

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 1-14426

BLUE SQUARE-ISRAEL LTD.

(Exact name of Registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

2 Amal Street, Rosh Ha'ayin 48092, Israel

(Address of principal executive offices)

Elli Levinson-Sela, General Counsel & Corporate Secretary;
Tel: (972)-3-9282670; Fax: (972)-3-9282498

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of class	Name of each exchange on which registered
American Depositary Shares, each representing one Ordinary Share ⁽¹⁾	New York Stock Exchange, Inc.
Ordinary Shares, par value NIS 1.0 per share ⁽²⁾	New York Stock Exchange, Inc.

(1) Evidenced by American Depositary Receipts.

(2) Not for trading, but only in connection with the listing of the American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

43,717,058 Ordinary Shares, par value NIS 1.0 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financing Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

INTRODUCTION

Unless otherwise indicated, as used in this Annual Report, (a) the term “Blue Square” or the “Company” means Blue Square-Israel Ltd., (b) the terms “we,” “us” and “our,” mean Blue Square and its consolidated subsidiaries, (c) “Mega Retail” means Mega Retail Ltd. (formerly known as Blue Square Chain Investments & Properties Ltd.), our wholly-owned subsidiary, (d) "BSRE" means Blue Square Real Estate Ltd., a corporation of which we held 78.35% of the outstanding shares as of May 31, 2010, and the balance of whose shares are publicly held and traded on the Tel Aviv Stock Exchange, and its subsidiaries and (e) "Bee Group" means Bee Group Retail Ltd. (formerly known as Hamachsán Hamerkazi Kfar Hasha’ashuim Ltd.), a corporation of which we held 85% of the outstanding ordinary shares as of May 31, 2010.

We operate in three reporting segments. In our Supermarkets segment, we are the second largest food retailer in the State of Israel. In our "Non-Food" segment, we sell “Non-Food” items both in our supermarkets and in stand alone retail outlets. In our Real Estate segment, we own, lease and develop yield-generating commercial properties.

Through our supermarkets, which are owned and operated through Mega Retail, we offer a wide range of food and beverages products and “Non-Food” items, such as houseware, toys, small electrical appliances, computers and computer accessories, entertainment and leisure products and textile products (called “Non-Food” in this Annual Report), and “Near-Food” products, such as health and beauty aids, baby and young children products, cosmetics and hygiene products (called “Near-Food” in this Annual Report). As of December 31, 2009, we owned and operated 203 supermarkets under the brand names Mega, Mega in Town, Shefa Shuk, Mega Bool and Eden Briut Teva Market Ltd. (“Eden Teva”).

In addition, as of December 31, 2009, the 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. The Bee Group operates under the brand names Naaman, Vardinon, Sheshet, Kfar Hasha’ashuim, Rav-Kat, Dr. Baby and All for a Dollar.

As of December 31, 2009, we were the legal owner (including through long-term leases from the Israel Land Administration and the Municipality of Tel Aviv) of 101 properties owned in connection with our Supermarkets and "Non Food" segments (including warehouses and offices), totaling approximately 218,900 square meters, 39 yield generating real estate properties (including property leased to third parties), totaling approximately 60,800 square meters, and approximately 210,000 square meters of unutilized building rights. For further information regarding our real estate, see “Item 4. Information on the Company - B. Business Overview – Our Real Estate.”

Our revenues and profits during the years described in this Annual Report were principally derived from the operation of our supermarkets. In recent years, we have increased our activity in the "Non-Food" retail, mainly through acquisitions. We expect that the acquisitions we have made in the "Non-Food" retail area will have an increasing effect on our financial results in the coming years.



In May 2010, we signed a share purchase agreement with our controlling shareholder, Alon Israel Oil Company Ltd., or Alon, to acquire from Alon all of Alon's approximately 80% holdings in Dor-Alon Energy In Israel (1988) LTD., or Dor Alon. Dor Alon is one of the four largest fuel retail companies in Israel based on the number of gas stations and is a leader in the convenience stores sector. The closing of the transaction is subject to satisfaction of closing conditions, including shareholder approval. See “Item 7. Major Shareholders and Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD.”

Please note that unless otherwise indicated, as used in this Annual Report, the term “owned” or “ownership” with respect to our supermarkets means the ownership of the operations of our supermarkets, and not legal title to the real estate underlying our supermarkets.

We were incorporated in June 1988. In 1996, we completed our initial public offering and our American Depositary Shares, or ADSs, were listed for trading on the New York Stock Exchange. In November 2000, our ordinary shares were listed for trading on the Tel Aviv Stock Exchange.

Except for the historical information contained herein, the statements contained in this Annual Report are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, with respect to our business, financial condition and operating results. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in “Item 3. Key Information - D. Risk Factors” and elsewhere in this Annual Report.

We urge you to consider that statements which use the terms “believe,” “do not believe,” “expect,” “plan,” “intend,” “estimate,” “anticipate,” “project” and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Except as required by applicable law, including the securities laws of the United States, we do not undertake any obligation nor intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

All references in this Annual Report to dollars or \$ are to U.S. dollars and all references in this Annual Report to NIS are to New Israeli Shekels. Unless mentioned otherwise, all figures in U.S. dollars are based on the representative exchange rate between the NIS and the dollar as published by the Bank of Israel for December 31, 2009, which was NIS 3.775 per \$1.00, except figures for the first quarter of 2010, which are based on the representative exchange rate between the NIS and the dollar as published by the Bank of Israel for March 31, 2010, which was NIS 3.713 per \$1.00.

Presentation of Financial and Share Information

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Until and including our financial statements for the year ended December 31, 2007, we prepared our consolidated financial statements in accordance with Israeli GAAP. The influence of the transition to IFRS (from financial statements prepared in accordance with generally accepted accounting principles in Israel, referred to in this Annual Report as Israeli GAAP) on our financial statements for the year ended December 31, 2007 and our results of operations for that year, is detailed in note 36 to our consolidated annual financial statements for the year ended December 31, 2008. Following the Company's adoption of IFRS, as issued by the IASB, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S.GAAP.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data.

We have derived the following selected consolidated financial data as of December 31, 2007, 2008 and 2009 and for each of the years ended December 31, 2007, 2008 and 2009 from our consolidated financial statements and notes included elsewhere in this Annual Report. We have derived the selected consolidated financial data as of December 31, 2005 and 2006 and for each of the years ended December 31, 2005 and 2006 from our audited consolidated financial statements not included in this Annual Report. We prepare our consolidated financial statements in conformity with IFRS. Until and including our financial statements for the year ended December 31, 2007, we prepared our consolidated financial statements in accordance with Israeli GAAP. To facilitate comparison with the financial results of the years 2008 and 2009, results from the year ended December 31, 2007 have been adjusted in accordance with IFRS and differ from the results reported previously. You should read the selected consolidated financial data together with the section of this Annual Report titled “Item 5. Operating and Financial Review and Prospects”, our consolidated financial statements included elsewhere in this Annual Report, the related notes, and the independent registered public accounting firm's report.

The selected information also includes certain items for the years 2005 and 2006 in accordance with U.S. GAAP. Israeli GAAP differs in certain significant respects from U.S. GAAP. For a summary of certain significant differences, see note 21 to our consolidated financial statements for the year ended December 31, 2007.

	For the year ended December 31,			
	2007	2008	2009	2009
	NIS (In thousands, except per ordinary share or ADS data)			\$(1)
Statement of Income Data: In accordance with IFRS				
Sales	6,981,984	7,429,121	7,349,076	1,946,775
Cost of sales	5,129,578	5,369,149	5,291,012	1,401,593
Gross profit	1,852,406	2,059,972	2,058,064	545,182
Selling, general and administrative expenses	1,563,208	1,794,720	1,817,099	481,351
Operating profit before other gain and losses and net gain from adjustment of investment property to fair value	289,198	265,252	240,965	63,831
Other gains	15,835	12,233	4,699	1,245
Other losses	(12,755)	(14,716)	(32,803)	(8,690)
Net gain from adjustment of investment property to fair value	10,456	19,067	20,775	5,503
Operating profit	302,734	281,836	233,636	61,889
Finance income	60,978	60,700	64,780	17,160
Finance expenses	(118,297)	(166,295)	(177,454)	(47,006)
Finance expenses, net	57,319	105,595	112,674	29,846
Share in profit (loss) of associates	186	(33)	(37)	(10)
Income before taxes on income	245,601	176,208	120,925	32,033
Taxes on income	69,779	43,806	23,124	6,125
Profit for the year	175,822	132,402	97,801	25,908
Attributable to:				
Equity holders of the company	143,628	104,586	77,163	20,441
Minority interests	32,194	27,816	20,638	5,467
Earnings per Ordinary share or ADS attributable to equity holders of the Company:				
Basic	3.39	2.41	1.77	0.47
Diluted	3.39	1.62	1.77	0.47
Cash dividends declared per ordinary share or ADS	6.52	3.46	-	-
Number of Ordinary Shares Outstanding at the end of each year:	43,372,819	43,372,819	43,717,058	43,717,058
Selected Operating Data:				
Number of supermarket stores (at year end)	185	194	203	N.A.
Increase (decrease) in same store sales(2)	1.20%	1.10%	(3.9%)	N.A.
Total square meters (at year end)	342,705	354,531	365,000	N.A.
Supermarket sales per square meter (in NIS)(3)	19,905	19,898	19,023	5,039
Supermarket sales per employee (in thousands)	937	954	997	264

	For the year ended December 31,	
	2005	2006
	NIS (In thousands, except per ordinary share or ADS data)	
Statement of Income Data: In accordance with Israeli GAAP		
Sales	5,797,018	6,515,035
Cost of sales	4,298,211	4,812,952
Gross profit	1,498,807	1,702,083
Selling, general and administrative expenses	1,269,760	1,396,877
Operating income	229,047	305,206
Financial expenses, net	(59,529)	(42,368)
Amortization of goodwill	(6,508)	-
Other income, net	690	78,022
Income before taxes on income	163,700	340.860
Taxes on income	58,490	96,660
Share in profit of associate	498	1,284
Minority interest	15,717	31,573
Net income	89,991	213,911
Earnings per ordinary share or ADS (basic)	2.32	5.46
Earnings per ordinary share or ADS (fully diluted)	2.26	4.92
Cash dividends declared per ordinary share or ADS	2.35	2.81
In accordance with U.S. GAAP:		
Net income	88,340	166,724
Earnings per ordinary share or ADS (basic)	2.27	4.25
Earnings per ordinary share or ADS (fully diluted)	2.27	4.23
Number of Ordinary Shares Outstanding:	38,950,091	39,692,983
Selected Operating Data:		
Number of supermarket stores (at year end)	168	175
Increase in same store sales ⁽²⁾	1.7%	5.3%
Total square meters (at year end)	312,000	323,304
Supermarket sales per square meter (in NIS) ⁽³⁾	18,621	19,739
Supermarket sales per employee (in thousands)	899	938

- (1)

The translation of the NIS amounts into dollars has been made for the convenience of the reader at the representative exchange rate prevailing at December 31, 2009 (NIS 3.775 =\$1.00), as published by the Bank of Israel. During 2009, the US dollar depreciated in value vis-à-vis the NIS by approximately (0.7)%.
- (2)

The percentage in same store sales is the percentage change in sales of those stores that operated continuously during the entire reporting period of both the current year and that preceding it. Stores are not deemed to have operated continuously (and therefore not included as “same stores”) if such stores were permanently closed during the reporting period or the preceding period, were resized significantly during the period or were significantly renovated or expended during the period. Store resizing is considered significant if it exceeds 5% or more of the store’s original size.
- (3)

Based on an average total square meters at month end during the relevant year.

	At December 31,			
	2007	2008	2009	2009
	NIS (in thousands)			\$ ⁽¹⁾
Balance Sheet Data:				
In accordance with IFRS				
Working capital (deficit)	62,436*	(48,333)*	492,156	130,372
Total assets	4,219,071	4,445,027	5,163,277	1,367,756
Short-term credit from banks and others and current maturities of debentures	240,869	236,900	351,296	93,059
Long-term debt, net of current maturities	1,202,858	1,497,880	2,009,243	532,250
Total equity	1,247,680	1,096,002	1,221,830	323,664

*Reclassified

	At December 31,	
	2005	2006
	NIS (in thousands)	
Balance Sheet Data:		
In accordance with Israeli GAAP:		
Working capital (deficit)	(450,044)	335,376
Total assets	3,683,035	4,071,733
Short-term credit from banks and others and current maturities of debentures	359,316	264,858
Long-term debt, net of current maturities	1,102,810	1,161,926
Shareholders' equity	865,308	992,922
In accordance with U.S. GAAP:		
Total assets	3,757,640	4,247,394
Shareholders' equity	928,504	1,003,384

- (1)

The translation of the NIS amounts into dollars has been made for the convenience of the reader at the representative exchange rate prevailing at December 31, 2009 (NIS 3.775= \$1.00), as published by the Bank of Israel.

B. Capitalization and Indebtedness.

Not applicable.

C. **Reasons for the Offer and Use of Proceeds.**

Not applicable.

D. **Risk Factors.**

Our business, operating results and financial condition could be seriously harmed due to any of the following risks. If we do not successfully address any of the risks described below, our business, operating results and financial condition could be materially adversely affected and the share and ADS price of Blue Square may decline. We cannot assure you that we will successfully address any of these risks.

We are engaged in a highly competitive business. If we are unable to compete effectively against major supermarkets, low-priced supermarkets and other competitors, our business will be materially adversely affected.

Supermarkets

The food retailing industry in Israel is highly competitive and is characterized by high turnover and narrow operating margins. We compete with the other major supermarket chain, Shufersal (formerly known as Super Sol), low-priced smaller supermarket chains, independent grocers, open-air markets, and other retailers selling supermarket goods. Competitive pressures increase as the supermarket sector in Israel approaches higher saturation levels and continue to increase as our competitors expand their operations and new companies enter the market with hard discount formats.

We believe that an important factor in the purchase decisions of a large portion of the Israeli public is the price of the products it purchases. As a result, in recent years, we and our competitors have established or expanded low-price and hard discount store formats. In 2007, we launched our “Mega In Town” format designed to bring discount shopping to neighborhoods and city centers, and in 2008, we launched our new hard discount store format, "Mega Bool".

In addition, smaller supermarket chains during 2009 continued to aggressively increase their market share and expand their presence in selected areas in Israel, often geographically beyond their original locations, increasing competition in an already difficult market. Based on A.C. Nielsen, we estimate that the smaller supermarket chains' market share was approximately 27.7% of the bar-coded market in Israel during 2009. The low barriers of entry, including the relatively low cost of establishing a new smaller supermarket chain, have contributed to the increase in number and expansion of smaller supermarket chains in recent years. These smaller supermarket chains have been able to capture a significant part of the sales from the major chains in their areas by using lower cost non-unionized labor and having lower operating costs and, in some cases by operating on Saturdays and offering non-kosher food. Large supermarket chains in Israel, including us, are kosher and therefore do not offer non-kosher food or generally operate on Saturdays.

In 2005, a number of smaller supermarket chains which operate on local geographic level combined to form a separate entity, Fourth Chain Company Ltd., in order to develop a private label and to jointly negotiate with suppliers. In 2006, the Fourth Chain Company started to market a private label brand. This combination, and possible similar combinations of other smaller supermarket chains, may generate efficiencies of a major national-spread chain and enable them to compete more efficiently with us.

Since the merger of Shufersal with ClubMarket, another major chain, in 2005, we have faced a larger competitor, many of whose stores are characterized by the every day sale of products at low prices. Based on A.C. Nielsen, we estimate that Shufersal's market share was approximately 37.3% of the bar-coded market in Israel during 2009, as opposed to our own approximately 21.8% share of the bar-coded market during 2009. This difference in market share may give Shufersal a greater competitive advantage in its dealings with customers, suppliers and other third parties.

If we are unable to maintain our current level of sales or if we lose market share to our competitors, our negotiating position with suppliers, which is based, in part, on our market share in the Israeli retail market, and our revenues may be adversely affected, with a corresponding impact on profitability. We cannot assure you that we will be able to maintain our sales and market share.

Non-Food Retail

The merchandise we sell in our non-food retail business through Bee Group is varied, and we therefore compete in several different markets. Accordingly, our "Naaman", "Sheshet" and "Vardinon" stores compete in the houseware, home textile and accompanying accessories markets. Our "Dr. Baby" stores compete in the baby and young children accessories market, and our "All for a Dollar" and "Kfar Hasha’ashuim" stores compete in the toys and leisure accessories market and the back-to-school products market.

In recent years competition in the non-food retail industry has increased, primarily due to the entry of retail chains and stores outside the food industry, such as Toys “R” Us, Office Depot, do-it-yourself chains such as Home Center and ACE (a franchisee of Ace Hardware), household stores, home textile stores, such as Golf & Co. Ltd. and Kitan Textile Industries Ltd., houseware stores, electricity appliances stores and also due to the expansion of the houseware and home textile departments in supermarkets. This competition affects the sales prices of our products and the scope of our sales. Nevertheless, our Sheshet chain is positioned as a chain that provides products at competitive prices. Increased competition may adversely affect our scope of sales and our profitability.

In addition, the barriers of entry are low in some of the markets in which the Bee Group competes due to the price and availability of products from overseas suppliers, although the establishment of a network of stores throughout the country together with the required import and marketing of products requires a high level of investment. The entrance of new competitors may reduce our market share and may reduce the sale prices of our products and lead to a reduction in our profitability.

Economic conditions in Israel affect our financial performance.

Supermarkets and Non-Food Retail

All of our supermarket sales are made in Israel, and we acquire a substantial majority of the goods that we sell from Israeli suppliers. Consequently, our financial performance is dependent to a significant extent on the economy of Israel. During 2007 and 2008, Israel's Gross Domestic Product rose by 5.3% and 4.1%, respectively. However, in 2009 the global economic crisis, instability and uncertainty affected the economic conditions in Israel, and initial reports of the Israeli Central Bureau of Statistics indicate that during 2009 Israel's Gross Domestic Product rose by only 0.7%. Initial reports indicate that the Israeli economy increased by 3.3% (annualized) at the first quarter of 2010. We believe that the economic slowdown has affected the buying patterns of our customers, as more customers shift their purchases to low-price and hard discount stores, which have a lower profit margin. As a result, we have expanded our low-price and hard discount store formats. The economic slowdown in Israel may have an adverse effect on our financial performance, among other things, by reducing our sales and our profitability.

The global economic crisis, instability and uncertainty have also affected our non-food retail business by causing a slowdown in the growth of private consumption, which could affect the growth of our houseware, home textile, toys, leisure, and baby and young children accessories businesses. Beginning in the second quarter of 2009, the Israeli economy began to recover and there has been an improvement in the growth of private consumption.

In addition, the global economic crisis has also reduced the availability of credit, increased the costs of financing and the terms under which banks agree to provide financing. These developments may reduce our sales, increase our costs of borrowing and reduce our profitability.

Real Estate

We value our yield-generating real estate property according to IAS 40R and changes to the fair value of our real estate are reflected in our financial statements. The fair value of our properties could be impacted by a number of factors, including the global economic and financial market crisis, as well as the retail sector in Israel because most of our assets are intended for retail businesses. Reductions in the fair value of our real estate may materially adversely affect our financial results.

During 2010, we entered into the residential building sector in Israel. A recession may cause a decrease in the scope of marketing and sales and a decrease in the price of apartments. In addition, government policies may affect the availability and value of real estate designated for building and may also affect the prices of the apartments.

We have a history of quarterly fluctuations in our operating results and expect these fluctuations to continue due to seasonality. This may cause the share and ADS price of Blue Square to be volatile.

Our business is subject to fluctuations in quarterly sales and profits. These fluctuations are primarily attributable to increased sales and higher operating income in the holiday seasons occurring in different quarters from year to year. Thus, for example, in our supermarkets, and in our "Naaman", "Vardinon" and "Sheshet" chains, increased sales attributable to Passover, which occurs in either March or April, may be realized in either the first or the second quarter, and sales attributable to the Jewish New Year, which occurs in either September or October, may be realized in either the third or the fourth quarter. In our "Kfar Hasha'ashuim" chain, increased sales are generally attributable to Purim, which occurs in March, and to the "Back-to-School" season in August. However, the timing of the holidays does not affect our semiannual results.

Many of our expenses are unrelated to the level of sales. Therefore, a relatively modest increase or decrease in sales, whether or not related to the timing of holidays, tends to have a disproportionately large impact on our profitability.

Because of the fluctuations that we have experienced in our quarterly operating results, we do not believe that period-to-period comparisons of our operating results are necessarily meaningful or should necessarily be relied upon as indicators of future performance. Accordingly, our operating results may be below public expectations in future periods. Our failure to meet these expectations may cause the share and ADS price of Blue Square to decline.

Since the issuance of our 5.9% unsecured debentures issued in August 2003, we have limited the cash dividends that we pay on our ordinary shares.

In connection with our issuance of NIS 400 million in aggregate principal amount of unsecured 5.9% convertible and nonconvertible debentures in August 2003, Blue Square's board of directors resolved that Blue Square would not distribute dividends in any quarter if the ratio of our net financial obligations (as defined by S&P-Maalot, an Israeli rating agency owned by S&P) to EBITDA for any quarter exceeds 3.5 until June 30, 2006 or exceeds 3.0 thereafter. Blue Square's board of directors also resolved that Blue Square would not distribute dividends in any quarter if the ratio of the unencumbered fixed assets (following depreciation) and investment property as set forth on our financial statements to financial obligations (as defined by S&P-Maalot) for any quarter is below 120%. At the time of the issuance of our debentures, S&P-Maalot informed us that the rating was based among other things upon the Board of Directors resolution and a change in this resolution may lead to a change of the rating on our 5.9% unsecured debentures.

On January 14, 2010, Blue Square's board of directors decided that in view of the changes and development of Blue Square since 2003, including the transfer of Blue Square's and Mega Retail's real estate properties to BSRE (which operates under financial obligations to EBITDA ratios appropriate for real estate companies and currently holds a major part of the consolidated debt), the purchase of Bee Group (a Non Food retailer), and the reorganization of Blue Square's food retail activities in its subsidiary, Mega Retail Ltd., that the ratio of net financial obligations to EBITDA is to be calculated by deducting from the net financial obligations Blue Square's debt which is related by the company to real estate that is not in use by Blue Square (which is equal to 75% of the investment property as recorded on the balance sheet). On December 31, 2009, the net financial obligations to EBITDA (calculated in accordance with the deduction described above) was less than 2. Our board of directors further resolved that Blue Square would not distribute dividends in any quarter if the ratio of our net financial obligations (calculated in accordance with the deduction described above) to EBITDA for any quarter exceeds 4.5.

The 5.9% unsecured debentures that we issued in August 2003 are subject to downgrading upon the occurrence of certain events. A downgrading of the rating on these debentures to "ilBBB" or lower may require us to repurchase our 5.9% unsecured debentures issued in August 2003.

The 5.9% unsecured debentures that we issued in August 2003 are subject to downgrading upon the occurrence of certain events, including as described above. A downgrading of the rating on these debentures to "ilBBB" or lower may require us to repurchase our 5.9% unsecured debentures issued in August 2003.

On October 1, 2009, we announced that we received from S&P Maalot a report including affirmation of "ilA+" rating for the debentures, while revising the outlook to negative. In its rating, S&P Maalot stated that under the current rating it still expects us to maintain an adjusted debt to adjusted EBITDA ratio of less than 4.5. On April 26, 2010, we received a report from S&P Maalot placing the rating for the debentures on CreditWatch with negative implications, following BSRE's announcement of its proposed acquisition of real estate for residential and commercial development in the wholesale market site in downtown Tel Aviv. We have no knowledge whether the proposed Acquisition will have an impact on the rating for the debentures.

We are dependent to a significant extent on a limited number of key suppliers. If these suppliers raise prices or encounter difficulties in providing their products, our operating results will be adversely affected.

We purchase most of our dairy, fresh produce and poultry products from the Tnuva corporation, which holds a leading position in the domestic dairy and poultry markets. In 2009, Tnuva’s products accounted for approximately 14.4% (which percentage includes for the first time, data for Tnuva's subsidiary, Tirat Zvi) of all the products sold at our supermarkets. For more information on our arrangements with Tnuva, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transaction – Arrangements with Tnuva." In addition, the Strauss group, an Israeli food manufacturer, accounted in 2009 for approximately 9.2% of all products sold at our supermarkets, and the Osem group accounted for approximately 7.5% of all products sold at our supermarkets in 2009. Because of our status as a leading food retailer in Israel as a result of which we are able to offer a wide exposure and promotion, on a national level, to these suppliers’ products, and the fact that we maintain an excellent and long-standing relationship with Tnuva, Strauss group and Osem, we do not believe that there is a material risk of future stoppage of supply of products of these key suppliers. However, we do not have a written contract with Tnuva, Strauss group or Osem obligating them to supply products to us. The ten largest suppliers accounted for approximately 55.7% of our product purchases in 2009. Due to the relatively large market share of these suppliers, we depend on them and on a number of other suppliers that supply brands characterized by high customer loyalty, such as the Central Company for the Manufacture of Soft Drinks Ltd., which is the exclusive franchisee of Coca Cola and also distributes other popular soft drinks. For example, during the third and fourth quarters of 2007 and during 2008, some of our suppliers raised the prices of various products that they supply us, principally due to an increase in raw materials prices, which caused an increase in our costs. Increases in prices by our suppliers are generally not offset, fully or as quickly, by increases in our selling prices and revenues because of competitive pressures. We cannot assure that, in the future, Tnuva, Strauss group, Osem or any of these other suppliers will not significantly raise the prices of the products they supply us in the future, or encounter difficulties in providing these products to us, in either of which cases our operating results might be adversely affected.

Alon Retail Ltd. is able to control the outcome of matters requiring shareholder approval.

As of May 31, 2010, Alon Retail Ltd., ("Alon Retail"), owned approximately 68.62% of Blue Square’s outstanding ordinary shares. So long as Alon Retail, or any successor to its shareholdings in Blue Square, continues to own beneficially more than 50% of our outstanding ordinary shares and voting power, it will be able to control the outcome of matters requiring shareholder approval that do not require a special majority, including the election of all Blue Square directors, other than Blue Square two external directors whose election, under the Israeli Companies Law, requires that at least one-third of the non-controlling shareholders who participate in the vote, vote for their nomination, or that the total number of shares of non-controlling shareholders voted against their nomination does not exceed one percent of the aggregate voting rights in the company.

We own a majority interest in most of our subsidiaries. As a majority shareholder, we owe fiduciary duties to the minority shareholders of our subsidiaries and have to share dividends and distributions with these minority shareholders.

In addition to our wholly owned subsidiary, Mega Retail, our two main subsidiaries are Bee Group, in which we owned an 85% interest (with an option to further increase our holdings to 100%) as of May 31, 2010, and BSRE, in which we owned a 78.35% interest as of May 31, 2010.

Through our subsidiary, Bee Group, as of May 31, 2010, we held approximately 66.85% of the outstanding shares of Naaman Porcelain Ltd., which held approximately 88.74% of the share capital interest in Vardinon Textile Ltd., both of which are publicly held and traded on the Tel Aviv Stock Exchange. In addition, as of May 31, 2010 we owned nine supermarkets through our 51% subsidiary, Eden Teva. The ordinary shares of Eden Teva that are not owned by us are held by private third parties (including the CEO of Eden Teva).

Mega Retail leases from BSRE the real estate underlying a substantial portion of the supermarkets that it owns. The ordinary shares of BSRE that are not owned by Blue Square are publicly held and traded on the Tel Aviv Stock Exchange.

In order to satisfy whatever fiduciary obligations we may have under applicable law to the minority shareholders of our partially owned subsidiaries, we endeavor to deal with each of these subsidiaries at “arm’s-length.” Some transactions between Blue Square and a subsidiary, including any cancellation of such transactions, require the approval of the audit committee, the directors, and, under certain circumstances, approval of the shareholders of the subsidiary by special vote and are subject to the receipt of applicable permits and approvals. In addition, any dividend or distribution from a subsidiary requires the approval of the directors of that subsidiary, and may be subject to restrictions imposed by loan and other agreements to which they are parties.

In recent years, we have expanded our non-food retail business by acquiring businesses with stand alone retail outlets. We may not be able to successfully consolidate these business operations with our supermarket business or to capitalize on potential synergies of the internal reorganization of our non-food retail businesses.

As part of our strategy to expand our presence in “Non-Food” stand alone retail outlets, we acquired 50% of Bee Group in 2005 and by 2008 we had increased our holdings in Bee Group to 85%. Concurrently, Bee Group acquired the controlling interest in Vardinon Textile Ltd. (home textile retailer and wholesaler) and the controlling interest in Naaman Porcelain Ltd. (houseware retailer and wholesaler) (the "Bee Group Acquisition"), and Bee Group effected an internal reorganization of its own subsidiaries in order to improve Bee Group's operating efficiency. Realization of the anticipated benefits of our Bee Group acquisitions, including anticipated operating synergies among the various subsidiaries of the Bee Group, and between the Bee Group and the Company as a whole will depend, in large part, on our ability to successfully eliminate redundant corporate functions and consolidate company and shared service responsibilities. We will be required to devote significant management attention and resources to the consolidation of business practices and support functions while maintaining the independence of the Bee Group's stand alone brand names.

The process of consolidating corporate level operations could cause an interruption of, or loss of momentum in, our business and financial performance. The diversion of management’s attention and any delays or difficulties encountered in connection with our Bee Group acquisitions and the realization of corporate synergies and operational improvements could have an adverse effect on our business, financial results, financial condition or share price. The consolidation and integration process may also result in additional and unforeseen expenses. There can be no assurance that the contemplated synergies and other benefits anticipated from the Bee Group acquisition will be realized.

In addition, our expansion into the non-food retail business has required us to enter new markets in which we have no or limited experience and where competitors in such markets may have stronger market positions. If we are not able to successfully compete against our more experienced competitors in the stand alone retail outlet businesses, our business may be adversely affected.

Failure to obtain or maintain permits required for our operations may adversely affect our operating results.

Our operation of supermarkets in Israel requires permits from municipal authorities, which are conditioned on the prior approval of various agencies, including the health and environment ministries, and the police and fire departments. Some of these permits are currently in the name of the Co-Op Blue Square Services Society, or the Co-Op, our former controlling shareholder, and entities other than us, and have not yet been transferred or re-issued to us. Furthermore, as a result of the reorganization of our supermarket retail and real estate activities, these permits are to be transferred in the name of Mega Retail, in which all of our retail activity has been centralized. Also, some of our stores require permits that have not yet been obtained, or have expired or require renewal.

Some of our Bee Group stores do not have permits according to the requirements of Israeli Business Permits Law, 1968. A lack of such permits by any store would be considered a breach of the tenancy agreement for such store, which would allow the landlord to annul the lease agreement. As of May 31, 2010, none of the landlords had made use of this right.

In addition, Kfar Hashashuim received a court issued order to vacate its logistics center due to a lack of a permit to conduct its business in the logistics center and a lack of building permits. However, BSRE is in the process of building a new logistics center for the Bee Group, and therefore Kfar Hasha'ashuim has requested a delay in the execution of the closure order. On February 2, 2009, the court decided that the execution of the order to vacate will be delayed until after further hearing on the matter, a date of which has yet to be determined. On March 15, 2010, the court set the date of July 12, 2010 for receiving further updates on moving into the new logistics center.

As a result of the hostilities between Israel and the Palestinians, the relevant authorities, including the police, have required us to adopt various security measures. These safety requirements prescribe extensive investment in safety equipment, the retaining of security personnel and may lengthen the time dedicated for obtaining permits from the municipal authorities. If we are unable to obtain or maintain one or more required permits, we may be required to close one or more stores or to take other remedial action to obtain or maintain these permits.

Increase in employee minimum wage in Israel may adversely affect our operating results.

A substantial portion of our employees' wages is adjusted upon a change in the minimum wage in Israel. Under Israeli law, the minimum wage, which is increased from time to time as a result of various economic parameters and updating of employee-union agreements, equals approximately 47.5% of the average wage for an employee in Israel, unless otherwise determined by government regulations. Pursuant to existing legislation, the minimum monthly wage was increased on July 1, 2008, to NIS 3,850 or approximately \$1,005 (as of May 31, 2010). On May 23, 2010, a governmental committee of ministers approved a proposal to amend the Minimum Wage Law, 1987, to gradually increase the minimum wage to NIS 4,600 (approximately \$1,201 (as of May 31, 2010)) over a period of 15 months. The Knesset has not yet approved such amendment of the Minimum Wage Law and it is unknown if and when such amendment will be approved. An increase in minimum wage will increase our labor costs and thus adversely affect our operating results.

Future issuances of our ordinary shares could reduce our share price.

Out of the NIS 400 million in aggregate principal amount of unsecured 5.9% debentures that we issued in August 2003, NIS 200 million in aggregate principal amount were convertible debentures (principal repayable in three equal installments in the years 2007, 2009 and 2011) which as of February 12, 2010 are convertible into Blue Square ordinary shares at a per share price of NIS 18.390. This conversion ratio is subject to adjustment in the event of distribution of bonus shares, cash dividends and the issuances of rights. On May 31, 2010, the closing price per share of our ordinary shares on the Tel Aviv Stock Exchange was NIS 46.19. As of May 31, 2010, the remaining principal balance of our convertible debentures was approximately NIS 7.5 million. In January, 2008, we adopted a share option plan for officers and employees of Blue Square and its subsidiaries and affiliates. As of May 31, 2010, the total number of shares available for issuance under the plan was 2,584,995 shares, subject to adjustments.

In connection with our proposed acquisition from Alon of all of Alon's approximately 80% holdings in Dor Alon, subject to satisfaction of closing conditions, we expect to issue to Alon an aggregate of 20,327,710 ordinary shares of Blue Square. See "Item 7. Major Shareholders and Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD."

The issuance of ordinary shares to holders of our convertible debentures, to holders of options under our share option plan, or to Alon, or the perception that those issuances may occur in the future, could materially and adversely affect the market price for our ordinary shares.

The Israeli Antitrust Authority may take actions that limit our ability to execute our business strategy or otherwise affect our profitability.

Our strategy includes expanding our market presence in existing retail food markets and entering into new retail food and “Non-Food” markets. The Israeli Antitrust Authority may limit our ability to execute our strategy, inter alia, by limiting our ability to acquire existing stores or enter into mergers to acquire existing stores.

On January 5, 2005, the Commissioner of the Israeli Antitrust Authority issued his final position regarding “commercial restrictive practices between the dominant food suppliers and the major supermarket retail chains”. According to the Commissioner’s final position, some of these practices were found to be restrictive trade agreements under the antitrust laws. The Commissioner prohibited these practices unless approved by the Restrictive Trade Practices Court or exempted by the Commissioner himself.

Among the practices that were found to be restrictive according to the Commissioner were the following: arrangements with suppliers that determine the suppliers of the retail chains, their identity and their number; arrangements for the management of product categories in conjunction with suppliers; arrangements regarding the retail selling price; arrangements for determining market share of a particular supplier’s products and arrangements for determining prices made by suppliers to competing chains; arrangements with regard of the use of suppliers’ manpower to stock merchandise on the shelves of the chains’ stores. Limits were imposed on financial benefits to the chains with regard to display areas and on special offers to chains for meeting certain sale targets.

We have been applying most of these directives among others, by an internal compliance program that we have adopted.

Presently we do not know how, if at all, our business would be affected should the Commissioner take any action against us with respect to those issues under dispute which we believe are legal based on our consultations with our legal counsel.

In August 2006, the Restrictive Trade Practices Court approved a consent decree reached between the Commissioner and certain specific food suppliers. The consent decree stipulates various prohibitions, conditions and restrictions that would apply to certain practices of these suppliers. The consent decree addresses the following practices: arrangement by which suppliers influence the number or identity of competing suppliers; acquisition of shelf and off-shelf display space; category management; the use of suppliers’ representatives to physically arrange the shelves in the chains’ stores; discounts and rebates in exchange for meeting sales targets; arrangements that determine a supplier’s market share; exclusivity in sales and price dictation by suppliers. The Company is not a party to the consent decree; however, it could nevertheless have an effect on the practices of the Company’s suppliers and indirectly on the Company.

Increases in oil, raw material and product prices in recent years may affect our operating results.

The sharp increase in oil prices in recent years has led to the increase in our electricity prices and raw materials used in the plastic packing industry. In 2008, a number of our suppliers increased their product prices to us due to increases in raw material prices. While these suppliers have not raised prices further during 2009, we cannot assure that they will not raise prices in the future. Further increase in oil, raw material and product prices would impose on us significant expenses and costs, which could have an adverse effect on our operation results.

Impact of inflation may adversely affect our financial expenses and operating income.

Our non-financial assets and shareholders equity are not adjusted to the inflation in Israel, while the repayment of interest and principal under part of our loans and all debentures are adjustable, linked to changes to the Israeli consumer price index, as provided in our loan and debenture agreements. As a result, an increase in inflation in Israel would have the effect of increasing our financial expenses without any corresponding offsetting increase in our assets and revenues on our financial statements, leading to lower reported earnings and shareholders equity. The extent of this effect on our financial statement would be dependent on the rate of inflation in Israel. The Company has an excess of CPI-linked liabilities over CPI-linked assets (mainly in respect of outstanding debentures). Toward the end of 2008 and during 2009, we engaged in transactions to partially hedge this inflation risk. We engage in these transactions from time to time to reduce our risk to inflation, although we do not eliminate the risk of inflation.

In addition, some of our operating expenses are either linked to the Israeli consumer price index (such as lease payments payable by us under various real estate property leases in connection with our operations) or are indirectly affected by an increase in Israeli consumer price index. As a result, an increase in the inflation rate in Israel would have the effect of increasing our operating expenses, thereby affecting our operating income. The extent of this effect on our operating income depends on the rate of inflation in Israel.

The value of our securities portfolio may be adversely affected by a change in the capital markets, interest rates or the status of the companies in whose securities we have invested.

As of December 31, 2009, we held approximately NIS 188 million in Israeli corporate and government bonds at fixed interest rates, a portion of which is linked to the Israeli CPI. Therefore, a decrease in the market value of these bonds or interest rates or a change in the status of the companies in whose bonds we have invested could lead to a material increase in our net financing expenses.

Damage to our reputation may have a material adverse effect on our operating results.

Our brand names, including some of our store format brands, are among the most well recognizable brands in Israel. For example, according to internal surveys, the Mega brand is one of the most prominent and well-known brands in Israel. Damage to our reputation or to the reputation of our store format brands due to reports in the media or otherwise may have material adverse effect on our level of sales with a corresponding impact on our profitability and operating results.

We are dependent on franchisees who own and operate a large portion of our Bee Group stores. We have limited control over franchisees, and our financial results could be negatively impacted by the performance of the franchisees.

Our 85% subsidiary, Bee Group, holds and operates through subsidiaries large retail chains with 268 stores as of May 31, 2010, of which 189 stores of our "Kfar Hasha'ashuim", "Dr. Baby" and "Rav-Kat", "Sheshet", "All for a Dollar" and "Naaman" chains, are owned and operated by franchisees. This store ownership mix presents a number of drawbacks, such as our limited control over franchisees and our limited ability to facilitate changes in the ownership and management of their store.

Subject to the terms of our franchise agreement, franchisees independently operate and oversee the daily operations of their stores, and they have a significant amount of flexibility in running their operations. Their employees are not our employees. Although we can exercise control over our franchisees and their store operations to a limited extent through our franchise agreements, the quality of franchise store operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. While we ultimately can take action to terminate franchisees that do not comply with the standards contained in our franchise agreements, we may not be able to identify problems and take action quickly enough and, as a result, our image and reputation may suffer, and our franchise and property revenues could decline.

In addition, our franchise agreements limit our ability to open new stores in the vicinity of existing franchised stores, which may limit our ability to expand our business.

Volatility of Blue Square’s share and ADS price could adversely affect its shareholders.

The market price of Blue Square’s ordinary shares and ADSs could be volatile and could be subject to fluctuations in response to numerous factors, including the following:

- actual or anticipated variations in our quarterly operating results or those of our competitors;
- changes in financial estimates by securities analysts;
- conditions or trends in our business;
- changes in the market valuations of our competitors;
- announcements by us or our competitors of significant acquisitions;

- entry into strategic partnerships or joint ventures by us or our competitors;
- the political, economic, security and military conditions in Israel;
- additions or departures of key personnel; and
- sales of ordinary shares by Blue Square’s controlling shareholder.

Many of these factors are beyond our control and may materially adversely affect the market price of Blue Square’s ordinary shares and ADSs, regardless of our performance.

Since 1996, Blue Square’s ADSs have been listed for trading on the New York Stock Exchange. Since November 2000, Blue Square’s ordinary shares have also been listed for trading on the Tel Aviv Stock Exchange. Volatility of the price of Blue Square’s securities on either market is likely to be reflected in the price of Blue Square’s securities on the other market. In addition, fluctuations in the exchange rate between the NIS and the dollar may affect the price of Blue Square’s ordinary shares on the Tel Aviv Stock Exchange and, as a result, may affect the market price of Blue Square’s ADSs on the New York Stock Exchange.

Currency fluctuations might affect our operating results and translation of operating results.

Any devaluation of the NIS against various non-Israeli currencies in which we or our suppliers pay for imported goods has the effect of increasing the selling price of those products which we sell in Israel in NIS and affecting our operating results. This devaluation would have a greater affect on our non-food retail business because a higher proportion of the goods that we sell in our Bee Group stores are acquired from suppliers overseas. This devaluation would also cause an increase in our expenses as recorded in our NIS denominated financial results even though the expenses denominated in non-Israeli currencies will remain unchanged.

In addition, because our financial results are denominated in NIS and are translated into US dollars for the convenience of US investors, currency fluctuations of the NIS against the US dollar may impact our US dollar translated financial results.

Our profit margin would be adversely affected if our ability to utilize our distribution centers were limited.

We have a distribution center in Rishon Letzion from which we distribute to our supermarkets a large portion of the products they carry. The products distributed by our distribution center to our supermarkets generated approximately 21.5% of our total percentage purchases during 2009. In addition, during 2010 and 2011 we intend to open a new distribution center for non-food sold in our supermarkets and by Bee Group. Our inability to utilize the distribution centers for any reason may significantly impair our ability to distribute our products to our supermarkets and to our Bee Group stores and would adversely affect our profit margin.

We are exposed to risks of fraud and theft with regard to our gift certificates which may cause a loss of revenue and non-recoverable expenses.

We run programs under which we issue and sell gift certificates and electronic prepaid cards to institutions, companies and individuals, particularly during the High Holiday and Passover seasons. The gift certificates and prepaid cards can be used in our stores as well as other stores with which we entered into collaboration agreements. Based on our experience, we are exposed to risks connected with the issuance of gift certificates, including risks that they may be fraudulently forged or stolen, and we are exposed to risks of computer fraud or errors in connection with the issuance of prepaid cards. A substantial or large scale forgery, theft, fraud or error may cause a reduction in our revenue and increase our expenses.

The potential declaration of a boycott by certain segments of Israel’s ultra-orthodox population against our Shefa Shuk stores may affect our financial results.

Since the second half of March 2008, the media has published reports that certain segments of Israel’s ultra-orthodox population are considering the declaration of a boycott against our Shefa Shuk stores due to the operation of stores owned by our controlling shareholder on the Jewish sabbath. Although the Company is unaware of any public declaration of a boycott, since the end of March 2008, the Company has experienced a significant decrease in the sales of several Shefa Shuk stores which appeal to the ultra-orthodox community and/or are located within ultra-orthodox neighborhoods. During 2008 and with the launching of "Mega Bool" chain at the end of 2008, we have converted most of our Shefa Shuk stores to "Mega in Town" and "Mega Bool" stores. As of May 31, 2010, we operated 17 Shefa Shuk stores compared to 21 as of December 31, 2008. An actual declaration of a boycott may adversely affect the company's financial results.

The failure of our use of technological information systems and computer systems may adversely affect our day-to-day operations.

We use several technological information systems and computer systems. Our day-to-day operations are dependent on the proper function of these systems. We take various measures to ensure the integrity and reliability of the data and computer systems, including data protection and data back up. However, a failure of our data and/or computer systems may adversely affect our day-to-day operations.

We are party to legal proceedings in connection with tax assessments.

In July 2005, the Income Tax Authority issued a notice of a deduction assessment for the years 2001-2004 to the Company. The amount claimed under these assessments totaled NIS 34 million, and primarily relates to certain benefits granted to employees in the Company’s branches. In November 2005, several senior employees were questioned under warning, with respect to these benefits. Following these assessments and after the rejection of the Company's position on the matter, the Income Tax Authority issued to the Company deduction assessment orders for the years 2001-2004 in the amounts of approximately NIS 44 million. The Company has filed appeals with the District Court contesting these assessment orders, which as of the date of this Annual Report are still pending. In July 2007, the Israeli Tax Authority issued to the Company value added tax assessment for the years 2001-2006 in the amounts of approximately NIS 22 million in connection with the subject matter of the foregoing deduction assessments. The Israeli Tax Authority did not accept most of the Company's position, although it agreed to reduce the total amount to approximately NIS 16.3 million. On February 29, 2009, the Company filed an appeal with the District Court, which as of May 31, 2010 is still pending. In the opinion of the Company and its advisors, the provisions included in the Company financial statements are sufficient to cover the potential liabilities.

Political conditions in Israel affect our operations and may limit our ability to sell our products.

We and all of our subsidiaries are incorporated under Israeli law and our principal offices and operations are located in the State of Israel. Political, economic, security and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying, from time to time, in intensity and degree, has led to security and economic problems for Israel. We could be adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation, or a significant downturn in the economic or financial condition of Israel.

The future of Israel’s relations with its Arab neighbors and the Palestinians is uncertain, and several countries, companies and organizations continue to restrict business with Israel and with Israeli companies. We could be adversely affected by adverse developments in Israel’s relationship with its Arab neighbors and the Palestinians or by restrictive laws, policies or practices directed towards Israel or Israeli businesses.

In the last few years, the establishment of a Hamas government in Gaza has created additional unrest and uncertainty in the region and has increased hostilities between Israel and the Palestinians. These hostilities have included terrorist acts in Israel and military operations in the West Bank and Gaza. In December 2008 Israel was engaged in an armed conflict with Hamas in the Gaza Strip, which reduced the sales of some of our stores that are located in the southern region of Israel. In July 2006, a conflict with Hezbollah escalated significantly on Israel’s northern border. Due to the hostilities in the northern part of Israel and Lebanon, a number of our stores located in the northern region did not operate according to their usual schedule. We cannot predict the effect on our business if hostilities are renewed or the security situation deteriorates in any part of the country.

Many of our officers and employees are currently obligated to perform annual reserve duty and are subject to being called to active duty at any time under emergency circumstances. We cannot assess the full impact of these requirements on our workforce or business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of these obligations.

Disruptions of the Israeli ports may affect our ability to import products used in our Bee Group business.

The Bee Group acquires most of its products from suppliers outside of Israel, and most of its products are imported via the sea. A prolonged general strike, shutdown or a disruption of any of the Israeli ports for an extended period of time, including as a result of a military conflict, would affect our ability to import such products or increase their prices. In addition, since the peak selling season of some of our Bee Group stores is during the holidays, disruptions in the ports during or adjacent to such holiday seasons may adversely affect our sales and financial results.

Political and economic conditions in China may affect the operating results of the Bee Group.

Most of Bee Group's imports during 2008 and 2009 were from suppliers located in China. Because most of the products sold by the Bee Group are manufactured overseas and imported from China, its activity may be affected by changes in the political and economic conditions in China. For instance, any material change in the NIS-Chinese currency exchange rate may increase our manufacturing costs and increase the price of those imported products from China.

Our imports from China are affected by costs and risks inherent in doing business in Chinese markets, including, changes in regulatory requirements or tax laws, export restrictions, quotas, tariffs and other trade barriers, and general economic problems.

Any of these risks could have a material adverse effect on our ability to deliver or receive non-food products on a competitive and timely basis and on our sales and profitability.

Government-imposed price controls may have a material adverse effect on our operating results.

The Israeli government is authorized to control the retail and wholesale prices of goods and services offered in Israel. At present, a few of the products we offer in our stores, including bread, flour, eggs, milk and margarine are subject to government-imposed price controls. In addition, during periods of high inflation in the past, more extensive price controls have been imposed throughout Israel.

We do not believe that current price controls have any material adverse effect on our business or operating results. However, any imposition of more extensive price controls in the future may have a material adverse effect on our operating results. We cannot assure you that broader price controls will not be imposed in the future.

It may be difficult to enforce a U.S. judgment against us and some of our officers and directors, to assert U.S. securities laws claims in Israel or serve process on our officers and directors.

We are incorporated in Israel. Our executive officers and directors are nonresidents of the United States, and substantially all of our assets and most of the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States based upon the civil liabilities provisions of the U.S. federal securities laws against us or any of these non-residents of the United States or to effect service of process upon these persons in the United States. Additionally, it may be difficult for you to enforce civil liabilities under U.S. federal securities laws in actions instituted in Israel.

Risks Relating to Real Estate

We are subject to risks regarding the ownership of real estate assets.

We own, through our subsidiaries, real-estate assets, most of which are currently used in connection with the retail operation of our stores, and the remainder is leased to third parties or for future development. These assets are subject to risks with regard to ownership of real-estate assets, including decline in demand and surplus of supply of commercial properties, which might have a material adverse effect on the real-estate markets, occupancy rates, rental fees and revenues from third parties and on the value of the assets in the Company's financial statements. These risks include increase of operational costs, decline of the financial conditions of the lessees and additional factors which are beyond our control. In addition, from time to time we acquire real estate with the intention of changing the zoning of such real estate. We cannot assure that the relevant planning authorities will approve these contemplated zoning changes or, if approved, that we will be able to sell our real estate at a profit following the change of zoning.

The slowdown in the Israeli yield-generating real estate market may adversely affect our business.

Commencing from the beginning of the fourth quarter of 2008 and as a result of global economic and financial market conditions, there has been a slowdown in the Israeli yield-generating real estate market which is evidenced by a decline in the number of real estate transactions, a reduction in the availability of credit sources, an increase in financing costs and stricter requirements by banks for providing such financing. Although in the last few months the availability of credit sources has improved somewhat, we cannot assure that this trend will continue. During 2009, the Israeli market was also affected by the volatility in exchange rates of principal currencies versus the NIS and the volatility of inflation rates within the local market. If the economic conditions in Israel continue, there may be a continued decline in demand for commercial real estate, a reduction in rental fees, a decline in the fair value of our real estate assets and an increase in the cost and availability of financing from Israeli banks, which could adversely affect our real estate business.

BSRE may not be able to obtain additional financing for its future capital needs on favorable terms, or at all, which could limit its growth and increase its costs and could adversely affect the price of its ordinary shares.

BSRE's activities are financed from external sources. We cannot be certain that BSRE will be able to obtain financing on favorable terms for its activities, or at all, and BSRE cannot be certain that its existing credit facilities will be renewed. In addition, an adverse change can occur in the terms of the financing that it receives. Any such occurrence could increase BSRE's financing costs and/or result in a material adverse effect on the results of the Company and its ability to develop its real estate business. In addition, in connection with the transfer of real estate properties from Mega Retail to BSRE in September 2009, BSRE incurred additional loans, which as of December 31, 2009, were in the principal amount of approximately NIS 248 million, secured by a lien on most of the properties transferred by Mega Retail. The amount of long term loans currently outstanding may inhibit BSRE's ability to obtain additional financing for its future capital needs, inhibit BSRE's long-term expansion plans, increase its costs and adversely affect the price of its ordinary shares.

A recession and/or government policies may have a negative impact on BSRE's new operation in residential building, by causing a decrease in the scope of marketing and sales and a decrease in the prices of apartments.

During 2010, we entered into the residential building sector in Israel. A recession may cause a decrease in the scope of marketing and sales and a decrease in the prices of apartments. In addition, government policies may affect the availability and value of real estate designated for building and may also affect the prices of apartments.

Risks Relating to the Proposed Acquisition of Alon’s Equity Interest in Dor-Alon Energy In Israel (1988) LTD.

On May 17, 2010, we signed a share purchase agreement with our controlling shareholder, Alon, to acquire from Alon all of Alon's approximately 80% holdings in Dor Alon. The closing of the transaction is subject to satisfaction of closing conditions, including shareholder approval. See "Item 7. Major Shareholders and Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD." Below are risks relating to our proposed acquisition of Alon's equity interest in Dor Alon.

The Acquisition may not result in the benefits that we currently anticipate.

Achieving the expected benefits of our acquisition of Alon's equity interest in Dor Alon depends, among other things, on the ability to synergize the different sales, retail, and marketing platforms, as well as the different operational and logistical platforms. The acquisition process also may result in the need to invest unanticipated additional cash resources, which may divert funds that we expect to use for pursuing new opportunities and other purposes. If we are unable effectively to synergize the different sales, retail, and marketing platforms, as well as the different operational and logistics platforms, the benefits of the acquisition will not be realized and, as a result, our operating results may be adversely affected and our share price may decline.

Our shareholders will experience an immediate dilution of their relative holdings upon completion of our acquisition of Alon's equity interest in Dor Alon.

Immediately following our acquisition of Alon's equity interest in Dor Alon, Alon will beneficially own in the aggregate, directly and indirectly, approximately 78.44% of our outstanding ordinary shares (as opposed to approximately 68.62% of the outstanding shares immediately prior to the acquisition), and all other Blue Square shareholders would then own approximately 21.56% of our outstanding ordinary shares (as opposed to approximately 31.38% of the outstanding ordinary shares immediately prior to the acquisition). As such, our current shareholders will experience an immediate dilution in the aggregate of approximately 31.3% of their holdings in Blue Square after the acquisition.

The market price of our ordinary shares after our acquisition of Alon's equity interest in Dor Alon may be affected by factors different from those currently affecting our ordinary shares.

Our business differs from Dor Alon's business in important respects and, accordingly, the results of operations of the combined company and the market price of our ordinary shares following the acquisition may be affected by factors different from those currently affecting the independent results of our operations and of Dor Alon's operations. For a discussion of Dor Alon's business and of certain risks to consider in connection with Dor Alon's business, see our report on Form 6-K submitted to the Securities and Exchange Commission on May 27, 2010.

Our acquisition of Alon's equity interest in Dor Alon will result in our becoming a majority shareholder in Dor Alon, a publicly held company. As such, we will be subject to certain limitations in our efforts to synergize our and Dor Alon's operations.

Some transactions between us and Dor Alon, including any cancellation of such transactions, will require the approval of the audit committee, the directors, and, under certain circumstances, approval of the shareholders of Dor Alon by special vote and are subject to the receipt of applicable permits and approvals. In addition, any dividend or distribution from Dor Alon requires the approval of the directors of Dor Alon. As such, we may be limited in our ability to fully realize the synergies and other benefits of the acquisition.

Our acquisition of Alon's equity interest in Dor Alon is subject to the receipt of consents and approvals from various entities, which may impose conditions on, or jeopardize the completion of the acquisition or reduce the anticipated benefits of the acquisition.

Completion of our acquisition of Alon's equity interest in Dor Alon is conditioned upon the satisfaction of closing conditions, including approval of the related share purchase agreement by our shareholders and receipt of all necessary regulatory approvals, including approval by the Israeli court of our distribution of a dividend and, if applicable, approval of the Acquisition by the Israeli Antitrust Authority, all as set forth in the share purchase agreement with Alon. The required conditions to closing may not be satisfied in a timely manner, if at all, or, if permissible, waived, and the acquisition may not be consummated. Failure to consummate the acquisition could negatively impact our share price, future business and operations, and financial condition. Any uncertainty about the consummation of the acquisition may adversely affect the future business, growth, revenue and results of operations of either or both of the companies.

The violation of various conditions determined by the Israeli Tax Ordinance and/or the pre-ruling issued by the Israeli tax authorities in connection with the split of the gas exploration activity from Dor Alon to Alon Natural Gas Exploration Ltd. and the transfer of Dor Alon shares from Dorgas to Dor Alon may result in Dor Alon and Dorgas becoming obligated to pay taxes under Israeli law.

