due to decrease in holdings, net					(123)
Financial income					16,004
Financial expenses					(56,187)
Share in losses of associated companies					(144)
Income before taxes on income					47,883

	Year ended December 31, 2008 (unaudited)				
	Supermarkets	Non - food Retail	Real estate	Adjustments	Total consolidated
NIS in thousands					
Net segment revenues	6,966,839	442,130	20,152	-	7,429,121
Inter segment revenues	-	55,393	-	(55,393)	-
Changes in fair value of investment property, net			19,067		19,067
Segment profit	246,096	29,077	26,445	(2,957)	298,661
Unallocated corporate expenses					(26,606)
Unallocated corporate gains due to decrease in holdings					9,781
Financial income					60,700
Financial expenses					(166,295)
Share in losses of associated companies					(33)
Income before taxes on income					176,208

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

**NOTE 10 – CONTINGENCIES**

- a. On September 14, 2009 the Company was served with a claim and a request for approval as a class action (the "Claim"), in which the Company is being sued regarding the sale of cosmetics and perfume products without marking the expiry date or the allowed use period after its opening, as is allegedly obligatory according to the 15 amendment of the Pharmacists directive [new edition] 1981 which is in effect since July 1, 2009. The plaintiff's personal claim is estimated by him at approximately NIS 175 and if the Claim is approved as a class action, the approximate claim is estimated by the plaintiff at least at NIS 13 million. In addition, the plaintiff requests that the court will issue an injunction forbidding the company from selling such products without the marked expiry date or the maximum allowed period for use after opening. The Company is currently reviewing the Claim and denying all above allegations, however, at this preliminary stage of the proceedings, it is unable to evaluate its likelihood of success in the proceedings, including the likelihood that the Claim will be certified as a class action.
- b. On December 8, 2009, the company was served with a claim and a request for approval as a class action ("the claim") in which the company is being sued regarding alleged misrepresentations as to the contents of Fruit spreads sold by the company under its private label "mega". The plaintiff's personal claim is estimated by him at approximately NIS 52 and if the Claim is approved as a class action, the approximate claim is estimated by the plaintiff at least at NIS 8.4 million. The company is currently reviewing the Claim and denying all above allegations, however, at this preliminary stage of the proceedings, it is unable to evaluate its likelihood of success in the proceedings, including the likelihood that the Claim will be certified as a class action.
- c. On November 4, 2009 the request for approval as a class action and personal claim concerning refund in cash of the deposit on the beverages bottles was dismissed by the court upon the plaintiff's request.
- d. On October 29, 2009 the request for approval as a class action regarding the coordination of the selling prices of ink heads produced by HP was withdrawn by the plaintiff with respect to the company.

**NOTE 11 – REORGANIZATION OF REAL ESTATE ACTIVITY**

In September 2009, the reorganization plan of the real estate activity of the company and its centralization under the subsidiary BSRE, was completed under which the real estate properties of the subsidiary Mega Retail Ltd. (formerly Blue Square Chain Investment & Properties Ltd) (Mega Retail), were transferred to BSRE.

Within the approval of the property transfer transaction the following were approved as well:

1. Lease agreement to lease the transferred properties that are not leased to third parties to Mega Retail for ten years from the closing date of the purchase agreement and an option to the lessee to extend the lease agreement for five additional years, and,
2. An agreement to extend the term of the existing lease agreements between Mega Retail and BSRE to an identical period (ten years from the closing date of the purchase agreement and an option to the lessee to extend the lease agreement for five additional years).

**BLUE SQUARE – ISRAEL LTD.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

**NOTE 11 – REORGANIZATION OF REAL ESTATE ACTIVITY (continued):**

The completion of the transaction was performed as a of split pursuant to Section 105 to the Income Tax Ordinance which confers upon Mega Retail an exemption from the payment of land appreciation tax at this stage and its deferment under the split agreement with BSRE until the realization of the properties (as far as realized) or by the depreciation rate of the depreciable properties by BSRE. In addition, the payment of purchase tax for the transaction will be at a reduced tax rate of 0.5%.  
The company and the subsidiaries, Mega Retail and BSRE will be subject to the restrictions prescribed by the provisions regarding the split pursuant to Section 105 to the Ordinance.

BSRE pledged certain of the transferred properties as collateral for a loan taken in order to finance the transaction. Transaction costs including purchase tax were recorded as expense in the statement of operations.

**NOTE 12 – SUBSEQUENT EVENT**

On January 14, 2010 the Board of Directors declared a dividend in the amount of NIS 75 million (NIS 1.7156 per share based on number of outstanding shares as of January 14, 2010). The dividend, will be payable on or about February 25, 2010 to shareholders of record as of close of businesses on February 11, 2010.

The dividend, net of taxes withheld at source pursuant to Israeli law, will be payable on or about February 25, 2010 to shareholders of record as of close of business on February 11, 2010. Holders will be paid in US Dollars based on the representative rate of exchange of the US Dollar against the NIS published by the Bank of Israel on or about February 25, 2010.

Convertible debentures - following the dividend distribution, the conversion ratio of the Company's 5.9% convertible debentures issued in August 2003 (outstanding principal amount of 13,268,880 as of September 30, 2009) will be adjusted on February 12, 2010, due to the dividend described above. Following the adjustment, each NIS 18.379 par value of the convertible debentures will be convertible into one ordinary share of the Company.

Option plan – following the dividend distribution, the option’s exercise price per share for employees and managers will be adjusted on February 12, 2010. Following the adjustments, the exercise price per share will be NIS 33.56 for the employees and NIS 36.47 for the managers.  
The dividend per share, the conversion ratio adjustment of convertible debentures and the adjustment of options exercise price are subject to number of outstanding shares as of close of business on February 11, 2010.

The Board decided in view of the changes and development of the Company since 2003 to amend Company's net debt to EBITDA ratio for dividend distribution. As of September 30, 2009 the Company met the new ratio.

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