In connection with the split of the gas exploration activity from Dor Alon to Alon Natural Gas Exploration Ltd. (the "Split") and the transfer ("Share Transfer") by Dorgas (a subsidiary of Dor Alon) of approximately 4.4% of the outstanding Dor Alon shares held by Dorgas (the "Treasury Shares") to Dor Alon, Dor Alon received a pre-ruling from the Israeli Tax Authority that provides that the Split and the Share Transfer will be tax free. However, the abovementioned pre-ruling is subject to several conditions, which include, among other things, that:

- (i) in relation to the Share Transfer (a) the Treasury Shares will remain held by Dor Alon indefinitely from the date of the Transfer or will be erased; (b) Dor Alon will take no action in relation to the Treasury Shares, including any sale of the Treasury Shares (including an involuntary sale), any encumbrance of the Treasury Shares or issuance of the Treasury Shares in the future as capital; and (c) for at least two years from the date of the transfer there will be no change in Dor Alon's rights in Dorgas subject to section 104 of the Israeli Tax Ordinance; and
- (ii) in relation to the Split (a) for at least two years from the date of the Split, both of Dor Alon Natural Gas Exploration Ltd. and Dor Alon will have independent and separate economic activity the income from which is subject to tax in accordance with Section 2(1) to the Israeli Tax Ordinance, and that originated in Dor Alon's activity prior to the Split; (b) for at least two years from the date of the Split there will not be any loans between Dor Alon and Alon Natural Gas Exploration Ltd., except for loans given and/or taken in the ordinary course of business; (c) for at least two years from the date of the Split, most of the assets (as defined in the Israeli Tax Ordinance) of Dor Alon after the Split and most of the assets (as defined in the Israeli Tax Ordinance), which were transferred Alon Natural Gas Exploration Ltd. through the Split, will not be sold by any of those companies and will be used as customary in the Dor Alon's ordinary course of business; (d) Dor Alon's primary economic activities that occurred during the two years prior to the split will continue to be performed by Dor Alon or Alon Natural Gas Exploration Ltd. have continued for a period of at least two years from the date of the Split; (e) immediately after the Split, and for two years thereafter, the shareholders of Dor Alon and Alon Natural Gas Exploration Ltd. will maintain the same rights and portions thereof that they held in Dor Alon (not including the Acquisition) all subject to the date of the Split and Section 105c(a)(8) of the Israeli Tax Ordinance; (f) for at least two years from the date of the Split, there will be no transfer of cash or assets, guarantees or any other activities between Dor Alon and Alon Natural Gas Exploration Ltd., except as customary in Dor Alon's ordinary course of business.

If Dor Alon or Alon Natural Gas Exploration Ltd. do not comply with one or more of those conditions (the Israeli Tax Ordinance and/or the pre-ruling issued by the Israeli tax authority), Dor Alon and/or Dorgas may become obligated to pay Israeli income taxes as a result of these transactions, linked to the Israeli consumer price index, plus interest and penalties, and the benefits may be discontinued, in whole or in part. Such a result with respect to Dor Alon would adversely affect our results of operations and financial condition.

Under the terms of the share purchase agreement with Alon, Alon has agreed to compensate and indemnify Blue Square and/or Dor Alon for taxes and/or damages and/or losses and/or deficiencies and/or expenses ("Damages") that may be caused to Dor Alon as a result of a breach of subsection (ii) above in respect of the Split, although the indemnification will not apply to any breaches of the conditions of the pre-ruling resulting from any act or omission of Dor Alon occurring after the closing of the Acquisition. This indemnification is subject to agreed upon terms and conditions, and there is no guarantee that Alon will indemnify BSI and/or Dor Alon for all Damages.

The conditions imposed by the Israeli Tax Ordinance and/or the pre-ruling issued by the Israeli tax authorities in connection with the acquisition restricts the manner in which we may conduct our business in the future.

We and Alon have received a pre-ruling from the Israeli Tax Authority that provides that our acquisition of Alon's equity interest in Dor Alon will all be tax free. However, this pre-ruling is subject to several conditions, including, among other things, that:

- (a) for a period commencing on the closing date of the Acquisition and ending two years from the end of the fiscal year in which the closing date of the Acquisition took place, or the Required Term, we will continue to hold all the rights in Dor Alon that it held on the effective date of the acquisition;
- (b) most of the assets (as defined in section 103c(a)(2) of the Israeli Tax Ordinance) transferred from Dor Alon to Blue Square in the framework of the acquisition and most of the assets held by Blue Square on the date of the acquisition, were not sold during the Required Term, and during such term the assets were used properly, under ordinary circumstances, and as is customary in Dor Alon's ordinary course of business; and

- (c) each rights' holder in Blue Square (other than those rights' holders that hold rights tradable on the TASE and are not deemed to be controlling shareholders on the date of the acquisition) maintains during the Required Term all the rights that he/she held in Blue Square immediately following the acquisition, subject to Sections 103c(a)(9), (9a) in the Israeli Tax Ordinance.

These conditions restrict the manner in which we may conduct our business in the future.

Failure to complete our acquisition of Alon's equity interest in Dor Alon could negatively impact the market price of our ordinary shares and our future business and financial results.

If our acquisition of Alon's equity interest in Dor Alon is not completed for any reason, the on-going business of Blue Square may be adversely affected and will be subject to a number of risks, each of which, among others, may have a negative impact on the market price of our ordinary shares. The risks associated with a failure to complete the acquisition include, but are not limited to:

- failure to pursue other beneficial opportunities as a result of the focus of management of each of the companies on the acquisition, without realizing any of the anticipated benefits of the acquisition;
- the market price of our ordinary shares may decline to the extent that the current market price reflects a market assumption that the acquisition will be completed;
- we may experience negative reactions to the termination of the acquisition from licensors, collaborators, suppliers, customers or other strategic partners; and
- Blue Square's costs incurred related to the acquisition, such as legal and accounting fees, must be paid even if the acquisition is not completed.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of Blue Square.

Blue Square-Israel Ltd. was incorporated in June 1988 as a company under the laws of the State of Israel. Blue Square’s principal executive offices are located at 2 Hamal Street, Rosh Ha’ayin 48092, Israel and its telephone number is 972-3-928-2222.

In 1996, Blue Square completed its initial public offering and its ADSs were listed for trading on the New York Stock Exchange. In November 2000, Blue Square’s ordinary shares were listed for trading on the Tel Aviv Stock Exchange.

On May 17, 2010, Blue Square announced that its audit committee and board of directors had approved a transaction with Blue Square's controlling shareholder, Alon Israel Oil Co. ("Alon"), and signed a share purchase agreement (the "Share Purchase Agreement") with Alon, pursuant to which Blue Square would acquire from Alon all of Alon's approximately 80% holdings in Dor-Alon Energy In Israel (1988) LTD. ("Dor Alon"), a publicly traded company listed on the TASE (the "Acquisition"). Dor Alon is one of the four largest fuel companies in Israel based on number of gas stations and is a leader in the convenience stores sector.

In exchange for each share in Dor Alon, Blue Square would issue to Alon 1.8 shares of Blue Square, for an aggregate of 20,327,710 shares of Blue Square (which would materially increase the capital of Blue Square). As a result of the transaction, Alon's direct and indirect ownership interest in Blue Square would increase to approximately 78.44% of the outstanding share capital of Blue Square from approximately 68.62% of the outstanding share capital of Blue Square. Within the framework of the Acquisition, the audit committee and board of directors of Blue Square approved the distribution of a dividend (after the share issuance to Alon) to Blue Square's shareholders not out of profits, of NIS 800 million, or approximately US\$ 208.9 million (based on the representative rate of exchange on May 31, 2010), which represents a dividend of approximately NIS 12.32, or approximately \$3.22 (based on the representative rate of exchange on May 31, 2010), per ordinary share of Blue Square (after taking into account the shares to be issued to Alon in the acquisition). The dividend per share is subject to change based on the number of shares outstanding on the record date for the dividend. The dividend would be subject to the approval of the Israeli courts and to the completion of the Acquisition.

The Acquisition would combine the retail operations of Blue Square and Dor Alon into one group creating the largest retail group in Israel. Additionally, the Acquisition could enable Blue Square to achieve a strong foothold in the convenience store sector and enable substantial synergies and cost savings when combining the retail platforms of both companies.

The Acquisition and the dividend distribution are subject to approval of Blue Square's general meeting of shareholders, approval of the dividend distribution by the Israeli courts and customary closing conditions. A general meeting of shareholders is scheduled to be held on June 28, 2010 to approve, among other things, the Acquisition. For further information on the Acquisition, see "Item 7. Major Shareholders and Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD."

Prior to the Acquisition, we and Dor Alon will continue to operate as separate companies. Accordingly, except for specific references to the pending Acquisition, the description of our business set forth below relates solely to Blue Square and its current consolidated subsidiaries.

In December 2008 and January 2009, our board of directors approved a reorganization of our supermarket retail and real estate activities pursuant to which our supermarket retail activities are now centralized in Mega Retail, and our real estate activities are now centralized in Blue Square's subsidiary, BSRE. The reorganization of the real estate activities was approved by BSRE's shareholders at BSRE's extraordinary general shareholder meeting held on February 18, 2009, and the transfer of real estate properties from Mega Retail was completed on September 13, 2009 and, pursuant to the approval of the Israeli Tax Authority, was effective as of March 31, 2009. Following discussions between Mega Retail and BSRE and the Israeli Tax Authority regarding the structure of the real estate reorganization, the Israeli Tax Authority granted an approval pursuant to which the transaction would be performed as a split pursuant to Section 105 of the Israel Income Tax Ordinance. Under such approval, Mega Retail transferred to BSRE the real estate properties, and as part of the consideration for the transaction, BSRE assumed Mega Retail's financial liabilities to a bank in an amount of approximately NIS 390 million that were attributed to the transferred properties and paid the Company in cash the balance of NIS 68 million, representing the difference between the value of the transferred properties (less certain expenses associated with the transfer) and the assumed liabilities. In addition, as part of the reorganization of the retail activities, Mega Retail's wholly owned subsidiary, The Blue Square Chain (Hyper Hyper) Ltd. ("Hyper Hyper"), is to merge into Mega Retail, as a tax exempt transaction, and all of the retail activity of Hyper Hyper is to be transferred to Mega Retail. The merger was approved by the Tax Authority, and it is anticipated that the merger will be completed in the next few weeks, effective as of January 1, 2009. For a description of Blue Square's supermarket retail and real estate activities reorganization, please see “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions”.

The following is a description of certain events that have occurred during the last number of years:

- Changes in our store formats, including:
 - The launch of "Mega Bool", a hard discount store format. As of May 31, 2010, this initiative included the conversion of 46 existing "Mega" and "Shefa-Shuk" stores of various sizes to the new brand and the opening of an additional three new "Mega Bool" stores;
 - The launch of “Mega In Town”, a discount supermarket brand designed to combine discount prices and convenience for neighborhood shoppers. As of May 31, 2010, we had 121 “Mega In Town” stores; this initiative has included the conversion of over 100 existing SuperCenter and Mega stores to the new brand; and
 - The completion of the first stage of our strategy to establish our Eden Teva format as the leader in Israel's organic/health food market by expanding the number of organic/health food supermarkets operated by Eden Teva to nine stores as of May 31, 2010. We announced our intention to implement the second stage of our strategy by establishing Eden Teva branches within our existing large store formats under the concept of a "store within a store";

- The launch of a new internet sale site, Mega by Internet, in October 2009;
- The launch of a private label called "Mega" that was expanded throughout our "Mega Bool", "Mega in Town" and "Mega" store formats beginning in December 2008. During the first four months of 2010, the products that we sold under the "Mega" private label constituted approximately 6.1% of our supermarket sales;
- As part of our strategy to expand our presence in “Non-Food” stand alone retail outlets, we acquired 50% of Bee Group in 2005, and by 2008 we had increased our holdings in Bee Group to 85%. Concurrently, Bee Group acquired the controlling interest in Vardinon Textile Ltd. (home textile retailer and wholesaler) and the controlling interest in Naaman Porcelain Ltd. (houseware retailer and wholesaler). During the fourth quarter of 2009, we completed the concentration of our Bee Group subsidiaries into three sectors: houseware and home textile, toys and leisure, and baby and young children products. We also centralized all of the financial activity, import and information systems of the Bee Group subsidiaries under a single headquarters in one location;
- The reorganization of our real estate assets, including the transfer of all related rights and obligations and certain liabilities (including lease agreements of which we were lessor and Mega Retail or third parties were lessees) to BSRE, a then new wholly owned subsidiary. In addition, on September 13, 2009 and effective for tax purposes as of March 31, 2009, we completed the transfer of all of the real estate held by our wholly-owned subsidiary, Mega Retail, and its subsidiaries to BSRE;
- The establishment of a joint loyalty plan (the "You Plan") with Dor Alon in 2005, including the offering to our customers of a Diners Club Israel credit card bearing the name “You”, and the acquisition, together with Dor Alon, of 49% of the shares of Diners Club Israel Ltd., a subsidiary of Credit Cards for Israel Ltd. (allocated 36.75% to us and 12.25% to Dor Alon), the launching in 2009 of a new "You" Mastercard credit card and the expansion in 2009 of our customer loyalty plan through the launching of a new membership card in August 2009. As of May 31, 2010, approximately 550,000 new customers had joined the "You" club through the membership card (see “Item 4. Information on The Company - B. Business Overview -Related Businesses”); and
- As part of our strategy to increase our operational efficiency by improving our distribution capabilities and IT systems, the investment in new IT and logistics systems.

Capital Expenditures

A key component of our business strategy is the establishment and relocation of new stores, the remodeling of existing stores and the improvement of our distribution facilities. During the three months ended March 31, 2010, we invested approximately NIS 38.7 million, or \$10.4 million, in property, plant and equipment, intangible assets and investment property. In 2009, we invested approximately NIS 234 million, or \$62 million, in property, plant and equipment, intangible assets and investment property, a 24.9% decrease from our 2008 investment of NIS 311.7 million. Of our investment in property, plant and equipment and investment property in 2009, we invested NIS 46.2 million, or \$12.3 million, in land and buildings, including land that we lease, as compared with NIS 107.5 million in 2008. As of December 31, 2009, we had entered into agreements for investments in fixtures, equipment and leasehold improvements in an aggregate of NIS 39 million, or \$10 million.

For additional information pertaining to our principal capital expenditures and divestitures for the last three financial years and those of which are currently in progress, and the method of financing, see “Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

B. Business Overview.

General

We operate in three reporting segments. In our Supermarkets segment, we are the second largest food retailer in the State of Israel. In our "Non-Food" segment, we sell “Non-Food” items both in our supermarkets and in stand alone retail outlets. In our Real Estate segment, we own, lease and develop yield-generating commercial properties.

As of May 31, 2010, we have 207 supermarkets with brands including "Mega Bool", "Mega In Town", "Mega", "Shefa Shuk", "Eden Teva". In addition, as of May 31, 2010, we had 268 Non-Food retail outlets (partly through franchisees) under the control of our subsidiary, Bee Group Retail Ltd. ("Bee Group") under the brand names Naaman, Vardinon, Sheshet, Kfar Hasha’ashuim, Rav-Kat, Dr. Baby and All for a Dollar. Through our supermarkets, we offer a wide range of food and beverages products and also “Non-Food” items, such as houseware, toys, home textile products, small electrical appliances, computers and computer accessories, entertainment and leisure products, and “Near-Food” products, such as health and beauty aids, infants products, cosmetics and hygiene products. We also operate several toy and houseware departments within most of our large stores. Through our stand alone "Non-Food" retail outlets, we offer a range of houseware and home textile, toys, leisure and baby and young children products.

Our activities are carried out via our consolidated subsidiaries, the largest of which are Mega Retail, which has supermarket retail activities, Bee Group, which conducts non-food retail activities, and BSRE, which owns and invests in yield-generating commercial real estate. As of May 31, 2010, Blue Square owned 100% of the outstanding shares of Mega Retail, 85% of the outstanding shares of Bee Group, and 78.35% of the outstanding shares of BSRE. The balance of BSRE shares is publicly held and traded on the Tel Aviv Stock Exchange.

Following the reorganization of Blue Square's supermarket retail activities pursuant to which Blue Square's supermarket retail activities were transferred to Mega Retail, and as of May 31, 2010, Mega Retail and its direct and indirect subsidiaries were the owners of all 207 of our supermarkets. As of December 31, 2009, the total consolidated assets of Mega Retail and its subsidiaries aggregated approximately NIS 2.36 billion, or \$625 million, constituting approximately 46% of our total consolidated assets at that date.

Following the reorganization of Blue Square's real estate activities pursuant to which Blue Square's and Mega Retail's real estate was transferred to BSRE, BSRE is the owner of all of our real estate properties. BSRE's revenues are primarily derived from real estate lease payments received from Mega Retail and third parties. As of December 31, 2009, the total consolidated assets of BSRE aggregated approximately NIS 2.1 billion, or \$561 million, constituting approximately 41% of our total consolidated assets at that date.

As of May 31, 2010, Bee Group and its direct and indirect subsidiaries were the owners of 79 of our Non-Food retail stores, while the remaining 189 of our Non-Food retail stores are owned and operated by franchisees of Bee Group and its subsidiaries. As of December 31, 2009, the total consolidated assets of Bee Group and its subsidiaries (excluding the stores owned and operated by franchisees) aggregated approximately NIS 523 million, or \$138 million, constituting approximately 10% of our total consolidated assets at that date.

Supermarkets

The following table sets forth the change in the number of our supermarket stores (net of store closures) and supermarket store space as of the dates indicated:

	<u>No. of Stores</u>	<u>Store Space</u> <u>(square meters)</u>
As of December 31, 2005	168	312,000
As of December 31, 2006	175	323,000
As of December 31, 2007	185	342,705
As of December 31, 2008	194	354,531
As of December 31, 2009	203	365,000

We have five supermarket store formats - Mega Bool, Mega, Mega In Town, Shefa Shuk and Eden Teva. Our "Mega Bool" chain stores are hard discount stores designed to provide customers with name brand quality at everyday affordable prices. In the “Mega” chain stores, our larger stores which are located primarily outside residential areas, we offer a wide selection of food, “Near-Food” and “Non-Food” items. In the “Mega In Town” chain stores, the stores are usually smaller than “Mega” stores, located primarily in local neighborhoods and city centers, and combine discount prices with convenience for neighborhood shoppers. Our “Shefa Shuk” chain stores are low priced stores oriented towards Israel’s growing ultra-orthodox population. In our "Eden Teva" stores, we focus on offering organic, natural and health food products. As of December 31, 2009, we operated 11 Mega Stores, consisting of approximately 46,000 square meters space, 119 Mega In Town stores, consisting of approximately 133,000 square meters space, 47 Mega Bool stores, consisting of approximately 143,000 square meters space, 17 Shefa Shuk stores, consisting of approximately 29,000 square meters space, and nine Eden Teva stores, consisting of approximately 14,000 square meters.

In August, 2007, we launched our “Mega In Town” supermarket format designed to bring discount shopping to the neighborhood and city centers. The initiative included the conversion of over 100 of our existing SuperCenter and Mega stores to the new brand. “Mega In Town” is a discount supermarket brand designed to combine discount prices and convenience for neighborhood shoppers. “Mega In Town” stores are differentiated by their reduced prices, narrowing the gap between them and those of Hard Discount centers located in peripheral areas. In addition, such stores offer a greater variety of items than were previously carried by SuperCenters and Megas in residential areas.

On October 31, 2007, we acquired 51% of the outstanding shares of Eden Briut Teva Market Ltd. (“Eden Teva”) for a total consideration of approximately NIS 22.5 million. Eden Teva is one of Israel’s largest retailers of organic, natural and health food products, and as of May 31, 2010 operated nine supermarket stores, specializing in organic, natural and health food products. As part of this transaction, (i) we provided Eden Teva with shareholder loans in the amount of NIS 47 million, (ii) we have the right to appoint a majority of the board of directors and a majority of the executive committee of Eden Teva, (iii) the other shareholder has the various minority protection rights, and (iv) we are to provide all guarantees and financing required in connection with Eden Teva’s operations in the future, the repayment of existing shareholder loans in the amount of NIS 4.7 million, which has since been repaid, and the payment of a bonus to Eden Teva’s CEO upon the satisfaction of various thresholds which have not yet been satisfied. In addition, during 2010 we intend to launch a new Eden Teva store format by establishing Eden Teva branches within our existing large store formats under the concept of a "store within a store".

In December 2008, we launched our "Mega Bool" hard discount store format, designed to provide customers with name brand quality at everyday affordable prices, in response to an increase in consumer preference for hard discount stores that we have identified in the recent years. As of May 31, 2010, the initiative included the conversion of 46 of our existing stores of various sizes to the new brand, including large stores from the "Mega" and "Shefa Shuk" formats and smaller stores located within residential neighborhoods and city centers. As of May 31, 2010, we also opened three new "Mega Bool" stores.

In parallel, we also announced the launch of our new "Mega" line of private label goods that are sold in our "Mega Bool", "Mega", and "Mega In Town" stores. Private label products provide customers with an attractive alternative selection of products that are comparable in quality to name brand products. We believe that our private label products enhance customer loyalty, differentiate our stores from those of our competitors and provide a competitive product to those offered by our suppliers. In addition, usually the average gross profit from private label products is higher than the average gross profit from other products. During the first four months of 2010, the products that we sold under the "Mega" private label constituted approximately 6.1% of our supermarket sales.

As of May 31, 2010 we operated, through Bee Group, its subsidiaries and franchisees, a total of 268 non-food retail stores, 189 of which are operated by franchisees.

As part of our strategy to increase our market share of “Non-Food” and “Near-Food” products and to offer a wider selection of these products to consumers in our stores, in May 2005, we acquired 50% of the holdings of Bee Group Retail Ltd. (formerly known as “Hamachsani Hamerkazi Kfar Hasha’ashuim Ltd. (Central Warehouse/Toy Village)” (“Bee Group”)), in April 2007, we increased our holdings in Bee Group to 60%, and in September 2008, we increased our holdings in Bee Group to 85%. See “Item 10. Additional Information – C. Material Contracts – Purchase of Additional Shares in the Bee Group.” During 2009, we completed the reorganization of our Bee Group subsidiaries by concentrating them into three sectors: (i) houseware and home textile, concentrated in our Naaman, Vardinon and Sheshet stores, (ii) toys and leisure, concentrated in our Kfar Hasha’ashuim and All for a Dollar stores, and (iii) baby and young children products, concentrated in our Rav- Kat and Dr. Baby stores. During 2009, we also centralized all of the financial activity, import, and information systems of the Bee Group subsidiaries under a single headquarters in one location.

Bee Group holds and operates through subsidiaries large retail chains in Israel of houseware and home textile, toys, leisure and baby and young children stores, with 268 stores, located throughout Israel, owned and operated mostly by franchisees as of May 31, 2010. The chain operates under a number of different brand names: (i) "Naaman", which sells houseware products; (ii) "Vardinon", which sells home textile products and accompanying accessories; (iii) "Sheshet", which sells houseware and small electrical appliances; (iv) "Kfar Hasha’ashuim" (Toy Village), which sells toys; (v) "Rav-Kat" and Dr. Baby, which sells baby and young children accessories; and (vi) “All for a Dollar”. The stores of our "Naaman", "Vardinon" and "Dr. Baby" chains are primarily owned and operated by us, while the stores of our "Kfar Hasha'ashuim", "Sheshet" and "All for a Dollar" chains are primarily owned and operated by franchisees. In addition to these stores, we have established toy and houseware departments within most of our large supermarket stores.

On April 22, 2007, Bee Group acquired approximately 85.8% of the share capital of Vardinon Textile Ltd. ("Vardinon") a company traded on the Tel Aviv Stock Exchange for a total consideration of approximately NIS 38 million. Vardinon imports, designs and distributes home textile products and accompanying accessories, such as linen, towels and bathrobes under the brand name "Vardinon" and other products such as blankets, bed covers, curtains, pillows, other houseware products, candles and spa products. The products are distributed by Vardinon's chain of retail stores (37 stores as of May 31, 2010) and by wholesale to customers that include other wholesalers, retail chains, employee committees and catalogues. Following the termination of an earlier supply agreement between us and Vardinon that was terminated effective from January 2010, Vardinon signed a new services agreement with our subsidiaries Mega Retail and Hyper Hyper following approval of Vardinon's board of directors and shareholders. See “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions” for more information.

On October 31, 2007, Bee Group acquired 57.87% of the outstanding shares of Naaman Porcelain (51.5% on a fully diluted basis) ("Naaman"), a company traded on the Tel Aviv Stock Exchange, for a total consideration of approximately NIS 101 million. Naaman is one of Israel's major branded houseware retailers which imports and markets various houseware products, such as kitchen utensils, cutlery and dinner sets. As of May 31, 2010, Naaman had its own chain of 30 houseware stores, five of which are operated by franchisees, and is a supplier to Mega Retail. Naaman also sells its products to wholesale customers, including privately owned stores, retail chains, institutional customers, employee committees and sales promotion companies.

On August 11, 2008, Bee Group and the other Sheshet shareholders contributed to Naaman all of the shares in "Sheshet" in exchange for shares in Naaman. In addition, on September 25, 2008, Bee Group contributed to Naaman all of Bee Group's interest in Vardinon (approximately 84.79% voting power and 67.98% of the share capital, at that time) in exchange for approximately NIS 36.9 million in cash. On March 22, 2009, Bee Group acquired an additional approximately 8% of the shares of Naaman for cash. Following all of these transactions, Bee Group's holdings in Naaman were increased to approximately 66.85% of the outstanding shares. On June 1, 2009 Naaman acquired an additional approximately 3% of the shares of Vardinon. As a result of this acquisition, Naaman increased its holding in Vardinon to approximately 88.74% of the share capital. As of May 31, 2010, Bee Group held approximately 66.85% of the outstanding shares of Naaman, and Naaman held approximately 88.74% of the outstanding shares of Vardinon.

Industry Overview

Supermarkets

We estimate that retail sales of food, beverages and tobacco in Israel were approximately NIS 56.0 billion, or \$14.8 billion, in 2009. This estimate is based on the data published by the Israeli Central Bureau of Statistics of the retail sales of food, drinks and tobacco in Israel in 2008 (2009 has not yet been published) and the growth of expenditure for the consumption of food, beverages and tobacco of household in Israel at current prices in 2009 (2%).

The retail sales of food, beverages and tobacco in Israel includes supermarkets, grocery stores, mini-markets and retail sales of fruit and vegetables, meat, poultry and fish. The supermarket retail chain market consists of two large chains: Shufersal and us, as well as other smaller but developing chains.

Based on A.C. Nielsen and on data published by the Israeli Central Bureau of Statistics of the retail sales of food, drinks and tobacco in Israel, we estimate that approximately 37% of the total retail sales of food, beverages and tobacco in Israel in 2009 was made by the two large chains and approximately 46% of the estimated retail sales made by supermarkets, groceries and mini-markets in Israel in 2009 was made by the two large chains - a percentage that is considerably lower than the estimated market shares of the major supermarkets prevailing in Europe and the United States. Accordingly, we believe that there is an opportunity for us to grow correspondingly with the general growth of the supermarket sector in Israel.

Non-Food Retail

The Non-Food retail sales of houseware in Israel includes houseware departments in large retail chains, do-it-yourself retail chains, and private specialty stores and boutiques. The sale of these products through catalogs and internet sales sites has also increased in recent years. We do not have enough information to assess our market share in this market, as most of our competitors are privately owned companies.

The Non-Food retail sales of home textile in Israel includes home textile departments in large retail chains, department stores and private stores. There are also many companies and distributors that market and sell home textile products to wholesale customers. We do not have any formal information about the size of the home textile market and the market share of the various competitors in this market; however, we estimate that our "Vardinon" chain is one of the leading retailers in the premium home textile market.

The non-food retail sales of baby products and toys in Israel includes mainly smaller privately owned stores. We do not have enough information to assess our market share in these markets, as most of our competitors are privately owned companies.

Yield-Generating Real Estate

The yield-generating real estate market in Israel includes the development, promotion, planning, construction, marketing and operating of real estate properties intended for leasing primarily for the purpose of commercial, industrial, office space, parking garage and warehouse use. The yield-generating real estate market is affected by growth or slowdown in the Israeli economy, and by changes in the demand and the available supply of commercial areas, as well as the construction of additional commercial areas. The real estate market is also affected by governmental, municipal and tax authority policies regarding planning, building, marketing and taxation of land. Commencing from the beginning of the fourth quarter of 2008 and as a result of the global economic and financial market conditions, there has been a slowdown in the Israeli yield-generating real estate market which is evidenced by a decline in the number of real estate transactions, a reduction in the availability of credit sources, an increase in financing costs and stricter requirements by banks for providing such financing. Although in the last few months the availability of credit sources has improved somewhat, we cannot assure that this trend will continue. As a result of the recent economic conditions in Israel, BSRE estimates that there is some increase in the demand for yield-generating properties. While, demand for office space and industrial properties is still relatively low due to the effects of the slowdown in the economic activity, demand for industrial properties is stable, specifically, when the properties in are located in good locations

With respect to the residential building sector in Israel, a recession may cause a decrease in the scope of marketing and sales and a decrease in the prices of apartments. In addition, government policies may affect the availability and value of real estate designated for building and may also affect the prices of apartments.

Seasonality

Our business is subject to fluctuations in quarterly sales and profits. These fluctuations are primarily attributable to increased sales and higher operating income in the holiday seasons occurring in different quarters from year to year. Thus, for example, in our supermarkets and in our "Naaman", "Vardinon" and "Sheshet" chains increased sales attributable to Passover, which occurs in either March or April, may be realized in either the first or the second quarter, and sales attributable to the Jewish New Year, which occurs in either September or October, may be realized in our financial reports in either the third or the fourth quarter. In our "Kfar Hasha'ashuim" chain, increased sales are generally attributable to Purim, which occurs in March, and to the "Back-to-School" season in August. Generally, purchases for a particular holiday occur during the two-week period prior to the commencement of that holiday. However, the timing of the holidays does not affect our semiannual results.

Many of our expenses are unrelated to the level of sales, and therefore a relatively modest increase or decrease in sales, whether or not related to the timing of holidays, tends to have a disproportionately large impact on our profitability.

Our Strategy

Our strategy in our retail activities is: (i) to take advantage of our position as a leading food retailer in Israel, by expanding our market presence in existing retail food markets and (ii) to capitalize on potential synergies and our internal reorganization in order to improve our operating efficiency. To achieve this goal, we intend to pursue a number of operating and growth strategies, which include:

- increasing the pace of our growth rate and market share by opening additional store locations, renovating, improving and enlarging existing stores, adjusting our store formats to the needs of our customers and, if necessary, reducing and/or closing underperforming stores;
- expanding the geographic presence of our stores with the goal of bringing our supermarket store formats within the shopping range of every Israeli consumer;
- increasing our market share of “Non-Food” and “Near-Food” products and capitalizing on potential operating synergies between the Bee Group and the Company as a whole;

- solidifying and expanding our market share in the organic/health food market with the goal of establishing Blue Square as a leader of Israel's emerging organic/health food market;
- expanding our "Mega" private label line to encompass additional product categories and increasing the percentage of our sales from our private label line, and thus differentiating our store brands and products from those of our competitors;
- increasing operational efficiency, including by improving our distribution capabilities and IT systems;
- focusing on improving the availability of products in our stores and reducing the shortage of products “on the shelves”;
- expanding and improving our loyalty plan, which currently offers a new credit card and a new membership card, through joining other businesses to the plan; and
- combining our retail operations with those of Dor Alon with a view to becoming the largest retail group in Israel, achieving a strong foothold in the convenience store sector and capitalizing on potential operating synergies and cost savings between Dor Alon and the Company.

Our strategy in our real estate activities is to become a substantial owner of yield-generating properties and developer of commercial real estate through our subsidiary, BSRE. To achieve this goal, we intend to pursue a number of operating and growth strategies, which include:

- developing and improving existing real estate;
- maximize the leasing of existing properties to commercial users;
- increase and develop unused building rights in our existing properties; and
- acquire additional commercial real estate and yield-generating assets in Israel and continue to examine acquisitions abroad in light of market conditions, while diversifying our real estate property base.

Our Real Estate

Most of our real estate is currently used in connection with the retail operation of our stores.

Recent Activities in Our Real Estate Sector

Agreement with the Wholesale Market Company

On June 3, 2010, BSRE, Gindi Investments 1 Ltd. and an additional entity controlled by Moshe and Yigal Gindi (together with Gindi Investments 1 Ltd., "Gindi") (through two subsidiaries owned 50% by BSRE and 50% by Gindi), signed agreements to acquire rights to a long term lease of property in the wholesale market site in Tel Aviv for the purpose of building and marketing on the property an apartment buildings complex and a shopping mall from the municipality of Tel Aviv and the Wholesale Market for Agricultural Produce in Tel Aviv Company Ltd. (the "Wholesale Market Company"). On June 2, 2010, the shareholders of BSRE approved the signing of the final agreements. The agreements are subject to approval by the Israeli Minister of the Interior within 60 days of the date on which such agreements were signed. For more information on the transaction with the Wholesale Market Company, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreement with the Wholesale Market Company."

Purchase of Property in Point Wells, Washington

On June 1, 2010, BSRE completed the acquisition of an approximately 240-dunam parcel of property in Point Wells, near Seattle, Washington, which serves primarily as a plant for storage and distribution of fuel and oils. BSRE purchased the property through a wholly owned special purpose entity established in the United States, BSRE Point Wells, LP, which had entered into a purchase agreement, dated May 7, 2010, with Paramount of Washington LLC (“POW”) for the property. BSRE Point Wells, LP also entered into a development agreement, dated June 1, 2010, with POW and Paramount Petroleum Corporation (“PPC”). PPC leases the property from POW and operates and maintains it. POW and PPC are wholly owned subsidiaries of Alon USA Energy Inc., a public company whose shares are traded on the NYSE, ("Alon USA") and is controlled by our indirect controlling shareholder, Alon Israel Oil Co. Ltd. ("Alon").

BSRE Point Wells, LP paid POW a sum of \$19.5 million in consideration for the rights in and to the property (apart from the buildings and the existing equipment/property on the property (including fuel storage tanks, technical systems, pipes and various installations) which remain under the ownership of POW). BSRE Point Wells, LP bore the expenses relating to the transaction, including the transfer tax (estimated at approximately \$350,000) and ancillary costs for completion of the transfer of the rights in its name.

Upon the closing of the transaction, BSRE Point Wells, LP granted POW and PPC a right of use of the property, without consideration, for a period commencing on June 2, 2010 and terminating upon the earlier of: (1) June 2, 2020 or (2) the time of sale of the property, after the enhancement thereof, to a third party in accordance with the development agreement. For more information on the purchase and development agreements, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Purchase of Property in Point Wells, Washington from Indirect Subsidiary of Alon ".

Other Recent Activities in Our Real Estate Sector

During 2009, BSRE invested a total amount of NIS 9.4 million, including investments in rental offices and land in areas used for commercial and industrial development.

In addition, we have obtained a building permit and we are in the process of completing construction of an additional distribution and logistic center, as of May 31, 2010 held 100% by BSRE, which would be used for storage and distribution of Non-Food and Near-Food products for our Non Food chains and our supermarket stores. The distribution center would be operated on a 22,000 square meter site and would be leased to Bee Group. Including the initial expense of NIS 19.0 million to purchase the property, BSRE expects to invest a total of approximately NIS 105 million in building the distribution center.

Transfer of Real Estate Assets from Blue Square to BSRE

In 2006, pursuant to and under agreements entered with BSRE on June 21, 2006 (the "Transfer Agreement") and on April 2, 2006 (the "Split Agreement"), both of which were effective as of December 31, 2005, the Company transferred its real estate assets, all related rights and obligations and certain liabilities (including lease agreements of which the Company was lessor and Mega Retail or third parties were lessees) to Blue Square Real Estate Ltd. (BSRE), a then new wholly owned subsidiary, to manage approximately 146,300 square meters currently occupied by our stores and other lessees, as well as the unoccupied land and unused building rights under our ownership. At the time of the transfer, the transferred assets did not include: (i) real estate owned by Mega Retail and its subsidiaries and (ii) real estate that the Company leases from Mega Retail or third parties in connection with our retail activities. Among the rights transferred were those pursuant to long term lease agreements, lease agreements, partnership agreements, purchase agreements, easements and any other agreements between the Company and third parties relating to the transferred properties (including certain liabilities to banks for certain credit received by the Company).

Further, in August 2006, BSRE completed its initial public offering (IPO) of ordinary shares, unsecured convertible and non-convertible debentures on the Tel Aviv Stock Exchange. As a result of the offering, the Company holding in BSRE was reduced to 80% of the outstanding shares (78.35% as of May 31, 2010). The balance of BSRE shares is publicly held and traded on the Tel Aviv Stock Exchange.

For more information about additional agreements between the Company and BSRE, see “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions”.

Tax Authority Approval of Transfer by Blue Square to BSRE

On May 4, 2006, the Israeli Tax Authority approved our application for a ruling stating that the transfer of properties to BSRE would receive favorable tax treatment under the provisions of Sections 104A and 105A(2) and 105(I) to the Income Tax Ordinance, subject to certain conditions. In particular, the Israeli Tax Authority ruled that, assuming compliance with all conditions in the approval and the related provisions of the Israeli Income Tax Ordinance, there would be no capital gains or betterment tax, sales tax or, if applicable, stamp tax in connection with the transfer of the properties to BSRE (and BSRE is to be charged a reduced 0.5% of the asset value for purchase tax). The Israeli Tax Authority agreed with BSRE that the value of the transferred assets for purchase tax purposes (in the rate of 0.5%) is approximately NIS 1.3 billion.

The tax approval did not constitute an approval of the principles of allocation of obligations with respect to the transfer of properties to BSRE between the Company and BSRE prior to December 31, 2005. This allocation may be subject to review by the Israeli Tax Authorities and result in an adjustment. If an adjustment is required by the Israeli Tax Authorities, the Company and BSRE have agreed if additional obligations are imposed on BSRE, an indemnification arrangement will be implemented providing that the balance of the equity capital derived to BSRE from the Split Agreement will not be changed.

The Israeli Tax Authority approval was one of several permits and approvals necessary for completing the legal transfer of the assets and recording such assets under BSRE's ownership. The Israeli Tax Authority began the process of issuing tax approvals for the assets that were transferred only after December 31, 2007, until which time the Company and BSRE were required to comply with certain conditions of the Israeli Tax Authority ruling, as described below. BSRE received tax approvals for the transfer of all the assets transferred by the Company in the Split Agreement and for the majority of assets that were transferred by the Company in the Transfer Agreement.

A breach of the conditions set forth in the Israeli Tax Authority's approval and the related provisions of the Israeli Income Tax Ordinance may result in the Company being charged with capital gains or betterment tax and sales tax, and BSRE being charged for the full rate (5%) of purchase tax (and stamp tax, if applicable). Based on the Israeli Tax Authority's agreement with BSRE that the value of the transferred assets for purchase tax purposes is approximately NIS 1.3 billion, the full rate (5%) of purchase tax for the transferred properties is approximately NIS 65.6 million. Conditions of the Israeli Tax Authority ruling included the following:

- Until December 31, 2007, incurred losses (if any) up to the amount of finance expenses in connection with loans attributed to the transferred real estate and up to the amount of lease expenses of the Company and/or BSRE may not be deducted for tax purposes. Thereafter, no such restriction applies.
- Until December 31, 2007, the Company and BSRE may not transfer one to the other assets, cash or any other activity except in the ordinary course of business. In addition, until December 31, 2010, the Company and BSRE may not grant and/or receive loans to each other except in the ordinary course of business.
- The lease payments charged by BSRE for leasing the transferred properties to the Company or to any related party of the Company, and the management fees charged by the Company to BSRE, will each be at market value as would have been obtained in arm's length transactions between non-related parties
- In accordance with Section 104A of the Israeli Tax Ordinance and in connection with the Transfer Agreement, the Company was required to hold at least 90% of each kind of right in BSRE until at least December 31, 2007. Notwithstanding the foregoing, in the following circumstances prior to December 31, 2007, the Company was permitted to hold less than 90% of each kind of right in BSRE, but in any event not less than 51%: (i) public offer pursuant to a prospectus, (ii) private placement of no more than 25% of the share capital before the placement and (iii) sale of no more than 10% of the ownership rights in BSRE.

- In accordance with Section 105A(2) of the Israeli Tax Ordinance and in connection with the Split Agreement, the Company was required to hold all of its rights in BSRE for two years. Notwithstanding the foregoing, the following circumstances would not be deemed a change in rights provided that until December 31, 2007, the Company was not permitted to hold less than 50% of the rights in BSRE: (i) public offer pursuant to a prospectus, (ii) private placement of shares and (iii) sale of no more than 10% of the rights in BSRE.
- In accordance with the Israeli Tax Ordinance, BSRE was required to hold the transferred assets under the Transfer Agreement until December 31, 2007.
- In accordance with the Israeli Tax Ordinance, until December 31, 2007, the Company was prohibited from selling most of the remaining assets of the Company (*i.e.*, which were not transferred under the Split Agreement), and BSRE was prohibited from selling most of the assets transferred to BSRE under the Split Agreement, and in each case during such period such assets would be used for acceptable uses in light of the circumstances.

A breach of a condition under the Israeli Tax Ordinance and/or under the tax approval with respect to one of the transferred properties under the Transfer Agreement will be deemed only a breach of the transfer of such property and not a breach of the entire restructuring under the Transfer Agreement. Therefore, in such case, applicable full tax charges will only be applicable to such property.

In addition, in accordance with the Israeli Tax Ordinance, the construction of buildings on unimproved land transferred to BSRE must be completed within four years of transfer. To the extent this construction is not completed within this four year period, which ended on December 31, 2009, the Company and BSRE may approach the Tax Authority for its determination as to whether such delay constitutes a default for purposes of the tax benefits. The Company and BSRE may be considered to be in breach of the conditions set forth in the Israeli Tax Authority's approval and the related provisions of the Israeli Income Tax Ordinance with respect to eleven properties on unimproved land transferred by the Company on which BSRE has not yet commenced or completed construction of buildings. BSRE submitted a request to the Israeli Tax Authority to change the basis for the tax exemption under the Income Tax Ordinance for the transfer of eight of the eleven properties, and during 2009 the Israeli Tax Authority granted the exemption. In connection with the exemption, BSRE paid additional purchase tax in the amount of NIS 1.4 million and received the tax permits for the transfer of the eight properties. BSRE believes that it complies with the conditions set forth in the Israeli Tax Authority's approval with respect to the remaining three properties. For additional information about our real estate, please see “- D. Property, Plant and Equipment” below.

Transfer of Real Estate Assets from Mega Retail to BSRE

In January 2009, Blue Square's board of directors approved a reorganization of its real estate activities pursuant to which Blue Square's wholly-owned subsidiary, Mega Retail, would transfer all of the real estate held by it to BSRE. On February 18, 2009, BSRE's shareholders approved the transaction, and the transfer was completed on September 13, 2009, and, pursuant to the approval of the Israeli Tax Authority, was effective as of March 31, 2009.

As part of the approved transaction, all real estate property (and related leases) held by Mega Retail and Mega Retail's subsidiaries were transferred to BSRE. All real estate property used by Mega Retail prior to the transfer was leased back by BSRE to Mega Retail for its retail activities under terms similar to existing lease agreements between BSRE and Mega Retail and existing lease agreements between BSRE and Blue Square that were previously transferred to Mega Retail, as described below. The periods of the existing lease agreements were extended to match the period of the new lease agreement, i.e., 10 years from the effective date of the transfer of the Mega Retail real estate assets to BSRE, with an additional option period of five years exercisable by Mega Retail.

The lease agreements between BSRE and Mega Retail contain terms similar to the existing lease agreements, which provide for annual rent for property used for supermarkets to be the higher of 2% of the annual turnover of that store or 9% of the amount paid by BSRE to purchase the underlying real estate of that store (excluding consideration paid for certain unused building rights), plus amounts invested by BSRE in the asset, reduced by certain costs and payments and increased according to Israel's CPI. The annual rent for property not used for stores is equal to 9% of the amount paid by BSRE, linked to increases in Israel's CPI.

The sale of Mega Retail's real estate property (and related leases) to BSRE was for an aggregate consideration of approximately NIS 463 million. As part of the consideration for the transaction, BSRE assumed Mega Retail's financial liabilities to a bank in an amount of approximately NIS 390 million that were attributed to the transferred properties and paid the Company in cash the balance of NIS 68 million, representing the difference between the value of the transferred properties (less certain expenses associated with the transfer) and the assumed liabilities. BSRE financed the assumption of the liabilities by paying the bank NIS 140 million and entering into a loan agreement with the bank for a 15-year loan for the remaining amount of NIS 250 million. Pursuant to the loan agreement, BSRE must comply with certain financial terms and covenants. As of December 31, 2009, BSRE met these covenants. In addition, BSRE has pledged 15 of the transferred properties (including income from the lease agreements with Mega Retail) as collateral for the loan, and agreed that it will not grant any floating charge on its assets without prior consent from the bank.

Tax Authority Approval of Transfer by Mega Retail to BSRE

During 2009, the Israeli Tax Authority approved Mega Retail and BSRE's application for a ruling stating that the transfer of properties from Mega Retail to BSRE would receive favorable tax treatment under the provisions of Section 105 to the Income Tax Ordinance, subject to certain conditions. In particular, the Israeli Tax Authority ruled that, assuming compliance with all conditions in the approval and the related provisions of the Israeli Income Tax Ordinance, Mega Retail will be able to defer its payment of betterment tax by the depreciation rate of the depreciable properties, or, if earlier, upon the realization of the properties (so far as realized) by BSRE, and BSRE would be charged a reduced 0.5% of the asset value for purchase tax, or NIS 2.5 million.

The tax approval did not constitute an approval of the principles of allocation of obligations with respect to the transfer of properties to BSRE between the Company and BSRE prior to December 31, 2005. This allocation may be subject to review by the Israeli Tax Authorities and result in an adjustment. In addition, the tax approval did not constitute an approval of the valuation of the transferred properties, and such valuation may be subject to review by the Israeli Tax Authority.

A breach of the conditions set forth in the Israeli Tax Authority's approval and the related provisions of the Israeli Income Tax Ordinance may result in Mega Retail being charged with capital gains or betterment tax and sales tax, and BSRE being charged for the full rate (5%) of purchase tax. Conditions of the Israeli Tax Authority ruling included the following:

- Until March 31, 2011, the Company, Mega Retail and BSRE may not transfer one to the other assets, cash, the granting of guarantees or any other activity except in the ordinary course of business. In addition, until March 31, 2011, Mega Retail and BSRE may not grant and/or receive loans to each other except in the ordinary course of business.
- Until March 31, 2011, Mega Retail and BSRE shall each conduct its economic activity independently from the other, and the income deriving from such economic activity shall be subject taxation according to Section 2(1) of the Israeli Tax Ordinance, and shall originate in the activities of each of Mega Retail and BSRE prior to the split.
- Until March 31, 2011, Mega Retail is prohibited from selling most of the remaining assets of Mega Retail (*i.e.*, which were not transferred under the split), and BSRE is prohibited from selling most of the assets transferred to BSRE under the split, and in each case during such period such assets will be used for acceptable uses in the ordinary course of business.
- Until March 31, 2011, the Company is required to hold all of the rights that it held in BSRE prior to the split. Notwithstanding the foregoing, the following circumstances will not be deemed a change in rights provided that at any time until March 31, 2011, the Company may not hold less than 50% of the rights in BSRE: (i) public offer pursuant to a prospectus, (ii) private placement of shares and (iii) sale of no more than 10% of the rights in BSRE.

Description of Real Estate Properties

Following the reorganization of our real estate activities, all of our real estate is owned by our 78.35% subsidiary, BSRE, and includes commercial areas which are mainly designated for the use of our supermarket branches and for the operation of our retail chain, a 50% holding in Hadar Mall, small commercial sites, office buildings, logistics sites, our holdings in the Wholesale Market Company and additional undeveloped properties for use as commercial areas, office buildings, and logistics centers.

As of December 31, 2009, the total square meters of developed property that we owned was approximately 243,600 square meters, the total square meters of property in development that we owned was approximately 36,100 and the total square meters of unutilized building rights that we owned was approximately 210,000 square meters.

The following table provides certain details regarding our real estate properties of which we are the legal owner (including through long-term leases from the Israel Land Administration), as of December 31, 2009:

	Number of properties for use or rent	Area in sq. m. for leasing (property space)	Occupancy rate
Commercial areas, including supermarket branches	216	183,600	98%
Warehouses and Logistics centers	8	43,800	95%
Offices	16	16,200	83%
Total developed property	240	243,600	88%
Offices	1	14,100	
Warehouses	1	22,000	
Total property in development	2	36,100	
Total unutilized building rights		210,000	

Below is a short description of a number of these properties:

Commercial areas, including supermarket branches

The properties designated for supermarkets are individual units or integrated units in buildings in industry, residential or commercial areas. Some of the properties have parking lots and operational areas that are not included in the sq. meters calculated for lease. The majority of the supermarkets properties are leased to BSI. Below are the two additional commercial areas not designated for supermarkets that BSRE owns:

- **Hadar Shopping Mall** - BSRE owns 50% of the property, which is located in Talpiot industrial area in Jerusalem. The other 50% is held by a third party. The lease from the Israel Land Administration ends in 2021 with an option to extend the lease for an additional 49 years, subject to a fee. The two-floor mall includes 18,000 sq. meters of commercial space, including 780 parking spots. The space is leased to third parties, including 4,700 sq. meters to Hyper Hyper. As of May 31, 2010, the occupancy rate of the mall is 100%. The property is managed by a joint management company. BSRE and the third party have applied to the zoning committee for a permit for an additional commercial floor above the existing floors of 9,000 sq. meters, an additional upper level parking garage and an additional 6% building rights for commercial purposes and additional floors (the "Expansion Project"). As a result of the global economic and financial market conditions during 2009, and the uncertainty regarding future commercial activity, the parties decided to suspend the execution of the Expansion Project. During 2010 the parties intend to reassess the Expansion Project and will decide after such assessment whether to continue with the Expansion Project. As of May 31, 2010, all conditions to receive building permits for the Expansion Project have been met, except for payment of a fee.
- **Property designated for a shopping center in Netanya**- a 19 dunam property with rights for 30,000 sq. meters of commercial spaces and offices. The cost of this property was approximately NIS 27 million. BSRE intends to build a shopping mall of approximately 14,500 sq. meters on the first and second floors with an underground parking garage of approximately 12,000 sq. meters, as a first stage of development of the property, and BSRE estimates that the cost of this first stage of development will be approximately NIS 100 million and is targeting completion for 24 months from the beginning of construction. BSRE has begun marketing the areas of the project for lease. As of May 31, 2010, BSRE had registered the property under its name; however, since BSRE acquired the property in the framework of a foreclosure of a mortgage registered on the property, the status of the property is still being contested in legal proceedings.

In addition, BSRE holds 50% of the share capital of 1108 Center Investments Ltd., an investment company that holds the rights in a commercial property of 14,130 sq. meters in Beer Sheva on which a commercial center is built.

Offices

BSRE is the owner of the following three major office building and properties designated for office building construction:

- **Kiryat Arie, Petach Tikva**- BSRE, owns a property of three office buildings of total area of 14,000 sq. meters with rights to build two more stories to the existing building. The cost of the acquisition of this property was approximately NIS 32 million. BSRE intends to renovate the three buildings for office use and to add an additional two stories to the existing building. BSRE has obtained building permits for the construction. BSRE estimates that the additional cost of renovation and building of the additional floors would be approximately NIS 45 million and is targeting completion for 18 months from the beginning of construction. BSRE estimates that it will begin construction on the buildings during 2010 at which point BSRE will begin to market some or all of the spaces. In addition, BSRE has submitted a request to the district zoning committee to promote a zoning plan for additional building rights on this property for commercial and office use.

- **Afek Industrial Park, Rosh Ha'ayin-** during 2009, within the framework of the transfer of real estate from Mega Retail to BSRE, Mega Retail transferred to BSRE an office building in Afek Industrial Park. The office building, which is built on a 13,770 sq. meter property, includes two floors of offices with a total area of 9,300 sq. meters, which are leased to the Company and serve as the Company's executive offices. The ground floor of the buildings also includes a supermarket, taxi cab station and a small gas station operated by Mega Retail. The property also includes parking areas for the offices and the supermarket. There are approximately 3,784 sq. meters of unutilized building rights, which are designated for light industrial and commercial use. BSRE is currently examining the possibility of building another office building on this portion of the property.
- **North Ra'anana** – during the first quarter of 2008, BSRE completed the acquisition of ownership rights in an 11 dunam plot designated for commercial and office buildings located in the northern industrial area of Ra'anana. As of May 31, 2010, a total of 4,000 sq. meters of the property are leased for a parking lot. In September 2009, the local zoning committee approved BSRE's application to build a 20 story high-tech office building on the property containing a total of 26,000 sq. meters which would include one commercial floor and an underground parking area of 16,000 sq. meters. BSRE is in the process of meeting the requirements for a building permit for this office building. BSRE is not currently able to estimate the amount of time or the scope of the investment that will be involved in this project.

Logistics Areas

Below is a short description of the logistic areas owned by BSRE or for which BSRE has agreements to purchase:

- **Kibbutz Einat** – BSRE holds 50% of Einat Yield Generating Real Estate Cooperative Ltd. ("Einat Ltd."), which has received from Kibbutz Einat its rights to lease a property of 26 dunam of industrial use (all of which is leased to different lessees). The cost of BSRE's share of the rights in this property was approximately NIS 24.4 million. The property includes four warehouses containing a total of 14,000 sq. meters which are leased to different lessees with options to renew. On August 23, 2009, Kibbutz Einat signed a long term lease with the Israel Land Administration, and shortly thereafter submitted a request to the Israel Land Administration to allow Kibbutz Einat to transfer the lease to Einat Ltd. As of May 31, 2010, the Israel Land Administration had not yet responded to this request. According to the assessment of BSRE's legal counsel, it is likely that the lease will be transferred to Einat Ltd.

- **Be'er Tuvia** - BSRE owns, through its wholly owned subsidiary Logistic Center Bee Square Real Estate Ltd. ("Logistic Center "), a 74 dunam property of which 63 dunam are designated for industrial (and storage) areas. BSRE estimates that it has rights to build 72,000 sq. meters of commercial areas and office buildings. Logistic Center has entered into an agreement with the Bee Group to build the distribution center which would be used for storage and distribution of Non-Food and Near-Food products for our Non Food chains and our supermarket stores. The lease would be for a period of 12 years from beginning of use of the property with an option to renew for additional three year periods (but not to exceed a total renewal period of 24 years) for an annual payment equal to 9% of the total investment made by Logistic Center in acquiring and building this distribution center, linked to the CPI. The distribution center would be operated on a 22,000 square meter site and would be leased to Bee Group. Including the initial expense of NIS 19.0 million to acquire the property, BSRE expects to invest a total of approximately NIS 105 million in building the distribution center. BSRE estimates that the project will be completed and the buildings will be occupied by tenants during 2010.
- **Kibbutz Eyal** - BSRE and Eyal Hasharon, an agriculture cooperative society Ltd. ("Eyal Hasharon"), signed an agreement for the development of a 57 dunam property for storage and logistics usage. Under the agreement, BSRE and Eyal Hasharon will jointly hold in equal parts a new company to which Kibbutz Eyal will transfer the property. Closing of the transaction is subject to various conditions, including the approval of the Israel Land Administration which, as of May 31, 2010, has approved the transfer of 41 dunam only. Various other closing conditions have also not yet been satisfied. The validity of the agreement is dependent on the conditions being satisfied by November 19, 2010, and BSRE has the right to extend this period at its sole discretion. In addition, pursuant to this agreement BSRE will transfer to the new company an amount based on the purchasing costs, development costs and an additional cost, but not less than \$70,000 per dunam. In the event that the costs exceed \$100,000 per dunam, BSRE will have the right to terminate the Agreement.
- **Rishon LeTzion**- Blue Square's logistic center is located in the western industrial area of Rishon Letzion. Part of the property is an open area used by Blue Square for container storage and as a loading area and includes unutilized building rights of approximately 14,838 sq. meters that may be used for industrial, commercial and storage purposes.

Properties with development potential

As of December 31, 2009, BSRE has rights to build a total of 210,000 sq. meters (202,000 sq. meters mainly for commercial purposes and 8,000 sq. meters for residential purposes). Because the utilization of building rights is dependant on economic feasibility, satisfaction of various conditions, payment of costs and other factors, it is not clear if and when BSRE would utilize these building rights.

Wholesale Market Company

As of June 3, 2010, BSRE, Gindi Investments 1 Ltd. and an additional entity controlled by Moshe and Yigal Gindi (through two subsidiaries owned 50% by BSRE and 50% by Gindi), signed agreements to acquire rights to a long term lease of property in the wholesale market site in Tel Aviv for the purpose of building and marketing on the property an apartment buildings complex and a shopping mall from the municipality of Tel Aviv and the Wholesale Market Company Ltd. The agreements are subject to approval by the Israeli Minister of the Interior within 60 days of the date on which the agreements were signed. For more information, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreement with Wholesale Market Company."

Point Wells, Washington

On June 1, 2010, BSRE completed the acquisition of an approximately 240-dunam parcel of property in Point Wells, near Seattle, Washington, which serves primarily as a plant for storage and distribution of fuel and oils. BSRE purchased the property through a wholly owned special purpose entity, BSRE Point Wells, LP, which had entered into a purchase agreement with Paramount of Washington LLC ("POW") for the property and also entered into a development agreement with POW and Paramount Petroleum Corporation ("PPC"). PPC leases the property from POW and operates and maintains it. POW and PPC are wholly owned subsidiaries of Alon USA Energy Inc., which is controlled by our indirect controlling shareholder, Alon Israel Oil Co. Ltd. ("Alon").

The present zoning of the property is for heavy industrial use, and BSRE, through BSRE Point Wells, LP, is furthering a plan for a change of zoning of the property from heavy industrial zoning to an urban center zoning. To the best of BSRE’s knowledge, as of May 31, 2010, such change in the zoning of the property has been approved in principle, subject to completion of local statutory proceedings, the hearing of objections and additional approval proceedings, including the preparation and approval of a detailed plan which will, *inter alia*, make it possible to erect residential buildings and commercial space on the property.

Upon the closing of the transaction, BSRE Point Wells, LP granted POW and PPC a right of use of the property, without consideration, for a period commencing on June 2, 2010 and terminating upon the earlier of: (1) June 2, 2020 or (2) the time of sale of the property, after the enhancement thereof, to a third party in accordance with the development agreement. For more information on the purchase and development agreements, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Purchase of Property in Point Wells, Washington from Indirect Subsidiary of Alon ".

Competition

Supermarkets

The Israeli food retailing industry is highly competitive and is characterized by high turnover and narrow operating margins. We compete with the other major supermarket chain, Shufersal, low-priced smaller supermarket chains, independent grocers, open-air markets, and other retailers selling supermarket goods. Competitive pressures increase as the supermarket sector in Israel approaches higher saturation levels and will continue to increase in the event that our competitors expand their operations or new companies enter the market with hard discount formats.

Based on A.C. Nielsen, we estimate that our market share of the bar-coded market in Israel in 2009 was approximately 21.8% (which percentage includes for the first time, data for our 51% subsidiary, Eden Teva), Shufersal's market share of the bar-coded market in Israel in 2009 was approximately 37.3%, and the smaller supermarkets' market share of the bar-coded market in Israel in 2009 was approximately 37.6%.

In recent years, we and our competitors have established or expanded low-price and hard discount store formats. In December 2008 we launched our "Mega Bool" hard discount store format to address the hard discount store market. In addition, smaller supermarket chains in 2009 continued to aggressively increase their market share and expanded their presence in selected areas in Israel, often geographically beyond their original locations. The low barriers of entry, including the relatively low cost of establishing new smaller supermarket chains, have contributed to the increase in number and expansion of smaller supermarket chains in recent years.

Shufersal, the other major supermarket chain, has taken numerous initiatives in the last few years to improve its competitive position. Since 2005, when Shufersal merged with ClubMarket, the then third major supermarket chain, we have faced a major competitor, with a broader national presence, especially in the northern part of Israel where many of ClubMarket stores were located. Many of Shufersal's stores are characterized by every day sale of products at low prices. The competitive position of Shufersal, together with the expansion of smaller supermarket chains in recent years, has contributed to the intensified competition we experienced in recent years, particularly at our larger stores.

In November 2005, the Commissioner of the Israeli Antitrust Authority approved certain arrangements between the Fourth Chain Company Ltd. (“the Fourth Chain”) and certain smaller supermarket chains. This approval was granted subject to certain conditions for an initial period of two years and has since been extended until February 17, 2011. The Fourth Chain combines a number of smaller supermarket chains (the “Members”) which operate on local geographic level and its purpose is to develop a private label and to jointly negotiate with suppliers. Pursuant to the approved arrangement, the Fourth Chain is expected to perform the following actions for its Members: to develop and market a private label which shall be marketed exclusively in the Member stores; to purchase for the Members complementary services and products; to negotiate with suppliers from abroad for the import of products for the Members and, in a later stage, to negotiate prices and commercial conditions with suppliers; to operate a central joint warehouse; and to sell products to retails other than its Members. The aforesaid arrangement, and possible similar combinations of other smaller supermarket chains, may generate some of the efficiencies of a major national-spread chain and therefore enable them to compete more efficiently with the major chains.

In the sale of cosmetic, toiletries and hygiene products, we compete against establishments that sell such products, including the drug store chains SuperPharm and NewPharm.

Non-Food Retail

In addition, due to our sale of other “Near-Food” and “Non-Food” products in our supermarkets and in our stand alone non-food stores, and our acquisitions of controlling interests of “Non-Food” chains, Bee Group, Vardinon Textile Ltd. and Naaman Porcelain, we also face competition in the non-food retail market. In recent years, this competition has increased primarily due to the entry of retail chains and stores outside the food industry, such as Toys “R” Us, Office Depot, do-it-yourself chains such as Home Center and ACE (a franchisee of Ace Hardware), household stores, home textile stores, houseware stores, electricity appliances stores and also due to the expansion of the houseware and home textile departments in supermarkets. This competition affects the sales prices of our products and the scope of our sales. Increased competition may adversely affect our scope of sales and our profitability.

In addition, the barriers of entry are low in some of the markets in which the Bee Group competes due to the price and availability of products from overseas suppliers, although the establishment of a network of stores throughout the country together with the required import and marketing of products requires a high level of investment. The entrance of new competitors may reduce our market share and may reduce the sale prices of our products and lead to a reduction in our profitability.

The merchandise we sell in our non-food retail business through Bee Group is varied, and we therefore compete in several different markets.

In the houseware market, in which our "Naaman" and "Sheshet" stores compete, there has been a consistent increase in competition in recent years, both due to the entry of the do-it-yourself chains, such as Home Center and ACE, and due to the expansion of houseware departments within the supermarket retail chains, such as Shufersal. The sale of these products through catalogs and internet sales sites has also increased in recent years. We do not have enough information to assess our market share in this market, as most of our competitors are privately owned companies.

The home textile and accompanying accessories market in Israel in which our "Vardinon" stores compete is highly competitive. Vardinon's competitors in this market include home textile departments in large retail chains, department stores and privately owned stores. In addition, there are also many companies and distributors that market and sell home textile products to wholesale customers. We do not have any formal information about the size of the home textile market and the market share of the various competitors in this market, however, we estimate that our "Vardinon" chain is one of the leading retailers in the premium home textile market.

Our "Dr. Baby" stores compete in the baby and young children accessories market, and our "All for a Dollar" and "Kfar Hasha’ashuim" stores compete in the toys and leisure accessories market and the back-to-school products market. We do not have enough information to assess our market share in this market, as most of our competitors are privately owned companies.

Yield-Generating Real Estate

The yield-generating real estate market in Israel is highly competitive and is characterized by a large number of competitors. The main factor affecting competition in this market is geographic location of property. There are properties in close proximity to some of our properties that are similar in purpose and use, which has the effect of increasing competition for the leasing of those properties as well as reducing the rental rates for those properties. Other factors affecting competition are the leasing price, the physical condition of the properties, the finishing of the properties and the level of the management services provided to tenants. Furthermore, the economic and financial market crisis may further increase competition, leading to a reduction of rental fees and a decline in demand for properties.

Our Operations

Supermarkets

Our supermarket operations are conducted under the Mega Bool, Mega, Mega In Town, Shefa Shuk and Eden Teva store formats, which are among the most well-recognized retail names in Israel.

Our supermarkets offer a wide selection of supermarket goods. The mix of products of each supermarket format varies to address the preferences of its target customers. Many of our supermarkets offer specialty departments such as full service bakeries, delicatessens, fresh meat and prepared food departments; certain supermarkets also contain franchise operations, which sell a variety of goods. In addition, we offer a range of “Non-Food” and “Near-Food” items and operate several toy and houseware departments within most of our large stores. We also launched a private label for the Company, called "Mega", that was expanded throughout our "Mega Bool", "Mega in Town" and "Mega" store formats beginning on December 2008. Following the reorganization of our retail activities, all of our supermarket stores operations are owned by Mega Retail and its subsidiaries. As part of the reorganization of our real estate activities, BSI transferred all of its supermarket store leases to Mega Retail, and Mega Retail now leases the real estate underlying the stores that it operates from BSRE and third parties.

The following table provides certain information regarding our supermarket stores as of December 31, 2009:

Retail Format	Number of Stores	Store Space (square meters)
Mega Bool ⁽¹⁾	47	143,000
Mega ⁽²⁾	11	46,000
Mega in Town ⁽³⁾	119	133,000
Shefa Shuk ⁽⁴⁾	17	29,000
Eden Teva ⁽⁵⁾	9	14,000
Total	203	365,000

(1) Hard discount stores designed to provide customers with name brand quality at everyday affordable prices.

(2) Large stores (average size of approximately 4,100 square meters), primarily located outside residential areas, offering a wide selection of food items and other departments.

(3) Medium and small size stores primarily located in city centers and local neighborhoods which combine discount prices with convenience for neighborhood shoppers. This format is designed to bring discount shopping to the neighborhood and city centers.

(4) Low-priced supermarkets with a selection of products designed to compete with local competition and also oriented to ultra-orthodox Jewish population.

(5) Supermarkets that specialize in organic, natural and health food products, operated by Eden Teva, which is held 51% by Mega Retail.

Non-Food Retail

Our 85% subsidiary, Bee Group, holds and operates through subsidiaries large retail chains with 268 stores, some of which are owned and operated by the subsidiaries and some 189 of which are owned and operated by franchisees as of May 31, 2010. The stores are operated under the following brand names: (i) "Naaman", which sells houseware products; (ii) "Vardinon", which sells home textile products and accompanying accessories; (iii) "Sheshet", which sells houseware and small electrical appliances; (iv) "Kfar Hasha’ashuim" (Toy Village), which sells toys; (v) "Rav-Kat" and Dr. Baby, which sell baby and young children accessories; and (vi) “All for a Dollar". The stores of our "Naaman", "Vardinon" and "Dr. Baby" chains are primarily owned and operated by us, while the stores of our "Kfar Hasha'ashuim", "Sheshet" and "All for a Dollar" chains are primarily owned and operated by franchisees. In addition to these stores, we have established toy and houseware departments within most of our large stores, which are owned by us, and we expect to expand the variety of products offered in such departments in 2010. As part of a pilot program, in 2009, our Bee Group subsidiaries, Naaman and Vardinon, jointly opened two stores operated by Vardinon that offer both houseware and home textile products in one store. In 2010, we also plan to expand this initiative and to establish stores that combine different Bee Group store formats into one store format that will offer houseware and home textile products.

Each of the subsidiaries of the Bee Group separately manages its own operations. During the fourth quarter of 2009 we centralized all of the financial activity, import and information systems of the Bee Group subsidiaries under a single headquarters, which provides some of the services that were previously managed separately by each of the subsidiaries. The relationship with the franchisees is generally governed by franchise agreements between the relevant Bee Group subsidiary ("Franchiser") and the franchisee. The majority of the franchise agreements provide for a term of 10 years with two renewal options, each for a period of five additional years. Under most of the agreements, the Franchiser and the franchisee may terminate with prior written notice.

The franchisee generally commits to establishing its store(s) in designated locations and purchasing products for the stores only from the Franchiser or from third party suppliers designated by the Franchiser. While the Franchiser typically has no similar obligation to sell its products only through its franchisees, in practice, aside from sales to the franchisees or through the Franchiser's own stores, the Franchisers primarily sell their products only to Blue Square and to the Alon Group.

Bee Group has one material franchisee that operates, both on its own and with other third parties, seven "Kfar Hasha’ashuim" stores, two "All for a Dollar" stores, and eight "Sheshet" stores.

The following table provides certain information regarding our non-food retail stores as of December 31, 2009:

Retail Format	Number of Franchised Stores	Number of Self Operated Stores	Total
All for a Dollar	39	1	40
Kfar Hasha’ashuim	83	1	84
Dr. Baby and Rav-Kat	7	12	19
Sheshet	53	—	53
Vardinon	—	36	36
Naaman	5	23	28
Total	187	73	260

Purchasing and Distribution

Supermarkets

We purchase products for our supermarkets through a central purchasing office that selects products for all of our supermarkets and negotiates prices, promotions and terms of payment with individual suppliers on a company-wide basis. We believe that our large volume of purchases and our ability to offer chain-wide exposure for our suppliers’ products and promotions, enable us to avail ourselves of attractive volume-buying opportunities and manufacturers’ discounts.

Through our distribution center in Rishon Letzion, we can distribute products from suppliers, manufacturers and importers, thus reducing prices and broadening the range of available products. The distribution center is operated on a 40,000 square meter site. At this site, we operate approximately 20,000 square meters as warehouse space. We conduct the administration of the warehouses and distribution by means of a computerized system that consolidates orders from all the branches while giving consideration to inventory levels, store requests and company planning.

We purchase products for our supermarkets from approximately 700 suppliers, including manufacturers, importers and distributors. In 2009, approximately 84% of our grocery items and 93% of our meat and fish were delivered directly by suppliers to some of our stores. For certain other items, including 86% (in 2009) of fruits and vegetables, we provide distribution to our supermarkets through our distribution center. For the year ended December 31, 2009, approximately 21.1% of our supermarket purchases were of products distributed from the distribution center.

We actively seek to diversify our suppliers. However, we purchase most of our dairy, fresh produce and poultry products from the Tnuva Corporation, which holds a leading position in the domestic dairy and poultry markets. In 2009, Tnuva’s products accounted for approximately 14.4% (which percentage includes for the first time, data for Tnuva's subsidiary, Tirat Zvi) of all the products sold at our supermarkets. For more information on our arrangements with Tnuva, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transaction – Arrangements with Tnuva." In addition, the Strauss group, an Israeli food manufacturer, accounted for approximately 9.2% of all products sold at our supermarkets in 2009, and the Osem group accounted for approximately 7.5% of all products sold at our supermarkets in 2009. Because of our status as a leading food retailer in Israel as a result of which we are able to offer a wide exposure and promotion, on a national level, to these suppliers' products, and the fact that we maintain an excellent and long-standing relationship with Tnuva, Strauss group and Osem, we do not believe that there is a material risk of future stoppage of supply of products of these key suppliers. However, we do not have a written contract with Tnuva, Strauss group or Osem obligating them to supply products to us. In addition, in recent years, there has been a process of consolidation among our suppliers. As a result, our largest suppliers now account for a larger percentage of our product purchasers. The ten largest suppliers for our supermarkets accounted for approximately 55.7% of our product purchases in 2009. We have not experienced any material problems in obtaining products of the quantity and type required.

Naaman, Sheshet, "Kfar Hasha’ashuim" and "All for a Dollar" acquire the products and accompanying accessories which they market from numerous suppliers in Israel and abroad, mainly from the Far East. The overseas suppliers are generally manufacturers.

Vardinon purchases its home textile products either as finished products or through subcontractors, each of which is generally responsible for a certain part of the manufacturing process. Vardinon has many suppliers and subcontractors in Israel and abroad, mainly the Far East, India and Turkey, and they may vary from season to season based on various factors.

Vardinon is dependent on one material supplier, Office Textile Ltd., which supplies Vardinon with dyed fabric. Purchases from this supplier accounted for 33% and 26% of Vardinon's total purchases of materials and outsourced projects in 2008 and 2009, respectively.

As of May 31, 2010, we had obtained a building permit and we are in the process of completing construction of an additional distribution and logistic center, as of May 31, 2010 held 100% by BSRE, which would be used for storage and distribution of Non-Food and Near-Food products for our Non Food chains and our supermarket stores. The distribution center would be operated on a 22,000 square meter site and would be leased to Bee Group. Including the initial expense of NIS 19.0 million to purchase the property, BSRE expects to invest a total of approximately NIS 105 million in building the distribution center.

Marketing

We endeavor to create an awareness of our supermarkets as offering a combination of broad selection, high-quality service and competitive prices. Our primary advertising outlets, in addition to point-of-sale marketing, are television, newspapers, radio, internet, billboards and direct mail. Store promotions are conducted, from time to time, in all our supermarkets, in specific chains or in individual stores. These promotions include, among other things, price reductions, gifts, coupons or deferred payment terms and are often available exclusively to members of our Loyalty Plan - "You", and customer clubs for Shefa Shuk and Eden Teva.

The goal of our Loyalty Plan, which we established together with Dor-Alon Energy In Israel (1988) LTD. and offers to our customers credit cards (Diners and Mastercard) bearing the name "You", or a new membership card, is to promote customer loyalty to the Company and Dor Alon by, among other things, granting exclusive benefits to the Loyalty Plan members, including establishing a cash-based reward mechanism, and providing discounts and benefits at other businesses that would join the Loyalty Plan. In addition, through the Loyalty Plan the Company may provide other services such of personal finance, insurance products and tourisms packages. The benefits are advertised and disseminated each month via e-mail to the members of the Loyalty Plan. During 2009, we closed our “Buy & Bonus” frequent-buyer incentive program and offered the members of such programs membership in our new "You" membership club, which is designed to increase consumer traffic and encourage customers to patronize our stores. These customer clubs grant a variety of discounts and benefits to participants.

The Loyalty Plan also owns a 50% share in the Israeli Hebrew-language free daily newspaper, Israel Post, the distribution of which began in August 2007, mainly in establishments such as Blue Square supermarkets, AM-PM convenience stores and Dor Alon gas stations.

Supermarkets

We have joint advertising and sales initiatives together with some of our suppliers. The stores accept cash, checks, credit cards, gift certificates and prepaid electronic cards.

During the High Holiday and Passover seasons, we run gift certificates programs, under which we issue and sell gift certificates and prepaid cards to institutions, companies and individuals. The gift certificates and the prepaid cards can be used in our stores as well as other stores with which we entered into collaboration agreements. We also participate in tenders in connection with the sale of our gift certificates and prepaid cards. From time to time, we also operate joint marketing promotions with other entities.

In addition, we operate the Mega by Internet website which allows customers to place orders via the Internet 24 hours a day and to have the products in our stores delivered to our customers' homes from a nearby store within a few hours. Likewise, customers may order products by phone (through a calling center) or by fax. The service is provided (through 20 centers located at Mega and Mega Bool stores) in most of Israel.

Non-Food Retail

Our main marketing channels for our Non-Food products are (i) the Bee Group stores operating under Bee Group's various brand name retail chains, (ii) non-food departments in our supermarkets and (iii) direct sales to wholesalers and institutional customers.

Our Naaman chain markets its products to privately owned stores, retail chains, institutional customers, employee committees and sales promotion companies. Our Vardinon chain markets its products through stores that are owned and operated by Vardinon that are located primarily in shopping centers, as well as to other customers, including, wholesalers, retail chains, employee committees and catalogues.

As part of a pilot program, in 2009, Bee Group began establishing specialized departments for household products in our supermarkets that sell Naaman, Sheshet and Vardinon products. Bee Group plans to expand these departments in 2010.

As part of a pilot program, in 2009, our Bee Group subsidiaries, Naaman and Vardinon, jointly opened two stores operated by Vardinon that offer both houseware and home textile products in one store. In 2010, Bee Group also plans to expand this initiative and to establish stores that combine different Bee Group store formats into one store format that will offer houseware and home textile products.

Government Regulation

Supermarkets

Our operation of supermarkets in Israel requires permits from municipal authorities, which are conditioned on the prior approval of various agencies, including the health and environment ministries, the police and fire departments. If we are unable to obtain or maintain one or more required permits, we may be required to close one or more stores or to take other remedial action to obtain or maintain these permits. See “Item 3. Key Information - D. Risk Factors - Failure to obtain or maintain permits required for our operations may adversely affect our operating results”.

Price Control

The Israeli government is authorized to control the retail and wholesale prices of goods and services offered in Israel. At present, a few of the products we offer in our stores, including bread, flour, eggs, milk and margarine are subject to government-imposed price controls. Any imposition of more extensive price controls in the future than those that currently exist may have a material adverse effect on our operating results. See “Item 3. Key Information – D. Risk Factors - Government-imposed price controls may have a material adverse effect on our operating results”.

Deposits for Drink Containers

We are required to charge a deposit for drink containers of less than 1.5 liters and more than 0.1 liter and accept the return of empty containers for refund. The Knesset, the Israeli legislative body, considers from time to time amendments to this law which, among other things would require stores to also charge a deposit for drink containers of 1.5 liters and more and accept the return of empty containers for refund.

We have incurred expenses to allocate storage space for the empty containers and dedicate special cashiers for returning the deposits. We have also incurred expenses for additional personnel and equipment, including equipment in some of our stores that enable consumers to automatically receive their deposits while bringing back the empty containers without the need for store personnel.

Limits on Expansion

The Israeli Antitrust Authority may limit our ability to execute our strategy of expanding our market presence. The Commissioner of the Israeli Antitrust Authority may limit our ability to acquire existing stores or enter into mergers to acquire existing stores.

From April 2000 to May 2003, the Israeli Antitrust Authority conducted an investigation into alleged restrictive trade arrangements between major supermarkets chains in Israel and large suppliers. During the investigation, an inquiry was conducted in our offices and our former CEO and other senior officers were questioned.

On January 5, 2005, the Commissioner of the Israeli Antitrust Authority issued his position regarding “commercial restrictive practices between the dominant food suppliers and the major supermarket retail chains”. According to the Commissioner’s position, some of these practices were found to be restrictive trade agreements under the antitrust laws. The Commissioner prohibited these practices unless approved by the Restrictive Trade Practices Court or exempted by the Commissioner himself.

Among the practices that were found to be restrictive according to the Commissioner were the following: arrangements with suppliers that determine the suppliers of the retail chains, their identity and their number; arrangements for the management of product categories in conjunction with suppliers; arrangements regarding the retail selling price; arrangements for determining market share of a particular supplier’s products and arrangements for determining prices made by suppliers to competing chains; arrangements with regard of the use of suppliers’ manpower to stock merchandise on the shelves of the chains’ stores. Limits were imposed on financial benefits to the chains with regard to display areas and on special offers to chains for meeting certain sale targets.

After the publication of the position paper, the Commissioner stated his position that these directives constitute a position paper, which is “intended to provide the guidance concerning the normative status of various practices in the food retail industry as perceived by the Antitrust Authority”. The Commissioner indicated that this document does not have normative status.

We have been applying most of these directives among others, by an internal compliance program that we have adopted.

Presently we do not know how, if at all, our business would be affected should the Commissioner take any action against us with respect to those issues under dispute which we believe are legal based on our consultations with our legal counsel.

In August 2006, the Restrictive Trade Practices Court approved a consent decree reached between the Commissioner and certain food suppliers. The consent decree is directed at the food suppliers listed therein and stipulates various prohibitions, conditions and restrictions that apply to these suppliers with regard to certain practices. The consent decree addresses the following arrangements:

- *Reduction in the number of suppliers.* Suppliers are prohibited from being a party to an arrangement by which they influence the setting of the number or identity of competing suppliers’ presence at retail chains. Decisions regarding the number and identity of suppliers and their products quantity, kind or location on the shelf space are to be made by the retail chain without interference by suppliers.

- *Acquisition of shelf and off-shelf display space.* A dominant supplier is prohibited to be a part of: (i) an arrangement granting an allocation exceeding half of the overall display area designated for the product category in which he has dominance; (ii) an arrangement which its purpose or effect is granting exclusivity to one or more of the supplier's products in an off-shelf display in which it has dominance (nevertheless, exclusive arrangement for off-shelf display for a limited discount period will not constitute a basis for enforcement measures under certain circumstances). In addition, arrangements with suppliers (as opposed to dominant suppliers) regarding allocation of shelf area or off-shelf display, if not prohibited according to the decree, may not exceed a period of one year (the retail chain and the supplier may enter a new arrangement at the end of the one year term, provided the period of such new arrangement does not exceed one year and is in accordance with the provisions of the decree).
- *Category management:* Unless prior approval of the antitrust authorities is obtained, a dominant supplier is prohibited to be party to an arrangement whose purpose or effect is the supplier involvement (including as advisor) in the process of category management (nevertheless, a retail chain may consult with a supplier regarding innovations in this area).
- *Shelve arrangements:* Whereas in his position document, the Commissioner determined that the use of suppliers' representatives to physically arrange the shelves in the chains' stores constitutes a restrictive arrangement, the suppliers disagree with this position, and the Commissioner agreed not to take enforcement measures with regard to such arrangements for 30 months, so long as such arrangements satisfy certain conditions. In February, 2009, the above period was extended by 36 months, until February 2012.
- *Discounts and rebates in exchange for meeting sales targets.* A dominant supplier may not be party to an agreement whose objective or effect is the grant of benefits to the retail chain in connection to meeting sales targets of the products in which the supplier has dominance, unless the benefit is given only as a discount to the purchase of units sold in excess of the supplier's sales basis in the chain and is restricted to these units alone. The prices of units sold in excess of the sales goals shall not be lower than the production costs of these units. In addition, a dominant supplier is prohibited from sanctioning a retail chain for failure to meet monopolistic sales targets regarding products for which the supplier possesses monopolistic power.
- *Setting market share.* A supplier is prohibited from being a party to an arrangement whose purpose or effect is to determine the supplier's market share (or restricting the market share of competing suppliers) in the chain's sales.

- *Exclusivity in sales:* A supplier is prohibited from entering into the following arrangements with retail chains without the prior approval of the antitrust authorities: (i) an arrangement whose purpose or effect is to restrict the ability of competing suppliers to respond to sales conducted by such supplier by way of lowering their prices and (ii) an arrangement whose purpose or effect is to restrict the ability of competing chains to respond to sales conducted by another chain, including by way of commitment of the supplier not to offer a similar sale to competing chains.
- *Price dictation by supplier.* A supplier is prohibited from setting the consumer price of its products sold in the chain and from intervening in chain decisions regarding the setting of the consumer price of its products or of its competitors’ products. Nevertheless, a supplier may recommend the resale consumer price of its products to the chain, provided that the supplier takes no action to enforce such recommendation.

The consent decree clarifies that nothing in the provisions contained therein prevents the chain from allocating shelf space at its own independent discretion, even if such allocation exceeds half the available shelf space, so long as there is no involvement or interference from the supplier and so long as there is no prior coordination or understanding with said supplier.

The Company is not a party to the consent decree; however, it could nevertheless have an effect on the practices of the Company’s suppliers and indirectly on the Company.

Consumer Protection Laws

We are obligated to label prices on our products on the basis of two main laws: The *Consumer Protection Law*, 1981, and the *Commodities and Services (Control) Law*, 1957. Contravention of these laws constitutes a criminal offense. In 2009, new regulations under the *Consumer Protection Law* became effective under which we are obligated to indicate on the shelf the price per measurement unit with respect to most of our products. Said regulations impose on us additional costs and could increase the risk for discrepancies between the prices that appear on the products, the prices that appear on the shelf and the prices charged by the cash register. In 2007, we were convicted in a plea bargain in connection with discrepancies between the prices appearing on products, and the prices charged by the cash register at the point of sale. As of the date of this Annual Report, two indictments were filed against us and Hyper Hyper regarding the violation of the *Consumer Protection Law*. See “Item 8. Financial information - A. Consolidated Statements and Other Financial Information - Legal Proceedings”. These discrepancies are the result of human error by personnel responsible for labeling our products and other circumstances beyond the Company's control. We are making efforts to minimize these errors, including directing store management to charge the lower price in situations where a discrepancy is found between the price on a product and the price appearing at the cash register.

We are also obligated under these laws to advertise and conduct our business in a manner that is not misleading to our customers. Our obligations include, among other things, ensuring that our advertised prices are the prices that are actually charged by the cash registers in our stores, and ensuring that our coupons may be used in our stores as advertised. In December 2005, the applicability of the *Consumer Protection Law* with respect to the prohibition of misleading conduct was expanded to apply also to conduct following the completion of the transaction between the consumer and the supplier.

In addition, under the *Consumer Protection Law*, we are obligated to post our merchandise return policy in our stores. The law and regulations promulgated thereunder impose various requirements regarding the location, details, size and shape of the notice of such policy.

In addition, under the *Consumer Protection Law*, a remedy of exemplary (punitive) damages may be provided to plaintiffs for specific violations of the law under certain circumstances.

Regulations under the *Consumer Protection Law* also regulate the warranty and post-sale services of certain electrical appliances. Under the regulations, sellers of new electrical appliances (priced in excess of NIS 400) to the end user consumer are required to assume the responsibilities of the manufacturer(s) of the appliances in the event such manufacturer cannot be located. Such responsibilities include repairing any defect in the appliance (or, if necessary, exchange for non-defective appliance) during the warranty period, which repairs must be made within a certain period of time for certain appliances and, upon consumer request, supply of spare parts during the warranty period (and for certain appliances also one year thereafter). In addition, sellers must deliver to consumers a manufacturer warranty certificate with the delivery of the products.

Recent proposed amendments to the *Consumer Protection Law*, 1981 and to the regulations promulgated thereunder, would also grant to consumers rights to cancel a transaction and receive a refund under various circumstances.

The *Class Actions Law* (the “Law”) codified prior existing class actions arrangements, including under the Consumer Protection Law, by among other things, substantially extending the causes of action under which one can bring a class action, alleviating the prerequisites for certifying and maintaining a class action and lowering the eligibility requirements for a class action representative. The Law is not unique to the line of business in which we engage; however, the expansion of the availability of the Law to potential claimants increases our exposure to potential lawsuits.

Product Liability

We market various products, including foods and cleaning and hygiene products, which may affect consumer health, and, as such, we are subject to legislation and supervision (for example, *Liability for Defective Products Law*, 1980) relating to these areas, including orders of the Ministry of Health relating to the import and sale of food and cleaning and hygiene products, as well as veterinary supervision of the marketing of meats. In addition, many laws and regulations govern the rights of persons that may have been injured by products that we manufacture, assemble, store, market or sell.

Manufacturing and Import Standards

We are required to comply with certain manufacturing standards in connection with our manufacturing activities, and specifically those activities that relate to the manufacturing of our private label products. We endeavor to ensure that that the products that are manufactured on our behalf comply with any relevant standards and legal requirements.

In addition, we must comply with import standards relating to the sale of imported products, including obtaining a general import license from the Ministry of Health for importing food products that we sell, as well as requirements relating to electrical appliances.

Several proposed legislations have been submitted to the Knesset regarding the reduction of usage of plastic (nylon) bags. Under the proposed legislations, it is proposed, among other things, that: (i) business establishments (including food retail chains) will not keep or use bags which are not bio-degradable; (ii) food retail chains would be required to provide to its consumers with packing bags designated for more than one use, free of charge or for minimal consideration; (iii) a levy in the sum of NIS 1 would be imposed for each plastic bag (with certain exceptions) to be collected from the consumers by the business establishment and to be transferred to a cleaning protection fund; (iv) the business establishment would offer to consumers the ability to purchase packing bags for more than one use for not less than NIS 4.5 which are exempt from the levy; and (v) various reporting obligations would be imposed on business establishments to the supervisor of the Ministry of environment protection. This proposed new legislation and other similar proposed legislation may increase our operational expenses and may require us to make additional investments in our stores if they were to become effective.

Proposed Business License Regulation

By virtue of *The Businesses License Law, 1968*, and the regulations promulgated thereunder, and as a condition of the receipt of permits, we are required to comply with various safety, security, health, environment and other requirements. Under the proposed new *Businesses License Regulation (Proper Sanitation Conditions to Grocery)*, some existing requirements will be tightened and new requirements will be imposed on the operation of our stores. The new regulation would contain new or more stringent requirements relating to the following: requirements as to the building of our stores, designation of separated space to some specialty departments, drainage system requirements, sanitation, ventilation, lighting, temperature, water, sewage, waste handling, food storage, signage, food transportation and maintenance requirements, cooling device requirements and display and quality requirements. This proposed new *Business License Regulation*, would require us to make additional investments in our stores if it were to become effective.

Regulations for Equal Rights for Persons with Disabilities (accommodation for accessibility of service)

To the best of the Company's knowledge, in May 2008, a draft of the Regulations for Equal Rights for Persons with Disabilities (accommodation for accessibility of service), 2008 was published and as of May 31, 2010, had not yet been approved. The proposed regulations would require public service providers to make necessary modifications at their own expense to ensure that their services are accessible to people with disabilities. The provision of public services is defined, among other things, as services provided in a public place. According to the Equal Rights for Persons with Disabilities Law, 1998, supermarkets are considered public places. The proposed regulations include various requirements to increase accessibility for people with disabilities in public places to be implemented within the timeframe provided in the proposed regulations, such as modifying passages between fixtures in public places, modifying procedures, proceedings and customs, modifying signposts and public address and loudspeaker systems, installing aids and accessories to ensure accessibility and to provide services to aid in ensuring the accessibility of services for people with disabilities, publicizing the accommodations made to ensure accessibility of, appointment of a coordinator to ensure accessibility, among others.

Reduction and Recycling of Packaging Waste

In June 2009, the Reduction and Recycling of Packaging Waste Bill, 2009 was presented to the Knesset. According to the bill, its purpose is to prevent and reduce the production of packing waste, limit the use of heavy metal in packaging, encourage repeated use of packaging and the recycling of packaging and packing waste and the use of recycled materials from recycled packaging waste. Under the proposed bill, any manufacturer, importer, distributor or marketer that uses packaging materials would be required to take steps to reduce the use of packaging materials, to use such materials more efficiently, and to prevent the production of packing waste in a manner to prevent and reduce its impact on the environment. In addition, the proposed legislation imposes additional obligations on manufacturers or importers (as defined in the bill), including, in connection with the collection of the packaging waste of their products and in connection with the recycling of a relative portion on the basis of market share of such packaging waste.

Gasoline Stations

We are also subject to numerous laws and regulations relating to, among other things, environment protection, licensing and permits proceedings, standardization requirements and other requirements in connection with the construction, establishment and operation of gasoline stations on our properties described below in “ - D. Property, Plants and Equipment.” As part of a pilot program to examine the feasibility of establishing and operating gasoline stations on properties adjacent to our stores, in 2006, we began operating our first gasoline station on one of our properties. As of May 31, 2010, we operated two gasoline stations, one in Rosh Ha'ayin and one in Bat Yam. We purchase our gasoline from Dor Alon. In May 2010, we signed a share purchase agreement with our controlling shareholder, Alon, to acquire from Alon all of Alon's approximately 80% holdings in Dor Alon. Dor Alon is one of the four largest fuel retail companies in Israel based on the number of gas stations and is a leader in the convenience stores sector. The closing of the transaction is subject to satisfaction of closing conditions, including shareholder approval. See “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD”.

Non-Food Retail

Our non-food retail business is subject to Israeli laws relating to imports, customs, labeling of products and consumer protection laws, as well as to labor laws and license and permit laws as they apply to the operation of our network of stores.

Our sales activities are subject to general laws such as the *Liability for Defective Products Law, 1980*, pursuant to which, under certain circumstances, we may be liable for personal injuries resulting from defects in products that we market. We are also subject to the *Consumer Protection Law, 1981*, which is described above under " - Supermarkets". We are also subject to the *Supervision of Products and Services Law, 1957*, and orders promulgated pursuant to such law.

Houseware Products

We are subject to safety tests, quality control and certification by the Standards Institution of Israel. These are primarily related to the release of metals from ceramic appliances/wares, marking of wares/dishes, pressure cookers, lighters and plasticware used for food and drink.

Business Permits

Some of our Bee Group stores do not have permits according to the requirements of the *Business Permits Law, 1968*. A lack of such permits by any store would be considered a breach of the tenancy agreement for such store, which would allow the landlord to annul the lease agreement. As of May 31, 2010, none of the landlords has made use of this right.

Environmental Laws Related to Real Estate

As the owner or long-term lessee of real estate property, we may be held liable for any violation of law, including of environmental laws, which takes place on real estate property that we either own or lease pursuant to a long term lease, and we may be required to bear the costs associated with compliance with such laws.

Due to the fact that most of our real estate properties are leased to commercial businesses, which are not polluting factories, and in light of the division of liabilities between us and the lessees, we do not anticipate material exposure in the area of environmental law with respect to our real estate properties.

In addition, pursuant to authorization agreements with cellular companies, we allow cellular companies to place and operate cellular communication devices in certain locations on our properties. Under such agreements, the cellular companies have agreed to operate and use the devices in accordance with the standards of the Ministry of Environmental Protection and the commissioner of radiation, and in accordance with the provisions of any other law.

Planning and Construction Law, 1965

The *Planning and Construction Law* and the regulations promulgated thereunder determine the regulatory and supervisory scheme, among other things, in matters relating to construction permits, licensing, and rights, changes in the designated uses of real estate property and betterment taxes levied on improved properties. In addition, under the *Planning and Construction Law*, the owner of real estate may be held criminally liable for an offense committed by a lessee on such property.

Related Businesses

Diners Israel

In connection with the establishment of our joint Loyalty Plan with Dor Alon, in November, 2005, we and Dor Alon purchased 49% of the shares of capital stock of Diners Club Israel Ltd. (“Diners Israel”) (36.75% to Blue Square and 12.25% to Dor Alon) from Credit Cards for Israel Ltd. (“CAL”). Diners Israel, a credit card company in Israel and a licensee of Diners Club International, is a subsidiary of CAL which itself is a subsidiary of Israel Discount Bank Ltd.

Under the agreement with CAL, we and Dor Alon are entitled to share with CAL the net income of Diners Israel in connection with the activities of the credit cards bearing the "You" name based on our respective ownership interests in Diners Israel. The percentage of the net income of Diners Israel in connection with credit cards activities outside the Loyalty Plan is to be allocated to us and to Dor Alon in accordance with various ratios determined based on the number of "activated" credit cards (as defined in the agreement) issued to members of the Loyalty Plan from time to time, so long as certain target numbers of such issued credit cards are met. In addition, we signed an agreement with CAL pursuant to which Loyalty Plan members are to be issued Mastercard "You" credit cards that will be treated the same as the Diners "You" credit cards for the purpose of our agreement with Dor Alon. See “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions” for more information on the agreement with CAL and Diners Israel.

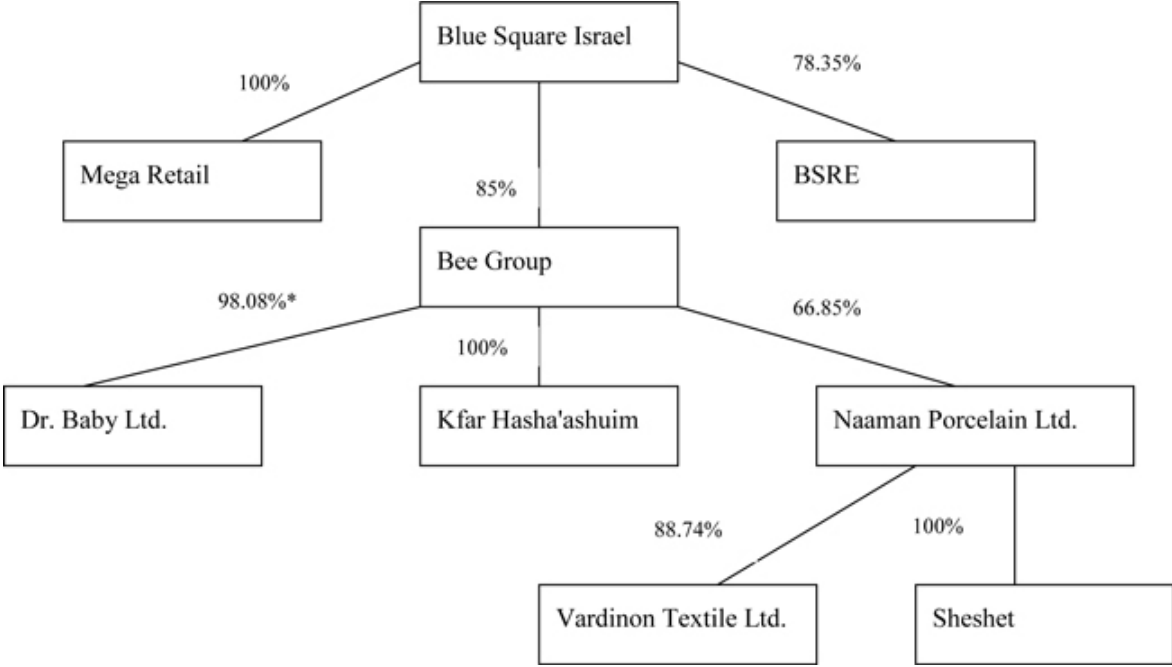
Mega Nofesh Yashir (Mega Direct Vacation) In January, 2008, Blue Square entered into an agreement with Issta Israel Ltd, ("Issta") a subsidiary of Issta Lines Ltd, Israel’s largest travel agency, to acquire 50% of Issta’s operated "Nofesh Yashir" (direct vacation) enterprise, operating travel services through an internet portal and a travel services call center, for the consideration of US \$250,000. Pursuant to the agreement, the parties established a jointly owned (50% each) company that operates the travel and tourism joint enterprise and develop it within Blue Square's supermarkets, through its marketing and through the Nofesh Yashir Internet travel services portal and call center.

C. Organizational Structure

Following the reorganization of our supermarket retail activities pursuant to which our supermarket retail activities are centralized in our wholly-owned subsidiary, Mega Retail, Mega Retail operates all of our supermarkets and nine supermarkets which are owned by Eden Teva (our 51% subsidiary). Following the reorganization of our real estate activities, Mega Retail leases from BSRE and third parties the real estate underlying the stores that it operates.

We operate all of our "Non-Food" outlets through our 85% owned subsidiary Bee Group, which in turn held, as of May 31, 2010, approximately 66.85% of the outstanding shares of Naaman Porcelain Ltd., which held, as of May 31, 2010, approximately 88.74% of the share capital in Vardinon Textile Ltd., both of which are publicly held and traded on the Tel Aviv Stock Exchange.

Below is a chart indicating our holdings in our material subsidiaries as of May 31, 2010:



* Certain shareholders of Dr. Baby Ltd., or Dr. Baby, and its former general manager, are disputing the issuance of an additional 5,000 shares of Dr. Baby to Bee Group, which resulted in the dilution of their holdings, and the dismissal of the former general manager of Dr Baby. As a result of the issuance, Bee Group's holdings in Dr. Baby increased by an additional 48.1% to 98.08%. The dispute is in the process of a hearing before an arbitrator. See "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Legal Proceedings – We are in the process of arbitration proceedings in connection with our holdings in our Bee Group Subsidiary, Dr. Baby Ltd."

BSRE, Bee Group and each of Bee Group's subsidiaries has its own board of directors. We appoint all or a majority of the board of directors of each of these companies and typically our appointee serves as the chairman of the board of directors of each company. Although we appoint all or most of the board of directors of each of BSRE, Bee Group and Bee Group's subsidiaries, each company’s board of directors has independent fiduciary obligations to all of its shareholders and to the company itself. Blue Square is obligated to deal with its partially owned subsidiaries at “arm’s-length.” Moreover, in the case of BSRE, Vardinon and Naaman which are publicly traded on the Tel Aviv Stock Exchange, the board of directors must include at least two external directors appointed under Israeli law. These external directors must satisfy all the requirements of external directors under the Israeli Companies Law, 1999, referred to as the Israeli Companies Law.

Blue Square owned 100% of the outstanding shares of Mega Retail as of May 31, 2010. Mega Retail, in turn, through a wholly owned subsidiary, is the owner of our interests in a number of its other subsidiaries and affiliates. Blue Square receives fees from its subsidiaries, including Mega Retail and Hyper Hyper, as payment for the management and consulting services it provides to them for purchasing, marketing, finance, store development, budgets and control, accounting and financial reporting, taxation, law, internal auditing and data processing services.

Blue Square owned 78.35% of the outstanding shares of BSRE as of May 31, 2010. The balance of BSRE’s outstanding shares are publicly held and traded on the Tel Aviv Stock Exchange. Blue Square receives fees from BSRE as payment for the management services it provides to BSRE for Chairman of the board of directors services, financial and accounting management services (including bookkeeping), computer management and maintenance service, legal consulting and corporate secretary services, office space and related office services, and internal audit services.

See “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions” for a description of the agreements relating to the fees Blue Square receives from its subsidiaries. For information concerning the flow of funds between Blue Square and its direct and indirect subsidiaries, see also “Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources.”

Set forth below is a list of our significant holdings as of May 31, 2010. The companies marked with an asterisk (*) are not consolidated in our financial statements.

Company ⁽¹⁾	Operations	% Ownership Held by Blue Square
Mega Retail Ltd.	Supermarkets	100%
The Blue Square Chain (Hyper Hyper) Ltd.	Supermarkets	100%(2)
Blue Square Real Estate Ltd. **	Real estate	78.35%(3)
Bee Group Retail Ltd.	Retail and wholesale of houseware and home textile, toys, leisure and baby and young children products	85%(4)
Diners Club Israel Ltd.*	Credit cards	36.75%(5)
Eden Briut Teva Market Ltd. (Eden Teva)	Organic/Health Food Products	51%(6)
Radio Non-Stop Ltd.*	Local radio station	33% (7)

- (1) All companies are incorporated under Israeli law.
- (2) Mega Retail’s wholly owned subsidiary. As part of the reorganization of Blue Square's retail activities, Hyper Hyper is to merge into Mega Retail. The merger was approved by the Tax Authority, and it is anticipated that it will be completed in the next few weeks, effective as of January 1, 2009. For a description of Blue Square's supermarket retail and real estate activities reorganization, please see “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions”.
- (3) The remaining shares of BSRE are held by the public and institutional investors and traded on the Tel Aviv Stock Exchange.
- (4) We have the option to increase our holding in Bee Group Retail Ltd. to 100%. For a description of this option, please see “Item 10. Additional Information – C. Material Contracts”. As of May 31, 2010, Bee Group Retail Ltd., held approximately 66.85% of the outstanding shares of Naaman Porcelain Ltd., which held an approximately 88.74% of the share capital in Vardinon Textile Ltd., both of which are companies traded on the Tel Aviv Stock Exchange.
- (5) The remaining shares of Diners Club Israel Ltd are held by Credit Cards for Israel Ltd. (51%), a subsidiary of Israel Discount Bank Ltd., and by Dor-Alon Energy In Israel (1988) LTD. (12.25%) (through a subsidiary). As of the date of this Annual Report, the right of the Company to participate in the income of Diners Club Israel in connection with credit card activities outside the Loyalty Plan is subject to the satisfaction of various conditions. See “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions” for information with respect to our rights as a shareholder of Diners Israel.
- (6) Mega Retail's 51% subsidiary.
- (7) Hyper Hyper holds its interest in this company through a wholly owned subsidiary, which holds a 33% equity interest in Radio Non-Stop Ltd. The remaining interests are held by unaffiliated entities. In 2007, Radio Non-Stop Ltd., won the tender for a renewal of the franchise for regional radio broadcasting for four years (which may be extended without a tender for additional three four-year periods).

** Including also a 50% interest in a 18,000 square meter shopping mall in Jerusalem owned by BSRE and a 100% interest in warehouses owned by BSRE covering approximately 22,000 square meters.

D. Property, Plants and Equipment.

As of December 31, 2009 we owned or leased (including through our subsidiaries) approximately 524,700 square meters of space for our own use. In addition, we owned or leased 60,800 square meters of yield generating real estate and 210,000 square meters of unutilized building rights.

The following table provides certain details regarding the properties that we own and lease.

Properties	Number	Space (sq. meters)
Existing Stores		
Owned (including long term lease from Israel Land Administration)	95	161,000
Leased under 5 years	50	27,800
Leased between 6-10 years	60	55,400
Leased over 10 years	71	134,400
	276	378,600
Stores in Development		
Owned	-	-
Leased between 5-25 years	33	48,300
	33	48,300
Existing Offices and Warehouses		
Owned Office	1	9,400
Leased Offices	5	5,500
Owned Warehouses	4	26,500
Leased Warehouses	8	34,400
	18	75,800
Warehouses in development	1	22,000
Total owned or leased for our own use	328	524,700
Properties for Investment		
Leased to Third Parties ^{(1) (2)}	26	27,600
Unutilized Properties	12	19,100
Offices in development	1	14,100
	39	60,800
Owned and leased unutilized building rights:		
Unutilized building rights		210,000

(1) Including a 50% interest owned by BSRE in a 18,000 square meter shopping mall in Jerusalem, in which we operate a 5,000 square meter store.

(2) Including a 50% interest owned indirectly by BSRE in a 14,000 square meter shopping mall in Be’er Sheva.

In 2010, we opened and plan to open approximately six additional supermarkets, totaling approximately 8,000 square meters of store space, in localities whose populations are currently under-served by supermarkets or in localities in which we do not have sufficient market presence. In 2010, we opened four supermarket stores.

In addition, we plan to continue to remodel some of our supermarkets to give them a more “upscale” orientation, offering improved product selection and increased focus on customer service. Remodeling typically includes the installation of new display fixtures, additional shelf space, specialty departments and checkout counters. Our experience has been that supermarket remodeling, which is conducted in each store every eight to twelve years, usually improves sales per square meter. During 2010, we have spent and currently plan to spend more than NIS 78.6 million (or \$20.5 million at the exchange rate as of May 31, 2010) on the acquisition and development of new supermarkets and the remodeling of our existing supermarkets.

As part of a pilot program to examine the feasibility of establishing and operating gasoline stations on properties adjacent to our stores, in 2006, we began operating our first gasoline station on one of our properties. As of May 31, 2010, we operated two gasoline stations, one in Rosh Ha'ayin and one in Bat Yam. We purchase our gasoline from Dor Alon. In May 2010, we signed a share purchase agreement with our controlling shareholder, Alon, to acquire from Alon all of Alon's approximately 80% holdings in Dor Alon. Dor Alon is one of the four largest fuel retail companies in Israel based on the number of gas stations and is a leader in the convenience stores sector. The closing of the transaction is subject to satisfaction of closing conditions, including shareholder approval. See “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD.”

Generally, franchisees of our Bee Group chains lease their own store space directly. However, there are a few franchisees that either sublease their stores from the relevant Bee Group subsidiary, or lease their stores jointly with such subsidiary. All Bee Group stores that are operated directly by Bee Group's subsidiaries and not by franchisees, lease their own store space.

For further information regarding our real estate, including the transfer of the Company's real estate to BSRE and the transfer of Mega Retail's real estate to BSRE, please see “Item 4. Information on The Company - B. Business Overview - Our Real Estate” and “Item 7. Major Shareholders – B. Related Party Transactions.”

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read together with “Item 3. Key Information - A. Selected Financial Data” and our consolidated financial statements and notes included elsewhere in this Annual Report. *This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in “Item 3. Key Information - D. Risk Factors.”*

General

The year 2009 was principally characterized by the continued effects of the economic slowdown which impacted our markets, leading to the continued expansion of our low-price and hard discount store formats, by our internal reorganization and by our implementation of efficiency measures, which is part of our strategy to enable us to address current competitive and marketplace conditions in Israel.

Supermarket Segment

The year 2009 was marked by a shift from an economic slowdown in the first quarters of the year to the beginning of a recovery of the Israeli economy toward the end of the year. The global economic crisis in 2008 and the beginning of 2009 and the resulting slowdown in the Israeli economy changed the markets in which we operate and continues to affect the buying patterns of our customers, as more customers are shifting their purchases to low-price and hard discount stores, which have a lower profit margin. The slowdown has also affected the volume of purchases made by our customers in our local neighborhood stores and reduced the sales at our Mega and Shefa Shuk stores. As a result, in December 2008, we launched our "Mega Bool" format, a hard discount store format. As of May 31, 2010, this initiative included the conversion of 46 existing "Mega" and "Shefa-Shuk" stores of various sizes to "Mega Bool" stores and the opening of three new "Mega Bool" stores. This continued the trend of recent years during which we and our competitors have established or expanded low-price and hard discount store formats.

As part of our strategy to improve our competitive position, during 2009, we worked to increase our sales of our new "Mega" line of private label goods that are sold in our "Mega Bool", "Mega", and "Mega In Town" store formats. Private label products provide customers with an attractive alternative selection of products that are comparable in quality to name brand products. We believe that our private label products enhance customer loyalty, differentiate our stores from those of our competitors and provide a competitive product to those offered by our suppliers. In addition, usually average gross profit from private label products is higher than the average gross profit from other products.

We believe that the volume of annual sales in the organic food market in Israel has been growing consistently and will continue to increase during the next few years. In order to benefit from this growth, in October 2007, we acquired approximately 51% of the holdings of Eden Teva, which operates organic/health food supermarkets, to take advantage of the growing local demand for organic, natural and health food. By the end of 2009, we operated nine Eden Teva stores, with the goal of establishing Blue Square as the clear leader of Israel's emerging organic/health food sector.

We currently operate our supermarket stores under five brands: Mega Bool, Mega In Town, Mega, Shefa Shuk and Eden Teva. In planning the mix of our stores, we have taken a regional view, with the goal of bringing our store brands within the shopping range of every Israeli consumer. As expected, the conversion of our neighborhood stores to a lower margin format has impacted our gross margins from our supermarkets sales; however, we were compensated by an increase in sales which resulted in an increase in total gross profit.

In 2009, smaller supermarket chains continued to aggressively increase their market share and expanded their presence in selected areas in Israel, often geographically beyond their original locations, increasing competition in an already difficult market. The low barriers of entry, including the relatively low cost of establishing a new smaller supermarket, has contributed to the increase in number and expansion of smaller supermarket chains in recent years. In addition, in recent years smaller supermarket chains have transitioned from competing only in the local neighborhood markets to joining with other smaller supermarket chains and competing on a national scale with a joint private label which competes with the private labels of the large supermarket chains. We and other major chains have also responded to consumers’ focus on the price of products by establishing or expanding low-price and hard discount store formats.

We are increasing the variety of products sold in our stores in three categories: “Fresh Food” items - such as bakery items, delicatessen, pastry, fresh meat and vegetables offered in specialty departments, “Non-Food” items - such as houseware, toys and infants products, entertainment and leisure products, small electrical appliances, computers and computers accessories and textile products, and “Near-Food” items - such as health and beauty aids, toiletries, cleaning products, paper goods and baby supplies. “Non-Food” and “Near-Food” items generate more revenues per square meter than our food items and increase the portion of our customers’ shopping needs that are addressed in our supermarket stores.

Non-Food Segment

We have also expanded our presence in “Non-Food” stand alone retail outlets in an effort to establish Blue Square as a major player in the non-food retail market. In September 2008, we increased to 85% our holdings (with an option to further increase our holdings to 100%) in Bee Group Retail Ltd. (formerly known as “Hamachsan Hamerkazi Kfar Hasha’ashuim Ltd.”) ("Bee Group"), a company that is a wholesaler and that operates (mostly through franchisees) retail outlets, with activities in the houseware and home textile, toys, leisure and baby and young children sectors. In 2007 we acquired, through Bee Group approximately 85.79% of the holdings of Vardinon Textile Ltd. ("Vardinon"), a company which imports, designs and distributes home textile products and accompanying accessories. In 2007 we acquired, and in 2009 we increased our holdings in Naaman Porcelain Ltd. ("Naaman"), one of Israel’s major branded houseware retailers and wholesalers, which imports and markets various houseware products, such as kitchen utensils, cutlery and dinner sets. As of May 31, 2010, through Bee Group, we held approximately 66.85% of the outstanding shares of Naaman, which as of such date held approximately 88.74% of the share capital of Vardinon. We are working to capitalize on potential operating synergies between Bee Group and the Company as a whole.

Internal Reorganization

In order to increase the efficiency of our activities and compete more effectively in the markets in which we operate, during 2008 and 2009 we implemented a comprehensive internal reorganization, by concentrating all of our food retail activities under Mega Retail, our wholly owned subsidiary since November 2008, concentrating our non-food activities under the Bee Group, and concentrating all our real estate activities under our subsidiary, BSRE (78.35% owned by us as of May 31, 2010), with Blue Square as a holding company. In addition, in September 2008 we increased our holdings in Bee Group to 85% with an option to further increase our holdings to 100% and concentrated all of our houseware activity under Bee Group's subsidiary, Naaman, and we are working to capitalize on potential operating synergies between our non-food activity and our supermarket activity. During the fourth quarter of 2009, we completed the concentration of our Bee Group subsidiaries into three sectors: houseware and home textile, toys and leisure, and baby and young children products. We also centralized all of the financial activity, import and information systems of the Bee Group subsidiaries under a single headquarters in one location. In addition, as part of our strategy to increase our operational efficiency by improving our distribution and IT systems, we invested in new IT and logistics systems.

Proposed Acquisition of Shares of Dor Alon

In May 2010, we signed a share purchase agreement with our controlling shareholder, Alon, to acquire from Alon all of Alon's approximately 80% holdings in Dor Alon. Dor Alon is one of the four largest fuel retail companies in Israel based on the number of gas stations and is a leader in the convenience stores sector. The closing of the transaction is subject to satisfaction of closing conditions, including shareholder approval.

The acquisition of Dor Alon would combine our and Dor Alon's retail operations into one group creating the largest retail group in Israel. Additionally, the acquisition could enable us to achieve a strong foothold in the convenience store sector and enable substantial synergies and cost savings when combining the retail platforms of both companies. See “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD.”

Prior to the acquisition, we and Dor Alon will continue to operate as separate companies. Accordingly, except for specific references to the pending acquisition, the descriptions of strategy and discussion and analysis of our results of operations and financial condition set forth below relate solely to Blue Square and its current consolidated subsidiaries.

Operating Results

The following table sets forth certain statement of income data as a percentage of sales for the periods indicated:

	Year Ended December 31,		
	2007	2008	2009
	%	%	%
Sales	100.00	100.00	100.00
Gross profit	26.5	27.7	28.0
Selling, general and administrative expenses	22.4	24.2	24.7
Operating profit before other gain and losses and net gains from adjustment of investment property to fair value	4.1	3.6	3.3
Operating profit	4.3	3.8	3.2
Taxes on income	1.0	0.6	0.3
Profit for the year	2.5	1.8	1.3

Year Ended December 31, 2009 compared with year ended December 31, 2008

Sales. Sales in 2009 were approximately NIS 7,349 million, or U.S. \$1,946.8 million, a decrease of approximately 1.1% compared with sales of approximately NIS 7,429 million in 2008.

Supermarket segment – a decrease in sales of 1.5% from NIS 6,966.8 million in 2008 to NIS 6,863.0 million (U.S \$1,818.0 million) in 2009. The decrease in sales derived primarily from a decrease of 3.9% in supermarket same store sales (SSS) for the period due to the recession and increased competition and erosion of prices in hard discount chains. The decrease in sales was offset by the net addition of nine new stores during the 12-month period of approximately 10,500 square meters.

Non-Food segment - an increase in sales of 5.0% from NIS 442.1 million in 2008 to NIS 464.3 million (U.S. \$123.0 million) in 2009. The increase derived mainly from the increase of sales in the houseware sector and the increase of sales in infants sector, due to opening of new stores during 2009 and a full year revenues of the stores that were opened at the end of 2008.

Real Estate segment - an increase in sales of 7.9% from rental fees from external parties from NIS 20.2 million in 2008 to NIS 21.8 million (U.S. \$5.8 million) in 2009. The increase derived from the increase of the CPI during 2009, and an increase in rent and full year revenues from stores that were vacant for a part of 2008.

Gross profit. Gross profit in 2009 was approximately NIS 2,058 million, or U.S. \$545.2 million (28.0% of sales), a decrease of 0.1% compared with gross profit of approximately NIS 2,060 million (27.7% of sales) in 2008. The increase in our gross profit as a percentage of sales was the result of an increase in sales in our Non Food segment which is characterized by a relatively higher gross profit margin compared to the gross profit margin that is characteristic of the Supermarket segment. In addition, gross profit as a percentage of sales increased from trade agreements with suppliers, some of which relate to the establishment of Mega Bool chain that offset the effect of the planned erosion in the gross profit margin as a result of establishing the chain.

Selling, general and administrative expenses. Selling, general and administrative expenses in 2009 were approximately NIS 1,817 million, or U.S. \$481.4 million (24.7% of sales), an increase of 1.2% compared with selling, general and administrative expenses of approximately NIS 1,795 million (24.2% of sales) in 2008. This increase mainly derived in the Supermarket segment from (i) the net addition of nine new supermarket stores, part of which relate to accelerated opening of four branches of Eden Teva during the last 12 months, (ii) costs associated with launch of the "Mega Bool" chain, (iii) re-launch costs of the "You" club, and, (iv) in both in the Supermarket segment and the Non Food segment, an increase in the CPI, which affected an increase of expenses of rental fees and municipal taxes. The increase was partially offset by the efficiency measures taken by the Company which resulted in a decrease in payroll and related expenses, principally in the Supermarket segment.

Operating profit before other gains and losses and net gain from adjustment of investment property to fair value. Operating profit in 2009 before other gain and losses and net gain from adjustment of investment property to fair value was NIS 241 million (U.S. \$63.8 million) (3.3% of sales) compared to NIS 265.3 million (3.6% of sales) in 2008. The decrease in operating profit was affected by the decrease in sales and increase in selling and administrative expenses, as mentioned above.

Net gain from adjustment of investment property to fair value. In 2009, the Company's recorded gain in the Real Estate segment from appreciation of investment property of NIS 20.8 million (U.S. \$5.5 million) compared with NIS 19.1 million in 2008. This increase in valuation mainly resulted from the increase of the CPI during 2009.

Other losses (gains). In 2009, the Company recorded other losses, net of NIS 28.1 million (U.S. \$7.4 million) compared with other losses, net of NIS 2.5 million during 2008. These losses primarily resulted from a provision for the impairment of property and equipment and intangible assets mainly in the Supermarket segment in the amount of NIS 20 million (U.S. \$5.2 million), expenses for the reorganization in the Non Food segment in the amount of NIS 2.7 million (U.S. \$0.7 million) and capital losses in the amount of NIS 4.8 million (U.S. \$1.3 million). These losses were partially offset by a capital gain in the amount of NIS 1.5 million (U.S. \$0.4 million) and capital gain from changes in holding shares in subsidiaries, principally in the Non Food segment, in the amount of NIS 3.2 million (U.S. \$0.8 million). In 2008, the Company recorded other losses of NIS 2.5 million (U.S. \$0.7 million). These losses primarily resulted from a NIS 6.0 million (U.S. \$1.6 million) termination benefit expense associated with the Company's efficiency program, consisting mainly of the reduction of headcount at the Company's headquarters, and a provision of NIS 6 million (U.S. \$1.6 million) associated with the reduction of property value and depreciation. These losses were partially offset by other gains in the amount of NIS 9 million (U.S. \$2.4 million), which derived from the decrease in the Bee Group's holdings in its subsidiaries, primarily Sheshet, following Bee Group's reorganization which included the transfer of Bee Group's holdings in Vardinon and Sheshet to Naaman.

Operating profit. Operating profit for 2009 was NIS 233.6 million (U.S. \$61.9 million) (3.2% of sales) compared to NIS 281.8 million (3.8% of sales) in 2008, a decline of 17.1%. Operating profit includes segment profit as described below and unallocated headquarter expenses and changes in holding shares in subsidiaries.

Supermarket segment – a decrease in segment profit of 22.5% from NIS 246.1 million in 2008 to NIS 190.9 million (U.S. \$50.6 million) in 2009. The decrease in segment profit derived primarily from a decrease of 3.9% in supermarket same store sales, an increase in selling, general and administrative expenses and an increase in other losses as mentioned above.

Non-Food segment - segment profit of NIS 23.2 million in 2008 and NIS 23.2 million (U.S. \$6.2 million) in 2009. The increase in sales as mentioned above was offset by other losses arising from the reorganization and the increase in selling, general and administrative expenses as mentioned above.

Real Estate segment - increase in segment profit of 24.2% from NIS 26.5 million in 2008 to NIS 32.9 million (U.S. \$8.7 million) in 2009. The increase derived from the increase of the CPI in 2009, and an increase in rent and full year revenues from stores that were vacant part of 2008, and from decrease in selling, general and administrative expenses due to a decrease in expenses related to search for investment properties.

Financial expenses, net. Financial expenses, net in 2009, increased by 6.7% to approximately NIS 112.7 million, or U.S. \$29.9 million, compared with financial expenses of approximately NIS 105.6 million in 2008. This increase derived mainly from the increase in the financial net debt of the Company compared to 2008, which resulted in an increase in financial expenses for debentures and loans in the amount of NIS 12.2 million (U.S. \$3.2 million) and a decrease in income on deposits by NIS 7.6 million (U.S. \$2 million). In addition, a change in the conversion rate of our convertible debentures in 2009 contributed to financial expenses of NIS 11.7 million (U.S. \$3.1 million) compared to income of NIS 32.7 million in 2008. The increase in financial expenses was partly offset by financial income from forward contracts (CPI\NIS) in 2009 in the amount of NIS 21.3 million (U.S. \$5.6 million) compared to expenses of NIS 11.6 million in 2008 and from an increase in financial income from financial instruments in the amount of NIS 16.2 million (U.S. \$4.3 million) in 2009 compared to 2008.

Taxes on income. Taxes on income in 2009 were NIS 23.1 million, or U.S. \$6.1 million, compared with approximately NIS 43.8 million in 2008. As a percentage of income before taxes on income, taxes on income decreased to approximately 19.1% in 2009, compared with 24.9% in 2008. The decrease in the effective tax rate derived primarily from recording a tax benefit due to a change in tax rates, as a result of legislation of the Law for Economic Efficiency (Legislation Amendments for the Implementation of Economic Plan for 2009- 2010) 5769 - 2009, which prescribed, among others, the gradual decrease of the corporate tax rate to 18% in the 2016 tax year and onwards. The implications of the change in the tax rate were reflected in the results of this period by a decrease in deferred taxes and recording a tax benefit in the amount of NIS 14.2 million (U.S \$3.8 million) of which the portion attributed to the Company's shareholders is NIS 9.1 million (U.S \$2.4 million).

Profit for the year. Net profit for 2009 was NIS 97.8 million (U.S. \$25.9 million) compared to NIS 132.4 million for 2008. The portion of the net profit attributable to shareholders, was NIS 77.2 million (U.S. \$20.4 million), or NIS 1.77 per ADS (U.S. \$0.47), while the portion attributable to the share of minority interests was NIS 20.6 million (U.S. \$5.5 million). The decrease in net profit derived from the decrease in operating income and an increase in financial expenses net of decrease in tax expenses, as explained above.

Year Ended December 31, 2008 compared with year ended December 31, 2007

In accordance with the instructions of the Israeli Accounting Standard No. 29, “Adoption of International Financial Reporting Standards (IFRS)”, which was published in July 2006, we adopted IFRS as issued by the IASB, with effect from January 1, 2008, based upon the guidance in IFRS 1, "First-time adoption of IFRSs", and have prepared our consolidated financial statements according to IFRS as issued by the IASB. The influence of the transition to IFRS (from financial statements prepared in accordance with Israeli GAAP) on our financial statements for the year ended December 31, 2007 and our results of operations for that year, is detailed in note 36 to our consolidated annual financial statements for the year ended December 31, 2008. To facilitate comparison with the financial results of the years 2008, results from the year ended December 31, 2007 have been adjusted in accordance with IFRS and differ from the results reported in the Annual Report on Form 20-F for the year ended December 31, 2007.

Sales. Sales in 2008 were approximately NIS 7,429 million, or \$1,954 million, an increase of approximately 6.4% compared with sales of approximately NIS 6,982 million in 2007.

Supermarket segment – an increase in sales of 4.7% from NIS 6,655.8 million in 2007 to NIS 6,966.8 million (U.S \$1,832.4 million) in 2008. This growth in sales derived primarily from:

- the opening of ten new supermarkets in 2007, which were open for the entire 2008 and only a portion of 2007, and the opening of nine new supermarkets in 2008 (taking into account one supermarket that closed), including the accelerated expansion of the Eden Teva format;

- an increase of 1.1% during 2008 in supermarket Same Store Sales, reflecting the continued growth of the Mega In Town store format, partially offset by declining sales in the Shefa Shuk store format and Mega stores before their conversion to the Mega Bool store format.

Non-Food segment - an increase in sales of 42.4% from NIS 310.4 million in 2007 to NIS 442.1 million (U.S. \$116.3 million) in 2008. The increase mainly derived from an increase of NIS 132 million in connection with the ongoing expansion of stores of Bee Group Retail ("Bee Group"), and the consolidation in 2008 of the full-year results from Naaman Porcelain Ltd. ("Naaman") and Vardinon Textile Ltd. ("Vardinon"), compared with the previous year, in which the revenues of Naaman and Vardinon were only partially consolidated into the Company's financial results.

Real Estate segment - increase in sales of 27.8% from rental fees from external parties from NIS 15.8 million in 2007 to NIS 20.2 million (U.S. \$5.3 million) in 2008. The increase derived from increase of the CPI in 2008, the rental of vacant properties in 2008 and sales from stores that were open during a portion of 2007 and were open during the entire 2008.

Gross profit. Gross profit in 2008 was approximately NIS 2,060 million, or \$541.8 million (27.7% of sales), an increase of 11.2% compared with gross profit of approximately NIS 1,852 million (26.5% of sales) in 2007. The increase in our gross profit as a percentage of sales was the result of improved supplier terms; a shift in the mix of sales between the Company's store formats, and the expansion of the Non-Food segment, which is characterized by a higher sales gross margin compared to the Supermarket segment. The increase in our gross profit was partially the result of a positive influence from increased prices.

Selling, general and administrative expenses. Selling, general and administrative expenses in 2008 were approximately NIS 1,795 million, or \$472 million, an increase of 14.8% compared with selling, general and administrative expenses of approximately NIS 1,563 million in 2007. This increase was mainly due to increased expenses in the Supermarket segment associated with (i) the opening of new stores and the accelerated development of the Eden Teva format; (ii) expenses associated with the launch of the Mega Bool store format; (iii) a rise in the operating expenses of existing stores due to the increase in energy and electricity prices; an increase in the Israeli CPI, which increased CPI-linked expenses such as rent and municipal taxes in both in the Supermarket segment and the Non Food segment; and the increased expenses of the Non Food segment associated with its expansion of the number of its stores and the consolidation of the full-year expenses of Naaman and Vardinon in 2008, compared with the consolidation of only a portion of their expenses in the Company's 2007 results.

Operating profit before other gains and losses and net gain from adjustment of investment property to fair value. Operating profit in 2008 before other gain and losses and net gain from adjustment of investment property to fair value was NIS 265 million (\$69.8 million) (3.6% of sales) compared to NIS 289 million (4.1% of sales) in 2007. The decrease in operating income was primarily due to the decrease in profitability of our Supermarket segment, mainly from stores which were converted to the Mega Bool format, and the increased expenses of Eden Teva due to the expansion of this store format during 2008. In our Non Food segment, operating profit decreased due to the operating loss at Bee Group’s Dr. Baby store format resulting from the opening of eight self-operating stores in 2008.

Net gain from adjustment of investment property to fair value. In 2008, the Company’s recorded income of NIS 19.1 million (U.S. \$5.0 million) associated with the increase in value of its investment property compared with NIS 10.5 million in 2007 in our Real Estate segment. This increase in valuation mainly resulted from Hadar Talpiyot mall which is located in Jerusalem, in which the company holds a 50% interest.

Other losses (gains). In 2008, the Company recorded other losses of NIS 2.5 million (U.S. \$0.7 million) compared with other gains of NIS 3.1 million during 2007. These losses primarily resulted from a NIS 6.0 million (U.S. \$1.6 million) termination benefit expense associated with the Company’s efficiency program, consisting mainly of the reduction of headcount at the Company’s headquarters, and a provision of NIS 6 million (U.S. \$1.6 million) associated with the reduction of property value and depreciation, principally in the Supermarket segment. These losses were partially offset by other gains in the amount of NIS 9 million (U.S. \$2.4 million) in the Non Food segment, which derived from the decrease in the Bee Group’s holdings in its subsidiaries, primarily Sheshet, following Bee Group's reorganization which included the transfer of Bee Group's holdings in Vardinon and Sheshet to Naaman.

Operating profit. Operating profit for 2008 was NIS 281.8 million (U.S. \$74.1 million) (3.8% of sales) compared to NIS 302.7 million (4.3% of sales) in 2007, a decline of 6.9%. Operating profit includes segment profit as described below and unallocated headquarter expenses and changes in holding shares in subsduaries.

Supermarket segment – a decrease in segment profit of 14.1% from NIS 286.4 million in 2007 to NIS 246.1 million (U.S \$64.7 million) in 2008.The decrease in segment profit derived primarily from increased selling, general and administrative expenses and other losses in the Supermarket segment as mentioned above.

Non-Food segment - an increase in segment profit of 17.8% from NIS 19.7 million in 2007 to NIS 23.2 million (U.S. \$6.1 million) in 2008. This increase principally derived from the increase in sales, as mentioned above, that was partially offset by the increase in the CPI, which increased expenses of rental fees and municipal taxes and from other losses arising from expansion of the number of stores and the consolidation of the full-year expenses and revenues of Naaman and Vardinon in 2008, compared with the consolidation of only a portion of their expenses and revenues in the Company's 2007 results as mentioned above.

Real Estate segment - increase in segment profit of 30.7% from NIS 20.2 million in 2007 to NIS 26.4 million (U.S. \$6.9 million) in 2008. This increase derived from an increase of the CPI in 2008, the rental of vacant properties in 2008 and stores that were open during a portion of 2007 and were open during the entire 2008.

Financial expenses, net. Financial expenses, net in 2008, increased by 84% to approximately NIS 106 million, or \$27.8 million, compared with financial expenses of approximately NIS 57 million in 2007. This increase derived from the increase in the consumer price index in 2008 compared to 2007, an increase in net financial debt and hedging against a rise in the consumer price index, partially offset by financial income of NIS 24 million in connection with the revaluation of the Company's financial instruments.

Taxes on income. Taxes on income in 2008 were NIS 43.8 million, or \$11.5 million, compared with approximately NIS 69.8 million in 2007. As a percentage of income before taxes on income, taxes on income decreased to approximately 24.9% in 2008, compared with 28.4% in 2007. The decrease in the effective tax rate derived primarily from the decline in the statutory tax rate from 29% in 2007 to 27% in 2008.

Profit for the year. Net income for 2008 was NIS 132.4 million (U.S. \$34.8 million) compared to NIS 175.8 million for 2007. The portion of the net profit attributable to shareholders, was NIS 104.6 million (U.S. \$27.5 million), or NIS 2.41 per ADS (U.S. \$0.63), while the portion attributable to the share of minority interests was NIS 27.8 million (U.S. \$7.3 million). The decrease in net profit derives from the decrease in operating profit, and the increase in the financial expenses as explained above.

Quarterly Fluctuations

Our business is subject to fluctuations in quarterly sales and profits. These fluctuations are primarily attributable to increased sales and higher operating income in the holiday seasons occurring in different quarters from year to year. Thus, for example, in our supermarkets and in our "Naaman", "Vardinon" and "Sheshet" chains increased sales attributable to Passover, which occurs in either March or April, may be realized in either the first or the second quarter, and sales attributable to the Jewish New Year, which occurs in either September or October, may be realized in either the third or the fourth quarter. In our "Kfar Hasha'ashuim" chain, increased sales are generally attributable to Purim, which occurs in March, and to the "Back-to-School" season in August.

Many of our expenses are unrelated to the level of sales, and therefore a relatively modest increase or decrease in sales, whether or not related to the timing of holidays, tends to have a disproportionately large impact on our profitability.

The following table sets forth certain quarterly information.

	Net sales		Operating profit before other gains and losses and net gain from adjustment of investment property to fair value	
	Percentage of Full Year		Percentage of Full Year	
	NIS (In thousands)		NIS (In thousands)	
2009	7,349,076	100.0%	240,965	100.0%
First quarter	1,764,788	24.0%	60,168	25.0%
Second quarter	1,843,951	25.1%	60,685	25.2%
Third quarter	1,925,473	26.2%	58,734	24.4%
Fourth quarter	1,814,864	24.7%	61,378	25.4%
2008	7,429,121	100.0%	265,252	100.0%
First quarter	1,821,158	24.5%	77,487	29.2%
Second quarter	1,918,403	25.8%	83,335	31.4%
Third quarter	1,936,236	26.1%	59,770	22.6%
Fourth quarter	1,753,324	23.6%	44,460	16.8%

Exchange Rates

At December 31, 2009, the representative rate of exchange of the NIS to the dollar, as published by the Bank of Israel, was NIS 3.775= \$1.00. At June 18, 2010, the representative rate of exchange of the NIS to the dollar, as published by the Bank of Israel, was NIS 3.814 = \$1.00. The table below sets forth, for the periods and dates indicated, certain information concerning the representative exchange rate of the NIS to the dollar, as published by the Bank of Israel for the years ended December 31, 2005 through 2009:

Year Ended December 31,	Period End	Average Rate ⁽¹⁾ (NIS per \$1.00)	High	Low
2005	4.60	4.49	4.74	4.30
2006	4.30 ⁽²⁾	4.46	4.73	4.18
2007	3.85 ⁽²⁾	4.11	4.34	3.83
2008	3.80 ⁽²⁾	3.59	4.02	3.23
2009	3.77 ⁽²⁾	3.92	4.26	3.69

- (1) The average of the daily exchange rates in each year.
(2) During 2006, 2007, 2008 and 2009, the US dollar depreciated in value vis-à-vis the NIS by 8.2%, 8.97%, 1.2% and 0.7%, respectively.

The following table sets forth certain information concerning the representative exchange rate of the NIS to the dollar, as published for the months December 2009 through May 2010:

Month	Period End	Average Rate ⁽¹⁾ (NIS per \$1.00)	High	Low
December	3.77	3.79	3.82	3.77
January	3.72	3.71	3.77	3.67
February	3.80	3.75	3.80	3.70
March	3.71	3.74	3.79	3.71
April	3.72	3.71	3.75	3.68
May	3.83	3.79	3.87	3.73

- (1) The average of the daily exchange rates.

Impact of Inflation and Currency Fluctuations

Inflation in Israel increases some of our expenses, which, because of competitive pressures, are generally not offset, fully or as quickly, by increases in our selling prices and revenues. See “Item 3. Key Information - D. Risk Factors - Impact of inflation may adversely affect our financial expenses and operating income” and “- Currency fluctuations might affect our operating results and translation of operating results.”

Any devaluation of the NIS against various non-Israeli currencies in which we or our suppliers pay for imported goods has the effect of increasing the selling price of those products which we sell in Israel in NIS and affecting our operating results. In particular, a devaluation of the NIS against the Chinese currency could significantly increase the cost of production of our non-food products at our Bee Group stores and the selling price of those products to our customers. An increase in price of imported goods by our suppliers can usually be offset by an increase in the consumer price of such goods. This devaluation would have a greater affect on our non-food retail business because a higher proportion of the goods that we sell in our Bee Group stores is acquired from suppliers overseas. This devaluation would also cause an increase in our expenses as recorded in our NIS denominated financial results even though the expenses denominated in non-Israeli currencies will remain unchanged.

In addition, because our financial results are denominated in NIS and are translated into US dollars for the convenience of US investors, currency fluctuations of the NIS against the US dollar may impact our US dollar translated financial results.

Political Conditions

We and all of our subsidiaries are incorporated under Israeli law and our principal offices and operations are located in the State of Israel. Political, economic, security and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying from time to time, in intensity and degree, has led to security and economic problems for Israel. Israel signed a peace treaty with Egypt in 1979 and a peace treaty with Jordan in 1994. Israel has not entered into any peace agreement with Syria and Lebanon. In the last few years, the establishment of a Hamas government in Gaza has created additional unrest and uncertainty in the region and has increased hostilities between Israel and the Palestinians. These hostilities have included terrorist acts in Israel and military operations in the West Bank and Gaza. These hostilities had a negative effect on the Israeli economy. In December 2008 Israel was engaged in an armed conflict with Hamas in the Gaza Strip, which reduced the sales of some of our stores that are located in the southern region of Israel. In July 2006, a conflict with Hezbollah escalated significantly on Israel’s northern border, as a result of which a number of our stores located in the northern region did not operate according to their usual schedule. We cannot predict the effect on our business if hostilities are renewed or the security situation deteriorates in any part of the country.

The future of Israel’s relations with its Arab neighbors and the Palestinians is uncertain and several countries, companies and organizations continue to restrict business with Israel and with Israeli companies. We believe that in the past, these practices have not had a material adverse effect on us. However, we could be adversely affected by adverse developments in Israel’s relationships with its Arab neighbors and the Palestinians, or by restrictive laws, policies or practices directed towards Israel or Israeli businesses.

Most of Bee Group's imports during 2008 and 2009 were from suppliers located in China. Because most of the products sold by the Bee Group are manufactured overseas and imported from China, its activity may be affected by changes in the political and economic conditions in China. In addition, because the Bee Group acquires most of its products from suppliers outside of Israel, and most of its products are imported via the sea, a prolonged general strike, shutdown or a disruption of any of the Israeli ports for an extended period of time, including as a result of a military conflict, would affect our ability to import such products or increase their prices. In addition, since the peak selling season of some of our Bee Group stores is during the holidays, disruptions in the ports during or adjacent to such holiday seasons may adversely affect our sales and financial results.

Economic Conditions

All of our supermarket sales are made in Israel and we acquire a substantial majority of the goods that we sell from Israeli suppliers. Consequently, our financial performance is dependent to a significant extent on the economy of Israel. During 2007 and 2008, Israel's Gross Domestic Product rose by 5.3% and 4.1%, respectively. However, in 2009 the global economic crisis, instability and uncertainty affected the economic conditions in Israel, and initial reports of the Israeli Central Bureau of Statistics indicate that during 2009 Israel's Gross Domestic Product rose by only 0.7%. Initial reports indicate that the Israeli economy increased by 3.3% (annualized) at the first quarter of 2010. We believe that the economic slowdown in Israel has affected the buying patterns of our customers, as more customers shift their purchases to low-price and hard discount stores, which have a lower profit margin. As a result, we have expanded our low-price and hard discount store formats. The economic slowdown in Israel may have an adverse effect on our financial performance, among other things, by reducing our sales and our profitability.

The global economic crisis, instability and uncertainty have also affected our non-food retail business by causing a slowdown in the growth of private consumption, which could affect the growth of our houseware, home textile, toys, leisure and baby and young children accessories businesses. Beginning in the second quarter of 2009, the Israeli economy began to recover and there has been an improvement in the growth of private consumption.

In addition, the global economic crisis has also reduced the availability of credit, increased the costs of financing and the terms under which banks agree to provide financing. These developments may reduce the sales of our businesses, increase our costs of borrowing and reduce our profitability.

Trade Agreements

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, and since 2010, the Organization for Economic Co-operation and Development, also known as, OECD. Israel is a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by these programs either duty-free or at reduced tariffs.

In addition, Israel, the EU (known as the European Union), and the European Free Trade Association have a free trade agreement. In recent years, Israel has established commercial and trade relations with a number of other nations, including China, India, Russia, Turkey and other nations in Eastern Europe and Asia.

Corporate Tax Rate

We and our subsidiaries are subject to corporate tax in Israel at a flat rate of 25% in 2010 (27% in 2008 and 26% in 2009). This rate is scheduled to be gradually reduced to 18% by 2016.

Until 2008, our taxable income was determined under the Income Tax (Inflationary Adjustment) Law 1985 (the “**Inflationary Adjustments Law**”), which attempts to overcome some of the issues encountered by a traditional tax system with respect to inflation. In February 2008, the Knesset (Israeli legislative body) approved Amendment No. 20 to the Inflationary Adjustments Law. The Amendment repealed the Inflationary Adjustments Law as of January 1, 2008 and set certain transition rules.

For further tax information, see “Item 10. Additional Information - E. Taxation -Israeli Tax Considerations.”

Critical Accounting Policies and Estimates

We have chosen accounting policies that we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a consistent manner. Our significant accounting policies are summarized in Note 2 to the Consolidated Financial Statements.

We base our estimates on historical experience, where applicable, and on other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and could have a material impact on our reported results.

We believe that the following accounting policies are the most critical in the preparation of our financial statements because they involve the most difficult, subjective or complex judgments about the effect of matters that are inherently uncertain

Impairment of non financial assets

We review at each balance sheet date whether any events have occurred or changes in circumstances have taken place which might indicate that there has been an impairment of property, plant and equipment and identifiable intangibles. When such indicators of impairment are present, we evaluate whether the carrying value of the asset in our accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision necessary to adjust the carrying amount to the recoverable amount.

When it is not possible to assess whether an impairment provision is required for an individual asset which does not generate independent cash flows, the need for such a provision is assessed in relation to the recoverable value of the cash-generating unit to which that asset belongs. For a cash-generating unit to which goodwill has been allocated, any impairment loss relating to that unit initially reduces the goodwill and the balance reduces the carrying amount of the other assets.

In 2007, we evaluated impairment separately for each store as a cash-generating unit. In 2008, we reorganized the food retail activities to incorporate all activities under one subsidiary while, at the same time, organized the brand names in order that we could meet the needs of specific customers in each geographic area (promotions, prices and variety) and increase customer loyalty program activities. As such, beginning in 2008, we evaluated impairment separately for each store or the cash-generating unit to which the store belongs when the cash inflows of one store are dependent on the cash inflows of another store in the same geographic area. In evaluating impairment, we consider corporate assets relating to the stores or other cash-generating units as well as indirect costs that are directly attributable, or that can be reasonably and consistently allocated, to the stores or cash generating units.

The recoverable amount of an asset is the higher of the net selling price of the asset's fair value less cost to sell and its value in use. These calculations require the use of estimates. In calculating the impairment for the reported years, based on discounted expected future cash flows, we used a discount rate before tax for each cash-generating unit (CGU). For discount rates used by the Company, see note 8C to the Consolidated Financial Statements.

In 2009, we recorded impairment provisions resulting in the net amount of NIS 18.5 million. In 2008, we recorded impairment provisions resulting in the net amount of NIS 3.4 million. In 2007, we recorded a reversal of impairment provisions resulting in the net amount of NIS 11.7 million. Impairment provisions or the reversal of such provisions are included in the income statement within Other gain or losses.

Referring to property plant and equipment, when the discount rate differs by 0.5% from the management estimate, the carrying value of property, plant and equipment will be NIS 0.8 million lower or NIS 0.8 million higher. When growth rate differs by 0.5% from the management estimate, the carrying value of property, plant and equipment will be NIS 2.7 million lower or NIS 2.8 million higher.

Application of alternative assumptions and definitions, such as reviewing long-lived assets for impairment at a different organizational level, could produce significantly different results

Goodwill

Goodwill is tested annually for impairment and when circumstances indicate that the carrying value may be impaired, goodwill is carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefits from the business combination in which the goodwill arose.

Goodwill is allocated to three identified groups of cash-generating units.

The amounts of goodwill allocated to the CGU are as follows:

	December 31	
	2008	2009
	NIS in thousands	
Supermarkets	162,780	163,980
Non - Food retail and wholesale:		
Houseware	110,952	111,179
Leisure	26,106	26,106
	299,838	301,265

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management and management estimation covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 8C to the Consolidated Financial Statements. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value in-use calculations are as follows: expected gross margin, weighted average growth rate used to extrapolate cash flows beyond the budget management estimations covering a five-year period, and pre-tax discount rate applied to cash flow projections.

The annual impairment review requires the extensive use of accounting judgments and financial estimates. Application of alternative assumptions and definitions, such as reviewing goodwill for impairment at a different organizational level, could produce significantly different results. Similar to our policy on impairment of long-lived assets, the cash flow projections embedded in our goodwill impairment reviews can be affected by several items, such as inflation, business valuations in the market, the economy and market competition.

We performed a sensitivity analysis for the key assumption used in our annual goodwill impairment test and determined that an increase in the pre-tax discount rate of 0.5% would result in the estimated recoverable amount of Leisure CGU falling below its carrying amount by NIS 2.7 million. At December 31, 2009, the recoverable amount of this CGU exceeded the carrying amount of goodwill allocated to this CGU by 6%. We believe that the Leisure CGU is at risk for goodwill impairment in case that the pre-tax discount rate will increase by 0.5%. The fair value of our other CGUs are substantially higher than the carrying value.

Adjustment of investment property to fair value

Investment property is presented at fair value. In certain cases, fair value is determined using discounted cash flows that are based on assumptions as to discount rate. Changes in the discount rate will change the calculated fair value and may therefore materially affect the results of our operations. The range of discount rates used is 8%-12% per annum (mainly 8-8.5%).

When the discount rate differs by 0.5% from the management estimate, the fair value of investment property will be NIS 17.7 million lower or NIS 20 million higher. When the discount rate differs by 1% from the management estimate, the fair value of investment property will be NIS 34.3 million lower or NIS 41.6 million higher.

Retirement benefit obligations and Provision for unutilized sick leave

1) Retirement benefit obligations

Labor laws and agreements, and the practice, require us to pay retirement benefits to employees dismissed or retiring in certain other circumstances.

We operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. We have both defined benefit and defined contribution plans.

Our obligation to pay retirement benefits is generally treated as a defined benefit plan. However, for employees for whom the retirement benefit obligation is covered by section 14 of the Israel Severance Pay Law, the obligation is treated as a defined contribution plan.

Defined Benefit Plan

The retirement benefit obligation recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (after taking into account the expected rate of salary increases and other actuarial assumptions) by reference to Israeli Government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

We determine the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, we consider the interest rates of Israeli government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that are comparable to the terms of the related retirement liability.

The present value of the obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost of retirement benefits include the discount rate. Other key assumptions, such as future wage increases and retirement rates, are based in part on current market conditions and on past experience. Any changes in these assumptions will impact the carrying amount of the obligations. Actuarial gains and losses are recognized outside of profit and loss in the "statement of recognized income and expense" in the period in which they arise.

Defined Contribution Plan

A defined contribution plan is a pension plan under which we pay fixed contributions into a separate entity. Our obligation to the employees for whom the retirement benefit obligation is covered by section 14 of the Israel Severance Pay Law as part of the defined contribution plan is to make regular contributions to a separate and independent entity, and we have no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2) Provision for unutilized sick leave

Pursuant to employment agreements, certain employees are entitled to receive payment for a certain number of sick leave days per year which accumulate to future periods. Under these said agreements, the Company has undertaken to pay each employee, upon retirement, certain amounts which depend on the balance of the unutilized days and on the cumulative number of sick leave days the employee has utilized during his employment with the Company.

The provision for unutilized sick leave is based on an annual actuarial calculation: in making such a computation, the actuary makes actuarial assumptions (such as the rates of employee turnover, future salary levels). The cost of this benefit is recognized using the same method used for defined benefit retirement plans. Actuarial gains and losses are recognized outside of profit or loss in the Statement of Recognized Income and Expense the period in which they arise. Any changes in these assumptions will impact the carrying amount of the obligations.

For key management assumption used in the annual actuarial calculation for retirement benefit obligations and provision for unutilized sick leave, see note 22 to the Consolidated Financial Statements.

Provisions for claims

The provisions for legal claims are recorded based on the estimates of our management (after consulting with the legal counsel) as to the likelihood that cash flows will be required to settle these liabilities and as to the amount of such cash flows.

Income taxes and deferred taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax issues based on estimates as to whether additional taxes will be due. Where the final outcome of these matters differs from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, we recognize deferred tax assets and tax liabilities based on the difference between the carrying value of such assets and liabilities and their amount for tax purposes. We continually assess the recoverability of deferred tax assets based on historical taxable income, expected taxable income, the expected timing of the reversals of temporary differences and the application of tax planning strategies. If we is unable to generate sufficient future taxable income or actual results differ from its other assumptions, we might be required to reduce our deferred tax assets or to increase our deferred tax liabilities, which will increase our effective tax rate, and negatively affect our operations.

Impairment of available-for-sale financial assets:

We follow the guidance in IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost as well as the financial position of and short-term business outlook of the issuer of the instrument, including factors such as industry and sector performance, changes in technology and operating and financing cash flows.

Fair value of derivative and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, derivatives) is determined by using valuation techniques. We use our judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. We have used discounted cash flow analysis for various derivative financial assets that are not traded in active markets. Changes in assumptions could affect the reported fair value of these financial instruments. For sensitivity analysis for the key assumptions see note 3a to our consolidated financial statements.

Recently issued accounting pronouncements

For information on recently issued accounting pronouncements, see note 2bb to our consolidated financial statements.

Liquidity and Capital Resources

Sources and Uses of Cash

Sources.

Our principal source of liquidity is the cash generated by our operations. Both Blue Square and its significant subsidiaries have generally generated sufficient cash from their operations to satisfy their respective operating requirements. The available cash resources of Mega Retail, BSRE, Bee Group and their subsidiaries have historically been used, and are expected to continue to be used, to finance the expansion of these companies. We believe our working capital is sufficient for our present requirements.

Cash generated by operations was approximately NIS 260 million, or \$69.0 million, in 2009, a decrease of 37% compared with approximately NIS 410 million in 2008. This decrease in cash generated by operations in 2009 was mainly due to the decrease in operating income, which was partially offset by a decrease in net taxes paid compared to 2008, and an increase in trade receivables balance at the end of 2009 compared to a decrease in trade receivables balance in 2008, which was due to an improvement in the Company's operations in the fourth quarter of 2009 compared to 2008.

In 2009, approximately 34.5% of our supermarket sales were paid for with cash, checks and gift certificates issued by the Company at the point-of-sale, approximately 61.6% of supermarket sales were paid for with credit cards and approximately 3.9% of supermarket sales were paid for with other short-term credit arrangements.

During 2009, the average time period that we held inventory was 34.9 days and the average time period within which our accounts receivable were paid was 33.1 days. By contrast, as of such date the average time period for payment of our accounts payable was 57.5 days. Accordingly, increased capital resources are not required to support an increase in our receivables or inventories because we generally sell our products before we pay our suppliers.

Other sources of liquidity are long-term and short-term borrowing from banks and others. During 2009, we received from banks and other financial institutions long-term loans of NIS 387.7 million, or \$102.7 million and short-term borrowings, net, of NIS 76.1 million, or \$20.2 million, and during 2009, we repaid long-term loans in the amount of NIS 139.1 million, or \$36.8 million and interest in the amount of NIS 93.9 million, or \$24.9 million. For information regarding outstanding balances and repayment information, see " – Long-Term Loans from Banks and other Financial Institutions" and " – Debentures."

On May 20, 2009, the Israel Securities Authority approved the publication of a shelf prospectus filed by BSRE. The shelf prospectus is valid for a period of two years from publication, and it may be used by BSRE to raise capital in the future through the issuance of shares, debentures, and/or options at the election of BSRE. In October 2009, pursuant to the shelf prospectus, BSRE issued NIS 300 million in principal amount of unsecured non-convertible Series C debentures. BSRE received net proceeds of approximately NIS 294.3 million, or \$78 million (net of issuance expenses of NIS 5.7 million, or \$1.5 million) in consideration for the debentures. The proceeds from the issuance of the debentures were used for financing BSRE's business activities.

In September 2008, BSRE completed the issuance of NIS 125 million in principal amount of unsecured non-convertible (Series B) debentures (in addition to the non-convertible (Series B) debentures issued in August, 2006, described below). BSRE received net proceeds of approximately NIS 121.3 million or \$31.9 million in consideration for the debentures. The proceeds from the issuance of the debentures were used, among other things, for investments in real estate and for working capital. The terms of these debentures are identical to the terms of the non-convertible (Series B) debentures issued by BSRE in August 2006.

In August 2006, BSRE completed its initial public offering of ordinary shares, unsecured convertible (Series A) and non-convertible (Series B) debentures on the Tel Aviv Stock Exchange. BSRE received net proceeds of approximately NIS 147.6 million in consideration for its ordinary shares and net proceeds of approximately NIS 731.2 million in consideration for the debentures. The proceeds from the issuance of the debentures were used, among other things, to repay long-term borrowings of NIS 518 million, or \$122.6 million, that the Company transferred to BSRE at the time of the transfer of the real estate assets to BSRE while the Company retained the proceeds of the loan. These long-term loans were incurred by the Company as part of its preparations for the transfer of real estate assets and related financial obligations to BSRE prior to its initial public offering.

As of December 31, 2009, the remaining principal balance (linked to the Israeli CPI) of BSRE's convertible (Series A) and non-convertible (Series B) debentures was NIS 109.6 million and NIS 849.5 million, respectively, and the remaining principal balance (linked to the Israeli CPI) of BSRE's non-convertible Series C debentures was NIS 300.6 million.

In 2003, we issued NIS 200 million in aggregate principal amount of unsecured 5.9% convertible and NIS 200 million in aggregate principal amount of non-convertible debentures. The installments of principal on the convertible debentures are due in 2007, 2009 and 2011, and the installments of principal on the non-convertible debentures are due in 2012, 2013 and 2014. During 2009, we repaid convertible debentures in a principal amount of NIS 13.3 million, and we issued a total of 344,239 ordinary shares as a result of the conversion of our convertibles debentures in a principal amount of NIS 6.9 million. As of December 31, 2009, the remaining principal balance (linked to the Israeli CPI) of the convertible debentures (Series A) was approximately NIS 15.1 million and the remaining principal balance (linked to the Israeli CPI) of the non-convertible debentures (Series B) was approximately NIS 227.7 million.

In February 2010, we published a shelf prospectus that allows us to issue marketable securities in Israel during the next two years.

Uses.

During 2009, we repaid long-term loans in the amount of NIS 139 million, or \$36.8 million, and interest in the amount of NIS 93.9 million, or \$24.9 million, and we paid dividends to minority shareholders of subsidiaries in the amount of NIS 16.5 million or \$4.4 million.

In recent years, we funded our renovation, remodeling and expansion programs primarily from cash generated by our operations and from long and short-term loans from banks. During 2009, we invested approximately NIS 234 million, or \$62 million, in property, plant and equipment, intangible assets and investment property, a 24.8% decrease from our 2008 investment of NIS 311.7 million. Of our investment in property, plant and equipment, intangible assets and investment property in 2009, we invested NIS 46.2 million, or \$12.3 million, in land and buildings, including land that we leased, as compared with NIS 89.5 million in 2008. During 2010, we have spent and currently plan to spend in excess of approximately NIS 78.6 million, or \$20.5 million (based on the representative rate of exchange on May 31, 2010) for the development or acquisition of new supermarkets, the renovation and remodeling of our existing supermarkets and related investments. We intend to finance our store development, renovation, modeling, expansion and acquisitions mainly from cash generated by our operations and from borrowings from banks and others.

In November 2008, pursuant to a cash tender offer, we completed the acquisition of the Mega Retail shares that were not previously held by us, for the aggregate consideration of NIS 150.7 million, or \$40.2 million (at that time). We currently own 100% of the shares of Mega Retail, and Mega Retail's shares are no longer traded on the Tel-Aviv Stock Exchange.

In September 2008, we acquired an additional 25% of the shares of Bee Group for the aggregate consideration of NIS 35.4 million, or \$9.8 million (at that time), increasing our holdings in Bee Group to 85%.

In October, 2007, we purchased (through Bee Group) 57.87% of the holdings of Naaman Porcelain (51.5% on a fully diluted basis) in consideration for approximately NIS 101 million or approximately \$26.26 million (at that time). In March 2009, we purchased (through Bee Group) additional shares of Naaman, in consideration for approximately NIS 7 million, or approximately \$1.8 million, following which Bee Group's holdings in Naaman were approximately 66.85% of the outstanding shares.

In October, 2007, we purchased 51% of the holding of Eden Briut Teva Market Ltd. ("Eden Nature") in consideration for approximately NIS 22.5 million or approximately \$5.85 million (at that time). In addition, under the agreement, (i) we provided Eden Nature with shareholder loans in the amount of NIS 47 million and (ii) we will provide all guarantees and financing required in connection with Eden Nature’s operations in the future, the repayment of existing shareholder loans in the amount of NIS 4.7 million which has since been repaid, and the payment of a bonus to Eden Nature’s CEO upon the satisfaction of various thresholds which have not yet been satisfied.

In April, 2007, we purchased (through Bee Group) 85.79% of the holdings of Vardinon Textile Ltd. in consideration for approximately NIS 38 million or approximately \$9.88 million (at that time). On June 1, 2009 Naaman acquired an additional approximately 3% of the shares of Vardinon. As a result of this acquisition, Naaman increased its holding in Vardinon to approximately 88.74% of the share capital. As of May 31, 2010, Bee Group held approximately 66.85% of the outstanding shares of Naaman, and Naaman held approximately 88.74% of the outstanding shares of Vardinon.

Dividends

The following table sets forth dividends paid by the Company from January 1, 2007 until the date of this Annual Report:

Date of payment	Amount per share	Total amount ⁽¹⁾
February 25, 2010	NIS 1.70 (\$0.45)	NIS 75 million (approximately \$19.8 million)
October 7, 2008	NIS 3.46 (\$0.99)	NIS 150 million (approximately \$42.82 million)
October 8, 2007	NIS 5.07 (\$1.27)	NIS 220 million (approximately \$55 million)
April 19, 2007	NIS 1.45 (\$0.35)	NIS 60 million (approximately \$14.7 million)

⁽¹⁾ In accordance with the representative rate of exchange of the NIS to the dollar as of the date of the payment of the dividend.

Within the framework of our proposed acquisition from Alon of all of Alon's approximately 80% holdings in Dor Alon, the audit committee and board of directors of Blue Square approved the distribution of a dividend (after the share issuance to Alon) to Blue Square's shareholders not out of profits, of NIS 800 million, or approximately US\$ 208.9 million (based on the representative rate of exchange on May 31, 2010), which represents a dividend of approximately NIS 12.32, or approximately \$3.22 (based on the representative rate of exchange on May 31, 2010), per ordinary share of Blue Square (after taking into account the shares to be issued to Alon in the acquisition). The dividend per share is subject to change based on the number of shares outstanding on the record date for the dividend. Blue Square intends to finance the dividend by NIS 400 million in cash and by NIS 400 million in long-term debt. The terms of the long-term debt have not yet been determined. The dividend is subject to the approval of Blue Square's general meeting of shareholders, the Israeli courts and to the completion of the acquisition by us of Dor Alon, as well as customary closing conditions, if applicable. For further information on the acquisition see "Item 7. Major Shareholders and Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD."

In addition to the dividends described above, the following dividends were paid by the Company from 2002 to 2006:

Year of payment	Amount per share	Total amount ⁽¹⁾
2006	NIS 2.81 (\$0.62)	NIS 110 million (approximately \$24.4 million)
2005	NIS 2.29 (\$0.51)	NIS 89 million (approximately \$20 million)
2004	NIS 6.6 (\$1.48)	NIS 253 million (approximately \$56.7 million)
2003	NIS 7.71 (\$1.72)	NIS 295 million (approximately \$66.1 million)
2002	NIS 3.35 (\$0.72)	NIS 128 million (approximately \$27.3 million)

⁽¹⁾ In accordance with the representative rate of exchange of the NIS to the dollar as of the date of the payment of the dividend.

In connection with our issuance of NIS 400 million in aggregate principal amount of unsecured 5.9% convertible and nonconvertible debentures in August 2003, Blue Square’s board of directors resolved that Blue Square would not distribute dividends in any quarter if the ratio of our net financial obligations (as defined by S&P-Maalot, an Israeli rating agency owned by S&P) to EBITDA for any quarter exceeds 3.5 until June 30, 2006 or exceeds 3.0 thereafter. Blue Square’s board of directors also resolved that Blue Square would not distribute dividends in any quarter if the ratio of the unencumbered fixed assets (following depreciation) and investment property as set forth on our financial statements to financial obligations (as defined by S&P-Maalot) for any quarter is below 120%. At the time of the issuance of our debentures, S&P-Maalot informed us that the rating was based among other things upon the Board of Directors resolution and a change in this resolution may lead to a change of the rating on our 5.9% unsecured debentures.

On January 14, 2010, Blue Square's board of directors decided that in view of the changes and development of Blue Square since 2003, including the transfer of Blue Square's and Mega Retail's real estate properties to BSRE (which operates under financial obligations to EBITDA ratios appropriate for real estate companies and currently holds a major part of the consolidated debt), the purchase of Bee Group (a Non Food retailer), and the reorganization of Blue Square's food retail activities in its subsidiary, Mega Retail Ltd., that the ratio of net financial obligations to EBITDA is to be calculated by deducting from the net financial obligations Blue Square's debt which is related by the company to real estate that is not in use by Blue Square (which is equal to 75% of the investment property as recorded on the balance sheet). On December 31, 2009, the net financial obligations to EBITDA (calculated in accordance with the deduction described above) was less than 2.0. Our board of directors further resolved that Blue Square would not distribute dividends in any quarter if the ratio of our net financial obligations (calculated in accordance with the deduction described above) to EBITDA for any quarter exceeds 4.5.

Dividends paid by Mega Retail from 2004 until the date of this Annual Report:

Date of payment	Amount per share	Total amount ^{(1), (2)}
October 8, 2007	NIS 6.1 (\$1.52)	NIS 200 million (approximately \$50 million)
April 12, 2007	NIS 0.76 (\$0.19)	NIS 25 million (approximately \$5.9 million)
April 11, 2005	NIS 2.44 (\$0.56)	NIS 80 million (approximately \$18.6 million) ⁽³⁾
May 30, 2004	NIS 12.21 (\$2.68)	NIS 400 million (approximately \$87.8 million)

- ⁽¹⁾ In accordance with the representative rate of exchange of the NIS to the dollar as of the date of the payment of the dividend.
- ⁽²⁾ Blue Square's share in the distribution of the dividends was approximately 80%.
- ⁽³⁾ The dividend distribution required a court approval (which was granted on March 6, 2005) because the distribution did not meet the “profit test” under the Israeli Companies Law. The distribution was made from capital gains that were originally classified as a capital reserve that originated from a transaction in 1998 with a former controlling shareholder. Due to this transaction, the Company reclassified its share in this capital gain in the amount of NIS 44.9 million from a capital reserve (within additional paid in capital) to retained earnings.

Dividends paid by BSRE until the date of this Annual Report:

In August 2006, the board of directors of BSRE adopted a policy that BSRE will distribute dividends in each of years 2006 to 2008 in the amount of no less than 25% of the net profits of BSRE in such year. In November 2008, BSRE's board of directors approved a decision to extend this policy for the years 2009 and 2010. Such distributions are subject to the “profit test” under the Israeli Companies Law at the relevant dates and to other decisions of BSRE board of directors, including decisions designating a different use of BSRE's profits and/or a change in the BSRE dividend policy.

Date of payment	Amount per share	Total amount ^{(1) (2)}
March 31, 2010	NIS 4.6 (\$1.3)	NIS 57.6 million (approximately \$15.5 million)
April 20, 2009	NIS 1.35 (\$0.32)	NIS 16.8 million (approximately \$4.0 million)
April 28, 2008	NIS 1.58 (\$0.46)	NIS 19.7 million (approximately \$5.7 million)
April 12, 2007	NIS 0.78 (\$0.19)	NIS 9.7 million (approximately \$2.3 million)

- ⁽¹⁾ In accordance with the representative rate of exchange of the NIS to the dollar as of the date of the payment of the dividend.
- ⁽²⁾ Blue Square's share in the distribution of the dividends was approximately 80%.

Short-Term Credit from Banks and Others

The following table sets forth the principal terms of our short-term credit from banks and others:

	December 31	
	2008	2009
	NIS in thousands	
Bank overdrafts	12,187	493
Bank loans	65,801	101,774
Commercial paper	-	40,819
Current maturities of long-term loans	132,913	131,512
	<u>210,901</u>	<u>274,598</u>

Long-Term Loans from Banks and other Financial Institutions

The following table sets forth the principal terms of our long-term loans from banks and other financial institutions:

	December 31		Annual Interest Rate
	2008	2009	(1)
	NIS in thousands		%
In Israeli currency:			
Linked to the Israeli CPI (2)	113,880	317,409	5.2
Unlinked and bearing a fixed interest rate (3)	305,456	243,324	7.1
Unlinked and bearing a variable interest rate (4)	55,163	167,500	3.2
Total	474,499	728,233	
Less - current maturities	132,913	131,512	
	341,586	596,721	

- ⁽¹⁾ Weighted average rate as of December 31, 2009.
- ⁽²⁾ As of December 31, 2009, includes approximately NIS 255 million at a weighted average interest rate of 4.8%, approximately NIS 61 million at a weighted average interest rate of 6.9% and the balance of approximately NIS 2.3 million at a weighted average interest rate of 4.1%.
- ⁽³⁾ As of December 31, 2009, includes NIS 167 million at an interest rate of 5.9%, and the balance of approximately NIS 76 million at a weighted average interest rate of 9.8%.

(4) As of December 31, 2009, includes approximately NIS 130 million at a weighted average interest rate of 3.3%, approximately NIS 11 million at a weighted average interest rate of 3.7%, and the balance of approximately NIS 27 million at a weighted average interest rate of 1.9%.

The loans described in the table above include loans undertaken by Bee Group and its subsidiaries in an aggregate amount of approximately NIS 190 million and loans undertaken by BSRE in an aggregate amount of NIS 250 million. These loan agreements contain undertakings by Bee Group and its subsidiaries and BSRE to meet certain financial covenants. The financial covenants in Bee Group's loan agreements include a limitation on Bee Group and its subsidiaries' ability to distribute dividends. As of December 31, 2009, Bee Group and its subsidiaries and BSRE met the financial covenants contained in their respective loan agreements.

Debentures

The following table summarizes outstanding debentures in 2008 and 2009 of the Company and of our subsidiary, BSRE, of which we owned 78.35% of the shares as of May 31, 2010:

	December 31	
	2008	2009
	NIS in thousands	
Convertible debentures:		
Issued by the Company	44,267	26,267
Issued by BSRE	112,086	115,660
	156,353	141,927
Less - current maturities	25,956	-
	130,397	141,927
Non-convertible debentures:		
Issued by the Company	199,585	211,344
Issued by BSRE	786,259	1,116,642
	985,844	1,327,986
Less - current maturities	-	76,653
	985,844	1,251,333

In addition, Naaman, our subsidiary through Bee Group, has outstanding convertible debentures, which as of December 31, 2008 and December 31, 2009, had a principal balance of NIS 171,000 and NIS 139,000, respectively.

Blue Square Debentures

In August 2003, we issued to institutional investors NIS 400 million in aggregate principal amount of unsecured 5.9% debentures, half of which (Series B) are currently convertible into our ordinary shares. All the debentures are linked (principal and interest) to the Israeli CPI, but in the event the Israeli CPI is less than the base index (index known at date of issuance), the amount of the debentures will not be adjusted below the base index.

Blue Square Series A Debentures

The principal of the Series A Debentures is repayable in three equal annual installments on August 5 of each of the years 2012 to 2014, and the interest is payable semiannually. Notwithstanding the above, under the terms of the Debentures, on August 5 of each of the years 2006, 2008 and 2010, the holders of the Series A Debentures were entitled to early redemption of the principal provided that on each of such dates we do not repay more than one third of the par value of the Series A Debentures outstanding as of that date. No Series A Debentures have been redeemed to date.

Blue Square Series B Debentures

The principal of the Series B Debentures is repayable in three equal annual installments on August 5 of each of the years 2007, 2009 and 2011, and the interest is payable semiannually. The Series B Debentures are convertible into our ordinary shares at a conversion ratio that is subject to adjustment in the event of distribution of bonus shares and cash dividends and the issuance of rights. As of May 31, 2010, each NIS 18.390 par value of debentures was convertible to one ordinary share of NIS 1 par value. This conversion ratio is after adjustment for cash dividends distributed from the date of issuance of the Series B Debentures until May 31, 2010. As of May 31, 2010, the remaining principal balance of the Series B Debentures was approximately NIS 7.5 million.

Other terms of the Blue Square Series A and Series B Debentures

The terms of the debentures (Series A and Series B) provide that in the event that our ordinary shares are delisted from trading on the TASE, and/or in the event that our ordinary shares are no longer held by the public and/or in the event that S&P-Maalot reduces our rating to BBB or lower, then within three months from one of the abovementioned events we, subject to the then prevailing law, will offer to acquire the debentures at a price equivalent to the price of debentures of the same type reflecting a return of 2.5% in excess of the return on Israeli Government debentures with an average life similar to the remaining average life of the debentures of that series as of the date of the offer, but in no event will the price exceed the adjusted carrying value of the debentures of that series.

On October 1, 2009, we announced that we received from S&P Maalot a report including affirmation of "ilA+" rating for the debentures, while revising the outlook to negative. In its rating, S&P Maalot stated that under the current rating it still expects us to maintain an adjusted debt to EBITDA ratio of less than 4.5. In April 2010, following BSRE's announcement regarding approval by its board of directors and audit committee of a draft agreement to jointly purchase real estate for residential and commercial development in the wholesale market site in downtown Tel Aviv, S&P-Maalot placed the rating of our debentures (Series A and Series B) on CreditWatch with negative implications. According to S&P-Maalot, because this is BSRE's first venture into the residential development sector, this could affect our business risk profile, and the downgrade reflects S&P-Maalot's opinion that BSRE's transaction could lead to increased financial risk for Blue Square. We have no knowledge whether our proposed acquisition of Alon's shares in Dor Alon will have an impact on the rating for the debentures.

BSRE Debentures

In August 2006, BRSE issued 2.5 million BRSE ordinary shares of NIS 1 par value each, together with NIS 100 million par value of registered BRSE Series A debentures, which are convertible into BRSE ordinary shares, and NIS 650 million par value of registered BRSE Series B debentures. In September 2008, BSRE completed the issuance of an additional NIS 125 million in principal amount of unsecured non-convertible (Series B) debentures to institutional investors. The terms of these debentures are identical to the terms of the non-convertible (Series B) debentures issued by BSRE in August 2006. In October 2009, BSRE issued NIS 300 million par value of registered Series C debentures.

BSRE Series A Debentures

The BSRE Series A debentures are to be redeemed in four equal annual installments on August 31 of each of the years 2013 to 2016. The Series A debentures are linked (principal and interest) to the known Israeli CPI and bear interest at an annual rate of 6.25%, which is payable semiannually. The Series A debentures are convertible into BSRE ordinary shares from the date that they are first listed for trade on the stock exchange through August 16, 2016, except during the periods from August 17 through August 31 in each of the years 2013 to 2015. The conversion rate is subject to adjustments in the event of distribution of cash dividends. Until August 31, 2008, the conversion was effected at the rate of NIS 96.83 par value of registered Series A debentures (following adjustments due to distributions of cash dividends) for each ordinary share of NIS 1 par value; since that date and through August 16, 2016, the conversion rate is NIS 268.71 par value of registered Series A debentures (following adjustments due to distributions of cash dividends) for each ordinary share of NIS 1 par value.

BSRE Series B Debentures

The BSRE Series B debentures are to be redeemed in four equal annual installments on August 31 of each of the years 2013 to 2016. The Series B debentures are linked to the known CPI and bear interest at an annual rate of 4.7%, which is payable semiannually.

If, at the time of making any redemption/payment on account of the principal and of interest of the Series A or Series B debentures, it is found that the payment index is less than the base index (the CPI for July 2006), BSRE is required to make such payment according to the base index.

BSRE Series C Debentures

The BSRE Series C debentures are to be redeemed in eight non-equal annual installments on October 31 of each of the years 2011 to 2018, of which six installments each in the amount of 7.5% of the debentures' principal amount are to be redeemed on October 31 of each of the years 2011 to 2016, and two installments each in the amount of 27.5% of the debentures' principal amount are to be redeemed on October 31 of each of the years 2017 to 2018. The Series C debentures are linked to the known CPI and bear interest at an annual rate of 4.2% which is payable semiannually on April 30 and October 31 of each of the years 2010 to 2018.

If, at the time of making any redemption/payment on account of the principal and of interest of the Series C debentures, it is found that the payment index is less than the base index (the CPI for August 2009), BSRE is required to make such payment according to the base index.

For additional information on charges pertaining to the collateralized long-term loans, see note 19 to our consolidated financial statements.

Rating of BSRE Debentures

On July 27, 2006, S&P-Maalot rated the BSRE debentures (Series A and Series B) at "iIAA-".

On September 28, 2008, S&P-Maalot rated the BSRE debentures (Series B), with an increased principal amount of up to NIS 250 million, at "iIAA-/Stable".

On May 27, 2009, following the recent downgrading of the rating of Blue Square's debentures (Series A and Series B) to "iIA+/Stable", S&P-Maalot informed BSRE that it had placed BSRE's debentures (Series A and Series B) on "credit watch negative". On October 7, 2009, S&P-Maalot removed BSRE's debentures (Series A and Series B) from "credit watch negative" and downgraded the rating on the debentures (Series A and Series B) to "iIA+/Negative" and rated up to a principal amount of NIS 300 million Series C debentures "iIA+/Negative". S&P-Maalot believes that there is a significant correlation between the rating of our debentures and the rating of BSRE's debentures due to our significant holdings in BSRE (78.5% at the time of the S&P-Maalot notice) and due to the fact that we are a major lessee of BSRE's properties (our lease payments to BSRE generated approximately 85% of BSRE's rental income in 2009).

On October 7, 2009, Midroog rated BSRE's debentures (Series A and Series B) "A1/Stable" and rated up to a principal amount of NIS 300 million Series C debentures "A1/Stable". On June 2, 2010, Midroog changed the outlook on the rating of BSRE's debentures (Series A, Series B and Series C) to "A1/Negative" and rated "A1/Negative" up to an additional principal amount of NIS 100 million BSRE debentures.

Commitments for Capital Expenditures

As of December 31, 2009, we had entered into agreements for investments in fixtures, equipment and leasehold improvements in the total amount of approximately NIS 38.6 million, or \$10.2 million. We intend to finance these investments from cash generated by our operations and from loans from banks or other financial institutions.

In addition, we have commitments under our agreements with the Wholesale Market Company which were signed on June 3, 2010 and are subject to approval by the Israeli Minister of the Interior within 60 days from the date on which the agreements were signed. For further information regarding our agreement with the Wholesale Market Company, please see "Item 7. Major Shareholders and Related Party Transactions – Agreement with the Wholesale Market Company." We intend to finance these investments from cash generated by our operations and from loans from banks or other financial institutions. In addition, in connection with our proposed acquisition from Alon of all of Alon's approximately 80% holdings in Dor Alon, subject to satisfaction of closing conditions, we expect to issue to Alon an aggregate of 20,327,710 ordinary shares of Blue Square. See “Item 7. Major Shareholders and Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD."

C. Research and Development, Patents and Licenses.

Not applicable.

D. Trend Information.

Based on A.C. Nielsen and on data published by the Israeli Central Bureau of Statistics of the retail sales of food, drinks and tobacco in Israel, we estimate that approximately 37% of the total retail sales of food, beverages and tobacco in Israel in 2009 was made by the two large chains and approximately 46% of the estimated retail sales made by supermarkets, groceries and mini-markets in Israel in 2009 was made by the two large chains - a percentage that is considerably lower than the estimated market shares of the major supermarkets prevailing in Europe and the United States.

Accordingly, we believe that there is an opportunity for us to grow correspondingly with the general growth of the supermarket sector in Israel. In addition, we believe that we have an opportunity to grow in locations where we do not have a strong presence and in particular in the northern part of the country and in the Jerusalem area.

The food retailing industry has been subject to increased competition in recent years. Since the 2005 merger between Shufersal and ClubMarket, another major chain, we have faced a larger competitor, many of whose stores are characterized by the every day sale of products at low prices. Based on A.C. Nielsen, we estimate that Shufersal's market share was approximately 37.3% of the bar-coded market in Israel in 2009, as opposed to our own approximately 21.8% share of the bar-coded market in 2009.

In addition, as a result of consumers’ focus on the price of products, in recent years we and our competitors have established or expanded low-price and hard discount store formats. In 2009, very low-priced smaller supermarket chains continued to aggressively increase their market share and expand their presence in selected areas in Israel, often geographically beyond their original location. The increased competition has led to increased downward pressure on prices.

The global economic crisis and the resulting slowdown in the Israeli economy has impacted the food retail market by affecting the buying patterns of our customers, as more customers are shifting their purchases to low-price and hard discount stores, which have a lower profit margin. In response to these trends, in August 2007, we launched our Mega In Town store format to offer discount prices in neighborhood stores. In addition, in December 2008 we launched our Mega Bool heavy discount store format as well as our "Mega" line of private label goods that are sold in our "Mega Bool", "Mega In Town" and "Mega" stores. We expect to continue to expand our low-price and hard discount store formats and our sales of products under our "Mega" private label in 2010 in an effort to increase our market share.

In addition, during 2009, we launched a new membership card and a new "You" Mastercard credit card as part of our "You" loyalty club, which is designed to increase consumer traffic and encourage customers to patronage our stores.

In the past few years, we have witnessed a global trend of supermarkets specializing in organic and health products. In response to this trend, we purchased Eden Teva in October 2007, which operates a leading supermarket chain in Israel offering organic/health products. In 2009, we expanded the Eden Teva chain and it now includes nine stores. During 2010, we announced our intention to implement the second stage of our strategy to establish our Eden Teva format as the leader in Israel's organic/health food market by establishing Eden Teva branches within our existing large store formats under the concept of a "store within a store".

In order to compete effectively in the food retailing market, we believe we must identify new store locations and opportunities to expand and improve existing store locations. However, sales in new stores or in expanded or improved existing stores may increase at the expense of sales in other existing stores of ours due to geographical proximity. As the supermarket industry grows, the likelihood that sales of one store will adversely affect the sales of a nearby store increases.

In 2009, we opened 11 new stores and closed two stores to compete in selective areas in which we did not believe we had sufficient market presence, and we converted three Mega stores into Mega In Town stores. We also converted ten "Mega" and "Shefa Shuk" stores to the new brand “Mega Bool”. In addition, we plan to continue to remodel some of our supermarkets to give them a more “upscale” orientation, offering improved product selection and increased focus on customer service.

In 2010, we plan to open approximately six additional supermarkets, totaling approximately 8,000 square meters of store space, in localities whose populations are currently under-served by supermarkets or in localities in which we do not have sufficient market presence. In addition, in 2010, we plan to convert approximately three "Mega" supermarkets stores into "Mega Bool" stores. In 2010, until May 31, 2010, we opened four supermarket stores.

In 2010, we are taking action to further increase our market share of “Non-Food” and “Near-Food” products and to offer a wider selection of these products to consumers in our stores with the goal of increasing the portion of our customers’ overall shopping needs that are addressed in our stores. In addition, we intend to continue our expansion into the stand alone Non Food stores market by opening approximately 13 additional self-operating stores and nine additional stores operated by franchisees and to capitalize on potential synergies and an internal reorganization in order to improve our operating efficiency. In 2010, until May 31, 2010, we opened two self operating stores and six stores operated by franchisees.

In 2010, in order to improve our market share, we are looking to further broaden the variety of products offered under our private label and to improve our distribution capabilities by investing in a new distribution center.

In May 2010, we signed a share purchase agreement with our controlling shareholder, Alon, to acquire from Alon all of Alon's approximately 80% holdings in Dor Alon. Dor Alon is one of the four largest fuel retail companies in Israel based on the number of gas stations and is a leader in the convenience stores sector. The closing of the transaction is subject to satisfaction of closing conditions, including shareholder approval. The acquisition of Dor Alon would combine our and Dor Alon's retail operations into one group creating the largest retail group in Israel. Additionally, the acquisition could enable us to achieve a strong foothold in the convenience store sector and enable substantial synergies and cost savings when combining the retail platforms of both companies.

E. Off-Balance Sheet Arrangements.

None.

F. Tabular Disclosure of Contractual Obligations.

The following table sets forth certain information concerning our obligations and commitments to make future payments under contracts, such as debt and lease agreements:

	Expected Maturity (NIS in thousands)						2016 and thereafter	Total
	2010	2011	2012	2013	2014	2015		
Long term loans from banks (1)	131,512	114,607	95,520	75,943	32,211	33,003	245,437	728,233
Non Convertible Debentures issued by the Company (2) (3)	75,906	-	50,604	50,604	50,604	-	-	227,718
Convertible Debentures issued by the Company (2) (4)	-	15,093	-	-	-	-	-	15,093
Non-Convertible Debentures issued by BSRE (5) (6)	-	22,543	22,543	234,921	234,921	234,921	400,237	1,150,086
Convertible Debentures issued by BSRE (5) (6)	-	-	-	27,404	27,404	27,404	27,404	109,616
Short term credit from banks (7)	102,267	-	-	-	-	-	-	102,267
Commercial paper (8)	40,000	-	-	-	-	-	-	40,000
Put option granted to a minority interest	23,317	-	-	-	-	-	-	23,317
Purchase Obligations	55,757	-	-	-	-	-	-	55,757
Non-cancelable Long term leases	214,530	201,450	188,394	149,649	113,184	88,228	220,550	1,175,985
Total contractual cash obligations	643,289	353,693	357,061	538,521	458,324	383,556	893,628	3,628,072

- (1) The table above does not include payments of interest on our long-term loans because the actual interest payments on most of the loans are dependent on variable parameters, such as changes in the Israeli CPI, or variable interest rates which cannot be predicted at the date of this report. Without taking into account any changes in the Israeli CPI or changes in foreign currency rates and assuming the relevant variable interest rate will remain at its level as it was as of December 31, 2009 (5.3% per annum), interest payments on the long-term loans (in thousands) would be NIS 34,125 in 2010, NIS 28,023 in 2011, NIS 22,365 in 2012, NIS 17,589 in 2013, and NIS 14,734 in 2014, NIS 63,631 in 2015 and beyond.
- (2) These debentures bear interest at an annual rate of 5.9% and are linked (principal and interest) to the Israeli CPI, but in the event the Israeli CPI is less than the base index (index known at date of issuance), the amount of debentures will not be adjusted below the base index. Without taking into account any changes to the Israeli CPI, interest payments on the Non-Convertible Debentures (in thousands) would be NIS 13,435 in 2010, NIS 8,957 in 2011, NIS 8,981 in 2012, NIS 8,957 in 2013, and NIS 4,478 in 2014. Without taking into account any changes to the Israeli CPI, based on the principal amount of the Convertible Debentures as of December 31, 2009 and assuming no additional conversion of debentures, interest payments on the Convertible Debentures (in thousands) would be NIS 904 in 2010 and NIS 525 in 2011. The table above does not include payments of interest on our debentures because the actual interest payments on these debentures will depend on changes in the Israeli CPI, which cannot be predicted at the time of this report.
- (3) The principal is repayable in three equal annual installments on August 5 of each of the years 2012 to 2014. Notwithstanding the above, under the terms of the debentures, on August 5 of each of the years 2006, 2008 and 2010, the holders of the debentures are entitled to early redemption of the principal provided that on each of the said dates, we will not repay more than one third of the par value of the debentures outstanding as of that date. The table above assumes early redemption of these debentures.
- (4) Under the terms of these debentures, the principal is repayable in three equal installments on August 5 of each of the years 2007, 2009, and 2011.
- (5) The Non-Convertible Debentures and the Convertible Debentures (Series A, Series B and Series C) bear interest at an annual rate of 6.25%, 4.7% and 4.2%, respectively, and are linked (principal and interest) to the Israeli CPI, but in the event the Israeli CPI is less than the base index (index known at date of issuance), the amount of debentures will not be adjusted below the base index. Without taking into account any changes to the Israeli CPI, interest payments on the Non-Convertible Debentures (in thousands) would be NIS 52,932 in 2010, NIS 52,551 in 2011, NIS 51,746 in 2012, NIS 50,658 in 2013, NIS 39,729 in 2014, NIS 57,136 in 2015. Without taking into account any changes to the Israeli CPI, based on the principal amount of the Convertible Debentures as of December 31, 2009 and assuming no additional conversion of debentures, interest payments on the Convertible Debentures (in thousands) would be NIS 6,851 in each of the years 2010 to 2011, NIS 6,870 in 2012, NIS 6,851 in 2013, and NIS 5,138 in 2014, NIS 3,425 in 2015 and NIS 1,717 in 2016. The table above does not include payments of interest on our debentures because the actual interest payments on these debentures will depend on changes in the Israeli CPI, which cannot be predicted at the time of this report.

- (6) The principal of the debentures (Series A and Series B) are repayable in four equal annual installments on August 31 of each of the years 2013 to 2016. The principal of the debentures (Series C) is repayable in eight non-equal annual installments on October 31 of each of the years 2011 to 2018 (inclusive), where six installments each constituting 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 on October 1 of each of the years 2017 and 2018.
- (7) The table above does not include interest on our short term credit from banks (2009: 3.6% per year).
- (8) On June 30, 2009, the Company issued commercial paper to institutional investors in an amount of NIS 40 million for a period of four years. The commercial paper bears annual interest at a variable rate equal to the Bank of Israel Interest Rate plus 1.5%, payable semi-annually beginning on December 30, 2009. The average annual interest rate for the six months ended December 31, 2009 was 2.21%. Therefore, the table above does not include the amount of interest on commercial paper. The principal of the commercial paper is repayable every six months at the demand of the holders, but in any event, the last repayment date of the principal will be June 28, 2013.
- * The table above does not include severance payment obligations because the actual severance payments will depend on the dates of payment, which cannot be predicted at the time of this report.
- ** The table above does not include a provision for uncertain tax positions in the amount of NIS 4.2 million.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management.

The following table lists the name, age and position of the directors and senior management of Blue Square and two officers of our subsidiaries as of June 15, 2010.

Name	Age	Position
David Wiessman (1)	55	Executive Chairman of the Board of Directors
Yitzhak Bader	64	Director
Shlomo Even	53	Director
Diana Bogoslavsky	51	Director
David Alphandary (2) (3)	75	Director
Uzi Baram (1) (2) (3)	73	Director
Avraham Meron (2)	71	Director
Zeev Vurembrand	59	President and Chief Executive Officer
Dror Moran	42	Vice President and Chief Financial Officer and General Manager of "You" Club
Ilan Buchris	58	Vice President Logistics, Planning and Maintenance Division
Gershon Wissman	51	Vice President Trade
Elli Levinson Sela	43	General Counsel and Corporate Secretary
Moshe Shatz	62	Head of Human Resources Division
Oren Lahat	63	Head of Real Estate Development Division
Odelia Levanon	47	Head of Information Technology Division
Shai Almog	44	Head of Marketing Division
Ittay Hazan	35	Head of Strategy Division
Eliezer Gayer	53	“Mega” and “Mega In Town” Manager
Rafi Masiach	51	“Mega Bool” and “Shefa Shuk” Manager
Zeév Stein	57	Chief Executive Officer of Blue Square Real Estate Ltd.
Shmuel Enchel	53	Chief Executive Officer of Bee Group

- (1) Member of the Compensation Committee.
(2) Member of the Audit Committee.
(3) External directors.

David Wiessman has served as Executive Chairman of our board of directors from November 15, 2005 and as the Vice Chairman of our board of directors from June 2003. Mr. Wiessman is also the Chairman of the board of directors of Mega Retail from March 12, 2007 and the Chairman of the board of directors of BSRE from December 21, 2005. In addition, Mr. Wiessman is currently the President and Chief Executive Officer of Alon Israel Oil Company Ltd. and President and Active Joint Chairman of the Board of Directors of Dor-Alon Energy In Israel (1988) LTD., Chief Executive Officer of Bielsol Investments (1987) Ltd., Chairman of the board of directors of Alon Retail, Executive Chairman of Alon U.S.A. Energy, Inc., Director of Rosebud Real Estate Ltd., and holds director and/or officer positions in other companies affiliated with the foregoing Alon entities, both in Israel and the United States. In addition, Mr. Wiessman also serves as a director in other companies not affiliated with Alon Israel Oil Company Ltd., or with Alon USA Inc. Mr. Wiessman is a member of the Compensation Committee of Blue Square.

Yitzhak Bader has served as our director from June 2003. Mr. Bader is currently Chief Executive Officer of Granot, a purchasing organization of the kibbutzim. He is also Chairman of the board of directors of Alon Israel Oil Company Ltd. and Joint Chairman of Dor-Alon Energy In Israel (1988) LTD., and a director in the following companies: Alon Retail, Mega Retail, Dor Gas Ltd., Dor Alon Operating Service Stations Ltd., Dor Alon Gas Technologies Ltd., Alon USA Energy, Inc., Alon USA Operating, Inc., Alon USA GP, LLC, Alon USA Capital Inc., Alon Assets Inc., Alon USA Inc., BSRE, Pizza Hut Israel (2002) Limited Partnership, Pri-Gat Ltd., Rimon Counseling and Management Services Ltd., Meiram Water and Infrastructures Ltd., various entities under control of Granot, and One Technologies Software (ASD) Ltd.

Shlomo Even has served as our director since June 2003. Mr. Even is currently a certified accountant and partner of the accounting firm of Tiroshi Even, and a director of the following companies: Super Sol Bielsol Investments Ltd., Alon Israel Oil Company Ltd., Dor-Alon Energy In Israel (1988) LTD., Rosebud Real Estate Ltd., Alon Dor Operating Service Stations Ltd., Dor Gas Ltd., Dor Alon Gas Technologies Ltd., Alon USA Energy Inc., Alon USA Operating Inc., Alon USA GP LLC, Alon USA Capital Inc., Alon Assets Inc. and Alon USA Inc. Mr. Even holds a B.A. degree in Accounting and Economics from Bar-Ilan University.

Diana Bogoslavsky has served as our director since March 2006. She has served as the Chief Executive Officer of Mishkei Emek Hayarden and the Regional Plants since 2005. From 1996 to 2004, Ms. Bogoslavsky served as Manager of the Economic Department of Brit Hapikuach (the Supervision Alliance). From 2000 to 2004, Ms. Bogoslavsky also served as a member of the management of Brit Hapikuach and as the Chairman of the board of directors of Jenny Company, a subsidiary of Brit Hapikuach. From 1993 to 1996, Ms. Bogoslavsky served as Bank Mizrahi representative in Argentina. Ms. Bogoslavsky currently serves as a director in the Union of the Kibbutzim Industry, in Dor-Alon Energy In Israel (1988) LTD. and in several others companies. Ms. Bogoslavsky holds a Masters degree in Economics and Business Management (specializing in financing) and B.A. in Economics and Administration from Midreshet Rupin in the Hefer Valley in Israel.

David Alphandary has served as our external director since March 2006. He currently serves as an independent consultant to the retail industry. From 1991 to 1999, Mr. Alphandary served as President and Chief Executive Officer of Shufersal Ltd. and from 1982 to 1991 as Vice President to Shufersal. From 1976 to 1982, Mr. Alphandary served as President of Carmel Carpeting Industry in Ceasaria, Israel. He currently serves as a director of Yafora Tavori Ltd. Mr. Alphandary holds a degree in Public Administration from the Hebrew University in Jerusalem. Mr. Alphandary is a member and the Chairman of the Audit Committee of Blue Square.

Uzi Baram has served as our external director since March 2006. He served as a member of Israel’s parliament, the Knesset, from 1977 to 2001. He served as the Minister of Tourism of Israel from 1992 to 1996, and from February 1993 to August 1995 he served as the Minister of Interior Affairs of Israel. He currently serves as a director of Master Plan, a company for strategic communication consulting, and of Bank Otsar Ha-Hayal. Mr. Baram holds a degree in Political Sciences and Sociology from the Hebrew University in Jerusalem. Mr. Baram is a member of the Audit Committee and the Compensation Committee of Blue Square.

Avraham Meron has served as our director and member of the audit committee since August 20, 2007. Mr. Meron is currently an independent advisor and is an external director in Africa Israel Properties Ltd., a director in Discount Mortgage Bank Ltd., a member of the investments committee in Clal Finance group, and a director in A.I. America Israel Investments Ltd. For a period of 13 years, until October 2005, Mr. Meron served as senior vice president-finance of Africa Israel Investments Ltd. Mr. Meron also served as a director of Africa Israel’s subsidiaries, including Alon Oil Company group, the controlling shareholder of Blue Square. Mr. Meron is a CPA and holds a degree in Accounting from the Hebrew University of Jerusalem.

Zeev Vurembrand has served as our Chief Executive Officer and President since March 2008. From September 2007 to February 2008, Mr. Vurembrand served as the Deputy to the Chief Executive Officer of The Phoenix Holding Ltd., and as the Chief Executive Officer of the Phoenix Investment and Finance Ltd. From 2002 to 2007 Mr. Vurembrand served as the Chief Executive Officer (and as the Chairman of the board of directors of various subsidiaries) of Clalit Health Services Group. Mr. Vurembrand also serves as a director and the chairman of the balance sheet committee of Israel Discount Bank Ltd., and as a director in U-Bank in Israel. Mr. Vurembrand holds a B.Sc. degree in Industrial Engineering and Management from the Technion (the Israeli Institute of Technology).

Dror Moran has served as our Vice President and Chief Financial Officer, since July 2006, and the General Manager of "You" Club, since June, 2009. Mr. Moran is a CPA and received a Bachelor of Business, Accounting and Finance from the College of Management Academic Studies in Tel Aviv. Mr. Moran was employed by Blue Square between 1997 and 2005 and his last position with Blue Square was Deputy CFO. Between April 2005 and June 2006, Mr. Moran served as Chief Financial Officer and as Deputy CFO of InSightec Ltd., a high-tech company.

Ilan Buchris has served as our Vice President of Logistics, Planning and Maintenance Division since November 2004. Mr. Buchris, Colonel (retired) in the Israeli Navy, holds a M.A. degree in Political Science from Haifa University and a B.A. degree in settlement geography from Bar Ilan University. Between 2000 and 2004 Mr. Buchris served as Authorities Coordinator at Derech Eretz Highways (1997) Ltd.

Gershon Wissman was appointed as our Vice President of Trade, as of March 2009. Prior to that, he served as our Head of Trade Division and a member of management, beginning in August 2008. From 2002 to 2005, Mr. Wissman served as the Vice President for Trade and Marketing and a member of management of the ClubMarket Chain. From 1992 to 2002, Mr. Wissman served in various capacities in our Trade Division, including as Manager of the Grocery Product Category and as Manager of Store Formats. Mr. Wissman holds a B.A. in Economics and Business from Haifa University.

Elli Levinson-Sela, Adv. has served as our General Counsel and Corporate Secretary since February 2006. Prior to joining us, Mr. Levinson-Sela had more then 13 years of experience in private legal practice of commercial, corporate and civil law. He holds a LL.B. degree (*with honors*) from the Hebrew University in Jerusalem and is a member of the Israeli Bar Association.

Moshe Shatz has served as our head of the Human Resources Division since November 2003. Mr. Shatz served as a Vice President of Human Resources and Administration in the Tel-Aviv Municipality from 1999 until today. From 1993 to 1998, he served as the manager of personnel and administration division of UMI - Universal Motors Israel Ltd. Mr. Shatz holds a B.A. in Political Science from Bar Ilan University.

Oren Lahat has served as our head of Real Estate Development Division since May 2004. Prior to that, he served from 1992-2003 as Head of the Stations Development Division and a member of the managing team of Sonol Israel Ltd.

Odelia Levanon has served as our Chief Information Officer since April 2000. From 1998 to 2000, Ms. Levanon served as assistant director general for system integration in Amigur. From 1996 to 1998, Ms. Levanon was a consultant engaged in the establishment process of Data Warehouse and is an external lecturer in Business Administration and Exact Sciences at Tel Aviv University. Between the years 1983 and 1996, Ms. Levanon served in the Israeli army. During her army service between the years 1983 and 1994, Ms. Levanon managed the establishment of large systems in a heterogeneous surrounding. From 1994 to 1996, Ms. Levanon managed the computerization of the five draft centers of the Israeli Army, a project that won the Adams prize for management information systems. Ms. Levanon has an M.Sc. degree in computer science, a B.Sc. degree in mathematics and computer science, and also is a lecturer and a candidate for a doctorate in business school.

Shai Almog has served as our Head of Marketing Division since June 10, 2008. Prior to that, Mr. Almog served as Head of Marketing and Customers Relations in Clalit Health Services Ltd., from 2003 to 2008, and as Head of Coordination Division and CEO Consultant from 2001 to 2003. Mr. Almog holds a B.A. degree in Economic and Management and an MBA degree, both from the Bar Ilan University.

Ittay Hazan has served as our Head of Strategy Division since March 2010. Mr. Hazan has been employed by Blue Square since July 2008 as Business Assistant to the CEO. Between August 2005 and June 2008, Mr. Hazan served as Business Controller of Microsoft Israel Ltd. Mr. Hazan also served as Senior Business Consultant, between April 2001 and July 2005, at the consulting division of Ernst & Young Israel Ltd. Mr. Hazan is a CPA and holds MBA & BB degrees in Accounting and Finance from the College of Management Academic Studies in Rishon Le'Zion.

Eliezer Gayer has served as our "Mega" Manager since March 2009 and as our “Mega In Town” (previously SuperCenter) Manager since September 2005. From November 2004 to September 2005, Mr. Gayer served as the then “Super Center” Operation Manager in the Company, from 1999 to 2004, he served as a District Manager, from 1995 to 1999 he served as a Regional Manager and from 1989 to 1995, he served as a store Manager.

Rafi Masiach has served as our “Mega Bool” Manager since December 2008 (upon its launch) and as our “Shefa Shuk” Manager since April 2008. From September 2005 to February 2009, Mr. Masiach served as "Mega" Manager. From November 2004 to September 2005, Mr. Masiach served as a “Mega” Operation Manager, from 1999 to 2004, he served as a District Manager in the Company, from 1996 to 1999, he served as a Regional Manager, and from 1991 to 1996, he served as a store manager. Mr. Masiach holds a degree in Political Science and International Relations from the Israeli Defense Force College of Command and Headquarters.

Zeév Stein has served as the Chief Executive Officer of Blue Square Real Estate Ltd., since July 2006. Mr. Stein is currently also the Deputy to the Chief Executive Officer of Dor-Alon Energy In Israel (1988) LTD. (25% of his working time) and also serves as a director in various companies affiliated with Alon Group. Until December 2004, Mr. Stein served as Vice President of Planning and Development in Alon Israel Oil Company Ltd. Mr. Stein holds a B.Sc. degree in Civil Engineering and a degree in Architecture and Urban Design Planning from the Technion (Israel Institute of Technology) in Haifa.

Shmuel Enchel has served as the Chief Executive Officer of Bee Group since September 2008. From 1995 to 2007, Mr. Enchel served as the Chief Executive Officer of Ten Petroleum Company Ltd. Between 1994 and 1995, he served as the Chief Executive Officer of Prostiv Ltd.

Arrangements for the Election of Directors

As of May 31, 2010, Alon Retail owned approximately 68.62% of our outstanding ordinary shares. So long as Alon Retail continues to own beneficially more than 50% of our outstanding ordinary shares and voting power, it will be able to control the outcome of matters requiring shareholder approval that do not require a special majority, including the election of all Blue Square directors, other than Blue Square's two external directors whose election, under the Israeli companies law, requires that at least one-third of the non-controlling shareholders who participate in the vote, vote for their nomination, or that the total number of shares of non-controlling shareholders voted against their nomination does not exceed one percent of the aggregate voting rights in the company.

B. Compensation.

The following table sets forth the aggregate compensation we paid or accrued on behalf of all persons who served as Blue Square directors or senior management for services they rendered Blue Square and its subsidiaries, for the year ended December 31, 2009. The table also includes compensation to individuals who ceased to serve as directors or executive officers during the year.

	Salaries, fees, expenses, directors' fees, commissions and bonuses (in thousands)	Pension, retirement and similar benefits (in thousands)
All directors, senior management and Acting Chairman as a group	\$ 5,949 (NIS 22,459)	\$ 423 (NIS 1,597)

In addition, we recorded the sum of approximately NIS 6.2 million, or \$1.6 million, in 2009 as a compensation cost related to the options granted to our senior management under our share option plan.

In April 2008, we agreed to pay to each director (including our external directors and expert external directors) other than the Chairman of the board of directors, the sum of NIS 97,500 per year and a meeting attendance fee of NIS 3,660, which amounts are equivalent to the amounts allowed to be paid to external directors of companies of comparable size under the second, third and fourth supplements to the Companies Regulations. The fees referred to above will be adjusted from time to time based on changes to the Israeli Consumer Price Index in the same manner as the fees described in the Regulations are adjusted. The directors would also be entitled to reimbursement of expenses incurred by them in connection with their service as directors.

We also agreed to pay David Wiessman, our Executive Chairman of the board of directors, a monthly payment of NIS 42,497 plus VAT commencing from November 15, 2005, the date Mr. Wiessman became Executive Chairman of the board of directors. The compensation is linked to changes in Israel’s CPI since November 2005, and is updated every three months. No additional fees would be paid to Mr. Wiessman for attending meetings of the board of directors or any committee of the board of directors. Mr. Wiessman is also entitled to reimbursement of actual expenses (upon submission of receipts) incurred by him in connection with his service as Executive Chairman of the board of directors. Our audit committee, board of directors and shareholders meeting approved this arrangement.

BSRE paid to its CEO, Mr. Zeev Stein, for the year 2009 a total payment which cost BSRE approximately NIS 1,945,000 (including an annual bonus). Under his employment agreement, Mr. Stein is entitled to a salary and customary fringe benefits, including a car lease and social benefits. In addition, Mr. Stein is entitled to severance compensation in excess of that which is required under law (200% of required severance in the case of dismissal and 175% of required severance in case of voluntary termination by Mr. Stein). Mr. Stein also serves as Deputy CEO of Dor Alon, a subsidiary of Alon, our indirect controlling shareholder. The scope of Mr. Stein's position in Dor Alon is limited to 25% and to the extent that such position does not place him in conflict of interest with BSRE. As part of this arrangement, the scope of Mr. Stein's position as CEO of BSRE is limited to 75% and does not include a fixed hour requirement.

In March 2008, the Company granted 2,200,000 options to executive officers with an exercise price of NIS 39.06 (unlinked) per share, in May 2008, the Company granted 140,000 options to executive officers with an exercise price of NIS 39.06 (unlinked) per share, in August 2008, the Company granted 100,000 options to managers with an exercise price of NIS 39.06 (unlinked) per share, in March 2010, the Company granted 20,000 options to executive officers with an exercise price of NIS 47.70 (unlinked) per share and in March 15, 2010, the Company granted 274,000 options to managers with an exercise price of NIS 47.70 (unlinked) per share.

The vesting periods for the options are 66.7% at the end of two years from the date of grant and the remaining 33.3% at the end of three years from the date of grant. The options issued to executive officers and managers may be exercised during the six month period from the end of the vesting period, and options not exercised during this period will expire.

In January 2010, our indirect controlling shareholder, Alon, granted an option to D.B.W Investments Ltd. a company controlled by Mr. David Weissman, Alon's president and our Executive Chairman of the Board, to purchase 766,020 of our shares held by Alon, representing approximately 1.72% of our outstanding shares, as of May 31, 2010. The option is exercisable in five equal portions at the end of each calendar year from 2010 until 2014 and for a period of 18 months from the time each portion becomes exercisable.

C. Board Practices

Appointment of Directors and Terms of Officers

Our directors, other than our external directors, are elected by our shareholders at an annual general shareholders’ meeting and hold office until the next annual general shareholders’ meeting which is required to be held at least once in every calendar year, but not more than fifteen months after the last preceding annual general shareholders’ meeting. Until the next annual general shareholders’ meeting, the board of directors or shareholders may elect new directors to fill vacancies on, or increase the number of, members of the board of directors in a special meeting of the shareholders. Our board of directors may appoint any other person as a director. Any director so appointed may hold office until the first general shareholders’ meeting convened after the appointment and may be re-elected.

Pursuant to a recent amendment to the Israeli Companies Law, 1999, one may not be elected and may not serve as a director in a public company if he or she does not have the required qualifications and the ability to dedicate an appropriate amount of time for the performance of his duties as a director in the company, taking into consideration, among other things, the special needs and size of the company. In addition, a public company may convene an annual general meeting of shareholders to elect a director, and may elect such director, only if prior to such shareholders meeting, the nominee declares, among other things, that he possess all of the required qualifications to serve as a director (and lists such qualifications in such declaration) and that he has the ability to dedicate an appropriate amount of time for the performance of his duties as a director of the company. The above requirements do not apply to directors appointed prior to September 29, 2008.

The terms of office of the directors must be approved, under the Israeli Companies Law, by the audit committee, the board of directors and the shareholders meeting. The appointment and terms of office of all our officers, other than directors and the general manager (Chief Executive Officer), are determined by the general manager, subject to the approval of our board of directors, audit committee and/or compensation committee.

We and our subsidiaries have no service contract with any of our directors that provide for benefits upon termination of their employment as directors.

Substitute Directors

Our Articles of Association provide that any director may appoint another person to serve as a substitute director and may cancel such appointment. The identity of a substitute director requires the approval of the board of directors. Under the Israeli Companies Law, a person who is not himself qualified to be appointed as a director, a person who is already serving as a director or a person who is already serving as a substitute director for another director, may not be appointed as a substitute director. Nevertheless, a director who is already serving as a director may be appointed as a substitute director for a committee of the board of directors so long as (s)he is not already serving as a member of such committee, and if the substitute director is to replace an external director, (s)he is required to qualify as an external director and to have either “financial and accounting expertise” or “professional expertise”, depending on the qualifications of the external director (s)he is replacing. Otherwise, a substitute director cannot be appointed as an external director.

The term of appointment of a substitute director may be for one meeting of the board of directors or until notice is given of the cancellation of the appointment. To our knowledge, no director currently intends to appoint any other person as a substitute director, except if the director is unable to attend a meeting of the board of directors.

Independent and External Directors

Israeli Companies Law Requirements

We are subject to the provisions of the Israeli Companies Law, which became effective on February 1, 2000. The Minister of Justice has adopted regulations exempting companies, like Blue Square, whose shares are traded outside of Israel, from some provisions of the Israeli Companies Law.

Under the Israeli Companies Law, companies incorporated under the laws of Israel whose shares are either (i) listed for trading on a stock exchange or (ii) have been offered to the public in or outside of Israel, and are held by the public (Public Company) are required to appoint at least two external directors. The Israeli Companies Law provides that a person may not be appointed as an external director if the person or the person’s relative, partner, employer, someone to whom he is subordinated or any entity under the person’s control, has, as of the date of the person’s appointment to serve as external director, or had, during the two years preceding that date, any affiliation with us, any entity controlling us or any entity controlled by or under common control with us. The term “affiliation” includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder, other than service as a director who was appointed in order to serve as an external director of a company when such company was about to make an initial public offering.

Regulations under the Israeli Companies Law, effective as of November 2006, provide for various instances and kinds of relationships in which an external director will not be deemed to have “affiliation” with the public company for which (s)he serves, or is a candidate for serving as an external director.

No person can serve as an external director if the person’s position or other business create, or may create, conflict of interests with the person’s responsibilities as an external director or may impair his ability to serve as a director. Until the lapse of two years from termination of office, a company may not engage an external director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

Under the Companies Law, at least one of the external directors is required to have “financial and accounting expertise” and the other external director (s) are required to have “professional expertise”. Under regulations, a director having financial and accounting expertise is a person who, due to his or her education, experience and qualifications is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him or her to understand in depth the company’s financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree in an area relevant to the main business sector of the company or in a relevant area for the board position, or has at least five years experience in a senior management position in the business of a corporation with a substantial scope of business, in a senior position in the public service or a senior position in the field of the company’s business.

Under the Companies Law, each Israeli public company is required to determine the minimum number of directors with “accounting and financial expertise” that such company believes is appropriate in light of the company’s size, the scope and complexity of its activities and other factors. Once a company has made this determination, it must ensure that the necessary appointments to the board are made in accordance with this determination. Our board of directors determined that two directors with “accounting and financial expertise” is appropriate for the Company. Our board of directors currently has at least two directors with such “accounting and financial expertise”.

External directors are to be elected by a majority vote at a shareholders’ meeting, provided that either (1) the majority of shares voted at the meeting, including at least one-third of the shares of non-controlling shareholders (as defined in the Israeli Companies Law) voted at the meeting, vote in favor of the election of the director without taking abstentions into account; or (2) the total number of shares of non-controlling shareholders voted against the election of the external director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for one additional three-year term. Nevertheless, Regulations under the Israeli Companies Law provide that companies, like Blue Square (whose shares are listed for trading both on the Tel Aviv Stock Exchange and on the New York Stock Exchange), may appoint an external director for additional three-year terms, under certain circumstances and conditions. External directors may be removed only in a general meeting, by the same percentage of shareholders as is required for their election, or by a court, and in both cases only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to us. Each committee of our board of directors is required to include at least one external director and our audit committee is required to include all of the external directors.

David Alphandary and Uzi Baram currently serve as Blue Square's external directors.

New York Stock Exchange Requirements

See below “- Audit Committees - New York Stock Exchange Requirements” for a description of the independence requirements for audit committee members under applicable NYSE rules.

Audit Committees

Israeli Companies Law Requirements

Under the Israeli Companies Law, the board of directors of a public company must appoint an audit committee, comprised of at least three directors including all of the external directors, but excluding a:

- chairman of the board of directors;
- controlling shareholder or his relative; and
- any director employed by or who provides services to the company on a regular basis.

The role of the audit committee is to examine flaws in the business management of ours, in consultation with the internal auditor and our independent accountants and suggest appropriate course of action in order to correct such flaws. In addition, the approval of the audit committee is required to effect specified actions and transactions with interested parties.

An interested party is defined in the Israeli Companies Law as a 5% or greater shareholder, any person or entity who has the right to designate one director or more or the general manager of ours or any person who serves as a director or as a general manager.

An audit committee may not approve an action or a transaction with an interested party (including officers) unless at the time of approval the two external directors are serving as members of the audit committee and at least one of whom was present at the meeting in which an approval was granted.

New York Stock Exchange Requirements

Under New York Stock Exchange rules, Blue Square is required to maintain an audit committee consisting only of independent directors.

The independence requirements of Rule 10A-3 of the 1934 Act implement two basic criteria for determining independence: (i) audit committee members are barred from accepting directly or indirectly any consulting, advisory or other compensatory fee from the issuer or an affiliate of the issuer, other than in the member's capacity as a member of the board of directors and any board committee, and (ii) audit committee members may not be an "affiliated person" of the issuer or any subsidiary of the issuer apart from his or her capacity as a member of the board and any board committee.

The Securities and Exchange Commission (“SEC”) has defined "affiliate" for non-investment companies as "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified." The term "control" is intended to be consistent with the other definitions of this term under the Securities Exchange Act of 1934, as "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise." A safe harbor has been adopted by the SEC, under which a person who is not an executive officer or 10% shareholder of the issuer would be deemed not to have control of the issuer. The SEC has also provided certain limited exceptions for an audit committee member, who also sits on the board of directors of an affiliate to a listed issuer, so long as, except for being a director on such board of directors, the audit committee member otherwise meets the independence requirements for each entity.

The role of the audit committee for New York Stock Exchange purposes includes assisting the board of directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of Blue Square.

Corporate Governance Practices

Internal Auditor

Under the Israeli Companies Law, the board of directors must also appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine whether our actions comply with the law, integrity and orderly business procedure. Under the Israeli Companies Law, the internal auditor may not be an interested party, an office holder, or a relative of an interested party, or an office holder, nor may the internal auditor be our independent accountant or its representative. We comply with this requirement. Mr. Gershon Lewinsky serves as our internal auditor.

Duties of Office Holders and Approval of Specified Related Party Transactions Under Israeli Law

Fiduciary Duties of Office Holders

The Israeli Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company, including directors and executive officers. The duty of care requires an office holder to act with the level of care, which a reasonable office holder in the same position would have acted under the same circumstances.

The duty of care includes a duty to use reasonable means to obtain:

- information on the appropriateness of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to the previous actions.

The duty of loyalty of an office holder includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and his personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from usurping any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to a company’s affairs which the office holder has received due to his position as an office holder.

Under the Israeli Companies Law, directors’ compensation arrangements require audit committee approval, board of directors’ approval and shareholder approval.

The Israeli Companies Law requires that an office holder of a company promptly disclose any personal interest that he may have and all related material information known to him, in connection with any existing or proposed transaction by the company. A personal interest of an office holder includes an interest of a company in which the office holder is, directly or indirectly, a 5% or greater shareholder, director or general manager, or in which he or she has the right to appoint at least one director or the general manager. In the case of an extraordinary transaction, the office holder’s duty to disclose applies also to a personal interest of the office holder’s relative. The office holder must also disclose any personal interest held by the office holder’s spouse, siblings, parents, grandparents, descendants, spouse’s descendants and the spouses of any of the foregoing.

Under Israeli law, an extraordinary transaction is a transaction:

- other than in the ordinary course of business;
- other than on market terms; or
- that is likely to have a material impact on the company’s profitability, assets or liabilities.

Under the Israeli Companies Law, once an office holder complies with the above disclosure requirement, the board of directors may approve a transaction between the company and an office holder, or a third party in which an office holder has a personal interest, unless the articles of association provide otherwise. A transaction that is adverse to the company’s interest cannot be approved.

If the transaction is an extraordinary transaction, both the audit committee and the board of directors must approve the transaction. Under specific circumstances, shareholders approval may also be required. A director who has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter. If the majority of the directors have a personal interest in a matter, a director who has the personal interest in this matter may be present at this meeting or vote on this matter, but the board of directors decision requires the shareholder approval.

Controlling Shareholder Transactions and Actions

Under the Israeli Companies Law, the disclosure requirements which apply to an office holder also apply to a controlling shareholder of a public company and to a person who would become a controlling shareholder as a result of a private placement. A controlling shareholder includes a shareholder that holds 25% or more of the voting rights in a public company if no other shareholder owns more than 50% of the voting rights in the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, and the terms of compensation of a controlling shareholder or his relative, require the approval of the audit committee, the board of directors and the shareholders of the company. The shareholders approval must include either:

- at least one-third of the shareholders who have no personal interest in the transaction and who are participating in the voting, in person, by proxy or by written ballot, at the meeting; or
- The total number of shares voted against the proposal by shareholders without a personal interest does not exceed one percent (1%) of the aggregate voting rights in the Company.

For information concerning the direct and indirect personal interests of certain of our office holders and principal shareholders in certain transactions with us, see “Item 7. Major Shareholders – B. Related Party Transactions.”

The Israeli Companies Law requires that every shareholder that participates, either by proxy or in person, in a vote regarding a transaction with a controlling shareholder indicate whether or not that shareholder has a personal interest in the vote in question, the failure of which results in the invalidation of that shareholder’s vote.

However, under Regulations, promulgated pursuant to the Israeli Companies Law, certain transactions between a company and its controlling shareholder(s) (or the controlling shareholder’s relative) do not require shareholder approval.

The Israeli Companies Law further provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of 45% of the voting rights of the company, unless there is a holder of more than 45% of the voting rights of the company or would become a holder of 25% of the voting rights unless there is another person holding 25% of the voting rights. This restriction does not apply to: (i) an acquisition of shares in a private placement, if the acquisition had been approved in a shareholders meeting under certain circumstances; (ii) an acquisition of shares from a holder of at least 25% of the voting rights, as a result of which a person would become a holder of at least 25% of the voting rights; and (iii) an acquisition of shares from a holder of more than 45% of the voting rights, as a result of which the acquirer would become a holder of more than 45% of the voting rights in the company.

Regulations under the Israeli Companies Law provide that the Israeli Companies Law’s tender offer rules do not apply to a company whose shares are publicly traded outside of Israel, if, pursuant to the applicable foreign securities laws or stock exchange rules, there is a restriction on the acquisition of any level of control of the company, or if the acquisition of any level of control of the company requires the purchaser to make a tender offer to the public shareholders. It is the view of the Israeli Securities Authority, that U.S. securities laws and stock exchange rules do not impose the required restriction on the acquisition of any level of control of a company, and therefore the Israeli Companies Law’s tender offer rules would apply to a company whose shares are publicly traded in the United States.

The Israeli Companies Law further provides that a shareholder shall refrain from oppressing other shareholders. In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company’s Articles of Association, has the power to appoint or prevent the appointment of an office holder in the company, or has any other power over the company, is under a duty to act with fairness towards the company. Under the Companies Law, the laws that apply to a breach of a contract will generally also apply to a breach of duty of fairness.

Exemption, Insurance and Indemnification of Directors and Officers

Office Holder Exemption

Under the Israeli Companies Law, a company may not exempt an officer or director (each, an "Office Holder") from liability with respect to a breach of his duty of loyalty, but may exempt in advance an Office Holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care (except in connection with a distribution made by the company) if so provided in its articles of association. Our Articles of Association so provide.

Following approval by our audit committee and board of directors, on June 12, 2008 our shareholders approved a resolution exempting the Company's directors and officers, including any of the Company's controlling shareholders who serve as directors or officers of the Company, to the fullest extent permitted by law, from liability towards the Company with respect to any damage caused or that will be caused to the Company by its directors and officers as a result of a breach of their duty of care toward the Company or following a bona fide action taken by them in the connection with their position in the Company, including actions taken while serving as directors or officers in another company, in connection with their position in the Company.

BSRE had previously approved a prospective (in advance) exemption to BSRE's directors and officers from liability for damage resulting from a breach of his duty of care towards BSRE in connection with actions taken in good faith in their capacity as a director and/or officer of BSRE or in their capacity as an officer of another company at the request of BSRE.

Office Holder Insurance

The Israeli Companies Law and our Articles of Association provide that, subject to the provisions of the Israeli Companies Law, we may enter into a contract for the insurance of the liability of any of our Office Holders with respect to:

- a breach of such Office Holder's duty of care to the Company or to another person;
- a breach of such Office Holder's duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that his act would not prejudice the Company’s interests;
- a financial liability imposed upon such Office Holder in favor of another person concerning an act performed by him in his capacity as an Office Holder; or
- a breach of any duty or any other obligation, to the extent insurance may be permitting by law.

Pursuant to resolutions adopted by our shareholders, we obtained and will continue to hold a directors’ and officers’ liability insurance policy. Coverage under our policy has been set at \$30 million (including our subsidiaries, excluding BSRE). We have purchased a directors’ and officers’ liability insurance policy for our directors and officers and those of our subsidiaries, which includes Mega Retail and its subsidiaries. The insurance policy is for a period beginning on December 1, 2009, and ending on November 30, 2010, for the maximum coverage of \$30 million per claim and in the aggregate during the policy period. Our audit committee, board of directors and shareholders have approved any renewal and/or extension of the insurance policy and the purchase of any other insurance policy, provided that any such renewal, extension or purchase is for the benefit of the Company’s previous and/or current and/or future directors and officers and on terms substantially similar to those of the insurance policy and on condition that the premium will not increase by more than 25% in any year, as compared to the previous year. Our current insurance policies comply with these terms.

BSRE has obtained a separate directors’ and officers’ liability insurance policy with coverage of \$15 million per claim and in the aggregate during the insurance policy term (beginning on December 1, 2009 and ending on November 30, 2010).

Indemnification of Office Holders

The Israeli Companies Law provides that a company may indemnify an Office Holder for the following liabilities or expenses imposed on him as a result of an act performed in his capacity as an Office Holder of the company, provided the company's articles of association include the following provisions with respect to indemnification:

- a provision authorizing the company to indemnify an Office Holder for future events with respect to a monetary liability imposed on him in favor of another person pursuant to a judgment (including a judgment given in a settlement or an arbitrator’s award approved by the court), so long as such indemnification is limited to types of events which, in the board of directors' opinion, are foreseeable at the time of granting the indemnity undertaking in view of the company’s actual business, and in such amount or standard as the board of directors deems reasonable under the circumstances. Such undertaking must specify the events that, in the board of directors’ opinion, are foreseeable in view of the company’s actual business at the time of the undertaking and the amount or the standards that the board of directors deemed reasonable at the time;
- a provision authorizing the company to indemnify an Office Holder for future events with respect to reasonable litigation expenses, including counsel fees, incurred by an Office Holder or which he is ordered to pay by a court, in proceedings that the company institutes against him or instituted on behalf of the company or by another person, or in a criminal charge from which he was acquitted, or a criminal charge in which he was convicted for a criminal offense that does not require proof of criminal intent;
- a provision authorizing the company to indemnify an Office Holder for future events with respect to reasonable litigation fees, including attorney’s fees, incurred by an Office Holder in consequence of an investigation or proceeding filed against him by an authority that is authorized to conduct such investigation or proceeding, and that resulted without filing an indictment against him and without imposing on him financial obligation in lieu of a criminal proceeding, or that resulted without filing an indictment against him but with imposing on him a financial obligation as an alternative to a criminal proceeding in respect of an offense that does not require the proof of criminal intent; and

- a provision authorizing the company to retroactively indemnify an Office Holder.

On June 12, 2008, following approval of our audit committee and board of directors, our shareholders approved amendments to our Articles of Association pertaining to indemnification of directors and officers that reflect the provisions of the Israeli Companies Law described above.

Our Articles of Association provide that we may undertake to indemnify an Office Holder for obligations or expenses imposed on him as a result of an act done in his capacity as an Office Holder in the Company or as a result of being an Office Holder, in another company in which the Company holds shares or has interests, as specified above.

Our Articles of Association further provide that the aggregate amount of indemnification (in addition to any insurance proceeds received) shall not exceed 25% of the shareholders’ equity of the Company, as set forth in the Company’s most recent consolidated financial statements prior to the applicable payment of indemnification.

Limitations on Insurance, Exemption and Indemnification

The Israeli Companies Law and our Articles of Association provide that a company may not exempt or indemnify an Office Holder nor enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the Office Holder of his duty of loyalty unless the Office Holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the Office Holder of his duty of care if the breach was done intentionally or recklessly (a recent change to the Israeli Companies Law clarifies that this provision does not apply if the breach was solely as a result of negligence);
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine imposed on the Office Holder.

In addition, under the Israeli Companies Law, indemnification of, and procurement of insurance coverage for, our Office Holders must be approved by our audit committee and board of directors and, in specified circumstances, by our shareholders.

Letters of Indemnification

Our audit committee, board of directors and general shareholders meeting approved in February 2001 the grant of indemnification and exemption letters to our directors and officers, including those directors and officers whose term of service ended on or after September 1, 2000. In April 2002, the general shareholders meeting approved the grant of a new letter of indemnification and exemption to the officers and directors of the Company. The aggregate amount of the indemnification (in addition to any insurance proceeds received) may not exceed 25% of our shareholders' equity (in U.S. dollars) as stated in our consolidated financial statements for the year ended December 31, 2000, for all persons and events. Under the indemnification and exemption letters, we agreed to indemnify these directors and officers, retroactively with respect to events occurring after February 1, 2000, the date on which the Israeli Companies Law became effective and prospectively, in connection with the following issues:

- The issuance of securities, including the offering of securities to the public according to a prospectus, a circular, a private offering or any other manner of security offering;
- Any transaction, as defined in section 1 of the Israeli Companies Law, including a transfer, sale or purchase of assets or liabilities, including securities or the receipt of any right in any of the above, and any action related, directly or indirectly, to such transaction;
- An action, including handing over information and papers, in connection with sale of our shares or assets, by the Co-Op;
- The filing of a report or announcement required by the Israeli Companies Law or the Israeli Securities Law, 1968, the rules and regulations of a stock exchange in or outside Israel, or any law of any other country pertaining to these issues, and/or omission to file such a report or announcement;
- Any change or reorganization of us, including any related decision, including without limiting the generality of the foregoing, splitting, dividing or modifying our share capital, establishment of subsidiaries or their liquidation or sale and issuance of shares;
- Oral or written statements, including the expression of an opinion or a position conveyed in good faith by an Office Holder, in his capacity as such, during his term of office, including statements made in meetings of the board of directors or any committee;
- An action in the line of business of us in relation with the following issues: building and planning, licensing of businesses, safety in work places, environment and recycling and protection of the consumer; or

- Each one of the circumstances stated above, all in connection with the Office Holder’s service on behalf of our subsidiaries or affiliated companies.

We are obligated to indemnify a director or officer for a specific loss only if the director or officer has not been compensated for that loss from another source, including from proceeds of insurance policy.

We agreed to indemnify our directors and officers to the fullest extent permissible by the Israeli Companies Law, against all amounts they may be obligated to pay as a result of a court decision or a settlement or an arbitrator’s award approved by a court decision in connection with and in the scope of their activities as directors and officers of the company and actions taken by a director or officer as an Office Holder of the company or its subsidiary or affiliated companies.

We will indemnify our directors and officers for all costs or expenses, including reasonable legal expenses, that they may incur as a result of any financial obligation borne in connection with any threatened or pending civil proceeding or criminal proceeding in which the directors and officers are acquitted or (to the extent permitted by law) in which they are convicted, provided however, that the crime for which they are convicted does not require a finding of criminal intent.

We further agreed to exempt these directors and officers to the fullest extent permitted by the Israeli Companies Law from any liability towards us with respect to any damage caused or that will be caused to the company by its directors and officers if caused or will be caused following a breach of the duty of care towards the company.

The letter will not apply in respect of liability or an expense imposed in respect of an action instituted by the Co-Op and/or by the appointed management committee of the Co-Op or in respect of an action instituted by the Israeli Registrar of Cooperative Societies and/or by the State of Israel in connection with the allotment of options by us in accordance with the options allotment scheme of 1996.

The letter will not include exemption or indemnification in the following cases:

1. A breach of fiduciary duty, which was acted not in good faith or that the officer had reasonable grounds to believe that the act would cause the company any harm;
2. A breach of the duty of care, which was committed intentionally or recklessly;
3. An act committed with the intention to realize a personal illegal profit; or
4. A fine or monetary composition imposed on such officers and directors.

On June 12, 2008, following approval of our audit committee and board of directors, our shareholders approved the grant of new indemnification letters to the Company's directors and officers (and to those who will serve as its directors and officers from time to time). The aggregate amount of the indemnification (in addition to any insurance proceeds received) may not exceed 25% of the Company's equity as set forth in the Company's most recent consolidated financial statements prior to the applicable payment of indemnification.

Under the new indemnification letter, the Company undertook to indemnify its directors and officers for obligations or expenses that may be imposed on them as a result of their actions in their capacity as an Office Holder in the Company or as a result of actions in their capacity as an Office Holder or the holder of any other position in another company in which the Company holds rights or is an interested party therein (unless fulfilling the position in the other company is not in connection with their function in the Company or at its request), as permitted by the Company's Articles of Association. See above "- Indemnification of Office Holders".

Under the new indemnification letter, the Company undertook to indemnify its directors and officers prospectively and retroactively with respect to following events:

- Issue of securities, including, an offering of securities to the public pursuant to a prospectus, private placement, tender offer or offering of securities in any other manner;
- An event connected with the making of an investment by the Company before, during and after the effecting of the investment, in the course of negotiations, contractual arrangement, signature, development and monitoring the investment, including actions performed on behalf of the Company as an officer, employee or observer in the corporation in which the investment is made;
- A transaction or arrangement, including a transfer, sale or purchase of assets or liabilities, and including, goods, real estate, securities, or rights, or the giving or receiving of a right in any one of them and any action connected, directly or indirectly with such transaction, and including a tender offer of any sort and another transaction in securities which the Company has issued, whether or not the Company is a party thereto;
- A report or notice filed or submitted according to any law, including, an event arising from the fact of the Company being a public company or arising from the fact of its securities having been offered to the public, or arising from the fact of its securities being traded on a stock exchange, and including, a report or notice in accordance with the Companies Law - 1999 or the Securities Law - 1968, or the tax laws including regulations or directives made pursuant thereto, or in accordance with laws or provisions that apply outside of Israel or a report or notice lodged or submitted in accordance with rules, directives or instructions customarily practiced on the stock exchange in Israel or abroad and/or failure to submit such report or notice;

- An act in connection with voting rights in investee companies;
- An act in connection with the management of market risks.
- A change in the structure of the Company or its reorganization or any resolution relating thereto, including, a merger, split, alteration of the capital of the Company, setting up of subsidiaries, winding-up or sale thereof.
- Action connected directly or indirectly with employer-employee relationships in the Company and/or the commercial relations of the Company, including employees, external contractors, customers, suppliers and service providers, including negotiations, entering into and implementation of personal employment agreements or collective bargaining agreements, benefits to employees, including the issue of securities to employees.
- An act in connection, directly or indirectly, with the sale of products, purchase of products, import of products, operation of branches and sites of the Company, safeguarding of public health and safety instructions and provisions.
- An act in connection with the issue or non-issue of licenses and permits for the Company’s activities.
- The preparation and approval of financial statements, including the approval of resolutions regarding the application of accounting standards and restatement in the financial statements.
- An act in connection with a distribution, including, for a repurchase by the Company of its own securities.
- The transfer of information that is required or permissible for transfer according to law between the Company and/or the other companies and interested parties in any of them.
- Remarks, statements including the expression of a position or opinion made in good faith by the officer in the course of performing his function and by virtue of his function, and including in the framework of meetings of the board of directors or any of its committees.
- An act or deed on matters of planning and building, work safety, the environment and recycling, public health, consumer protection.

Pursuant to the new indemnification letter, upon issuance of the new letter, all previous indemnification letters previously issued to each director or officer by the Company will be cancelled, effective as of the date of approval of the indemnity resolution. Notwithstanding, such revocation will not prejudice or derogate from the validity of previous indemnification letters that were issued to such director or officer by the Company, to the extent that such undertaking is valid according to law and applies to actions with respect to the period preceding the approval of the indemnity resolution, and provided that such entitlement to indemnity in respect of such liability and/or expense will only be in accordance with one of the indemnification letters.

Committees

Our board of directors has established a compensation committee and an audit committee. Our compensation committee, which consists of David Wiessman and Uzi Baram, administers issues relating to employee compensation for senior management. Our audit committee, which consists of David Alphandary, Uzi Baram and Avraham Meron, examines flaws in our business management and its approval is required to effect specified actions and transactions with interested parties. The audit committee also assists the board of directors in overseeing the quality and integrity of our accounting, auditing and reporting practices and in the approval of our financial statements. For more information regarding the role of our audit committee see also “Item 6. Directors, Senior Management and Employees - C. Board Practices - Audit Committees.”

D. Employees.

As of December 31, 2009, we employed 7,149 employees (including employees of Bee Group and Eden Teva), counting multiple employees sharing a single position as a single employee, including 2,198 temporary employees. 1,041 of our employees were employed in central management and administration and in our logistics center and 6,108 in our stores.

As of December 31, 2008, we employed 7,475 employees, counting multiple employees sharing a single position as a single employee, including 3,253 temporary employees. 1,054 of our employees were employed in central management and administration and in our logistics center and 6,421 in our stores.

As of December 31, 2007, we employed 7,421 employees, counting multiple employees sharing a single position as a single employee, including 3,181 temporary employees. 1,047 of our employees were employed in central management and administration and in our logistics center and 6,374 in our stores.

We are subject to labor laws and regulations in Israel. Most of our employees are subject to collective bargaining labor agreements. Under a Special Collective Bargaining Agreement, referred to as the Special Agreement, from May 1996, among the Co-Op, Blue Square, the Histadrut (General Federation of Labor in Israel) (Histadrut), the National Committee of the Co-Op Union Employees and the Co-Op Union, all the Co-Op employees became employees of Blue Square. The collective bargaining agreements in effect as of that date apply to Blue Square as if Blue Square and these employees were originally parties to these agreements. Blue Square became responsible for the payment of all employee benefits that had been accrued in respect of these employees during the term of employment of these employees with the Co-Op, to the extent these benefits were recorded on the Co-Op’s records. Since 1996, we entered into new labor agreements with the Histadrut and the Co-Op union, which determine our employees wages structure, the employment conditions of new employees and a wage increase to the existing employees.

During 2003, we agreed to make “good will grants” to management and employees. In August 2003, we entered into a collective bargaining arrangement with the Histadrut and the National Committee of the Co-Op Blue Square Employees in respect of various grants to our employees which were already paid. In addition under that agreement, we agreed (i) to pay to our permanent employees 1% of any cash dividend distributed to our shareholders, but not more than \$2.5 million in the aggregate to our employees; and (ii) in any public issuance of our shares after the date of the agreement, our permanent employees will be entitled to purchase up to 10% of any such offering with a 20% discount over the minimum offering price (in the event that convertible securities will be offered, the employees will be entitled to a discount of 20% from the exercise price or the rate of conversion; in the event shares are offered to the public together with other securities, employees will be entitled to a discount of 20% only on the offering price of the shares). With respect to such a purchase by our employees of our shares in a public offering, we have agreed to make loans to our employees to enable them to pay the purchase price for the shares, and these loans are to be repaid by the employees with interest and linkage upon the sale of the shares following the expiration of the appropriate tax holding period for the shares or, if desired by the employee, until the earlier of five years from the expiration of the holding period or the end of the employee’s employment with us.

In January 2005, we entered into a special collective bargaining arrangement with the Histadrut and the National Committee of Blue Square-Israel. Under this agreement, the parties agreed that Blue Square’s employees that started their employment on or after January 1, 2003 (excluding stores managers and their deputies and departments managers and their deputies) will be entitled to night shift compensation and to compensation for working on Saturdays nights and the nights following holidays at variable rates which are lower than the payments currently being paid.

In April 2006, we entered into a special collective bargaining arrangement with the Histadrut and the employees' union (which amends a preceding general collective bargaining agreement adopted by the Company in 1996), regarding the rights of pregnant employees which are unable to work during their pregnancy due to medical reasons.

In May 2006, we entered into a special collective bargaining arrangement with the Histadrut and the employees' union, effective as of January 1, 2006, regarding the increase of the contributions and deductions made by employees and by the Company to a saving fund.

In 2006, we reached an understanding with the employees’ representative regarding the increase in the number of employees (quota) who will be deemed to be permanent employees (tenure) and shortening of the periods required for promotion. No special written collective bargaining agreement incorporating such understanding has been signed.

In July 2007, we entered into a special collective bargaining arrangement with the Histadrut and the employees' union regarding the transition of store managers from a collective bargaining arrangement to personal employment agreements, without prejudice their social benefits (*i.e.*, with no less favorable social benefits stipulated under the collective bargaining arrangement). Under the agreement, these store managers will continue to be subject to the applicable provisions of the collective bargaining agreement which require the prior approval of the employees' union and the Histadrut before their dismissal. In the event that a store manager will be transferred to more junior position, he will once again be subject to the collective bargaining agreement, and his compensation, rights and fringe benefits will be adjusted to his level prior to the transfer to a personal employment agreement.

In February 2007, we entered into a special collective bargaining arrangement with the Histadrut, the employees' union and “Meitavit” (a pension funds management company) regarding contributions and deductions made for our employees and for the provision of pension insurance. This agreement provides, among others things, for improved conditions and benefits to the insured employees.

In addition, we and our employees are also subject to certain provisions of the general collective bargaining agreements between the Histadrut and the Coordination Bureau of Economic Organizations (including the Industrialists Association) by virtue of an extension order of the Israeli Ministry of Labor. These agreements concern, among other things, the maximum length of the work day and the work week and other conditions of employment.

In 2007, an extension order with respect to a general collective bargaining agreement for pension insurance was signed by the Israeli Ministry of Industry, Trade and Labor which require all employers in Israel to obtain pension insurance for all their employees.

We entered into a special collective bargaining agreement with Mega Retail, the Histadrut and our employees' union, effective as of April 1, 2009 (which amends a preceding general collective bargaining agreement adopted by the Company in 1996). The agreement provides for a wage increase of 4% (to the base salary only) to employees who have completed or will complete 24 months of employment with us. In addition, in light of the transfer of our retail activities to Mega Retail, the agreement granted us the option to transfer some or all of our employees to Mega Retail. In addition, in the event that we transfer any of our employees to Mega Retail, Mega Retail will become responsible for the payment of all employee benefits as well as for their rights and seniority that had been accrued in respect of these employees during the term of employment of these employees with our company, to the extent these benefits were recorded on our records.

In addition, in June 2009, a new general collective bargaining agreement was entered into between the New Histadrut and the Chamber of Commerce – Division of Retail Chains, which, by virtue of an extension order from February 2010, applies to all employees that are employed in the food retail chains sector of the Israeli market (except for certain employees that were excepted from the extension order). In our assessment, the new agreement will not have a material effect on our operations and results of operations in light of the fact that it does not apply to certain groups within the employees that are employed in the food retail chains sector of the Israeli market, and in light of the fact that better benefits apply to our employees by virtue of other collective bargaining agreements to which we are a party.

Under an amendment to the *Employment of Employees by Manpower Contractors Act, 1996*, effective as of January 1, 2008, employees of a manpower contractor (outsourced employees) will be deemed employees of the actual employer at which they were stationed following nine months from the date they were stationed at such employer, subject to certain exceptions. Under exceptional circumstances, the Ministry of Industry, Trade and Labor may approve the extension of this period to a period not exceeding 15 month. When a manpower contractor employee become an employee of the actual employer, the entire period of time that the manpower contractor employee was stationed at the actual employer will be taken into account for purposes of calculating his seniority for benefit and employee-related purposes.

Israeli law generally requires the payment by employers of severance pay upon the retirement or death of an employee or upon termination of employment by the employer or, in some circumstances, by the employee. We currently fund ongoing severance obligations by making monthly payments to pension funds, employee accounts in a provident fund and insurance policies. In addition, Israeli employees and employers are required to pay specified amounts to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Since January 1, 1995, these amounts also include payments for national health insurance payable by employees. Most of our employees are covered by a pension fund. Our senior employees are covered by general and/or individual life and pension insurance policies providing customary benefits to employees, including retirement and severance benefits.

E. Share Ownership.

As of May 31, 2010, other than indirect ownership through Alon Retail, none of our directors or officers owned more than 1% of our outstanding equity securities.

On January 21, 2008, we adopted a share option plan (the "Plan") for officers and employees of Blue Square and/or its subsidiaries and/or affiliated companies. As of May 31, 2010, the total number of shares available for issuance under the Plan was 2,584,995 shares (including options issuable to Blue Square's Chief Executive Officer, Mr. Zeev Vurembrand), subject to adjustments. The exercise price of each option will be at the fair market value per share on the date of grant, and all exercises of options under the plan are to be on a cashless basis. As of May 31, 2010, an aggregate of 1,215,829 options granted to employees under the Plan were outstanding, with an exercise price of NIS 37.41 per share (adjusted for 50% of the dividends paid), and 1,116,666 options granted to executive officers and managers under the Plan were outstanding with an exercise price of NIS 36.68 per share (adjusted for 50% of the dividends paid).

The vesting periods for the options granted are 66.7% at the end of two years from the date of grant and the remaining 33.3% at the end of three years from the date of grant. The options issued to executive officers and managers may be exercised during the six month period from the end of the vesting period, and options not exercised during this period will expire. The options issued to employees may be exercised during the 30 days from the end of the vesting period, and options not exercised during this period will expire.

The Plan expires three years from the date of first grant of options under the Plan, which was on March 24, 2008. Unless otherwise decided by the Company's Board of Directors or a committee thereof, options granted under the Plan will vest and be exercisable pursuant to the time schedule set out below on condition that the option holder will be employed by the Company, a Company subsidiary or a company controlled by the Company on the date of issuance and on the applicable vesting date. Unless otherwise prescribed by the Company Board of Directors or a committee thereof, two-thirds of the options will be exercisable at the expiration of two years from the date of grant, and one-third of the options will be exercisable at the expiration of the third year after date of grant.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders.

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of May 31, 2010, by each person or entity known to own beneficially 5% or more of our outstanding ordinary shares based on information provided to us by the holders or disclosed in public filings with the Securities and Exchange Commission. Our major shareholders do not have voting rights different from the voting rights of our other shareholders.

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Outstanding Ordinary Shares ⁽¹⁾
Alon Retail	30,604,303(2)	68.60%
Menorah Mivtachim Holdings Ltd.	4,277,963(3)	9.59%

(1) The percentage of outstanding ordinary shares is based on 44,614,979 ordinary shares outstanding as of May 31, 2010 (excluding 89,888 ordinary shares held by Blue Square as treasury shares).

- (2) Alon Retail Ltd. is a wholly owned subsidiary of Nissan Alon Retail Holdings Ltd., which is a wholly owned subsidiary of the Nissan Dor Chains Ltd., which is a wholly owned subsidiary of Dor Food Chains Holdings Ltd., a wholly owned subsidiary of Alon-Israel Oil Company Ltd. ("Alon"). To the Company's best knowledge, Alon is owned approximately 46.9% (excluding shares held by Alon as treasury shares) by nine collective acquisition entities of kibbutzim in Israel and approximately 53.1% (excluding shares held by Alon as treasury shares) are held together by Bielsol Investments (1987) Ltd. and Mr. David Wiessman. To the Company's best knowledge, the shareholders of Bielsol Investments (1987) Ltd. consist of Shibag Ltd. (whose shareholders are Advocate Shraga Biran, the Estate of Professor Shoshana Biran and Gara, Boaz and Iftah Biran), holding 79.4% of the capital and voting rights of Bielsol Investments, D.B.V Investments Ltd. (controlled by Mr. David Wiessman), holding 19.8% of the capital and voting rights of Bielsol Investments, Shibago Ltd. (whose partners are Shibag Ltd. (75%) and a company controlled by David Wiessman (25%)), holding 0.8% of the capital and voting rights of Bielsol Investments.
- (3) Includes shares held by Menora Mivtachim Insurance Ltd., Menora Mivtachim Finance Ltd., Menora Mivtachim Pensions Ltd., Menora Mivtachim Gemel Ltd., and Menora Mivtachim Mutual Funds Ltd. To the Company's best knowledge, Menora Mivtachim Holdings Ltd. ("Menora Holdings") is an Israeli public company. Approximately 61.9% of Menora Holdings outstanding shares are held directly and indirectly by Menachem Gurevitch and the remaining of the outstanding shares are held by the public. Menora Mivtachim Insurance Ltd. and Menora Mivtachim Finance Ltd. are wholly owned subsidiaries of Menora Holdings. Menora Mivtachim Pensions Ltd. is a wholly owned subsidiary of Menora Mivtachim Insurance Ltd. Menora Mivtachim Gemel Ltd. and Menora Mivtachim Mutual Funds Ltd. are wholly owned subsidiaries of Menora Mivtachim Finance Ltd.

The shares reported as beneficially owned by Menora Holdings, Menora Insurance, Menora finance, Mivtachim Pension, Menora Gemel and Menora Mutual Funds are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies which are managed by Menora Insurance, Menora finance, Mivtachim Pensions, Menora Gemel and Menora Mutual Funds, all of which are wholly owned subsidiaries of Menora Holdings, each of which operates under independent management and makes independent voting and investment decisions.

As of May 31, 2010, Blue Square had approximately 34 shareholders of record with a United States address. As of May 31, 2010, these United States record holders held approximately 406,129 ordinary shares in the form of ADSs, representing approximately 0.91% of our then outstanding share capital.

Alon Retail acquired a 78.1% interest in Blue Square from the Co-Op in June 2003. As of May 31, 2010, Alon Retail Ltd., owned approximately 68.60% of Blue Square's outstanding ordinary shares.

B. Related Party Transactions.

Procurement Agreement with Dor Alon Stations

Dor Alon Service Station Operation Ltd., a subsidiary of Dor-Alon Energy In Israel (1988) LTD., which is controlled by Alon Israel Oil Company Ltd.) (hereinafter: “Dor Alon Stations”), operates convenience stores in fuel service stations and also in a number of cities in Israel that sell various food and “Non-Food” products. Under the terms of the agreement between us and Dor Alon Stations, we agreed to procure products that will be supplied to the convenience stores, either directly from suppliers or from our distribution center. In consideration of the procurement of products, Dor Alon Stations has agreed to pay us (i) for products sent directly from suppliers, an amount equal to the cost of such products to us as determined under the Procurement Agreement plus 2%, and (ii) for products sent from our distribution center, an amount equal to the cost of such products to us as determined under Procurement Agreement plus 2.75%, in each case plus VAT. The cost of the products to us will be audited by our independent public accountants. In the event that our revenues generated from the Procurement Agreement minus related expenses from the sale of products to Dor Alon Stations is less than NIS 1 million linked to the Israeli consumer price index in any year without VAT, Dor Alon Stations will pay us additional amounts in order that our income from such year will reach such NIS 1 million amount. To secure Dor Alon Station’s payment and other obligations to us under the Procurement Agreement, Dor Alon agreed to provide us with a floating lien or pledge, unlimited in amount, on all inventory in the convenience stores, subject to any legal prevention, and Dor-Alon Energy In Israel (1988) LTD. and Alon Israel Oil Company Ltd, the controlling shareholders of Dor Alon Stations, will guarantee all obligations of Dor Alon Stations under the agreement.

The term of the Procurement Agreement is for five years commencing from March 1, 2004, and will automatically be extended for additional one-year periods unless either party gives notice to the other party of its desire to terminate the Procurement Agreement 90 days prior to the expiration of the term of the Procurement Agreement or such year, as the case may be. However, (i) either party may terminate the Procurement Agreement on 90 days’ notice given at any time after 24 months have elapsed from the date the Procurement Agreement is effective, and (ii) Dor Alon Stations may terminate the Procurement Agreement on 180 days’ notice with respect to particular stores in the event of the “economic failure” (a situation on which the parties must agree) and closure of such convenience store by Dor Alon Stations as a result of such “economic failure”.

In addition, with respect to convenience stores located in Dor Alon fuel service stations that are operated by third parties, we have agreed that upon Dor Alon’s request, we may enter into separate agreements with respect to such stores with the third party operators of such stores on substantially similar terms as the Procurement Agreement described above. Dor-Alon Energy In Israel (1988) LTD. and Alon Israel Oil Company Ltd. would also guarantee the obligations of such third party operators and Dor Alon Stations, under these related separate agreements.

Transactions with Dor Alon in Connection with Establishment of a Joint Loyalty Plan

On November 29, 2005, we entered into the following agreements with Dor-Alon Energy In Israel (1988) LTD. (“Dor Alon”):

(i) an agreement establishing a joint loyalty plan for the benefit of Blue Square's and Dor Alon’s customers, formed as a partnership to be held 75% by Blue Square and 25% by Dor Alon (the “Loyalty Plan”). Pursuant to the agreement, the partnership is governed by a managers board (the “Board”), which is comprised of six (6) members, four (4) of whom appointed by the Company (one of whom serves as the chairman of the Board), and two (2) of whom are appointed by Dor Alon;

(ii) an agreement under which Blue Square and Dor Alon purchased 49% of the shares of capital stock of Diners Club Israel Ltd. (“Diners Israel”) from Credit Cards for Israel Ltd. (“CAL”) for a total consideration of NIS 21.3 million (of which NIS 15.6 million was paid by us). The purchased shares were allocated 36.75% to Blue Square and 12.25% to Dor Alon. The consideration was funded through a non-recourse loan granted by CAL to the Company and Dor Alon. The loan is for a period of eight years, is linked to the CPI and bears interest in an annual rate of 6%. The loan is to be repaid in a single payment at the end of the period. Repayment of the loan is secured only by the acquired shares.

Under the agreement, the Company and Dor Alon are entitled to share with CAL the net income of Diners Israel in connection with the activities of the credit cards bearing the "You" name based on their respective ownership interests in Diners Israel. The percentage of the net income of Diners Israel in connection with its other credit card activities (*i.e.*, those activities outside the Loyalty Plan) to be allocated to the Company and Dor Alon is to be determined based on the number of "activated" credit cards (as defined in the agreement) issued to members of the Loyalty Plan from time to time, so long as certain target numbers of such issued credit cards are met. In the event such target numbers are not met, the Company and Dor Alon may, during the first three years following the issuance of the first Diners Israel credit card to a member of the Loyalty Plan (the "Issuance Date"), purchase the right to the net income of Diners Israel arising from such other activities through a one-time payment.

The Company and Dor Alon may terminate the agreement by returning the purchased shares back to CAL on the fourth anniversary of the Issuance Date and canceling the CAL Loan. Under certain other circumstances, each of the Company and Dor Alon on the one hand, and CAL on the other hand, has the right to terminate the agreement. Upon such termination, the Company and Dor Alon are required to repay the CAL loan by returning the purchased shares to CAL and receive 49% of any increase in the value of Diners Israel that occurred since the Issuance Date. These circumstances include the following events: (i) if certain target numbers of issued Loyalty Plan credit cards are not met by the fourth or sixth anniversary of the Issuance Date, or (ii) the Loyalty Plan ceases to function or the customer club agreement (referred to in clause (iii) below) is terminated. In addition, the Company and Dor Alon have the option to terminate the agreement and repay the CAL Loan in kind by returning to CAL the purchased shares in the event that the representations made by Cal or Diners Israel in the agreement are breached; and

(iii) an agreement among Blue Square and Dor Alon, on one hand, and Diners Israel, on the other hand, pursuant to which the Loyalty Plan offers to its members a Diner Club Israel credit card bearing the name “You”. The agreement determines, among other things, the allocation of costs between the parties with respect to the costs of attracting new customers to the Loyalty Plan, mailing and advertising costs, including the participation of Diners in the advertising budget of the Loyalty Program, and clearing fees.

See “Item 4. Information on The Company - B. Business Overview - Marketing”.

In April 28, 2009 we entered into a supplement to the above agreements. Under the supplement to the agreements, the parties agreed that commencing April 15, 2009, in addition to the "You" Diners Club credit card, a "You" Mastercard credit card which will also be issued by CAL. Under this agreement, CAL will provide operational and managing services in exchange to the same consideration as were determined in the original agreement with respect to the "You" Diners Club credit card. The parties agreed that for purposes of sharing with CAL the net income of Diners Israel, the termination rights of the parties under the agreement and otherwise, the activities of the "You" Mastercard credit card will be treated in the same manner as the "You" Diners card.

Agreement with the Wholesale Market Company

On June 3, 2010, BSRE, Gindi Investments 1 Ltd. and an additional entity controlled by Moshe and Yigal Gindi (together with Gindi Investments 1 Ltd., "Gindi") (through two subsidiaries owned 50% by BSRE and 50% by Gindi) (the "Purchasers") signed agreements to acquire rights to a long term lease of property in the wholesale market site in Tel Aviv (the "Property"). On June 2, 2010, the shareholders of BSRE approved the signing of the final agreements. The agreements are subject to approval by the Israeli Minister of the Interior within 60 days of the date on which such agreements were signed.

The long term lease on the Property is until August 31, 2099, and the Purchasers, including BSRE, intend to plan, build and market on such Property an apartment buildings complex and a shopping mall (the "Project"). The Property consists of building rights of approximately 97,460 square meters, of which approximately 62,640 square meters are designated for residential use, approximately 10,320 square meters are designated for mixed use (including for residential, office and/or retirement home use), and approximately 24,500 square meters are designated for commercial use, part of which would be located on the ground floor of the residential buildings.

The Purchasers are to pay the Sellers a purchase price of NIS 950 million payable in three installments. In addition to the purchase price, the Sellers may be entitled to additional consideration calculated as a percentage of the sale price of apartments that are sold in the apartment buildings complex, as described in the agreement.

Within the framework of the purchase agreements, the Purchasers have committed to plan and build a community sports center and a school on an approximately 10,000 square meter nearby public property and certain public community institutions on an approximately 2,430 square meter property that is within the area of the apartment building complex, and 85 parking spaces (collectively, the "Public Buildings"). The Sellers are to bear the expense of building the Public Buildings and are to pay the Purchasers a fee (linked to the Building Index) calculated as cost plus 10% plus VAT, based on certain milestones detailed in the agreement, up to a maximum of approximately NIS 98 to 102 million (including VAT). Any expenses that exceed this limit are to be borne by the Purchasers. The Purchasers also committed to build an additional 40 parking spaces and to develop, at their own expense, an open public space within the area of the Project on an area of nine dunam, which would remain under the exclusive ownership of the municipality of Tel Aviv.

The Purchasers obtained a firm commitment letter from a bank, in a form acceptable to the Sellers, pursuant to which the bank certified that it will provide the Purchasers financing to complete the purchase of the Property, subject to certain conditions.

In an agreement of principles signed with Gindi, BSRE agreed to pay 60% of the first installment of the consideration in the amount of NIS 260 million, and any additional payment that may be required to further the project, until the payment of the second installment, if such payment amount cannot be obtained within the framework of a credit line provided by a bank. BSRE will be eligible to receive the excess amount (above its 50% share of the project), including interest, not later than eight years after the date on which the agreement of principles was signed. On May 20, 2010, most of the first installment of the consideration to be paid by BSRE was transferred to a trustee. Gindi is to provide management services for the Project in exchange for a management fee to be paid by the Purchasers and calculated as 16% of the profits from the Project, all subject to various terms of the agreement of principles between the parties.

Purchase of Property in Point Wells, Washington from Indirect Subsidiary of Alon

On June 1, 2010, BSRE completed the acquisition of an approximately 240-dunam parcel of property in Point Wells, near Seattle, Washington, which serves primarily as a plant for storage and distribution of fuel and oils. BSRE purchased the property through a special purpose entity established in the United States, BSRE Point Wells, LP, which entered into a purchase agreement, dated May 7, 2010, with Paramount of Washington LLC (“POW”) for the property and into a development agreement, dated June 1, 2010, with POW and Paramount Petroleum Corporation (“PPC”). PPC leases the property from POW and operates and maintains it. POW and PPC are wholly owned subsidiaries of Alon USA Energy Inc., a public company whose shares are traded on the NYSE ("Alon USA") and is controlled by our indirect controlling shareholder, Alon Israel Oil Co. Ltd. ("Alon").

BSRE Point Wells, LP paid POW a sum of \$19.5 million in consideration for the rights in and to the property (apart from the buildings and the existing equipment/property on the property (including fuel storage tanks, technical systems, pipes and various installations) which remain under the ownership of POW). BSRE Point Wells, LP bore the expenses relating to the transaction, including the transfer tax (estimated at approximately \$350,000) and ancillary costs for completion of the transfer of the rights in its name.

Upon the closing of the transaction, BSRE Point Wells, LP granted POW and PPC a right of use of the property, without consideration, for a period commencing on June 2, 2010 and terminating upon the earlier of: (1) June 2, 2020 or (2) the time of sale of the property, after the enhancement thereof, to a third party in accordance with the development agreement (the "License Period").

The present zoning of the property is for heavy industrial use, and BSRE, through BSRE Point Wells, LP, is furthering a plan for a change of zoning of the property from heavy industrial zoning to an urban center zoning. To the best of BSRE’s knowledge, as of May 31, 2010, such change in the zoning of the property has been approved in principle, subject to completion of local statutory proceedings, the hearing of objections and additional approval proceedings, including the preparation and approval of a detailed plan which will, inter alia, make it possible to erect residential buildings and commercial space on the property.

According to the development agreement signed between the parties, BSRE Point Wells, LP will take action to initiate a detailed plan in the scope of which progress will be made for approving the construction of at least 2000 residential units on the property. All of the expenses connected with approval of the change of zoning, including the initiation and preparation of a detailed plan will be borne by BSRE Point Wells, LP. BSRE assesses that these expenses will amount to approximately \$4-5 million. If the detailed plan is not approved and/or if it does not contain at least 2000 residential units, BSRE Point Wells, LP will bear no responsibility to POW and/or PPC. In consideration for PPC’s right to participate in the development of the property and in the proceeds that will be received from the sale of the property to a third party after the enhancement thereof, PPC will pay BSRE Point Wells, LP quarterly participation fees in a sum of \$438,750, which will be paid commencing from July 1, 2010 and throughout the entire License Period.

The development agreement further stipulates provisions regarding a division of the consideration that will be received from the sale of the property to a third party after the change of zoning and enhancement of the property.

Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD.

Blue Square and Alon, Blue Square’s controlling shareholder, entered into a Share Purchase Agreement that provides for the acquisition by Blue Square of Alon’s entire equity interest in Dor Alon (constituting approximately 80% of the outstanding shares of Dor Alon (not including treasury shares)), or the Transferred Shares, at the closing of the Acquisition. These shares constituted approximately 73.5% of the outstanding Dor Alon ordinary shares on a fully diluted basis as of May 27, 2010.

Under the terms of the Share Purchase Agreement, in consideration for each share held by Alon in Dor Alon, Blue Square is to issue to Alon 1.8 ordinary shares of Blue Square, and in exchange for all the Transferred Shares, Blue Square is to issue to Alon 20,327,710 ordinary shares of Blue Square, or the Issued Shares. Immediately following the Acquisition, Alon will beneficially own in the aggregate, directly and indirectly, approximately 78.44% of the outstanding ordinary shares of Blue Square (as opposed to approximately 68.62% of the outstanding shares immediately prior to the Acquisition), and all other Blue Square shareholders will own approximately 21.56% of the outstanding ordinary shares of Blue Square (as opposed to approximately 31.38% of the outstanding ordinary shares immediately prior to the Acquisition). Upon completion of the Acquisition, Dor Alon will become a majority-owned subsidiary of Blue Square and its shares will continue to trade on the TASE.

As a condition to the closing of the Share Purchase Agreement, the Board of Directors of Blue Square also intends to declare an aggregate cash dividend of NIS 800 million, or approximately US \$208.9 million (based on the representative rate of exchange on May 31, 2010), which represents a dividend of approximately NIS12.32, or approximately US \$3.22 (based on the representative rate of exchange on May 31, 2010), per Blue Square ordinary share, to be paid to Blue Square's shareholders, or the Dividend Distribution. The dividend per share is subject to change based on the number of shares outstanding on the record date for the Dividend Distribution. The Dividend Distribution is expected to be made following the issuance of Blue Square ordinary shares to Alon pursuant to the Share Purchase Agreement and is conditioned thereon. The Dividend Distribution is subject to approval by the Israeli District Court, an application for which was filed by Blue Square on May 31, 2010. In addition to court approval for the Dividend Distribution, the Acquisition is conditioned upon approval by a general shareholders meeting of Blue Square and approval of the TASE to register the Issued Shares to trade on the TASE and approval of the NYSE to the listing of the Issued Shares on the NYSE.

The Acquisition may be terminated in the event that not all of the conditions precedent therein are met within six (6) months of signing the Share Purchase Agreement, which include, among other things, the aforementioned shareholder and court approval. Each party to the Share Purchase Agreement has the right to extend, by written notice, the performance period of the Share Purchase Agreement for additional 90 day periods but in any event no longer than six months. If the conditions precedent are not fulfilled within 12 months from the date of the Share Purchase Agreement, the performance period of the Share Purchase Agreement will not be extended any further.

Alon agreed to compensate and indemnify BSI and/or Dor Alon for various damage and/or losses and/or expenses that may be caused to BSI or Dor Alon, provided that the accumulated amount of indemnification to be paid will be no more than the product of (i) the number of Issued Shares and (ii) the closing price of BSI shares on the TASE on the date of the issuance of the Issued Shares. Alon's indemnification obligation will apply only to damages in an aggregate amount of over ten million NIS (NIS 10,000,000). However if the accumulated amount of damages to BSI or Dor Alon exceeds this amount, then Alon's indemnification obligation will apply to the full amount of damages.

In connection with the proposed acquisition, Alon and BSI obtained a pre-ruling from the Israeli Tax Authority. The pre-ruling is subject to various conditions and provides, among other things, that the cost basis and the purchase date of the shares of Dor Alon for tax purposes in the possession of BSI following the acquisition will be the original price and acquisition date, respectively, as they had been for Alon prior to the acquisition. Alon has clarified to BSI that, in connection with the payment of tax at the time of any future sale by BSI of all or part of its shares in Dor Alon, if any, to a third party, Alon will pay that portion of any applicable tax payable in an amount equal to the amount of tax deferred by the Tax Authority in its pre-ruling (*i.e.*, the amount of tax that would have been payable by Alon in connection with the acquisition had the acquisition not been tax exempt according to the pre-ruling).

Arrangements between Blue Square and various subsidiaries

Arrangements with Bee Group

Investment Agreement

On December 31, 2008, we invested approximately NIS 25 million ("Investment Amount") in the Bee Group for a total of 7,058 Bee Group's Redeemable Preferred Shares in a purchase price of NIS 3,542.36 per share. The Redeemable Preferred Shares have a priority for any dividends or other distribution made by the Bee Group to its shareholders (the "Dividend Preference") of up to the Investment Amount to be increased annually by an amount equal to 7.5% of the Investment Amount minus dividends paid to us on account of our Redeemable Preferred Shares. Upon payment of the Dividend Preference, the Redeemable Preferred Shares will automatically convert into Deferred Shares, which will have no rights. Prior to conversion into Deferred Shares, subject to necessary corporate approvals of the Bee Group, we have the right to convert our Redeemable Preferred Shares into ordinary shares of the Bee Group on a one-for-one basis. In the event of an initial public offering of the Bee Group, subject to approval of the directors and shareholders of the Bee Group, we have the right to redeem our Redeemable Preferred Shares for an amount equal to Investment Amount minus dividends paid to us on account of our Redeemable Preferred Shares.

Supply Agreement with Bee Group

Mega Retail and Hyper Hyper are party to a supply agreement with Bee Group (then known as Hamachsan Hamerkazi Kfar Hasha’ashuim Ltd.), All For a Dollar Ltd., Sheshet Houseware Stores Ltd. and Fifo Babies Ltd., (collectively, the "Supplier") through January 2, 2015. Pursuant to the agreement, Mega Retail and Hyper Hyper purchase the Supplier's products, including, among others, toys, houseware, electrical appliances and market the products in Blue Square stores. The Supplier sells its products to Blue Square and Hyper Hyper at a discount to the list price of such products.

Arrangements among Blue Square, Mega Retail and Hyper Hyper

Below is a description of agreements entered into between us, Mega Retail and Hyper Hyper. As of November 3, 2008, we are the sole shareholder of Mega Retail (and indirectly, of Hyper Hyper). In addition, as part of the reorganization of our retail activities, Hyper Hyper is to merge into Mega Retail, as a tax exempt transaction, and all of the retail activity of Hyper Hyper is to be transferred to Mega Retail. The merger was approved by the Tax Authority, and it is anticipated that it will be completed in the next few weeks, effective as of January 1, 2009.

On October 11, 2005, we entered into a general services framework and expenses allotment agreement with Mega Retail and Hyper Hyper (the “Agreement”). The Agreement was for an initial term of five years and under its terms was to automatically extend for three additional five-year terms unless terminated by one of the parties not less than six months prior to the end of the term or the extension, as the case may be (other than for lease of property arrangements, as described below). The following services and arrangement were provided under the Agreement:

Advertisement and Marketing. Advertisement and marketing expenses with respect to each store format are allocated between the parties in accordance with each party’s sales at stores operating under such store format. Advertisement and marketing expenses not relating to a specific store format are allocated between the parties in accordance with each party’s aggregate store sales.

Customer Clubs. Mega Retail provides management and operational services for the existing customer clubs of Mega Retail and Hyper Hyper (and will provide such services to any future customer club of Mega Retail and Hyper Hyper). Mega Retail and Hyper Hyper allocate between them the expenses and costs of operating such customer clubs. Such allocation differs according to the type of customer club. In the case of the existing customer clubs (and any similar customer club established by Mega Retail and Hyper Hyper in the future), the parties will allocate between Mega Retail and Hyper Hyper the expenses and cost of operating such customers clubs in accordance with the aggregate customer club points awarded in each party’s stores. In the case of future customer clubs to be established by Mega Retail together with third parties or in the form of a separate legal entity, Hyper Hyper and Mega Retail will allocate between them the following items in accordance with the ratio between the aggregate purchases of the members of such customer clubs in Hyper Hyper stores, on one hand, and Mega Retail stores, on the other hand: amounts to be contributed to such customer clubs to fund their operations, the costs and expenses associated with operations, income attributed to such customer clubs, and the profits and losses arising from such customer clubs.

In the case of future customer clubs to be established by Mega Retail together with third parties or in the form of a separate legal entity, these clubs will bear the costs of the benefits which each party will provide to the customer clubs’ members; such costs will be determined based on the sale prices of the relevant products; provided, that any customer club benefit (in the form of discounted purchase or gift of products) made by a cashier at the time of purchase to a customer club member will be funded by the party that provides such benefits.

These provisions in connection with future customer clubs are also applicable to our joint Loyalty Plan - "You" with Dor Alon.

Gift Certificates; Electronic cards. Mega Retail provides Hyper Hyper with services in connection with gift certificates and electronic cards. The parties allocate the costs derived from issuance of gift certificates and electronic cards between them in accordance with the ratio of redemptions of the gift certificates at each party’s stores.

Other services. The parties allocate the costs and expenses of the following services (if such costs are not attributed to specific store(s)) in accordance with their respective stores' monthly turnover: security, cleaning, cart gathering, employees training and guidance, and regional and brand operational management services.

Officer Costs. Because the Company's CEO, controller and internal auditor are also Mega Retail's CEO, controller and internal auditor, Mega Retail bears its share of the cost of their employment.

Elementary Insurance. The parties share elementary insurance expenses (including structure insurance, insurance for independent contractors, funds insurance, inventory insurance, vehicle insurance, third party liability insurance, employers liability insurance, etc.). The insurance costs and expenses are allocated between the parties in accordance with different ratios determined by the parties depending on the insurance involved.

Leasing of Property by the Company. The real property that the Company leased to Mega Retail and/or to Hyper Hyper has been transferred, and the related lease agreements have been assigned, by the Company to BSRE. See "Item 4. Information on the Company - B. Business Overview – Our Real Estate" and "Item 7.– B. Related Party Transactions –Arrangements between Blue Square, Mega Retail and Hyper Hyper" and "Arrangements between Blue Square and BSRE."

Leasing of Property to the Company. The real property that Mega Retail and Hyper Hyper leased to the Company has been transferred, and the related lease agreements have been assigned, by Mega Retail to BSRE. See "Item 4. Information on the Company - B. Business Overview – Our Real Estate" and "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Arrangements between Mega Retail and BSRE."

, The arrangement among the Company, Mega Retail and/or Hyper Hyper that was assigned by Mega Retail to BSRE was in accordance with the following terms and conditions:

- The term was up to ten (10) years from September 1, 2005 (as a result of the transfer by Mega Retail to BSRE of the real property, the lease agreement was extended to a term of up to ten years commencing on March 31, 2009 with an option at the end of the term to extend for an additional five-year term under the same terms. See "Item 4. Information on the Company – D. Our Real Estate");
- The annual rent for property used for stores will be equal to the higher of 2% of the annual turnover of that store or 9% of the amount invested in that store by Mega Retail and Hyper Hyper, linked and adjusted to changes in Israel's consumer price index as known at the day of the investment; however, with regard to four specific properties, the annual rent will not be lower than the specific agreed amounts;

- The annual rent for property not used for stores will be 9% of the amount invested in that property by Mega Retail and Hyper Hyper, linked and adjusted to changes in Israel’s consumer price index as known at the day of the investment; and
- Rent payments will be charged on an annual basis.

New lease agreements were to be entered into on the basis of the terms set forth above provided that (i) the audit committee and the board of directors of both the Company and Mega Retail would approve each new lease agreement, (ii) the term of any such new lease agreement entered into within the ten year period commencing on September 1, 2005 would be 10 years from the date such new lease agreement for a particular property is executed, and (iii) the aggregate properties Mega Retail and/or Hyper Hyper would lease to the Company could not exceed 45,000 square meters.

Expenses and Payments for Proceedings: To the extent permitted by law, in the event that either party (the “obligated party”) will be liable for any amounts related to its business activities, whether by virtue of legal proceeding, administrative proceeding, judgment, arbitration award, settlement agreement, administrative penalty or any other manner, the non-obligated party will indemnify the obligated party for the non-obligated party’s pro rata portion of such payment in accordance with its pro rata portion of the revenues earned by both parties in the category of activities (in the relevant period) with respect to which such proceeding was submitted. In the event that the relevant activity does not yield revenues, the allocation described above between the parties will be made in accordance with their respective quantitative share in such activity. In the event it is not feasible to determine the relevant period of time, the calculation will be based on each party’s proportional share of such activity in the previous calendar year.

In addition to the above-described agreement the Company currently has various arrangements with Mega Retail and Hyper Hyper, as described below:

Employee Lending Agreement

Mega Retail and Hyper Hyper have entered into an employee lending agreement with Blue Square according to which Blue Square agreed to make employees available to Mega Retail and Hyper Hyper according to Mega Retail and Hyper Hyper’s needs. In consideration for the use of these borrowed employees, Mega Retail and Hyper Hyper pay Blue Square the full amount to be made to, or on account of, these employees according to the terms of the collective labor agreement between Blue Square and the Histadrut. Blue Square is responsible for paying the salaries and other benefits to the borrowed employees.

Service and Management Agreements

Mega Retail acts as the exclusive purchaser for Hyper Hyper, purchasing supermarket goods for which no mark-up is charged to Hyper Hyper. In addition, Mega Retail provides Hyper Hyper with storage, distribution, logistics and maintenance services, for which these companies generally pay their proportionate share of expenses. Under a management agreement, Mega Retail provides Hyper Hyper and its subsidiaries with administrative, management and site selection services for which Hyper Hyper pays a fee calculated based on its net sales, up to 2% of net sales. The fee is subject to modification every three years pursuant to a review by an external and independent examiner. The fee commencing from January 2002 was 1.95% of Hyper Hyper’s sales. During 2005 and pursuant to a review by an examiner, the fee rate was changed to 1.96%, and amounted to approximately NIS 76.8 million in 2009.

Blue Square provides certain services to Mega Retail pursuant to a management agreement in consideration for annual management fees of NIS 100,000 linked to the March 1996 CPI.

Mega by Internet Agreement

Blue Square and Hyper Hyper have an agreement for the joint operation of the Mega by Internet website, which is owned by Blue Square. Under this agreement, Hyper Hyper is obligated to pay Blue Square certain amounts for its investments in Mega by Internet, for the development costs and for operational costs of Mega by Internet, in consideration for the use of the Mega by Internet website by Hyper Hyper.

Inter-Company Accounts

We, Mega Retail and Hyper Hyper agreed to maintain inter-company accounts for day-to-day operations which bears interest at a rate equivalent to that charged by banks on short-term loans, provided that the rate is not lower than the monthly increase in the CPI. The average rate was 2.3% in 2009, 4.3% in 2008 and 4.6% in 2007.

Other Existing Arrangements

Other existing arrangements currently exist among the Company and Mega Retail and Hyper Hyper with respect to the allocation of costs, expenses and revenues incurred in connection with or derived from the following areas and services: storage and supply of products; maintenance; directors and officers insurance; use of premises; discounts and bonuses from suppliers and other arrangements relating to day-to-day operation. In addition, Mega Retail purchases from the Company meat, grocery and vegetables products, which are distributed through the distribution center, at cost price.

Arrangements between Blue Square and BSRE

Pursuant to the Transfer Agreement and Split Agreement entered into by the Company and BSRE, as described in “Item 4. Information on The Company - B. Business Overview - Real Estate”, Blue Square transferred assets with a total book value as of December 31, 2005 of approximately NIS 1.1 billion and liabilities with a total book value as of December 31, 2005 of approximately NIS 759.3 million. In consideration, BSRE issued to the Company 22,642 ordinary shares.

On May 4, 2006, the Israeli Tax Authority approved our application for a ruling stating that the transfer would receive favorable tax treatment under the provisions of Sections 104A and 105A(2) to the Income Tax Ordinance, subject to certain conditions, as described in " Item 4. Information on The Company - B. Business Overview - Tax Authority Approval".

In addition, in connection with the transfer of Company real estate assets to BSRE, and in addition to the agreements between the Company and BSRE, the Company and BSRE also entered into the following agreements:

Arrangement with respect to Legal Proceeding and/or Third Party Claims relating to Certain Transferred Assets

Pursuant to arrangement entered on August 13, 2006, the Company and BSRE agreed that with respect to eight specified transferred real estate properties that as of December 31, 2005 were not free and clear from third party rights and/or claims, the Company will use its best efforts to complete the transfer of these properties, free and clear from any third party rights or claims. However, if the Company will be required or agree to return or transfer any of the said properties to third parties as a result of their rights and/or claims, then BSRE will waive its rights such properties and will be entitled to receive: (i) with respect to seven of the properties, the higher of the properties' book value or the consideration received by the Company from the third parties for these properties and (ii) with respect to one specified property, an amount equal to the consideration received for such property from the third parties.

Agreements with Respect to Properties Operated by the Company.

The Company and BSRE entered into a lease agreement on August 13, 2006 (effective as of January 1, 2006) with respect to the 52 supermarket stores that were operated directly by the Company prior to December 31, 2005 (plus one property for offices purposes). Under this agreement, the Company leases from BSRE these properties for an initial period of at least 10 years beginning as of January 1, 2006. The agreement will automatically be extended for an additional five-year term unless terminated by the Company no less than 24 months prior to the end of the initial term. The annual rent for the initial period will be equal to the higher of 2% of the annual turnover of that store or 9% of the amount invested in that store by the Company (as calculated in accordance with the agreement), which amount is linked to changes in Israel's consumer price index from the date of such investment. The agreement provides for these additional provisions:

- Upon 12 months' notice, at the time of the extension of the agreement the Company may reduce the number of the leased properties, provided that the rental payments for such properties (according to the average rental payments for the two years preceding the extension date) does not exceed 15% of the total rent payments for all leased properties on average for the two years preceding the extension date.

- Additional properties may be leased by the Company under the same terms and conditions under the lease agreement provided that (i) the term of any such new lease agreement entered into during the initial ten-year period commencing on January 1, 2006 will be for up to 10 years from the date such new leased property is open for business to the public, and (ii) the aggregate properties that BSRE leases to the Company may not exceed 60,000 square meters. Additional properties added may not be included in the leased properties reduced in the manner described in the preceding paragraph.
- The Company may terminate the lease of some of the leased properties prior to the end of the lease term by giving 12 months' prior notice; however, such termination is limited to a number of leased properties which have an aggregate area of no more than 5% of the total area of the properties that were leased as of January 1, 2006.
- BSRE may shorten or temporarily stop (suspend) the lease of three properties identified in the agreement to the extent required to develop or build on the land where such properties are located by giving 12 months' prior notice and subject to obtaining a building permit for such development or building at the time the Company must vacate the premises.
- BSRE may shorten or temporarily stop (suspend) the lease of any seven additional properties (five during the lease term and two during the extension term) to the extent required to develop or build on the land where such properties are located by giving 12 months' prior notice and subject to obtaining a building permit for such development or building at the time the Company must vacate the premises and on the condition that BSRE must bear the costs of vacating the premises and provide a substitute store at the location with similar characteristics at its own expense within 24 months of the Company vacating the premises.

On January 1, 2009, as part of the reorganization of the Company's supermarket retail activities, the Company transferred all of its supermarket retail activities to Mega Retail and assigned all of its rights and obligations under this agreement to Mega Retail.

As a result of the transfer by Mega Retail of the real estate that it holds to BSRE, the lease agreement was extended to a term of up to ten years commencing on March 31, 2009. In addition, at the end of the term there is an option to extend for an additional term of five years under the same terms. See "Item 4. Information on the Company – D. Our Real Estate".

Agreements with Respect to Properties Operated by Mega Retail and Hyper Hyper.

On June 23, 2006, the Company entered into a lease agreement with Mega Retail pursuant to the lease agreement provisions of the general services framework and expenses allotment agreement which the Company entered with Mega Retail and Hyper Hyper on October 11, 2005 (the "Lease Agreement"). The Company assigned to BSRE all of its rights and obligations under the Lease Agreement. The underlying properties (23 supermarket stores) were also transferred by the Company to BSRE.

The Lease Agreement provided that the annual rent for property used for stores is to be equal to the higher of 2% of the annual turnover of that store or 9% of the amount invested in that store (as calculated in accordance with the agreement), which amount is linked to changes in Israel's consumer price index from the date of such investment. The annual rent for property not used for stores is 9% of the amount invested by the Company which amount is linked to changes in Israel's consumer price index from the date of such investment. The term is for up to ten (10) years from September 1, 2005, and rent payments are charged on an annual basis.

Following the transfer by Mega Retail of the real estate that it held to BSRE on September 13, 2009, the Lease Agreement was extended to a term of up to ten years commencing on March 31, 2009. In addition, at the end of the term there will be an option to extend for an additional term of five years under the same terms. See "Item 4. Information on the Company – D. Our Real Estate".

Under the Lease Agreement, new lease agreements by Mega Retail and Hyper Hyper are to be entered into on the basis of the terms set forth above, provided that (i) the audit committee and the board of directors of both parties will approve each new lease agreement, (ii) the term of any such new lease agreement entered into within the ten year period commencing on September 1, 2005 will be for a period of up to 10 years from the date such new lease agreement is executed for a particular property, and (iii) the aggregate properties that BSRE leases to Mega Retail and/or Hyper Hyper may not exceed 80,000 square meters.

The forgoing lease agreements are "net lease" that is, the lessee pays all applicable payments and charges for the possession of the leased property and the usage during the lease period.

At BSRE's request to clarify the implementation of lease agreements dated June 23, 2006 and August 13, 2006 between Mega Retail and BSRE, Mega Retail confirmed that in the event of a sale or lien of any of the transferred assets, the following would apply:

(i) BSRE would assign to the buyer all of BSRE's rights and commitments towards Mega Retail under the lease agreements and the following would apply:

- Mega Retail would enter into a separate lease agreement with the buyer of the transferred asset, the terms of which would reflect the terms appear in the BSRE-Mega Retail lease agreements, with the necessary adjustments.
- The base rent ascribed to the transferred asset in the separate lease agreement will be in the amount that was determined by BSRE, as recommended by an independent assessor, linked to the CPI from January 1, 2006, plus 9% of the amount invested by BSRE in the transferred asset from January 1, 2006 and thereafter. The rent paid by Mega Retail to the buyer would be reduced from the lease payment paid by Mega Retail to BSRE under their lease agreement.

(ii) The rent paid for the transferred asset would be reduced (commencing from the day of initial payment to the buyer) from the rent paid by Mega Retail to BSRE for all leased properties by Mega Retail prior to any of sale or lien of assets in a manner that as a result of any sale or lien of an asset, there would be no change in the amount of the rent paid by Mega Retail for all assets leased to Mega Retail.

Service Agreement

Pursuant to an agreement entered in August 2006, effective as of January 1, 2006, the Company provides to BSRE (directly or through its subsidiaries) the following services: Chairman of the board of directors services, financial and accounting management services (including bookkeeping), computer management and maintenance service, legal consulting and corporate secretary services, office space and related office services, and internal audit services. In consideration for these services, BSRE initially paid the Company an annual amount of NIS 2.5 million. In the event of the appointment of a Chairman of the board of directors of BSRE which is not an office holder of the Company, BSRE will bear the related cost, and the consideration payable under the agreement will be reduced to NIS 2 million. In addition, BSRE may request maintenance services and will pay additional consideration for such services in the amount of the direct costs to the Company plus 2%.

The consideration was based on an estimate of the Company total costs for these services attributable to BSRE. The consideration is linked to changes to the Israeli CPI (since December 2005). Commencing from 2007, the consideration is increased each year by an amount equal to 0.2% of the difference between (x) the cost of BSRE assets (prior to depreciation and amortization) ("BSRE Asset Cost") at the end of the preceding year and (y) the BSRE Asset Cost as of December 31, 2005, linked to changes to the Israeli CPI plus VAT. In 2009, in consideration for the foregoing services, BSRE paid the Company an annual amount of NIS 3.1 million.

The agreement is for an initial term of five years (as of January 1, 2006) and will be extended from time to time upon the parties' consent for additional five-year terms (or such other period agreed to by the parties at the extension date). The Company may terminate the agreement during the agreement term upon six months' prior notice.

Agreement with respect to the Allocation of Various Insurance Expenses

Pursuant to agreement entered on August 13, 2006, insurances obtained by BSRE, such as: elementary insurance including, structure insurance, insurance for independent contractors, funds insurance, third party liability insurance and employers liability insurance will be obtained within the group policy of the Blue Square group. The insurance costs and expenses are allocated between the parties in accordance with different ratios determined by the parties depending on the insurance involved.

Deposit of Cash Balances Agreement

Pursuant to the agreement entered in August 2006, BSRE may, with the Company's consent from time to time, deposit funds with the Company and receive in return funds in an ON CALL terms (on an on-demand basis). The amount of funds lent from each party to the other party may not exceed NIS 200 million at any time. Under the agreement no collateral is granted in exchange for the deposited funds. The interest paid by each party for funds received according to this arrangement will be at a rate equivalent to the rate that the Company is charged by banks in such month for ON CALL credit (short-term loans) on a monthly weighted average basis. The term of the agreement was two years from its approval by the shareholders of BSRE (February 28, 2007), and may be terminated by either party upon seven days' prior notice. On January 8, 2009 BSRE's audit committee and board of directors approved an extension of the agreement for an additional two years until February 27, 2011.

In addition, the Company and BSRE entered into an agreement with respect to transfer of employees from the Company to BSRE.

Ordinary Course Transactions

From time to time, Blue Square enters into agreements and engages in transactions in the ordinary course of business with its subsidiaries and affiliates, such as for the purchases of merchandise, gasoline purchase agreements, including in connection with the operation of our gasoline station(s) and gas supply agreements with the Alon Group, joint sales and marketing promotions and legal consulting. Some subsidiaries enter into agreements and engage in transactions with other subsidiaries and affiliates of Blue Square.

The terms and conditions of all of these agreements and transactions are at “arm’s-length.” We intend to enter into similar agreements and to engage in similar transactions in the future. In addition to ordinary course agreements and transactions, Blue Square and certain of its affiliates have entered into other agreements and transactions.

Arrangements between Mega Retail and BSRE

In connection with the reorganization of the Company's real estate activities, the Company's wholly-owned subsidiary, Mega Retail, transferred all of the real estate property (and related leases) held by it and its subsidiaries to BSRE (the "Real Estate Transfer") on September 13, 2009 and, pursuant to the approval of the Israeli Tax Authority, was effective as of March 31, 2009. The Real Estate Transfer was approved by BSRE's shareholders at BSRE's extraordinary general shareholder meeting held on February 18, 2009. Following discussions between Mega Retail and BSRE and the Israeli Tax Authority regarding the structure of the real estate reorganization, the Israeli Tax Authority granted an approval pursuant to which the transaction would be performed as a split pursuant to Section 105 of the Israel Income Tax Ordinance. Under such approval, Mega Retail transferred to BSRE the real estate properties for an aggregate consideration of approximately NIS 463 million, based on an appraisal by an independent appraiser, and as part of the consideration for the transaction, BSRE assumed Mega Retail's financial liabilities to a bank in an amount of approximately NIS 390 million that were attributed to the transferred properties and paid us in cash the balance of NIS 68 million, representing the difference between the value of the transferred properties (less certain expenses associated with the transfer) and the assumed liabilities.

BSRE financed the assumption of the liabilities by paying the bank NIS 140 million and entering into a loan agreement with the bank for a 15-year loan for the remaining amount of NIS 250 million. Pursuant to the loan agreement, BSRE must comply with certain financial terms and covenants. The principal of the loan will be repaid at a rate of 6.5% of the principal per year. The interest on the loan for the first five years is at a rate of 4.8% per year and the interest on the loan for the next five years will be calculated based on the weighted average rate of return on government bonds (as defined in BSRE's agreement with the bank) plus a margin of 4.4%. The interest payable on the loan after ten years will be determined by agreement between BSRE and the bank, or if no such agreement is reached, based on the standard interest rate for a loan of the type this type for a company like BSRE. In addition, BSRE has pledged 15 of the transferred properties (including income from the lease agreements with Mega Retail) as collateral for the loan and agreed that it will not grant any floating charge on its assets without prior consent from the bank.

Pursuant to the terms of the Real Estate Transfer, BSRE purchased from Mega Retail 17 of the Company's supermarket stores, 50% of a commercial center in Be'er Sheva that is leased to third parties, the Company's distribution and logistics center and warehouses and an office building used by the Company, which includes one supermarket store.

BSRE purchased the real estate from Mega Retail "as is" at the date of the closing, with no representations or warranties made by Mega Retail, other than limited exceptions. In addition, Mega Retail agreed to obtain any third party consents, to the extent necessary in order to complete the transaction.

Mega Retail agreed to pay any tax or levy in connection with the sale of the properties, and BSRE agreed to pay the purchase tax and any other tax or levy in connection with the purchase of the properties. Pursuant to the Tax Authority approval, the purchase tax is 0.5% of the purchase price, or approximately NIS 2.5 million. However, if the purchase tax is above 0.5% of the purchase price, then BSRE and Mega Retail agreed to each pay half of the purchase tax in excess of 0.5%. In any event, the portion paid by BSRE will not exceed NIS 14 million.

Pursuant to the Israeli Tax Authority approval, the cost basis and the purchase date of the transferred assets by BSRE will be as they had been prior to the split in the possession of Mega Retail. Therefore, and contrary to the terms of the transaction as originally contemplated by BSRE and Mega Retail, the entire fair value of the assets transferred to BSRE will not be recognized as a cost basis for tax purposes. As a result, BSRE and Mega Retail entered into an indemnification agreement pursuant to which Mega Retail agreed to compensate and indemnify BSRE for the tax effect of the difference between the actual cost of the assets transferred and the cost of such assets for tax purposes, such that the tax liabilities and tax benefits to BSRE (with regard to the sale of the transferred assets and with regard to the depreciation component of the transferred assets) would be the same as if the entire fair value of the transferred assets had been recognized as a cost for tax purposes by BSRE. The tax component for the above mentioned difference is estimated at approximately NIS 32 million, calculated based on the assumption that all the transferred assets would be sold close to the date on which the transfer of the assets was completed (although there is no certainty if and when such assets would be sold) in accordance with the current tax rates.

Pursuant to the indemnification agreement, (a) Mega Retail will pay BSRE in cash once a year and no later than at the end of each taxable year, an amount equal to the net tax component for that year, for the depreciation with respect to the difference between the assessment of the fair value of the transferred assets for the purpose of the transaction, and the actual cost to BSRE of such assets for tax purposes on the date on which the transferred assets were transferred; and (b) in the event that one of the transferred assets is sold by BSRE, then, no later than on the date on which the tax for such sale is due by BSRE, Mega Retail will pay BSRE in cash an amount equal to the difference between the actual tax that is due for the sale of the asset and the tax that would have been due had the value of the transferred asset sold (less the depreciation for which indemnification was actually provided by Mega Retail according to (a) above) been recognized as cost to BSRE for tax purposes on the date on which the transferred assets were transferred. The calculation of the difference described in clause (b) will not take into account the effect of deductible expenses that were incurred by BSRE. Mega Retail has not provided any security to guarantee its indemnification obligations under the indemnification agreement.

In addition, in connection with the transfer of Mega Retail's real estate assets to BSRE, Mega Retail and BSRE also entered into the following agreements:

Agreements with Respect to Properties Operated by Mega Retail

As part of the Real Estate Transfer, all of the real estate property used by Mega Retail prior to the Real Estate Transfer is leased back by BSRE to Mega Retail for Mega Retail's retail activities under terms similar to existing lease agreements between BSRE and Mega Retail and existing lease agreements between BSRE and Blue Square that were previously transferred to Mega Retail.

Pursuant to the agreement, Mega Retail leases from BSRE 16 supermarket stores, the Company's distribution and logistics center and warehouses in Rishon Le'tzion and an office building used by the Company, which includes one supermarket store (the "Properties"). Mega Retail leases the Properties for an initial period (the "Initial Lease Period") of at least 10 years commencing on March 31, 2009. The agreement would automatically be extended for an additional five-year term unless terminated by written notice, by Mega Retail, no less than 24 months prior to the end of the Initial Lease Period. The annual rent for the Initial Lease Period of the supermarkets will be equal to the higher of 2% of the annual turnover of that store or 9% of the amount invested in that store by BSRE (as calculated in accordance with the agreement) (the "Amount of the Investment"), which amount will be linked to changes in Israel's consumer price index. The annual rent during the Initial Lease Period for assets that are not used for supermarkets will be 9% of the amount invested in the property by BSRE which amount will be linked to changes in Israel's consumer price index.

The agreement provides for these additional provisions:

- Upon 12 months' notice, at the time of the extension of the agreement, Mega Retail may reduce the number of the Properties subject to the agreement, provided that the rental payments for such properties (according to the average rental payments for the two years preceding the extension date) does not exceed 15% of the total rent payments for all leased properties.
- Upon 12 months' notice, Mega Retail may terminate the lease of some of the leased properties prior to the end of the Initial Lease Period, provided that the aggregate area of such properties does not exceed 5% of the total area of the properties that were leased to Mega Retail as of the beginning of the Initial Lease Period. However, in any event, such right of termination does not include the right to terminate the lease agreement of the distribution and logistics center and warehouses in Rishon Le'tzion.
- Upon 12 months' prior notice, BSRE may shorten or temporarily suspend the lease of certain Properties (specified in the agreement) to the extent required to develop or build on the land on which such Properties are located, or to the extent required to sell the land on which such Properties are located. Such right to shorten or temporarily suspend the lease of such Properties is subject to the condition that, as of the date on which Mega Retail must vacate the premises, BSRE must have obtained a building permit for such development or building and/or BSRE must have signed an agreement to sell such property, as the case may be.
- Upon 12 months' prior notice, BSRE may shorten or temporarily suspend the lease of any four Properties (three during the Initial Lease Period and one during the extension term) to the extent required to develop or build on the land on which such Properties are located, subject to the conditions that (i) as of the date on which Mega Retail must vacate the premises, BSRE must have obtained a building permit for such development or building, and that (ii) BSRE must bear the costs of vacating the premises and provide a substitute store, at the same location, with similar characteristics at its own expense within 24 months of Mega Retail vacating the premises.
- Mega Retail will be entitled to sub-lease any of the Properties, subject to the condition that Mega Retail will remain liable for the fulfillment of all the provisions of the agreement, jointly and severally with the substitute tenant.
- BSRE is entitled, to add building areas on each of the Properties to the extent permitted by the town planning schemes which apply and/or may apply in the future. In the event that, pursuant to this provision, BSRE plans to add building areas on the property on which the Company's distribution and logistics center in Rishon L'tzion is located, such additional building is subject to the prior consent of Mega Retail. In addition, in the event that BSRE adds buildings to the property on which the Company's offices in Rosh Ha'ayin are located, then, upon six months' notice from the date on which it receives notice from BSRE about BSRE's intention to build on such property, Mega Retail may notify BSRE of Mega Retail's intention to lease the additional buildings under the same terms as the existing lease agreement, with the ten year term beginning on the date on which the new buildings are transferred to Mega Retail's possession.

- Mega Retail is solely responsible for obtaining any permits or licenses required under law to operate the Properties.
- Unless otherwise agreed by the parties, the lease agreement will be a "net lease" such that Mega Retail shall bear any and all payments and costs that arise in connection with the possession and use of the Properties during the lease period.
- In the event that Mega Retail will request to erect and operate small gas stations on certain of the Properties, and BSRE will agree to such request, BSRE will bear the costs of erecting the station, apart from equipment, as shall be agreed by the parties. The costs of erecting the station will be added to the Amount of the Investment for the purpose of determining the annual rent for the Properties, but the income from the sale of gas from such station will not be considered store turnover for purposes of calculating the annual rent.

Arrangements between Mega Retail and Vardinon

In January 2008, we entered into a supply agreement with Vardinon pursuant to which Vardinon is to supply us with a variety of textile products manufactured by Vardinon under a new private label, which are to be designed by us in collaboration with Vardinon. The supply agreement was terminated effective from January 2010. On February 7, 2010, Vardinon's board of directors approved a new services agreement with our subsidiaries Mega Retail and Hyper Hyper, pursuant to which Vardinon is to coordinate between Mega Retail and Hyper Hyper and suppliers of both brand name and non brand name home textile products (the "Suppliers") so that Mega Retail and Hyper Hyper may purchase these products directly from the suppliers. In addition, Vardinon is to provide certain related services to Mega Retail and Hyper Hyper in connection with their agreements with these suppliers. In consideration for the services provided by Vardinon pursuant to the services agreement, Mega Retail and Hyper Hyper agreed to pay Vardinon a services fee in the amount of 12.5% of the amount of the invoices issued to Mega Retail and Hyper Hyper by the Suppliers plus VAT, subject to certain limitations. The services agreement was approved by Vardinon's shareholders at a shareholder meeting held on March 28, 2010. The term of the agreement is for five years beginning on March 28, 2010, and may be terminated by either party by three months prior written notice.

Arrangements with Tnuva

We purchase most of our dairy, fresh produce and poultry products from the Tnuva corporation, which holds a leading position in the domestic dairy and poultry markets. To our knowledge, some of the collective acquisition entities of kibbutzim in Israel that hold shares of Alon, our indirect controlling shareholder, hold 21.5% of the shares of Tnuva. In addition, our director, Yitzhak Bader, also serves as a director on the board of directors of Tnuva. In 2009, Tnuva’s products accounted for approximately 14.4% (which percentage includes for the first time, data for Tnuva's subsidiary, Tirat Zvi) of all the products sold at our supermarkets. These arrangements are in the ordinary course of our business, and the terms and conditions of these arrangements are at "arm's-length".

Employment Agreement with Moran Wiessman

Beginning in January 2009, Ms. Moran Wiessman has been employed as a process engineer by our 85% subsidiary Bee Group. Ms. Wiessman is the daughter of Mr. David Wiessman, our executive chairman of the board of directors, who may be considered a controlling shareholder of the Company. Ms. Wiessman receives a monthly salary of NIS 10,000, a cell phone at the expense of Bee Group, and a monthly car maintenance allowance of NIS 600 plus gas expenses; alternatively, Bee Group is entitled to assign a car to Ms. Wiessman as customary in Bee Group for employees at the same level. In addition, Ms. Wiessman is entitled to standard social allocations by Bee Group (5% for provident fund, 8.33% for severance payments and 1% for disability insurance) and other social benefits that standard for an employee in her position.

Salary increases or bonuses shall be granted as is customary in Bee Group based on the professional performance of Ms. Wiessman. Ms. Wiessman's monthly salary may be increased by Bee Group management up to 20% annually, but any monthly salary (on an average basis, including bonuses) above NIS 18,000 requires the approval of our audit committee, board of directors and general meeting of shareholders. Bee Group management is entitled to grant Ms. Wiessman an annual bonus as is customary in Bee Group of only up to six monthly salaries a year. The grant requires the approval of our audit committee that will confirm that the bonus was given according to the grant's policy in Bee Group.

The employment agreement with Ms. Wiessman was approved by our audit committee, board of directors and the general meeting of shareholders.

C. Interests of Experts and Counsel.

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

The financial statements required by this item are found at the end of this Annual Report, beginning on page F-1.

Board Resolution on Dividend Distributions

In connection with our issuance of NIS 400 million in aggregate principal amount of unsecured 5.9% convertible and nonconvertible debentures in August 2003, Blue Square’s board of directors resolved that Blue Square would not distribute dividends in any quarter if the ratio of our net financial obligations (as defined by S&P-Maalot, an Israeli rating agency owned by S&P) to EBITDA for any quarter exceeds 3.5 until June 30, 2006 or exceeds 3.0 thereafter. Blue Square’s board of directors also resolved that Blue Square would not distribute dividends in any quarter if the ratio of the unencumbered fixed assets (following depreciation) and investment property as set forth on our financial statements to financial obligations (as defined by S&P-Maalot) for any quarter is below 120%. At the time of the issuance of our debentures, S&P-Maalot informed us that the rating was based among other things upon the Board of Directors resolution and a change in this resolution may lead to a change of the rating on our 5.9% unsecured debentures.

On January 14, 2010, Blue Square's board of directors decided that in view of the changes and development of Blue Square since 2003, including the transfer of Blue Square's and Mega Retail's real estate properties to BSRE (which operates under financial obligations to EBITDA ratios appropriate for real estate companies and currently holds a major part of the consolidated debt), the purchase of Bee Group (a Non Food retailer), and the reorganization of Blue Square's food retail activities in its subsidiary, Mega Retail Ltd., that the ratio of net financial obligations to EBITDA is to be calculated by deducting from the net financial obligations Blue Square's debt which is related by the company to real estate that is not in use by Blue Square (which is equal to 75% of the investment property as recorded on the balance sheet). On December 31, 2009, the net financial obligations to EBITDA (calculated in accordance with the deduction described above) was less than 2.0. Our board of directors further resolved that Blue Square would not distribute dividends in any quarter if the ratio of our net financial obligations (calculated in accordance with the deduction described above) to EBITDA for any quarter exceeds 4.5.

Within the framework of our proposed acquisition from Alon of all of Alon's approximately 80% holdings in Dor Alon, the audit committee and board of directors of Blue Square approved the distribution of a dividend (after the share issuance to Alon) to Blue Square's shareholders not out of profits, of NIS 800 million, or approximately US\$ 208.9 million (based on the representative rate of exchange on May 31, 2010), which represents a dividend of approximately NIS 12.32, or approximately \$3.22 (based on the representative rate of exchange on May 31, 2010), per ordinary share of Blue Square (after taking into account the shares to be issued to Alon in the acquisition). For further information regarding the acquisition see “Item 7. Major Shareholders and Related Party Transactions – Proposed Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD.”

Legal Proceedings

We are subject to legal proceedings in connection with recognition of finance expenses.

In 2005, the Income Tax Authority issued to the Company tax assessment orders for the years 1999-2001 alleging that certain finance expenses in the amount of approximately NIS 17 million are not to be recognized for tax purposes on the basis that such expenses were associated with loans incurred for the purpose of distributing a dividend. In 2005, the Company filed an appeal with the District Court contesting these assessments. In January 2009, the appeal was accepted with the consent of all parties.

We are subject to legal proceedings in connection with tax assessments.

In July 2005, the Income Tax Authority issued a notice of a deduction assessment for the years 2001- 2004 to the Company. The amount claimed under these assessments totaled NIS 34 million, and primarily relates to certain benefits granted to employees in the Company’s branches. In November 2005, several senior employees were questioned under warning, with respect to these benefits. Following these assessments and after the rejection of the Company's position on the matter, Income Tax Authority issued to the Company deduction assessment orders for the years 2001- 2004 in the amount of approximately NIS 44 million. The Company filed appeals with the District Court contesting these assessment orders which as of the date of this Annual Report are still pending. In the opinion of the Company and its advisors, the provisions included in the Company financial statements are sufficient to cover the potential liabilities.

In July 2007, the Israeli Tax Authority issued to the Company Value Added Tax assessment for the years 2001- 2006 in the amounts of approximately NIS 22 million in connection with the subject matter of the foregoing deduction assessments. The Israeli Tax Authority did not accept most of the Company's position, although it agreed to deduct the total amount to approximately NIS 16.3 million. In February 2009, the Company filed an appeal with the District Court, which as of the date of this Annual Report is still pending. In the opinion of the Company and its advisors, the provisions included in the Company financial statements are sufficient to cover the potential liabilities.

Restrictive Trade Practices Inquiry

On January 5, 2005, the Commissioner of the Israeli Antitrust Authority issued his final position regarding “commercial restrictive practices between the dominant food suppliers and the major supermarket chains.” Following a meeting with the Commissioner in March 2005, the Commissioner delivered to us and to the other major chains a draft of a proposed consent decree with respect to the disputed issues. Please see “Item 4. Information on Blue Square - B. Business Overview - Government Regulation”.

We are subject to inquiries in connection with alleged reduction by suppliers of the weight and/or contents of packaged products

During 2006, several of our employees were questioned by a Ministry of Industry, Trade and Labor representative with respect to the practice of various suppliers that reduce the weight and/or contents of certain packaged products, but do not reduce the size or change the appearance of the packages or reduce the prices of such products. The allegation is that these practices mislead the consumer because they are not informed of the reduction in weight and/or content of the products. As of the date of this Annual Report, a number of class actions have been filed against certain of our suppliers in connection with the reduction of weight and/or content of products. The Company believes that it has acted in accordance with applicable law in this regard.

We are subject to legal proceedings in connection with business licenses

As of May 31, 2010, 34 of our supermarket stores and four of our Eden Teva stores have no valid business permits/license. In 2009, as in previous years, we and some of our directors and managers were indicted in connection with business licenses and planning and building regarding some of our supermarkets stores. As of May 31, 2010, there are provisional closure orders pending against two of our supermarket stores. We are working towards obtaining the required permits and at the same time delaying the effectiveness of the provisional orders until such required permits are obtained. We estimate that neither the temporary lack of permits nor the provisional closure orders will have material adverse effect on our operation.

We may be subject to a class action in connection with the Restrictive Trade Practices Law, 1988

In June 2008, a claim was filed against our subsidiary, Blue Square Chain (Hyper Hyper) Ltd. and other defendants, in connection with the marketing of ink cartridges. The plaintiffs have requested to certify the claim as a class action. The claim alleges that the defendants coordinated the prices of certain Hewlett-Packard ("HP") ink cartridges sold by them in a manner that allegedly constitutes an agreement in restraint of trade. According to the claim, the defendants allegedly sell HP ink cartridges for a higher price than the price charged for such ink cartridges by smaller retailers. The plaintiff's personal claim is estimated at NIS 496, and if the claim is certified as a class action, the approximate claim against all the defendants is estimated by the plaintiff at NIS 81 million. The claim requests a declaratory relief of an agreement in restraint of trade, monetary compensation and an injunction to stop the alleged price coordination. Hyper Hyper denied all foregoing allegations. On October 29, 2009, the request for certification as a class action was withdrawn by the plaintiffs with respect to Hyper Hyper.

We may be subject to a class action in connection with the Fifteenth Amendment to the Pharmacists Directive [new edition] 1981.

On September 14, 2009 the Company was served with a claim and a request for approval as a class action, in which the Company is being sued regarding the sale of cosmetics and perfume products without marking the expiry date or the allowed period of use after opening the product, as is allegedly obligatory pursuant to the Fifteenth Amendment to 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 issue an injunction forbidding the Company from selling such products without the marked expiry date or the maximum allowed period of use after opening. The Company and the plaintiff signed a settlement agreement pursuant to which the Company will pay to the plaintiff an amount not material to the Company. The settlement agreement is subject to court approval.

We may be subject to a class action in connection with alleged misrepresentations in connection with a product under our "Mega" private label.

On December 8, 2009, the Company was served with a claim and a request for approval as a class action 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. On April 28, 2010, the claim was dismissed following an agreement reached by the Company and the plaintiff.

We may be subject to class actions in connection with the grant of discounts to "YOU" card holder.

In February 2010, the Company was served with a claim and a request for approval as a class action in which the Company is being sued regarding the grant of discounts to "YOU" card holders. The plaintiffs have requested to certify the claim as a class action. The claim alleges that during a period of time unknown to the plaintiff, the Company held a special sale in which customers of Mega that are members of the YOU club loyalty plan will receive an additional discount of 10% on the sale price of certain products, and such discount was not granted fully as advertised. The plaintiff's personal claim is estimated at NIS 3.10, and if the claim is certified as a class action, the approximate claim is estimated by the plaintiff to be at least NIS 2 million. The Company is currently reviewing the claim and denies all above allegations; however, at this preliminary state of the proceedings, we are unable to evaluate its likelihood of success in the proceedings, including the likelihood that the claim will be certified as a class action. We will continue to assess this matter as the request for the class action develops.

On March 2010, the Company's wholly owned subsidiary Mega Retail Ltd. and its "YOU" customer loyalty plan were served with a claim and a request for approval as a class action (the "Claim"), in which they are sued together with Dor-Alon Energy In Israel (1988) LTD. (which holds 25% of the customers club) regarding the grant of discounts to "YOU" card holders in certain stores of "Alonit" chain. The Claim requests that the customer loyalty plan return discount amounts that according to the Claim should have been granted to "YOU" card holders who purchased in certain Alonit stores and did not receive a discount, or received a discount of 5% instead of allegedly Claimed discount of 10%. The plaintiff's personal Claim is estimated by him at approximately NIS 130, and if the Claim is approved as a class action, the approximate Claim is estimated by the plaintiff at approximately NIS 49.4 million. In addition, the plaintiff requests a declaratory relief according to which the customers club must grant a 10% discount in all Alonit chain stores. The Company is currently reviewing the Claim and denies all above allegations; however, at this preliminary state of the proceedings, we are unable to evaluate its likelihood of success in the proceedings, including the likelihood that the claim will be certified as a class action. We will continue to assess this matter as the request for the class action develops.

We may be subject to a class action in connection with the Deposit on Drink Containers Law 1999.

During January 2009, the Company was served with a claim and a request for approval as a class action, in which it is being sued regarding the return of a credit note instead of cash, in accordance with the Deposit on Drink Containers Law 1999. The Claim alleges that Blue Square has to return cash returns to customers returning empty reusable bottles according to the law, while in fact instead of returning cash returns, it gives the customers a credit note. The plaintiff's personal claim is estimated at NIS 51.75, and if the claim is approved as a class action, the approximate aggregate claim is estimated by the plaintiff at NIS 5.8 million. 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 were both dismissed by the court upon the plaintiff's request.

We are in the process of arbitration proceedings in connection with our holdings in our Bee Group subsidiary, Dr. Baby Ltd.

Certain shareholders of Dr. Baby Ltd., or Dr. Baby, and its former general manager, are disputing the issuance of an additional 5,000 shares of Dr. Baby to Bee Group for an aggregate consideration in the amount of NIS 19.5 million, which resulted in the dilution of their holdings, and the dismissal of the former general manager of Dr. Baby. As a result of the issuance, Bee Group's holdings in Dr. Baby increased by an additional 48.1% to 98.08%. The shareholders and the former general manager are demanding that the issuance will be cancelled, or alternatively, that Bee Group will compensate them with a payment in the aggregate amount of NIS 15 million. The dispute is in the process of a hearing before an arbitrator.

Other proceedings

In 2006, we were indicted in connection with discrepancies between the prices appearing on products, and the prices charged by the cash register at the point of sale. In 2007, Blue Square, Mega Retail and several branches managers were convicted in a plea bargain approved by the Court. Pursuant to the plea bargain Blue Square and Hyper Hyper were each fined NIS 70,000, in addition to a provisional fine of NIS 25,000 (each) in the event they will breach their undertaking not to commit the same offenses within three years. See “Item 4. Information on Blue Square - B. Business Overview - Government Regulation”.

As of the date of this Annual Repot two indictments were filed against our company and Hyper Hyper regarding violation of *the Consumer Protection Law*, in connection with discrepancies between the prices appearing on products, and the prices charged by the cash register at the point of sale, way of presenting sales and other benefits and discrepancies in prices as a result of a failure in a certain product's bar code. As of the date of this Annual Report these indictments are still pending in court.

We are involved in various other legal or other proceedings incidental to the ordinary course of our business. We do not believe that any of these proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial position or operating results.

Independent Accountants

On July 9, 2009, Blue Square shareholders approved the reappointment of Kesselman & Kesselman as our auditors for the year ending December 31, 2009. Kesselman & Kesselman has no relationship with us or with any affiliate of us, except as auditors. At a shareholder meeting scheduled for June 28, 2010, Blue Square shareholders will vote on the reappointment of Kesselman & Kesselman for the year ending December 31, 2010.

B. Significant Changes.

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2009.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details.

ADSs

The following table sets forth the annual high and low closing prices for Blue Square’s ADSs for the five most recent full financial years as reported by the New York Stock Exchange.

Year	High		Low	
2005	\$	11.3	\$	8.5
2006	\$	14.8	\$	9.8
2007	\$	20.0	\$	11.6
2008	\$	14.4	\$	5.6
2009	\$	11.2	\$	5.3

The following table sets forth the quarterly high and low closing prices for Blue Square’s ADSs for each quarter of the two most recent full financial years and the subsequent quarterly period, as reported by the New York Stock Exchange.

<u>Year</u>	<u>High</u>	<u>Low</u>
2008		
First quarter	\$ 13.9	\$ 9.8
Second quarter	\$ 14.4	\$ 9.5
Third quarter	\$ 12.5	\$ 9.7
Fourth quarter	\$ 9.9	\$ 5.6
2009		
First quarter	\$ 7.5	\$ 5.3
Second quarter	\$ 9.2	\$ 5.8
Third quarter	\$ 9.9	\$ 8.1
Fourth quarter	\$ 11.2	\$ 9.5
2010		
First quarter	\$ 13.3	\$ 10.2
Second quarter (until June 18, 2010).	\$ 13.6	\$ 10.8

The following table sets forth the monthly high and low closing prices for Blue Square’s ADSs for the last six months, as reported by the New York Stock Exchange.

<u>2009</u>	<u>High</u>	<u>Low</u>
November	\$ 11.2	\$ 9.6
December	\$ 11.2	\$ 9.5
2010	<u>High</u>	<u>Low</u>
January	\$ 11.2	\$ 10.2
February	\$ 11.6	\$ 10.2
March	\$ 13.3	\$ 11.2
April	\$ 13.6	\$ 12.2
May	\$ 13.1	\$ 11.1
June (until June 18, 2010)	\$ 11.9	\$ 10.8

Ordinary Shares

The following table sets forth the annual high and low closing prices for Blue Square’s ordinary shares for the years 2005 to 2009 as reported by the Tel Aviv Stock Exchange. Shares are traded on the Tel Aviv Stock Exchange in NIS, and the translation of the NIS to dollars has been made at the representative exchange rate of exchange on the last day of each period, as published by the Bank of Israel.

<u>Year</u>	<u>High</u>		<u>Low</u>	
	NIS	\$	NIS	\$
2005	53.8	11.7	38.6	8.4
2006	62.6	13.6	46.8	10.2
2007	78.8	20.5	45.9	11.9
2008	52.4	13.8	21.4	5.6
2009	42.9	11.4	23.0	6.1

The following table sets forth the quarterly high and low closing price for Blue Square’s ordinary shares for the quarters set forth below, as reported by the Tel Aviv Stock Exchange. The translation into dollars has been made at the representative rate of exchange on the last day of each period, as published by the Bank of Israel.

2008	High		Low	
	NIS	\$	NIS	\$
First Quarter	52.4	14.8	33.8	9.5
Second Quarter	46.0	13.7	32.5	9.7
Third Quarter	41.0	12.0	34.7	10.1
Fourth Quarter	34.7	9.1	21.4	5.6
2009	High		Low	
	NIS	\$	NIS	\$
First Quarter	29.4	7.0	23.0	5.5
Second Quarter	36.4	9.3	24.9	6.4
Third Quarter	36.7	9.8	32.2	8.6
Fourth Quarter	42.9	11.4	35.4	9.4
2010				
	NIS	\$	NIS	\$
First Quarter	50.1	13.5	38.1	10.3
Second Quarter (until June 17, 2010)	49.4	13.0	41.0	10.7

The following table sets forth the monthly high and low closing prices for Blue Square’s ordinary shares for the last six months, as reported by the Tel Aviv Stock Exchange. The translation into dollars is based on the representative rate of exchange on the last day of each period, as published by the bank of Israel.

2009	High		Low	
	NIS	\$	NIS	\$
November	42.9	11.3	37.4	9.9
December	41.9	11.1	36.4	9.6
2010	High		Low	
	NIS	\$	NIS	\$
January	41.8	11.2	38.1	10.2
February	42.5	11.2	39.7	10.5
March	50.1	13.5	43.0	11.6
April	49.4	13.3	46.4	12.5
May	48.5	12.7	44.2	11.5
June (until June 17, 2010)	45.7	12.0	41.0	10.7

For additional information on our ordinary shares, see “Item 10. Additional Information - B. Memorandum and Articles of Association - Description of Securities - Ordinary Shares.

B. Plan of Distribution.

Not applicable.

C. Markets.

Our ADSs, each representing one ordinary share and evidenced by an American depositary receipt, or ADR, have been traded on the New York Stock Exchange, Inc. under the symbol “BSI” since July 1996. The ADRs were issued pursuant to a Depositary Agreement Blue Square entered into with The Bank of New York.

On November 2000, our ordinary shares began trading also on the Tel Aviv Stock Exchange.

D. Selling Shareholders.

Not applicable.

E. Expenses of the Issue.

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital.

Not applicable.

B. Memorandum and Articles of Association.

Securities Registers

Our transfer agent and register is The Bank of New York Mellon (f/k/a The Bank of New York) and its address is 1 Wall Street, New York, New York 10286.

Objects and Purposes

According to Section 4 of our Articles of Association the company shall engage in any legal business. Article 3 of our Articles of Association provides that our purpose is to act pursuant to business consideration to make profit. The company may contribute a reasonable amount for an appropriate object even if the contribution is not within the said business considerations.

Private Placements

Under Blue Square’s Articles of Association, resolutions of the board of directors regarding a private placement of Blue Square’s shares constituting, or securities convertible into, more than ten percent of our outstanding share capital require the approval of Blue Square’s shareholders. With respect to the aforesaid, securities convertible or exercisable into shares are deemed to have been converted or exercised on the date of their issue.

Under the Israeli Companies Law, if (i) as a result of a private placement a person would become a controlling shareholder or (ii) a private placement will entitle 20% or more of the voting rights of a company before the placement, and all or part of the private placement consideration is not in cash or in public traded securities or is not in market terms and if as a result of the private placement the holdings of substantial shareholder shall increase or as a result of it a person shall become a substantial shareholder, then in either case, the allotment must be approved by the board of directors and by the shareholders of the company. A “substantial shareholder” is defined as a shareholder that holds five percent or more of the company’s outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person. In order for the private placement to be in “market terms” the board of directors has to determine, on the base of detailed explanation, that the private placement is on market terms, unless proven otherwise.

Board of Directors

Under Blue Square’s Articles of Association, resolutions by the board of directors shall be decided by a majority of votes of the directors present (or participating, in the case of voting by media) and voting, each director having one vote.

In addition, the Israeli Companies Law requires that certain transactions, actions and arrangements be approved as provided for in a company’s articles of association and in certain circumstances by the audit committee and by the board of directors itself. Those transactions that require such approval pursuant to a company’s articles of association must be approved by its board of directors. In certain circumstances, audit committee and shareholder approval is also required. The vote required by the audit committee and the board of directors for approval of such matters, in each case, is a majority of the directors participating in a duly convened meeting. Under the Israeli Companies Law, the audit committee is to be comprised of at least three members appointed by the board of directors, which members must include all of the external directors, but excluding the chairman of the board of directors, a controlling shareholder or his relative and any director employed by the company or who provides services to the company on a regular basis.

The Israeli Companies Law requires that a member of the board of directors or senior management of the company promptly disclose any personal interest that he or she may have (either directly or by way of any corporation in which he or she is, directly or indirectly, a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager) and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or is likely to have a material impact on the company’s profitability, assets or liabilities), the member of the board of directors or senior management must also disclose any personal interest held by his or her spouse, siblings, parents, grandparents, descendants, spouse’s descendants and the spouses of any of the foregoing.

Once the member of the board of directors or senior management complies with the above disclosure requirement, a company may approve the transaction in accordance with the provisions of its articles of association. Further, under Blue Square’s Articles of Association, subject to the provisions of the Companies Law, (i) a transaction between us and an our officer or a person that controls us or (ii) a transaction between us and another person in which an officer of ours or a person that controls us has a personal interest, which transaction is not in any such case extraordinary (Ordinary Interested Transactions), will be approved by us in the following manner:

By the board of directors, or by the audit committee, or by the Chief Executive Officer with two directors that have no personal interest in the transaction, or by another body authorized by the board of directors, whether such body is authorized by the board of directors by means of a specific resolution or by board practice, or whether such body is granted authority by means of a general authorization, an authorization for a particular type of transaction or an authorization for a particular transaction.

The approval of Ordinary Interested Transactions by the bodies or persons may be done by means of an approval of a particular type of transaction or an approval of a particular transaction. The approval must confirm that the transaction is not adverse to the company’s interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the Articles of Association, it also must be approved by the company’s audit committee and then by the board of directors, and, under certain circumstances, by a meeting of the shareholders of the company. Under the provisions of the Israeli Companies Law, a director who has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter, unless it is not an extraordinary transaction as defined in the Israeli Companies Law. However, if the majority of the directors have a personal interest in a matter, they shall be allowed to participate and vote on this matter, but an approval of the transaction by the shareholders in the general meeting shall be required.

Blue Square’s Articles of Association provide that, subject to the Israeli Companies Law, all actions executed in good faith by the board of directors or by a committee thereof or by any person acting as a director or a member of a committee of the board of directors will be deemed to be valid even if, after their execution, it is discovered that there was a flaw in the appointment of these persons or that any one of these persons was disqualified from serving at his or her office.

The Articles of Association provide that the board of directors may delegate all of its powers to such committees of the board of directors as it deems appropriate, subject to the provisions of the Israeli Companies Law, and they may from time to time widen, narrow or cancel the delegation of such power. The Israeli Companies Law provides that certain powers of the board of directors may not be delegated by the board of directors. See “Item 6. Directors, Senior Management and Employees - C. Board Practices - Committees.”

According to the Israeli Companies Law, a contract of a company with its directors, regarding their conditions of service, including the grant to them of exemption from liability from certain actions, insurance, and indemnification as well as the company's contract with its directors on conditions of their employment, in other capacities, require the approval of the audit committee, the board of directors, and the shareholders.

Description of Securities

Ordinary Shares

The following is a description of our ordinary shares. Our authorized share capital is 100,000,000 ordinary shares, par value NIS 1.0 per share.

The ordinary shares do not have preemptive rights, preferred rights or any other right to purchase the company's security. Neither our Articles of Association nor the laws of the State of Israel restrict the ownership or voting of ordinary shares by non-residents of Israel, except for subjects of countries which are enemies of Israel.

Transfer of Shares. Fully paid ordinary shares are issued in registered form and may be freely transferred pursuant to our Articles of Association unless that transfer is restricted or prohibited by another instrument.

Notices. Under the Israeli Companies Law and our Articles of Association, we are required to publish notices in two Hebrew-language daily newspapers at least 14 calendar days’ prior notice of an ordinary shareholders’ meeting and at least 21 calendar days’ prior notice of any shareholders’ meeting in which the agenda includes matters which may be voted on by voting instruments. Under regulations promulgated under the Israeli Companies Law, however, we are required to publish notice in two daily newspapers at least 35 calendar days prior any shareholders’ meeting in which the agenda includes matters which may be voted on by voting instruments. Regulations under the Israeli Companies Law exempt companies, like Blue Square, whose shares are listed for trading both on a stock exchange in and outside of Israel, from some provisions of the Israeli Companies Law. An amendment to these regulations exempts us from the requirements of the Israeli proxy regulation, under certain circumstances.

According to the Israeli Companies Law and the regulations promulgated thereunder, for purposes of determining the shareholders entitled to notice and to vote at such meeting, the board of directors may fix the record date not more than 40 nor less than four calendar days prior to the date of the meeting, provided that an announcement regarding the general meeting shall be given prior to the record date.

Election of Directors. Our ordinary shares do not have cumulative voting rights in the election of directors. As a result, the holders of ordinary shares representing more than 50% of our ordinary shares and voting power have the power to elect all of our directors, other than our external directors, whose election requires, in addition to the vote of a majority of shareholders, that at least one-third of the non-controlling shareholders who participate in the vote, vote for their nomination, or that less than one percent of the non-controlling shareholders vote against their nomination. Currently, Alon Retail has the power to elect all of our directors other than our two external directors. See Item 3. Key Information - D. Risk Factors - “Alon Retail is able to control the outcome of matters requiring shareholder approval.”

Dividend and Liquidation Rights. Our profits, in respect of which a resolution was passed to distribute them as dividend or bonus shares, shall be paid pro rata to the amount paid or credited as paid on account of the nominal value of shares held by the shareholders. In the event of Blue Square’s liquidation, the liquidator may, with the general meeting’s approval, distribute parts of the company's property in specie among the shareholders and he may, with similar approval, deposit any part of the company's property with trustees in favor of the shareholders as the liquidator, with the approval mentioned above deems fit.

Voting, Shareholders’ Meetings and Resolutions. Holders of ordinary shares are entitled to one vote for each ordinary share held on all matters submitted to a vote of shareholders. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present, in person or by proxy, or who has sent the company a voting instrument indicating the way in which he is voting, who hold or represent, in the aggregate, 50% or more of the voting rights of our outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as prescribed by the board of directors in notice to the shareholders. At the reconvened meeting one shareholder at least, present in person or by proxy constitute a quorum subject to the provisions of section 79 of the Israeli Companies Law.

With the agreement of a meeting at which a quorum is present, the chairman may, and on the demand of the meeting he must, adjourn the meeting from time to time and from place to place, as the meeting resolves.

Annual general meetings of shareholders are held once every year within a period of not more than 15 months after the last preceding annual general shareholders’ meeting. The meeting shall be held at the companies registered offices, unless the board of directors has determined otherwise. The board of directors may call special general meetings of shareholders. The Israeli Companies Law provides that a special general meeting of shareholders may be called by the board of directors or by a request of two directors or 25% of the directors in office, whichever is the lower, or by shareholders holding at least 5% of the issued share capital of the company and at least 1% of the voting rights, or of shareholders holding at least 5% of the voting rights of the company.

An ordinary resolution requires approval by the holders of a majority of the voting rights present, in person or by proxy, at the meeting and voting on the resolution.

Modification of Class Rights. Under Blue Square’s Articles of Association, unless otherwise provided, the rights attached to any class, may be varied after a resolution is passed by general meetings of the shareholders of each class of shares separately or after obtaining the written consent of the holders of all the classes of shares.

Allotment of Shares. Blue Square’s board of directors has the power to allot or to issue shares to any person, with restrictions and condition, for their nominal value or with a premium, as it deems fit.

Private Placements

For information on private placements, see “Item 10. Additional Information - B. Memorandum and Articles - Private Placements.”

C. Material Contracts.

Purchase of Additional Shares in the Bee Group

On August 3, 2008, we entered into an agreement with the holders of 40% of the shares of Bee Group (the "Sellers") to purchase an additional 9,354 ordinary shares and 650 preferred shares of Bee Group, increasing our holdings in Bee Group by 25% to 85% of the shares of Bee Group, for consideration of NIS 35.4 million (\$9.8 million at that time). The remaining 15% of the shares of Bee Group, which consist of 5,996 shares (including 150 preferred shares) (the "Remaining Shares"), were converted into ordinary shares of Bee Group on the transaction closing date (the "Closing Date"). In addition under the agreement, we have a call option to purchase the Remaining Shares from the Sellers during the five-year period from the date of the Closing Date for consideration in the amount of NIS 21.24 million plus 7.5% interest per year from the Closing Date and until the date on which the call option is exercised. In the event that Bee Group distributes dividends with a record date prior to payment for the exercise of the call option, the exercise price would be reduced by the amount of the dividend in cash plus 7.5% interest per annum for the period from the date of the dividend payment until exercise of the option. The Sellers have a put option to sell their Remaining Shares to us beginning 24 months from the closing date and for a period of 30 days at the same exercise price as the call option.

The Sellers have granted to us a fixed first lien on the Remaining Shares for the period of the call option and up to 21 days after the expiration of the call option. The Remaining Shares will be held in escrow for this period. The Sellers have also given us an irrevocable power of attorney giving us exclusive voting power over the Remaining Shares at Bee Group's general meetings of shareholders.

In addition, the sellers have agreed to non-compete provisions for periods between two to four years. Under the agreement, we agreed to continue to provide officers and directors insurance to Bee Group's officers and directors for a period of seven years from the Closing Date.

In the event that an initial public offering is completed within 36 months from the Closing Date, and Bee Group's shares are registered on the TASE (the "IPO"), we must exercise the call option for the Remaining Shares within three days of commencement of trading of Bee Group's shares on the TASE begins at an adjusted exercise price. The adjusted exercise price of the Remaining Shares would be 15% of the value attributed to Bee Group in the public offering reduced by (a) expenses of the offering and by (b) investments in Bee Group's capital from the Closing Date. In the event that the call or put options are exercised prior to the initial public offering, the sellers would be entitled to the difference, if any, between the adjusted exercise price described above and the exercise price paid plus 7.5% interest per year on the exercise price paid commencing from the date of payment of the exercise price.

For a summary of other material contracts, see “Item 4. Information on The Company - B. Business Overview General”, “Item 4. Information on The Company - B. Business Overview - Related Businesses”, “Item 4. Information on The Company - B. Business Overview – Our Yield Generating Real Estate, “Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Debentures”, “Item 6. Directors, Senior Management and Employees - C. Board Practices - Exemption, Insurance and Indemnification of Directors and Officers - Limitations on Insurance, Exemptions and Indemnification”, “Item 6. Directors, Senior Management and Employees - D. Employees”, “Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions,” and our consolidated financial statements and notes included elsewhere in this Annual Report.

D. Exchange Controls.

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new “general permit” was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under the law and enabled Israeli citizens to freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies.

Dividends, if any, paid to holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

E. Taxation

Israeli Tax Considerations

General

The following is a summary of the current tax laws of the State of Israel as they relate to us and to our shareholders. Also included is a discussion of the material Israeli tax consequences for persons purchasing our ordinary shares or ADSs (the "**Shares**").

This discussion does not purport to be a complete analysis of all potential tax consequences of owning the Shares. In particular, this discussion does not take into account the specific circumstances of any particular investor (such as tax-exempt entities, banks, certain financial companies, broker-dealers, investors that own, directly or indirectly, 10% or more of our outstanding voting rights, or foreign companies, if Israeli residents hold 25% or more of their shares or have the right to 25% or more of their income or profit, all of whom are subject to special tax regimes not covered in this discussion). The discussion is based on legislation yet to be subject to judicial or administrative interpretation, and there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of the Shares, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Reform

On July 24, 2002, the Israeli Parliament enacted income tax reform legislation (the "**2003 Tax Reform**"). The Tax Reform introduced fundamental and comprehensive changes to Israeli tax laws. Most of the legislative changes took effect on January 1, 2003. The Tax Reform introduced a transition from a primarily territorial-based tax system to a personal-based system of taxation with respect to Israeli residents, and resulted in significant amendment of the international taxation provisions, and in new provisions concerning the taxation of capital markets including the abolishment of formerly "exempt investment routes" (e.g., capital gains generated by individuals from the sale of securities traded on the Tel-Aviv Stock Exchange).

It should be noted that under the 2003 Tax Reform legislation, the Shares are no longer regarded and defined as “foreign traded securities” and thus certain associated Israeli tax aspects will accordingly be subject to change as discussed below.

A relatively short time after the 2003 Tax Reform, the Israeli Parliament approved on July 25, 2005 an additional income tax reform legislation (the "**2006 Tax Reform**") pursuant to the recommendations of a committee appointed by the Israeli Minister of Finance, which incorporated additional fundamental changes to Israeli tax law. The 2006 Tax Reform, inter alia, includes a gradual reduction of income tax rates for both individuals and corporations through 2010, and outlines a path towards uniformity in the taxation of interest, dividend and capital gains derived from securities. Most of the amendments to the tax law are effective as of January 1, 2006, subject to certain exceptions. Transition rules apply in certain circumstances.

It should be noted that various issues related to the 2003 Tax Reform and 2006 Tax Reform remain unclear in view of the legislative language utilized. The analysis below is therefore based on our current understanding of the new legislation.

General Corporate Tax Structure in Israel

The corporate tax rate applicable in 2009 was 26%. This rate was reduced to 25% in 2010 and is scheduled to be gradually reduced to 18% by 2016.

Dividends received by an Israeli corporation from Israeli subsidiaries are, generally, exempt from corporate tax.

TAXATION OF SHAREHOLDERS

Capital Gains

Capital gain tax is imposed on the disposal of capital assets by an Israeli resident, and on the disposal of such assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Tax Ordinance distinguishes between "Real Gain" and the "Inflationary Surplus". Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli CPI between the date of purchase and the date of disposal.

The real capital gain accrued by individuals on the sale of an asset purchased on or after January 1, 2003 will be taxed at the rate of 20%. However, if the individual shareholder is a "Controlling Shareholder" (i.e., a person who holds, directly or indirectly, alone or together with another, 10% or more of one of the Israeli resident company's means of control) at the time of sale or at any time during the preceding 12 month period, such gain will be taxed at the rate of 25%. In addition, capital gain derived by an individual claiming deduction of financing expenses in respect of such gain will be taxed at the rate of 25%.

The real capital gain derived by a corporation generally will be subject to tax at the corporate tax rate (25% in 2010 and at the reduced capital gains tax rate of 25% in 2009). Real capital gain derived from the sale of securities (as defined in Section 6 of the Inflationary Adjustment Law) by a corporation that had been subject on August 10, 2005 to the provisions of Section 6 of the Inflationary Adjustment Law, such real capital gain will be taxed at the corporate tax rate (26% in 2009 and 25% in 2010).

However, the capital gain accrued on the sale of an asset purchased prior to January 1, 2003 will be subject to tax at a blended rate. The marginal tax rate for individuals (up to 46% in 2009 and 45% in 2010) and the regular corporate tax rate for corporations (26% in 2009 and 25% in 2010) will be applied to the portion of the gain amount which bears the same ratio to the total gain realized as the ratio which the holding period commencing at the acquisition date and terminating on January 1, 2003 bears to the total holding period. The remainder of the gain realized will be subject to capital gains tax at the rates applicable to an asset purchased after January 1, 2003.

Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (26% in 2009 and 25% in 2010 tax rate for corporations and a marginal tax rate of up to 46% in 2009 and 45% in 2010 for individuals). Notwithstanding the foregoing, if the shareholder is a non-Israeli resident, then such taxation is subject to the provisions of any applicable double tax treaty. Moreover, capital gain derived from the sale of the Shares by a non-Israeli shareholder may be exempt under the Israeli income tax ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the Shares were purchased upon or after the registration of the Shares on the stock exchange (not applicable in respect of Shares purchased on or after January 1, 2009) (ii) the seller does not have a permanent establishment in Israel to which the derived capital gain is attributed, and (iii) if the seller is a corporation, less than 25% of its means of control are held by Israeli resident shareholders. In addition, the sale of the Shares may be exempt from Israeli capital gain tax under an applicable double tax treaty. Thus, the U.S.-Israel Double Tax Treaty exempts a U.S. resident from Israeli capital gain tax in connection with the sale of the Shares, provided (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12 month period preceding such sale; (ii) the U.S. resident, being an individual, is present in Israel for a period or periods of less than 183 days during the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel.

Either the seller, the Israeli stockbrokers or financial institution through which the Shares are held are obligated, subject to the above mentioned exemptions, to withhold tax upon the sale of Shares from the real capital gain at the rate of 25% in respect of a corporation and 20% in respect of an individual.

Upon the sale of traded securities, a detailed return, including a computation of the tax due, should be filed and an advanced payment should be paid to the ITA on January 31 and June 30 of every tax year in respect of sales of traded securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Israeli Income Tax Ordinance and regulations promulgated thereunder, such return should not be filed and no advance payment should be paid. Capital gain is also reportable on the annual income tax return.

Dividends

A dividend distributed by the Company to an Israeli resident who is an individual, generally will be subject to income tax at a rate of 20%. However, a 25% tax rate will apply if the dividend recipient is a Controlling Shareholder, at the time of distribution or at any time during the preceding 12 month period. If the recipient of the dividend is an Israeli resident corporation, such dividend will be exempt from income tax, provided that the income from which such dividend is distributed was derived or accrued within Israel.

A dividend distributed by an Israeli resident company to a non-Israeli resident (either individual or corporation) is generally subject to Israeli income tax on the receipt of dividends at the rate of 20% (25% if the dividends recipient is a Controlling Shareholder at the time of distribution or at any time during the preceding 12 month period); such rates are subject to a reduced tax rate under an applicable double tax treaty. Thus, under the Double Tax Treaty between the State of Israel and the U.S., a tax at the rate of 25% generally applies in respect of dividends distributed by an Israeli company to a U.S. resident. However, if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of our Company's voting shares and not more than 25% of the gross income of our Company for such prior taxable year (if any) consists of certain types of interest or dividends, then the tax rate will be 12.5%. The aforementioned rates under the Double Tax Treaty between the State of Israel and the U.S. will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

The Company is obligated to withhold tax upon the distribution of a dividend at the following withholding tax rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 20% and (iii) non-Israeli resident – 20%, subject to a reduced tax rate under an applicable double tax treaty.

Proposed NIS 800 Million Dividend

Within the framework of the proposed acquisition by the Company of Alon's holdings in Dor Alon, the Company's audit committee and board of directors approved the distribution of a dividend (after the share issuance to Alon) to Blue Square's shareholders not out of profits, of NIS 800 million, or approximately US \$ 208.9 million (based on the representative rate of exchange on May 31, 2010), which represents a dividend of approximately NIS 12.32, or approximately US \$3.22 (based on the representative rate of exchange on May 31, 2010), per ordinary share of Blue Square (after taking into account the shares to be issued to Alon in the acquisition). The dividend per share is subject to change based on the number of shares outstanding on the record date for the dividend. The dividend would be subject to the approval of the Israeli courts and to the completion of the acquisition. For a description of the tax treatment of the proposed dividend, see our report on Form 6-K submitted to the Securities and Exchange Commission on May 27, 2010.

Estate and Gift Tax

Israeli law presently does not impose estate or gift tax.

United States Federal Income Tax Considerations

The following is a summary of the material U.S. federal income tax consequences that apply to U.S. Holders who hold Blue Square’s ADSs or ordinary shares (together “Shares”) as capital assets for tax purposes. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended, current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This summary does not address all U.S. federal income tax matters that may be relevant to a particular perspective holder or all tax considerations that may be relevant with respect to an investment in Blue Square’s Shares.

This summary does not address tax considerations applicable to a holder of a Blue Square Shares that may be subject to special tax rules including, without limitation, the following:

- dealers or traders in securities, currencies or notional principal contracts;
- financial institutions;
- insurance companies;
- real estate investment trusts;
- banks;
- investors subject to the alternative minimum tax;
- tax-exempt organizations;
- traders that have elected mark-to-market accounting;
- investors that hold Shares as part of a “straddle”, “hedge”, or “conversion transaction” with other investments;
- regulated investment companies;
- investors that actually or constructively own 10 percent or more of our voting shares;
- investors that are treated as partnerships or other pass through entities for U.S. federal income purposes and persons who hold the Shares through partnerships or other pass through entities; and
- investors whose functional currency is not the U.S. dollar.

This summary does not address the effect of any U.S. federal taxation other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local, or foreign taxation or the indirect effects on the holders of equity interest in a holder of the Shares.

You are urged to consult your own tax advisor regarding the foreign and U.S. federal, state, and local and other tax consequences of an investment in the Shares.

For purposes of this summary, a “U.S. Holder” means a beneficial owner of a Share that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

- a trust (1) if (a) a court within the United States is able to exercise primary supervision over the administration of the trust; and (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; or (2) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity that is classified as a partnership for U.S. federal tax purposes holds Shares, the U.S. federal tax treatment of its partners will generally depend upon the status of the partners and the activities of the partnership. Entities that are classified as partnerships for U.S. federal tax purposes and persons holding Shares through such entities should consult their own tax advisors.

In addition, certain material aspects of United States federal income tax relevant to a holder other than a U.S. Holder, referred to as a “non-U.S. Holder,” are discussed below. For purposes of this section, a “non-U.S. Holder” is any holder who is not a U.S. Holder.

In general, if you hold ADSs, you will be treated as the holder of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom Shares are released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of Shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. Holders. Accordingly, the analysis of the credibility of Israeli taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by parties to whom the Shares are released.

U.S Taxation of Shares

Distributions

Subject to the discussion under “Passive Foreign Investment Companies” below, the gross amount of any distribution, including the amount of any Israeli taxes withheld from these distributions (see “Israeli Tax Considerations”), actually or constructively received by a U.S. Holder with respect to Shares will be taxable to the U.S. Holder as a dividend to the extent of our current and accumulated earnings and profits as determined under U.S. federal income tax principles. The U.S. Holder will not, except as provided by Section 245 of the Internal Revenue Code of 1986, as amended (the “Code”), be eligible for any dividends received deduction in respect of the dividend otherwise allowable to corporations. Distributions in excess of earnings and profits will be non-taxable to the U.S. Holder to the extent of, and will be applied against and reduce, the U.S. Holder’s adjusted tax basis in the Shares. Distributions in excess of such adjusted tax basis will generally be taxable to the U.S. Holder as capital gain from the sale or exchange of property. If we do not report to a U.S. Holder the portion of a distribution that exceeds earnings and profits, the distribution will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution.

Under the Code, certain dividends received by non-corporate U.S. Holders with respect to taxable years beginning on or before December 31, 2010, will be subject to a maximum income tax rate of 15%. This reduced income tax rate is only applicable to dividends paid by a “qualified foreign corporation” that is not a “passive foreign investment company” and only with respect to shares held by a qualified U.S. Holder (i.e., a non-corporate holder) for a minimum holding period (generally 61 days during the 121-day period beginning 60 days before the ex-dividend date). We should be considered a qualified foreign corporation because (i) we are eligible for the benefits of a comprehensive tax treaty between Israel and the U.S., which includes an exchange of information program, and (ii) the ADSs are readily tradeable on an established securities market in the U.S. In addition, based on our current business plans, we do not expect to be classified as a “passive foreign investment company” (see “Passive Foreign Investment Companies” below). Accordingly, dividends paid by us to individual U.S. Holders on shares held for the minimum holding period should be eligible for the reduced income tax rate. The reduced tax rate for qualified dividends is scheduled to expire on December 31, 2010, unless further extended by Congress.

The amount of any distribution paid in a currency other than U.S. dollars (a “foreign currency”) including the amount of any withholding tax thereon, will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date of the U.S. Holder’s (or, in the case of ADSs, the depositary’s) receipt of the dividend, regardless of whether the foreign currency is converted into U.S. dollars. If the foreign currency is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the foreign currency received in the distribution is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency will be treated as ordinary income or loss.

Dividends received by a U.S. Holder with respect to Shares will be treated as foreign source income for the purposes of calculating the holder’s foreign tax credit limitation. Subject to certain conditions and limitations, any Israeli taxes withheld on dividends at the rate provided by the U.S.-Israel income tax treaty may be deducted from taxable income or credited against a U.S. Holder’s U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to “passive” income and “general” income. The rules relating to foreign tax credits and the timing thereof are complex. U.S. Holders should consult their own tax advisors regarding the availability of a foreign tax credit under their particular situation (including, in the case of a U.S. corporation that owns 10 percent or more of our voting stock, the possible application of Section 902 of the Code).

Sale or Other Disposition of Shares

If a U.S. holder sells or otherwise disposes of its Shares, gain or loss will be recognized for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and such holder’s adjusted basis in the Shares. Subject to the discussion below under the heading “Passive Foreign Investment Companies,” such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the holder had held the Shares for more than one year at the time of the sale or other disposition. Long-term capital gains realized by individual U.S. Holders generally are subject to a lower marginal U.S. federal income tax rate (15% for the taxable year ending December 31, 2010) than ordinary income. Under most circumstances, any gain that a holder recognizes on the sale or other disposition of Shares will be U.S. source for purposes of the foreign tax credit limitation and any recognized losses will be allocated against U.S. source income.

If a U.S. Holder receives foreign currency upon a sale or exchange of Shares, gain or loss will be recognized as described above and in addition, gain or loss, if any, recognized on the subsequent sale, conversion, or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, the U.S. Holder generally should not be required to recognize any gain or loss on such conversion.

A U.S. Holder who holds Shares through an Israeli stockbroker or other Israeli intermediary may be subject to an Israeli withholding tax on any capital gains recognized if the U.S. Holder does not obtain approval of an exemption from the Israeli Tax Authorities. U.S. Holders are advised that any Israeli tax paid under circumstances in which an exemption from such tax was available will not give rise to a deduction or credit for foreign taxes paid for U.S. federal income tax purposes. U.S. Holders are advised to consult their Israeli stockbroker or intermediary regarding the procedures for obtaining an exemption.

Passive Foreign Investment Companies

For U.S. federal income tax purposes, we will be considered a passive foreign investment company (“PFIC”) for any taxable year in which either 75% or more of our gross income is passive income, or at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities, and the excess of gain over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning Shares. Accordingly, U.S. Holders are urged to consult their own tax advisors regarding the application of such rules.

If we are treated as a PFIC for any taxable year,

- a U.S. Holder would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of Shares ratably over its holding period for such Shares,
- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,

- the amount allocated to the year of the dividend payment or disposition would be taxable as ordinary income, and
- a U.S. Holder would be required to make an annual return on IRS Form 8621 regarding distributions received and gain realized with respect to Shares.

One method to avoid the aforementioned treatment is for a U.S. Holder to make an election to treat us as a qualified electing fund. A U.S. Holder that makes an election to treat us as a qualified electing fund (an “electing U.S. Holder”) is required for each taxable year to include in income a pro rata share of the ordinary earnings of the qualified electing fund as ordinary income and a pro rata share of the net capital gain of the qualified electing fund as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. A U.S. Holder may make a qualified electing fund election only if we furnish the U.S. Holder with certain tax information. We have agreed to supply an electing U.S. Holder with such information needed to report income and gain pursuant to a qualified election in the event Blue Square is classified as a PFIC. Alternatively, another method to avoid the aforementioned treatment is for a U.S. Holder to make a timely mark-to-market election in respect of its Shares. If a U.S. Holder elects to mark-to-market its Shares, any excess of the fair market value of the Shares at the close of each tax year over the adjusted basis in such Shares will generally be included in income. If the fair market value of the Shares had depreciated below the adjusted basis at the close of the tax year, the U.S. Holder may generally deduct the excess of the adjusted basis of the Shares over their fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that were included in income by such holder with respect to Shares in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of Shares with respect to which the mark-to-market election is made, is treated as ordinary income or loss.

Based on our estimated gross income, the average value of our gross assets, and the nature of our business, we do not believe that we will be classified as a PFIC in the current taxable year. Our status in any taxable year will depend on our assets and activities in each year and because this is a factual determination made annually at the end of each taxable year, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we determine that we have become a PFIC, we will notify our U.S. Holders and provide them with the information necessary to comply with the qualified electing fund rules. If we are treated as a PFIC in any year during which a U.S. Holder owns Shares, certain adverse tax consequences could apply, as described above. Given our current business plans, however, we do not expect that we will be classified as a PFIC in future years.

You are urged to consult your own tax advisor regarding the possibility of us being classified as a PFIC and the potential tax consequences arising from the ownership and disposition (directly or indirectly) of an interest in a PFIC.

Backup Withholding and Information Reporting

Payments of dividends with respect to Shares and the proceeds from the sale, retirement, or other disposition of Shares made by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. We, or an agent, a broker, or any paying agent, as the case may be, may be required to withhold tax, currently at the rate of 28% (the backup withholding tax), if a non-corporate U.S. Holder that is not otherwise exempt fails to provide an accurate taxpayer identification number and comply with other IRS requirements concerning information reporting. Certain U.S. Holders (including, among others, corporations and tax-exempt organizations) are not subject to backup withholding. Backup withholding is not an additional tax. Any amount of backup withholding withheld may be used as a credit against your U.S. federal income tax liability provided that the required information is furnished to the IRS. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

U.S. Federal Income Tax Consequences to Non-U.S. Holders

Sale, Exchange or Retirement of Shares

A non-U.S. Holder generally will not be subject to U.S. federal income tax or any withholding thereof with respect to gain realized on a sale or other disposition of our Shares unless one of the following applies:

- the gain is effectively connected with the non-U.S. Holder’s conduct of a trade or business in the United States and, if required by an applicable income tax treaty, such gain is attributable to a permanent establishment maintained in the United States;
- the non-U.S. Holder is an individual who holds Shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other requirements; or
- the non-U.S. Holder is subject to tax pursuant to the provisions of United States tax law applicable to U.S. expatriates.

Backup Withholding and Information Reporting

Non-U.S. Holders generally are not subject to information reporting or backup withholding with respect to dividends paid on, or upon the disposition of Shares, provided that the non-U.S. Holder certifies to its foreign status and certain other conditions are met, or otherwise establishes an exemption.

The amount of any backup withholding will be allowed as a credit against a non-U.S. Holder’s United States federal income tax liability and may entitle such holder to a refund, provided that certain required information is furnished to the IRS.

Non-U.S. Holders are urged to consult legal and tax advisors in the countries of their citizenship, residence and domicile to determine the possible tax consequences of holding and selling Shares under the laws of their respective jurisdictions in light of their own particular circumstances.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display.

Blue Square is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfills the obligation with respect to these requirements by filing reports with the Securities and Exchange Commission (SEC). You may read and copy any document Blue Square files with the SEC without charge at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of that material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Recent reports filed by Blue Square with the SEC can also be accessed at the SEC’s web site, www.sec.gov.

As a foreign private issuer, Blue Square is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and its officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, Blue Square is not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. A copy of each report submitted in accordance with applicable United States law is available for public review at Blue Square’s principal executive offices.

I. Subsidiary Information.

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

The Company is exposed to various market risks, most of them related to changes in interest rates and changes in the Israeli CPI. Loans and Debentures in the amount of approximately NIS 2,030 million and marketable securities in the amount of approximately NIS 188 million bear interest at fixed rates, and therefore changes in the interest rates will affect the fair value of such loans and marketable securities. Other loans set forth below bear interest at variable rates (as a result of changing interest rates or CPI linkage), and therefore change in the CPI or the prime interest rate will affect future cash flow and interest expenses.

The table below provides information about Blue Square’s financial instruments as of December 31, 2009

	December 31, 2009							
	Expected maturity (NIS in thousands)							
	2010	2011	2012	2013	2014	2015	2016 and thereafter	Total
Long term loan from banks - linked:								
Linked to the Israeli CPI - 5.19% (weighted average rate as of December 31, 2009)	36,550	27,500	25,632	22,203	22,203	22,203	161,118	317,403
Long term loans from bank - unlinked:								
Fixed annual interest rate of 7.11%	63,479	59,039	49,705	38,047	7,441	7,595	18,018	243,324
Variable interest (average annual rate as of December 31, 2009 of 3.19%)	31,483	28,068	20,183	15,693	2,567	3,205	66,301	167,500
	131,512	114,607	95,520	75,943	32,211	33,003	245,437	728,233
Non- Convertible debentures - Linked to the Israeli CPI:								
Issued by the Company - fixed rate 5.9% (1)	75,906	-	50,604	50,604	50,604	-	-	227,718
Issued by BSRE - fixed rate 4.7%				212,379	212,379	212,379	212,379	849,516
Issued by BSRE - fixed rate 4.2%		22,543	22,543	22,543	22,543	22,543	187,856	300,571
Convertible Debentures Linked to the Israeli CPI:								
Issued by the Company - fixed rate 5.9% (1)	-	15,093	-	-	-	-	-	15,093
Issued by BSRE - fixed rate 6.25%	-	-	-	27,404	27,404	27,404	27,404	109,616
	75,906	37,637	22,543	338,231	338,231	262,326	427,637	1,502,512
Marketable Securities - Linked to the Israeli CPI:	96,842							96,842
Marketable Securities – unlinked in NIS	91,070							91,070
Marketable Securities –in other currencies	-							

(1) See also “Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Debentures”.

For CPI-linked financial instruments as stipulated in the table above, a one percent increase (decrease) in the CPI would cause an approximately NIS 13.3 million decrease (increase) in net income for the next year.

Inflation Risks

The Company has an excess of Israeli CPI-linked liabilities over Israeli CPI-linked assets (mainly in respect of outstanding debentures). As a result, an increase in inflation would have the effect of increasing our financial expenses without any offsetting increase in our assets and revenues on our financial statements, leading to lower reported earnings and shareholders equity. The extent of this effect on our financial statement would be dependent on the rate of inflation in Israel.

The table below provides information about the changes of the CPI and the “known” CPI index:

	<u>CPI</u>	<u>The “known” CPI index</u>
2007	3.4%	2.8%
2008	3.8%	4.51%
2009	3.9%	3.82%

The table below provides an analysis of monetary assets and liabilities by currency and linkage as of December 31, 2009:

	December 31, 2009					
	<u>NIS linked to CPI</u>	<u>NIS unlinked</u>	<u>US Dollar</u>	<u>Other currencies</u>	<u>Other*</u>	<u>Total</u>
	<u>NIS in thousands</u>					
Assets:						
Cash and cash equivalents	-	612,227	-	-	-	612,227
Short term deposit	-	67	-	-	-	67
Investment in securities	96,842	91,070	-	-	25,000	212,912
Trade receivables	-	809,783	-	-	-	809,783
Other receivables	749	55,074	-	-	-	55,823
Income taxes receivable	84,274	-	-	-	-	84,274
Derivative financial instrument	9,690	-	425	-	12,266	22,381
Long-term receivables	<u>3,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,275</u>
Total assets	<u>194,830</u>	<u>1,568,221</u>	<u>425</u>	<u>-</u>	<u>37,266</u>	<u>1,800,742</u>
Liabilities:						
Short-term bank credit and loans	365	142,721	-	-	-	143,086
Trade payables	-	913,948	3,460	177	-	917,585
Other accounts payable and accrued expenses	24,860	462,818	-	-	-	487,678
Income tax payables	6,051	-	-	-	-	6,051
Provisions	-	51,298	-	-	-	51,298
Loans	317,409	410,824	-	-	-	728,233
Debentures	1,327,986	-	-	-	-	1,327,986
Convertible debentures	142,066	-	-	-	-	142,066
Long-term payable	8,398	3,357	9,164	-	-	20,919
Derivative financial instruments	<u>-</u>	<u>-</u>	<u>1,075</u>	<u>6,516</u>	<u>-</u>	<u>7,591</u>
Total liabilities	<u>1,827,134</u>	<u>1,984,966</u>	<u>13,699</u>	<u>6,693</u>	<u>-</u>	<u>3,832,492</u>

* Financial instruments that are not monetary assets.

For further information regarding market risks, see note 3 to our consolidated financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. to E. Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. We performed an evaluation of the effectiveness of our disclosure controls and procedures that are designed to ensure that information required to be disclosed on Form 20-F and filed with the Securities and Exchange Commission is recorded, processed, summarized and reported timely within the time period specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within Blue Square to disclose information otherwise required to be set forth in our reports. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based on our evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d) - 15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report are effective at such reasonable assurance level.

(b) Management’s Annual Report on Internal Control over Financial Reporting. Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act of 1934, as amended. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures are made only in accordance with authorizations of our management and board of directors (as appropriate); and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework for Internal Control-Integrated Framework set forth by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and this framework, our management concluded that the Company's internal control over financial reporting were effective as of December 31, 2009.

(c) The effectiveness of the Company’s internal control over financial reporting as of December 31, 2009 has been audited by Kesselman & Kesselman an independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, which has audited the financial statements included in this Annual Report on Form 20-F; their report is included in Item 17.

(d) Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors has determined that Avraham Meron is an "audit committee financial expert" as defined in Item 16A of Form 20-F and is independent in accordance with the NYSE listing standards for audit committees applicable to Blue Square.

ITEM 16B. CODE OF ETHICS

As of the date of this Annual Report, we have adopted a code of ethics that applies to our Chief Executive Officer, President, Chief Financial Officer, Corporate Controller and employees. This code of ethics is posted on our website, www.bsi.co.il/codeofethics.htm .

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, served as our independent public accountants for the fiscal years ended December 31, 2008 and 2009, for which audited financial statements appear in this Annual Report on Form 20-F.

The following table presents the aggregate fees for professional services rendered by such accountants to us during their respective term as our principal accountants in 2008 and 2009.

	2009	2008
	(NIS in thousands)	(NIS in thousands)
Audit Fees ⁽¹⁾	3,234	3,075
Audit-Related fees ⁽²⁾	800	695
Tax Fees ⁽³⁾	166	259
All Other Fees ⁽⁴⁾	200	1,079
TOTAL	4,400	5,108

- (1)

Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; attest services; assistance with and review of documents filed with the SEC and Sarbanes-Oxley Act compliance.
- (2)

Audit-related services in connection with Blue Square's and BSRE's shelf prospectuses and in connection with reports delivered to the Company's controlling shareholder.
- (3)

Tax fees were for services related to tax compliance, including the preparation of tax returns and claims for refund, and tax planning and tax advice, including assistance with tax audits and appeals, advice related to mergers, acquisitions, transfer pricing, and assistance with respect to requests for rulings from tax authorities.
- (4)

Other Fees were for general guidance related to accounting issues and due diligence in connection with potential acquisitions.

Audit Committee Pre-Approval Policies and Procedures

One of our audit committee’s main roles is to assist the board of directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company. The Audit Committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on the financial statements of the Company. Our audit committee has adopted a pre-approval policy for audit and non-audit services.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Below is a list of purchases of the Company’s ordinary shares by the Company during calendar year 2010:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share (in NIS)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
March 25, 2010	89,888	47.64	0	N/A

- (1)

The Company purchased ordinary shares of the Company from certain officers of the Company, including the Chief Executive Officer, which shares were acquired by the executives upon their exercise of vested options granted to them under the Company's 2008 Share Option Plan. The total amount paid by the Company for such shares was NIS 4.3 million and the price per share was NIS 47.64.

On May 17, 2010, the audit committee and board of directors of the Company approved the acquisition by Blue Square from Alon Israel Oil Company Ltd. ("Alon") of all of Alon's holdings in Dor-Alon Energy In Israel (1988) LTD. ("Dor Alon"), or the Acquisition, and it had signed a share purchase agreement with Alon, pursuant to which Blue Square would acquire from Alon all of Alon's holdings in Dor Alon and each Dor Alon share held by Alon will be exchanged for 1.8 ordinary shares of BSI. This purchase is subject to the approval of the Acquisition by the general shareholders meeting of BSI, to be assembled on June 28, 2010.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Below is a summary of the significant differences between our corporate governance practices as a foreign private issuer and those required of U.S. domestic companies under New York Stock Exchange ("NYSE") listing standards.

Our corporate governance practices are derived from (i) the Israeli Companies Law, 1999 and the regulations promulgated thereunder, (ii) our Articles of Association and (iii) the rules of the NYSE applicable to foreign private issuers. As a foreign private issuer we are permitted to follow home country practice in lieu of certain provisions of Section 303A of the NYSE Corporate Governance Rules.

Majority of Independent Directors: Under NYSE Rule 303A.01, domestic listed companies must have a majority of independent directors. We do not have a majority of independent directors serving on our board of directors, although all of our audit committee members are independent directors.

Separate meetings of non-management directors: Under NYSE Rule 303A.03, the non-management directors of each domestic listed company must meet at regularly scheduled executive sessions without management. Our independent directors do not meet separately from directors who are not independent, other than in the context of audit committee meetings.

Nominating/corporate governance committee: Under NYSE Rule 303A.04, a domestic listed company must have a nominating/corporate governance committee composed entirely of independent directors. We do not have such a committee.

Compensation Committee: Under NYSE Rule 303A.05, a domestic listed company must have a compensation committee composed entirely of independent directors. We do have a compensation committee although it is not composed entirely of independent directors.

Audit Committee: Under NYSE Rule 303A.06, listed companies are required to have an audit committee that complies with the requirements of Rule 10A-3 of the Securities and Exchange Act of 1934. Rule 10A-3 requires the audit committee of a U.S. company to be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services, and that each such firm must report directly to the audit committee.

Pursuant to the Israeli Companies Law, our auditors are appointed by the shareholders at the annual meeting of shareholders. Our shareholders have delegated to the board of directors and audit committee the authority to determine the amount to be paid to our auditors. Our audit committee is responsible for recommending to the shareholders the appointment of our auditors and for assisting the board of directors in overseeing the work of our auditors. In addition, pursuant to the Israeli Companies Law, our financial statements must be approved by our board of directors.

Equity Compensation Plans: Under NYSE Rule 303A.08, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule.

We do not obtain shareholder approval of all our equity-compensation plans. Pursuant to the Israeli Companies Law, transactions with officers, directors, and controlling shareholders regarding the terms of their office and employment, including any compensation in securities, require special approval (including approval of the audit committee, the board of directors in the case of officers, and including approval of the board of directors and shareholders in the case of directors and controlling shareholders).

Corporate governance guidelines: Under NYSE Rule 303A.09, domestic listed companies must adopt and disclose their corporate governance guidelines. We have adopted a written Policy Regarding the Usage of Insider Information as well as Code of Ethics, although these do not satisfy the corporate governance guidelines referred to in Rule 303A.09.

PART III

ITEM 17. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this Annual Report, beginning on page F-1.

ITEM18. FINANCIAL STATEMENTS

We have responded to Item 17 in lieu of this item.

ITEM 19. EXHIBITS

The exhibits filed with or incorporated into this Annual Report are listed in the index of exhibits below.

Exhibit No.	Description
1.1	Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form F-1 (File No. 333-05024)).
1.2	Articles of Association of the Registrant.
2.1	Form of Amended and Restated Deposit Agreement among Blue Square-Israel Ltd., The Bank of New York as Depositary, and all Owners and Holders from time to time of American Depositary Shares issued thereunder (incorporated by reference to Exhibit (a) to the Registration Statement on Form F-6 (File No. 333-05158)).
4.1	Service Agreement made and entered into on the 1st day of January 1990 between Blue Square Chain (Super Super) Ltd. and Blue Square Chain (Hyper Hyper) Ltd. (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.2	Supply Agreement made and entered into on the 1st day of January 1990 between Blue Square Chain (Super Super) Ltd. and Blue Square Chain (Hyper Hyper) Ltd. (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.3	Management Agreement made and entered into on July 23, 1996 between Blue Square Chain Investments & Properties Ltd. and the Registrant (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.4	An Agreement to Loan Employees made and entered into on July 23, 1996 between Blue Square Chain Properties (Hyper Hyper) Ltd. and the Registrant (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.5	Agreement made and entered into on July 25, 1996 between the Registrant and Blue Square Chain (Hyper Hyper) Ltd. regarding property selection (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.6	Registration Rights Agreement, dated as of July 25, 1996, by and among the Registrant and Co-Op Blue Square Consumers Cooperative Society Ltd. (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.7	Letter, dated July 1, 1996, by Co-Op Blue Square Consumers Cooperative Society Ltd. indemnifying the Registrant against certain real estate tax liabilities (incorporated by reference to Exhibit 10.17 to the Registration Statement on Form F-1 (File No. 333-05024)).

Exhibit No.	Description
4.8	Letter, dated May 21, 1993 and March 18, 1993, by Co-Op Blue Square Consumers Cooperative Society Ltd. indemnifying Blue Square Chain Investments & Properties Ltd. against certain real estate tax liabilities (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.9	Form of Letter of Exemption and Indemnity adopted in February 2001 (incorporated by reference to Exhibit 4.13 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2000).
4.10	Form of Letter of Exemption and Indemnity (English translation accompanied by the Hebrew original) (incorporated by reference to Exhibit 4.14 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2001).
4.11	Form of Letter of Indemnity adopted in June 2008 (English translation) (incorporated by reference to Exhibit 4.11 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2008).
4.12	Special Collective Agreement made on the 28th day of May 1996 between Co-Op Blue Square Consumers Cooperative Society Ltd., the Registrant and The New Federation of Labor in Israel/The Federation of Clerical, Administrative and Services Employees and Consumers Cooperative Union-Central Cooperative Society Ltd. (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form F-1 (File No. 333-05024)).
4.13	Special Collective Agreement made on the 3rd day of September 2000 between Blue Square and The New Federation of Labor in Israel. The Federation of Clerical, Administrative and Services Employees / the Commercial Section Employees and the committee of Blue Square employees. (English summary accompanied by the Hebrew original) (incorporated by reference to Exhibit 4.16 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2001).
4.14	Collective Agreement, made on August 13, 2003, by and among Blue Square – Israel Ltd. and The New Federation of Labor in Israel/The Federation of Clerical, Administrative and Services Employees and the National Committee of the Blue Square Co-Op Employees (English translation) (incorporated by reference to Exhibit 4.15 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2003).
4.15	Collective Agreement, made on October 15, 2003, by and among Blue Square - Israel Ltd. and The New Federation of Labor in Israel/The Federation of Clerical, Administrative and Services Employees and the National Workers Committee of Blue Square-Israel Ltd (English translation) (incorporated by reference to Exhibit 4.16 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2003).
4.16	Special Collective Bargaining Agreement made on the 21 st day of January 2005 among Blue Square, the Histadrut and the National Committee of Blue Square-Israel. (English translation) (incorporated by reference to Exhibit 4.15 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2004).
4.17	Special Collective Bargaining Agreement made on April 26, 2006 among Blue Square, the MAOF Histadrut and Blue Square-Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.16 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.18	Special Collective Bargaining Agreement made on May 29, 2006 among Blue Square, the MAOF Histadrut and Blue Square-Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.17 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).

Exhibit No.	Description
4.19	Special Collective Bargaining Agreement made on July 16, 2007 among Blue Square, the MAOF Histadrut and Blue Square-Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.19 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2007).
4.20	Special Collective Bargaining Agreement made on April 5, 2009 among Blue Square, Blue Square Chain Investments & Properties Ltd., the MAOF Histadrut and Blue Square-Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.20 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2008).
4.21	Deed of Trust made on August 5, 2003, by and between Blue Square – Israel Ltd. and Israel Discount Bank Trust Company Ltd., together with second schedule (English translation) (incorporated by reference to Exhibit 4.18 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2003).
4.22	First Schedule to Deed of Trust – Debenture Certificate for Registered Debenture (Series A) of NIS 1 par value each (out of series of NIS 200,000,000 par value Debentures (Series A)) (English translation) (incorporated by reference to Exhibit 4.19 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2003).
4.23	First Schedule to Deed of Trust – Debenture Certificate for Registered Debenture (Series B) of NIS 1 par value each (out of series of NIS 200,000,000 par value Debentures (Series B)) (English translation) (incorporated by reference to Exhibit 4.20 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2003).
4.24	Agreement between the Registrant and Blue Square Chain (Hyper Hyper) Ltd. (incorporated by reference to Exhibit 4.21 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2002).
4.25	General services framework and expenses allotment agreement, dated October 11, 2005, among Blue Square, Blue Square Chain Investments & Properties Ltd. and Blue Square Chain (Hyper Hyper) Ltd., as amended (incorporated by reference to Exhibit 4.21 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2005).
4.26	Transfer Agreement, dated June 21, 2006, between Blue Square and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.23 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.27	Split Agreement, dated April 2, 2006, between Blue Square and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.24 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.28	Lease Agreement, dated August 13, 2006, between Blue Square and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.25 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.29	Lease Agreement, dated June 23, 2006, between Blue Square and Blue Square Chain Investments & Properties Ltd Blue Square Real Estate Ltd (assigned to BSRE) (English translation) (incorporated by reference to Exhibit 4.26 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).

Exhibit No.	Description
4.30	Transfer Agreement, dated March 31, 2009, between Blue Square Real Estate Ltd. and Blue Square Chain Properties & Investments Ltd., together with Addendum No. 1, dated September 13, 2009 (English translation).
4.31	Service Agreement, dated August 13, 2006, between Blue Square and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.27 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.32	Underwriting Agreement, dated August 15, 2006, among Blue Square Real Estate Ltd., and Poalim I.B.I Underwriting and Issues Ltd., Africa-Israel Issues Ltd., Discount Underwriting and Issues Ltd. and various other underwriters (English translation) (incorporated by reference to Exhibit 4.28 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.33	Deed of Trust (for Series A Debenture) made on August 14, 2006, by and between Blue Square Real Estate Ltd. and Hermetic Trust (1975) Ltd., together with second schedule (English translation) (incorporated by reference to Exhibit 4.29 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.34	First Schedule to Deed of Trust - Debenture Certificate for Registered Debentures (Series A) of NIS 1 par value each (out of series of NIS 100,000,000 par value Debentures (Series A)) (English translation) (incorporated by reference to Exhibit 4.30 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.35	Deed of Trust (for Series B Debenture) made on August 14, 2006, by and between Blue Square Real Estate Ltd. and Hermetic Trust (1975) Ltd., together with second schedule (English translation) (incorporated by reference to Exhibit 4.31 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.36	First Schedule to Deed of Trust - Debenture Certificate for Registered Debentures (Series B) of NIS 1 par value each (out of series of NIS 650,000,000 par value Debentures (Series B)) (English translation) (incorporated by reference to Exhibit 4.32 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2006).
4.37	Deed of Trust (for Series C to H Debentures) dated May 19, 2009, by and between Blue Square Real Estate Ltd. and Hermetic Trust (1975) Ltd., together with Addendum to Deed of Trust dated October 18, 2009 (English translation).
4.38	Deed of Trust (for Series C to G Debentures and Series H to J Debentures) dated February 18, 2010, between Blue Square and Hermetic Trust (1975) Ltd., together with First Schedule - Debenture Certificate for Series C to G, First Schedule - Debenture Certificate for Series H to J, and second schedule (English translation).
4.39	Document of Principles of Transaction, dated July 26, 2007, among Blue Square and Orin Provizor Holdings Ltd., M.A.Sh.- M.I.S. Ltd., Mr. Guy Provizor, and Eden Natural Health Market Ltd., as amended (English translation) (incorporated by reference to Exhibit 4.35 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2007).
4.40	Sale Agreement, made on August 2, 2007, between Kfar Hasha'ashuim Central Warehouse Ltd. and Eldar Gil & Mahoney Assets Ltd., as amended (English translation) (incorporated by reference to Exhibit 4.36 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2007).
4.41	Share Purchase Agreement, dated August 3, 2008, between Bee Group Retail Ltd. and Twikor Ltd., Mr. Avner Katz, Mr. Doron Yanai, Mr. Ronen Levy, Avi Katz Marketing Ltd. and Levy R.S. Managements and Investments Ltd. (English translation) (incorporated by reference to Exhibit 4.38 to Blue Square’s Annual Report on Form 20-F for the year ended December 31, 2008).

Exhibit No.	Description
4.42	Protocol, dated April 11, 2010, between Tel Aviv Wholesale Agricultural Produce Market Company Ltd., Tel Aviv Municipality, Lev Tel Aviv Towers Ltd. and Tel Aviv City Mall Ltd. (English translation)
4.43	Agreement, dated June 3, 2010, between Tel Aviv Wholesale Agricultural Produce Market Company Ltd., Lev Tel Aviv Towers Ltd. and Tel Aviv City Mall Ltd., together with Deed of Undertaking by the Interested Parties (English translation)
4.44	Agreement, dated June 3, 2010, between Tel Aviv Municipality, Lev Tel Aviv Towers Ltd., and Tel Aviv City Mall Ltd., together with Deed of Undertaking by the Interested Parties (English translation)
4.45	Document of Principles, dated April 15, 2010, between Blue Square Real Estate Tel Aviv Market Commercial Ltd., Blue Square Real Estate Tel Aviv Market Housing Ltd., Gindi Commercial Tel Aviv Ltd. and Gindi Housing Tel Aviv Ltd. (English translation)
4.46	Share Purchase Agreement, dated May 17, 2010, between Alon Israel Oil Company Ltd. and Blue Square Israel Ltd. (English translation) (incorporated by reference to Annex A to Blue Square’s report on Form 6-K, filed on May 27, 2010).
8.1	List of Subsidiaries.
12.(a).1	Certification by CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.(a).2	Certification by CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.(a).1	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
14.(a).1	Consent of Independent Registered Public Accounting Firm from Kesselman & Kesselman, certified public accountants (Isr.).
14.(a).2	Consent of an Expert dated June 21, 2010.
14.(a).3	Consent of an Expert dated June 21, 2010.
14.(a).4	Consent of an Expert dated June 21, 2010.

BLUE SQUARE - ISRAEL LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

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Kesselman & Kesselman
Certified Public Accountants
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Report of Independent Registered Public Accounting Firm

To the shareholders of

BLUE SQUARE - ISRAEL LTD.

We have completed integrated audits of Blue Square - Israel Ltd and its subsidiaries and proportionately consolidated companies (collectively - "the Company") consolidated financial statements and of its internal control over financial reporting as of December 31, 2009, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our integrated audits, are presented below.

Consolidated financial statements

We have audited the accompanying consolidated statements of financial position of the Company as of December 31, 2009, 2008 and 2007 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended on those dates. These consolidated financial statements are the responsibility of the Company’s Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our integrated audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company’s Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2009, 2008 and 2007 and the results of its operations, changes in equity and its cash flows for each of the years ended on those dates, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Internal control over financial reporting

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Kesselman & Kesselman
Certified Public Accountants
1 Nathanson Street
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The Company’s Board of Directors and management are responsible for maintaining effective internal control over financial reporting and management is responsible for the assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15(b). Our responsibility is to express an opinion on the effectiveness of the Company’s internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also includes performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Haifa, Israel
June 23, 2010

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers
International Limited

BLUE SQUARE – ISRAEL LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

					Convenience translation (note 1b) December 31, 2009 U.S. dollars
	Note	December 31			
		2007	2008	2009	
		NIS			
In thousands					
Assets					
CURRENT ASSETS:					
Cash and cash equivalents	14	56,410	95,325	612,227	162,179
Short-term bank deposit		103,498	206	67	18
Investment in securities	11	* 214,394	* 186,849	212,912	56,400
Trade receivables	13a	776,251	729,970	809,783	214,512
Other accounts receivable	13b	99,841	87,624	69,504	18,412
Derivative financial instruments	12	-	-	9,690	2,567
Income taxes receivable		23,062	74,446	84,274	22,324
Inventories		453,944	497,080	514,858	136,386
Total current assets		1,727,400	1,671,500	2,313,315	612,798
NON-CURRENT ASSETS:					
Property, plant and equipment	6	1,613,515	1,701,222	1,757,718	465,621
Investment property	7	* 300,778	* 419,232	424,936	112,566
Intangible assets	8	280,420	404,422	409,194	108,396
Prepaid expenses in respect of operating leases	9	199,679	192,426	193,228	51,186
Investments in associates	10	4,948	4,915	4,878	1,292
Derivatives financial instruments	12	10,500	5,248	12,691	3,362
Other long-term receivables		48,289	1,554	1,326	351
Deferred taxes	21	33,542	44,508	45,991	12,183
Total non-current assets		2,491,671	2,773,527	2,849,962	754,957
Total assets		4,219,071	4,445,027	5,163,277	1,367,755

* Reclassified. (see note 2ab)

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

June 23, 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

BLUE SQUARE – ISRAEL LTD.

CONSOLIDATED STATEMENTS OF INCOME

		Year ended December 31			Convenience translation (note 1b)
		2007	2008	2009	Year ended December 31, 2009
		NIS			U.S. Dollars
Note		In thousands (except earning per share data)			
Sales		6,981,984	7,429,121	7,349,076	1,946,775
Cost of sales		5,129,578	5,369,149	5,291,012	1,401,593
Gross profit		1,852,406	2,059,972	2,058,064	545,182
Selling, general and administrative expenses		1,563,208	1,794,720	1,817,099	481,351
Operating profit before other gains and losses and net gain from adjustment of investment property to fair value		289,198	265,252	240,965	63,831
Other gains	24	15,835	12,233	4,699	1,245
Other losses	24	(12,755)	(14,716)	(32,803)	(8,690)
Net gain from adjustment of investment property to fair value		10,456	19,067	20,775	5,503
Operating profit		302,734	281,836	233,636	61,889
Finance income	27	60,978	60,700	64,780	17,160
Finance expenses	27	(118,297)	(166,295)	(177,454)	(47,006)
Finance expenses, net		57,319	105,595	112,674	29,846
Share in profit (loss) of associates		186	(33)	(37)	(10)
Income before taxes on income		245,601	176,208	120,925	32,033
Taxes on income	28	69,779	43,806	23,124	6,125
Profit for the year		175,822	132,402	97,801	25,908
Attributable to:					
Equity holders of the company		143,628	104,586	77,163	20,441
Minority interests		32,194	27,816	20,638	5,467
Earnings per Ordinary share or ADS attributable to equity holders of the Company:		29			
Basic		3.39	2.41	1.77	0.47
Diluted		3.39	1.62	1.77	0.47

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

BLUE SQUARE – ISRAEL LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31			Convenience translation (note 1b)
		2007	2008	2009	Year ended December 31, 2009
		NIS			U.S. dollars
		In thousands			
Profit for the year		175,822	132,402	97,801	25,908
Other comprehensive income (losses) items, net of tax:					
Available-for-sale financial assets	11	1,567	(2,214)	7,502	1,987
Actuarial gain (loss) on post employment benefit obligations	22	(646)	(10,346)	1,016	269
Total – other comprehensive income (losses) recognized directly in equity		921	(12,560)	8,518	2,256
Total comprehensive income for the year		176,743	119,842	106,319	28,164
Attributable to:					
Equity holders of the Company		144,614	92,898	83,958	22,241
Minority interest		32,129	26,944	22,361	5,923
		176,743	119,842	106,319	28,164

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

BLUE SQUARE – ISRAEL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company				Total	Minority interest	Total equity
	Ordinary shares	Additional paid-in capital	Other reserves	Retained earnings			
				(Accumulated deficit)			
				NIS in thousands			
BALANCE AT JANUARY 1, 2007	53,414	766,409	-	29,539	849,362	241,122	1,090,484
CHANGES DURING 2007:							
Comprehensive income for the period	-	-	1,415	143,199	144,614	32,129	176,743
Issuance of shares upon conversion of convertible debentures	3,680	251,996	-	-	255,676	-	255,676
Transaction with minority interest	-	-	-	-	-	52,483	52,483
Dividends paid	-	-	-	(280,000)	(280,000)	-	(280,000)
Dividends distributed to minority interest of subsidiaries	-	-	-	-	-	(47,706)	(47,706)
BALANCE AT DECEMBER 31, 2007	57,094	1,018,405	1,415	(107,262)	969,652	278,028	1,247,680
CHANGES DURING 2008:							
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	57,094	1,018,405	(261)	(154,719)	920,519	175,483	1,096,002
CHANGES DURING 2009:							
Comprehensive income for the period	-	-	5,937	78,021	83,958	22,361	106,319
Employee share-based payment	-	-	-	11,734	11,734	432	12,166
Transaction with minority interest	-	-	-	-	-	7,283	7,283
Issuance of shares upon conversion of convertible debentures	344	11,854	-	-	12,198	-	12,198
Dividends distributed to minority interest of subsidiaries	-	-	-	-	-	(12,138)	(12,138)
BALANCE AT DECEMBER 31, 2009	57,438	1,030,259	5,676	(64,964)	1,028,409	193,421	1,221,830
	Convenience translation into U.S. dollars in thousands (note 1b)						
BALANCE AT JANUARY 1, 2009	15,124	269,776	(69)	(40,985)	243,846	46,486	290,332
CHANGES DURING 2009:							
Comprehensive income for the period	-	-	1,573	20,668	22,241	5,923	28,164
Employee share-based payment	-	-	-	3,109	3,109	114	3,223
Transaction with minority interest	-	-	-	-	-	1,929	1,929
Issuance of shares upon conversion of convertible debentures	91	3,140	-	-	3,231	-	3,231
Dividends distributed to minority interest of subsidiaries	-	-	-	-	-	(3,215)	(3,215)
BALANCE AT DECEMBER 31, 2009	15,215	272,916	1,504	(17,208)	272,427	51,237	323,664

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

BLUE SQUARE – ISRAEL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31			Convenience translation (note 1b) Year ended December 31
	2007	2008	2009	2009
	NIS			U.S dollars
	In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before taxes on income	245,601	176,208	120,925	32,033
Income tax paid	(60,903)	(94,212)	(38,101)	(10,093)
Adjustments to reflect cash flows from operating activities (a)	163,781	327,777	177,520	47,023
Net cash provided by operating activities	348,479	409,773	260,344	68,963
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(174,275)	(211,646)	(203,889)	(54,010)
Proceeds from sale of property, plant and equipment	1,478	1,559	2,581	684
Purchase of investment property	(21,339)	(69,749)	(9,435)	(2,499)
Proceeds from sale of investment property	14,978	6,567	5,700	1,510
Additional investment in subsidiaries	(5,000)	(186,403)	(8,020)	(2,125)
Investment in restricted deposit	-	-	(470,000)	(124,503)
Proceeds from collection of restricted deposit	-	-	470,000	124,503
Payments on account of real estate	(45,825)	-	-	-
Proceeds from realization of investment in subsidiary	394	-	10,912	2,891
Investment in intangible assets	(15,021)	(30,372)	(20,738)	(5,493)
Proceeds from collection of short-term bank deposit, net	398,513	101,281	139	37
Proceeds from collection of other long-term receivables	409	1,250	-	-
Proceeds from sale of marketable securities	13,340	185,104	101,867	26,985
Purchase of marketable securities	(175,258)	(169,747)	(113,966)	(30,190)
Acquisition of subsidiaries (b)	(161,876)	-	(4,789)	(1,269)
Interest received	55,170	17,778	11,948	3,165
Net cash used in investing activities	(114,312)	(354,378)	(227,690)	(60,314)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of convertible debentures	(16,728)	-	(13,297)	(3,522)
Dividends paid to shareholders	(280,000)	(150,000)	-	-
Issuance of debentures	-	121,259	294,280	77,955
Dividends paid to minority shareholders of subsidiaries	(50,706)	(22,077)	(16,491)	(4,368)
Receipt of long-term loans	269,364	231,398	387,700	102,702
Repayments of long-term loans	(215,143)	(130,571)	(139,060)	(36,837)
Repayments of long-term credit from trade payables	(1,740)	(1,740)	(1,740)	(461)
Proceeds from exercise of options in a subsidiary	-	-	2,306	611
Short-term credit from banks, net	3,396	15,689	76,144	20,171
Interest paid	(72,527)	(89,244)	(93,900)	(24,874)
Net cash provided by (used in) financing activities	(364,084)	(25,286)	495,942	131,377
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS	(129,917)	30,109	528,596	140,026
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT BEGINNING OF YEAR	182,946	53,029	83,138	22,023
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF YEAR (see note 14)	53,029	83,138	611,734	162,049

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 1 - GENERAL:

a. 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 reportable segments: (1) Supermarkets, (2) Non-food Retail and Wholesale and (3) Real Estate (see note 2bb1b and note 35).

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. The shares of Blue Square are listed for trading on the New-York Stock Exchange (the "NYSE") and on the Tel-Aviv Stock Exchange (the "TASE").

b. Convenience translation into U.S dollars (hereinafter-"dollars" or "\$")

For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2009 have been translated into dollars, at the representative rate of exchange on December 31, 2009 (U.S. \$1 = NIS 3.775). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

a. Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereafter – "IFRS") as issued by the International Accounting Standard Board (hereafter – "IASB"). The Company adopted IFRS for the first time in its 2008 annual financial statements and accordingly applied the transition guidance under IFRS 1 -"First Time Adoption of International Financial Reporting Standards" in those financial statements. The transition date to IFRS under IFRS 1 was January 1, 2007 ("the transition date"); in determining the opening balances as of the transition date, the Company applied the transition guidance and certain exemptions as allowed by IFRS 1.

These financial statements have been prepared under the revised disclosure and presentation requirements of IAS 1 (revised), "presentation of financial statements", which became effective in 2009 (hereafter – IAS 1R; see also bb1.a) below). In accordance with the revised standard the Company presents a statement of changes in equity and an additional statement – statement of comprehensive income (see u below) – to show items of income and expenses that are 'non-owner changes in equity', separately from owner changes in equity.

As required under the new standard, the Company has also included additional comparative statement of financial position (as of December 31, 2007), to reflect certain reclassifications performed in 2009 (see ab. below).

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The consolidated financial statements have been prepared under the historical cost convention, as modified by the actuarial adjustments of defined benefit plan assets and liabilities, the revaluation of financial assets (including derivative instruments) at fair value through profit or loss, available for sale financial assets and investment property presented at fair value. The cost of certain non-monetary assets, investments in associated companies and certain equity items as of the transition date have been determined on the basis of their deemed cost, or historical cost adjusted to inflation in Israel through December 31, 2003, as allowed by the IFRS transition guidance.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4. Actual results may differ materially from estimates and assumptions used by the Company's management.

b. Consolidated financial statements

1) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of transaction, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statements.

Inter-company transactions and balances have been eliminated in consolidation. Profit from inter-company sales, not yet realized outside the Company, have also been eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Transactions with minority interests

The Company accounts for transactions with minority interests as transactions with parties external to the Company. Disposals to minority interests result in gains and losses for the Company and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

A put option granted to a minority interest is accounted for as a financial liability based on the present value of the exercise price of the option corresponding reduction of minority interest. Related finance expenses are carried to income statements on current basis.

3) Joint ventures

The Company's interests in jointly controlled entities are accounted for by the proportionate consolidation method. The Company combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements.

4) Associates

Associates are entities over which the Company has significant influence but not control generally accompanying between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the function responsible for allocating resources and assessing performance of the operating segments, see note bb.1.b).

d. Foreign currency 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 (the functional currency). The consolidated financial statements are presented in NIS, which is the Company's functional currency and the Company's presentation currency.

2) Transactions and balances

Transactions 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of income. Foreign exchange gains and losses are presented in the income statement within finance income or expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

e. Property, plant and equipment

Property, plant and equipment are initially recognized at acquisition cost. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. When part of an asset is replaced, its carrying amount is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings	50
Vehicles	5-7
Furniture, equipment and installations	3-15 (mainly 10)

Leasehold improvements are amortized using the straight-line method over the shorter of the term of the lease or the expected useful lives of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see h below).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains (losses)" in the income statement.

f. Investment property

Investment property is held for long-term rental yields or value appreciation and is not occupied by the Company. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, reflecting market conditions, determined at least annually by independent appraisers. "O. Haushner Civil Eng. & Real Estate Appraisal Ltd." and " Barak Friedman Cohen & Co. Economic & Real Estate Appraisal." Fair value is based on current prices in an active market, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If such information is not available, the Company uses alternative sources such as recent prices on less active markets or discounted cash flow projections. The fair value of the investment property is reviewed at each statement of financial position date and any changes in fair value are recorded in the income statement under "Net gain from adjustment of investment property to fair value".

Through 2008, real estate under construction or real estate that is being developed for future use as an investment property was initially classified as real estate under erection and reclassified to investment property when the investment or development were completed. The real estate under construction was measured at cost, and remeasured to fair value when completed with any resulting gain or loss recognized in the income statement. Commencing 2009, the Company applies the amendment to IAS 40 revised (2008 IFRS improvements project) which stipulates that real estate under construction or being developed for future use as an investment property is classified as investment property and measured at fair value from inception.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Land that is held under an operating lease with The Israeli Lands Administration, is classified and accounted for as an investment property, provided that the conditions for such classification are met. In such cases, the lease rights are initially recognized as an asset and the lease obligation as a liability, in a manner similar to a finance lease.

Revenue from the sale of investment property, is recognized when the significant risks and rewards of ownership of the property have been transferred to the buyer; such revenue is not recognized where there are significant uncertainties as to the collection of the consideration of the transaction, the costs related thereto, or when the Company has significant continuing involvement in the property that was sold.

g. Intangible assets:

1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company’s share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Intangible assets."

Goodwill is tested annually for impairment, or earlier, when circumstances indicate that the carrying value may be impaired. Goodwill is carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2) Brand name, trademarks and customer base

The cost of brand name, trademarks and customer base acquired in a business combination is their fair value at the date of acquisition. After initial recognition, these intangible assets which have finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method over their estimated useful lives (brand name and trademarks eight to fifteen years and customer base - fifteen years).

3) Computer software

The costs of separately acquired computer software licenses are recognized as intangible assets. These licenses are amortized over their estimated useful lives (mainly four years).

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Costs associated with servicing or maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company, that will generate probable future economic benefits and that meet certain technical financial and other criteria are recognized as intangible assets. Costs include directly attributable employee benefits. Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding four years).

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period

4) Evacuation fees

Premiums paid to assume existing operating lease agreements are amortized over the remaining term of the lease.

h. Impairment of non-financial assets

The Company reviews at each statement of financial position date - whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been impairment. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset can be recovered, and if necessary, records an impairment provision for the amount needed to write down the carrying amount to the recoverable amount. In addition, assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment.

The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. Value in use is based on estimated future cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. In determining the value in use of an asset, the Company uses best available estimates as to the conditions that will prevail during the remaining useful life of the asset and as to the current condition of the asset. In computing the fair value less costs to sell of real estate, including land and lease rights, the Company makes use of valuations prepared by appraisers.

In 2008, the Company reorganized the food retail activities (supermarket segment) to incorporate all activities under one subsidiary while, at the same time, organizing the brand names so that the Company could meet the needs of specific customers in each geographic area (promotions, prices and variety) and increase customer loyalty program activities. Consequently, the Company evaluates impairment separately for each cash generating unit (CGU). A CGU can be a single store or a group of stores where the cash inflows of one store are largely interdependent on the cash inflows of another store in the same geographic area. In evaluating impairment, the Company considers corporate assets relating to the stores or other cash-generating units as well as indirect costs that are directly attributable, or that can be reasonably and consistently allocated, to the stores or cash generating units. As of December 31, 2009, 203 stores in the supermarket segment have been grouped into 84 CGUs; In the non-food segment each store is considered a CGU.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

An impairment loss is recognized in the income statement under "other gain (losses)". Non-financial assets, other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

For a cash-generating unit to which goodwill has been allocated, any impairment loss relating to that unit is initially applied to reduce the goodwill and the balance to reduce the carrying amount of the other assets.

i. Borrowing costs

Borrowing costs incurred in respect of the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

j. Financial assets

1) Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

This category includes financial assets designated at fair value through profit or loss; a financial asset is classified in this category if management has designated it as such, because it is managed and its performance is evaluated on a fair-value basis. Derivative financial instruments are also classified as held for trade since they are not designated for hedging purposes. Assets in this category are classified as current assets if they are held for trading or expected to be disposed of within one year from the date of the statement of financial position.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Company’s loans and receivables comprise "trade and other receivables", "short-term bank deposit" and "cash and cash equivalents".

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified to any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the settlement-date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within finance income or expenses in the period in which they arise.

Gains or losses arising from changes in the fair value of available-for-sale securities are recognized in other comprehensive income (hereafter – OCI). Interest on monetary securities (debt instruments) that are available for sale, is recognized in the income statement as part of "finance income or expenses" using the effective interest method.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in OCI are reclassified and included in the income statement as part of "finance income or expenses".

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Evidence of impairment may include indications of an event that has an impact on the estimated future cash flows of the financial asset. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement; increases in fair value after impairments are recognized directly in equity.

In the case of debt investments, if the fair value subsequently increases and the income can be objectively related to an event occurring after the impairment loss was recognized; the impairment loss is reversed through the income statement.

Impairment testing of trade receivables is described in note m below.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

k. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Company's derivative financial instruments do not meet the criteria required for hedge accounting. Changes in the fair value of these derivative financial instruments are recognized on a current basis in the income statement as part of "finance income or expenses."

Changes in fair value of separable embedded derivatives are recognized in the income statement as part of finance income or expenses.

l. Inventories

Inventories (mainly merchandise) are stated at the lower of cost and net realizable value. Cost is determined mainly by the “first-in, first-out” (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

The Company evaluates inventory shrinkage throughout the year based on the results of periodic stock taking in its stores, and records allowances based on the results of these counts to provide for estimated shrinkage as of statement of financial position date.

m. Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

Management regularly monitors the balance of trade receivables, and the financial statements include a specific allowance computed for accounts, the collectability of which, in the view of management, is doubtful. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within selling general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against selling general and administrative expenses in the income statement.

n. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts are presented-within "credit and loans from banks and other" in current liabilities in the statement of financial position. For the purposes of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from issuance proceeds.

p. Trade payables and rebates

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Current rebates from suppliers are recorded in the financial statements upon receipt.

The Company is entitled to certain rebates only upon meeting specified purchasing targets, such as the fulfillment of a minimum annual purchase quota (in quantitative or monetary amounts), or an increase in purchases in comparison with purchases made in previous periods. The related rebates are recognized in the financial statements as earned on a pro rata basis, based on a systematic calculation of the extent to which the Company has reached the target.

In some cases rebates due from suppliers for which the Company has no obligation to meet specified purchasing targets, are recorded in the financial statements on the basis of the purchases actually made.

Rebates from suppliers are presented as a reduction of inventories and cost of sales, as applicable.

q. Borrowings

Borrowings (including loans, debentures and convertible debentures) are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the maturity amount is recognized in the income statement over the period of the borrowings using the effective interest method.

For convertible debentures, in which the conversion component constitutes an embedded derivative (and not equity) whose economic characteristics and risks are not closely related to the debentures, the debentures are initially recognized as the difference between the total proceeds from issuance and the fair value of the bifurcated embedded derivative at the date of issuance. Subsequent to initial recognition, the embedded derivative is measured at each statement of financial position date at fair value, while the debentures are measured at amortized cost.

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Loans from banks, debentures and convertible debentures, are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

r. Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in OCI or directly in equity. In this case the tax is also recognized in OCI or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax are provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not recognized, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax are not provided on temporary differences arising on investments in subsidiaries, since the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Employee benefits

1) Retirement benefit obligations

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate and independent entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Labor laws and agreements, and the practice of the Company, require it to pay retirement benefits to employees dismissed or retiring in certain other circumstances.

The obligation of the Company to pay retirement benefits is generally treated as a defined benefit plan. However, for employees for whom the retirement benefit obligation is covered by section 14 of the Israel Severance Pay Law, the obligation is treated as a defined contribution plan.

As for employees included in defined Benefit plans, the Company's defined benefit obligation is based on the amount of benefits that such employees are entitled to receive upon retirement, which is based on the number of years of employment and the employee's last monthly salary.

The retirement benefit obligation recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by Ernst & Young Israel, an independent qualified actuary (hereafter – independent qualified actuary) using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (after taking into account the expected rate of salary increases and other actuarial assumptions) by reference to Israeli Government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

In accordance with IAS 19, "Employee Benefits", the market yields used by the Company to discount expected future cash flows are based on the interest rates of Israeli Government bonds, since the Company's management believes that Israel does not have a deep market for high-quality corporate bonds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Actuarial gains and losses are a component of other comprehensive income or loss and are carried directly to accumulated deficit.

Amounts funded for retirement benefits are measured at fair value. These funded amounts represent “plan assets”, as defined by IAS 19, and therefore are offset from retirement benefit obligation for statement of financial position presentation.

The Company purchases insurance policies and regularly contributes to pension/retirement benefit funds to meet the pension/retirement obligation. For defined contribution plans in which the Company has no further payment obligations once the contributions have been paid, the contributions are recognized as employee benefit expense when they are paid.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2) Provision for unutilized sick leave

Pursuant to employment agreements, certain employees are entitled to receive payment for a certain number of sick leave days per year which are accumulating to future periods. Under these said agreements, the Company has undertaken to pay each employee, upon retirement, certain amounts which depend on the balance of the unutilized days and on the cumulative number of sick leave days the employee has utilized during his employment with the Company.

The provision for unutilized sick leave is based on an annual actuarial calculation by an independent, qualified actuary: In making such a computation, the actuary makes actuarial assumptions (rates of employee turnover, future salary levels etc). The cost of this benefit is recognized using the same method used for defined benefit retirement plans. Actuarial gains and losses are recognized outside of profit or loss in the OCI in the period which they arise.

3) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed according to a detailed formal plan without possibility of withdrawal to either: terminating the employment of current employees; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

4) Jubilee grant

Pursuant to employee agreements, certain employees are entitled to receive a jubilee grant upon completion of service of 20, 30 and 35 years.
A provision in respect of the jubilee grant that has been recorded in the consolidated financial statements and is based on an annual actuarial calculation, by an independent, qualified actuary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

5) Vacation and recreation benefits

Every employee is legally entitled to vacation and recreation benefits, both computed on an annual basis. This entitlement is based on the term of employment. The Company records a liability and expense for vacation and recreation pay, based on the benefits that have been accumulated for each employee.

6) Share-based payment

The Company operates an equity-settled, share-based compensation plan. Under this plan, the Company grant its employees stock options at its discretion. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense in the income statement with a corresponding credit to accumulated deficit in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on the date on which they are granted. At each statement of financial position date, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to accumulated deficit in equity.

The consideration received upon exercise of stock options, net of any directly attributable transaction costs, are credited to share capital and additional paid in capital.

7) Profit sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing for employees, based on a formula that takes into consideration the profit attributable to the supermarket stores after certain adjustments. The Company recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

t. Provisions

Provisions for termination benefits cost and for legal claims are recognized when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required for settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item in the class may be low.

Provisions are measured at present value according to management's best estimate of the expenditure required to settle the obligation at the statement of financial position date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

u. Other comprehensive income

Comprehensive income is comprised of net income for the year and other income and expense items that are not taken into account in determining net income, and which are considered components of other comprehensive income; The Company's other comprehensive income or loss items are in respect of fair value adjustments of available for sale financial assets and actuarial adjustments of employee defined benefit plans.

v. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods - in the ordinary course of the Company's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Company.

When the Company acts as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, revenues are presented on a net basis. However, when the Company bears the risks and rewards resulting from the transaction, revenues are presented on a gross basis, distinguishing the revenue from the related expenses.

The Company recognizes revenue when the amount of revenue can be reliably measured. it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on past experience, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

1) Sales of goods – retail

The Company operates a chain of supermarkets that sell food products, apparel and housewares. Sales of goods are recognized when a product is sold to the customer. Retail sales are usually paid for in cash, checks, or by credit cards.

It is the Company's policy to sell products to retail customers with a right to return.
Past experience is used to estimate and provide an allowance for such returns at the time the sale is recorded.

Revenue from the sale of gift certificates is deferred and is recognized as income when the gift certificate is redeemed for the purchase of goods, or when the likelihood that the customer will redeem the certificate, based on the Company's experience, becomes remote.

Discounts, including those related to gift certificates, are recognized as a reduction of sales upon recognition of the related sales.

2) Sales of goods – wholesale

The Company sells a range of products (apparel, housewares, infant products and toys) in the wholesale market.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Sales of goods are recognized when the products are delivered to the wholesaler. The criteria for delivery are satisfied when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contract, net of estimated returns. No element of financing is deemed present as the sales are made under normal credit terms, which are consistent with market conditions.

3) Rental revenue

The Company’s lease agreements are “net” lease agreements, which require the tenants to pay all property related expenses. The rent revenue is recognized on a straight-line basis over the rent period.

4) Club member awards and loyalty programs

Club members participating in the Company's programs are entitled to earn benefits upon purchasing goods, which can be utilized over a specific term to receive certain free gifts or discounts on products or receive certain products sold by the Company free of charge. The Company applies IFRIC 13: "Customer Loyalty Programmes" as from the transition date to IFRS, and accordingly defers revenue from such sales representing the fair value of such benefits. The attributed fair value, takes into account management estimates of awards that will expire unexercised. The deferred revenue is recognized in income (carried to sales) when the award is exercised by the customer.

w. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, net gains from changes in the fair value of financial assets measured at fair value through profit or loss, net gain from marketable securities, foreign currency gains, and net gains from changes in the fair value of derivative instruments that are recognized in the income statement. Interest income is recognized as it accrues, using the effective interest method. The net gain from changes in the fair value of financial assets measured at fair value through profit or loss includes interest deriving from such assets.

Finance expense comprises interest expense on loans received and debentures issued, changes in the time value of a discounted liability in respect of a put option to the minority, net losses from changes in the fair value of financial assets measured at fair value through profit or loss, foreign currency losses, financing expenses paid under a financing lease and net losses from changes in the fair value of derivative instruments. All borrowing costs are recognized in the statement of income using the effective interest method.

x. Advertising costs

Advertising costs are expensed as incurred. Reimbursements from suppliers in respect of specific joint advertising campaigns are recognized as a reduction of these costs, in accordance with the terms of specific agreement.

BLUE SQUARE – ISRAEL LTD.
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

y. Leases

Lease agreement in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Long term lease arrangements of land with the Israeli Lands Administration and municipality of Tel-Aviv, except when such land is classified and accounted for as investment property (see below), are classified and accounted for as an operating lease. Prepaid lease fees are included in the statement of financial position as "prepaid expenses under operating leases" and are charged to the income statement over the term of the lease, including any options to extend the term if it was reasonably certain, when the lease agreement was first signed, that the Company will exercise the option.

As to the expected change in classification of such land under amendment to IAS 17 "Leases" (hereafter – IAS 17) see bb2c below.

Land held under an operating lease is classified and accounted for as investment property when the property would otherwise meet the definition of investment property. In such case, the operating lease is accounted for as if it were a finance lease.

z. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

aa. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted-average number of Ordinary shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the profit attributable to equity holders of the Company and the weighted-average number of outstanding Ordinary shares for the effect of all potential Ordinary shares that are dilutive including share options granted to employees.

ab. Reclassifications

Derivative instruments at December 31, 2008, in respect of CPI forward transactions in the total amount of NIS 11,593 were reclassified from current to non-current liabilities, to give effect to amendments to IAS 1R that were included in the IFRS Improvements for 2008 and 2009 (see bb.1.a)) In addition, the Company reclassified NIS 15,000 As of December 31, 2007 and 2008 relating to shares in a company that holds real estate property from Investment property to Investment in securities at fair value through profit and loss.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

bb. New and Amended IFRS and Interpretations

New International Financial Reporting Standards, Amendments to Standards and New interpretations

1. The following new standards and amendments to standard are mandatory for the first time for the financial year beginning January 1, 2009:
 - 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 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 (see ab above).

- b) IFRS 8, "Operating segments" (hereafter-IFRS 8). The Company has retrospectively applied in 2009 IFRS 8, which replaces IAS 14, "Segment reporting". IFRS 8 requires a 'manegment 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.

The Company has also elected to early adopt an amendment to IFRS 8 published in May 2009 in the IFRS improvements, which clarifies that the disclosure of a measure of segment assets is required only if the measure is regularly provided to the chief operating decision maker. The Company's does not regulary reports to the chief operating decision maker the information regarding segment assets and accordingly did not disclose any measure of the segment assets in these financial statements.

Segment information, based on the new standard requirements is presented for all reported periods in Note 35.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- c) IFRS 7 "Financial instruments" – Disclosures (amendment) – effective January 1 2009.
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on financial position or results of Company's operations.
 - d) Amendment to IAS 24 - "Related Party Disclosures" (hereafter - the amendment to IAS 24). The amendment simplifies the definition of related party so that the disclosure required by certain entities is expanded; the amendment also eliminates inconsistency between disclosures of two parties of the same transaction. The amendment to IAS 24 applies retroactively. The Company elected early adoption of the Amendment to IAS 24, in these financial statements.
2. 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" (effective from July 1, 2009). 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 payment classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by- acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) prospectively to all business combinations from January 1, 2010.
 - b) IAS 27R - "Consolidated and Separate Financial Statements" (effective for financial years commencing on or after July 1, 2009).
IAS 27R requires that the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and accordingly, no further goodwill or gain or loss would arise from these transactions. As of the effective date, losses are attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. IAS 27R also discusses the accounting treatment applied upon loss of control of a subsidiary. Any retained equity interests in the investee are to be remeasured to fair value and the resulting gain or loss is recognized in profit or loss. The Company will implement IAS 27R prospectively with respect to future transactions with non-controlling interests, commencing January 1, 2010.
 - c) Amendment to IAS 17– in effect for annual reporting periods commencing January 1, 2010 and thereafter. The amendment is part of the annual improvements project of the IASB published in April 2009. In accordance with the amendment to IAS 17, the demand that lease of land would be classified automatically as operating lease in any case where it is not expected that ownership will be transferred to the lessee at the end of the lease period is cancelled. Accordingly, the lease of land would be accounted for based on the regular criteria for classification as a finance lease or as an operating lease and based on the information available at time of entering into the lease agreement with retrospective application; unless the entity does not have the information required to apply the amendment to IAS 17 retrospectively. The Company will apply the amendment to IAS 17 commencing January 1, 2010. The Company is expecting that most of the lease arrangements of land that is leased from the Israeli Land Administration will be reclassified as financial leases. The Company currently assesses the potential effects of application of IAS 17 on its financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- d) IAS 38 (amendment), "Intangible Assets". The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Company's financial statements.
- e) IFRS 9, "Financial Instruments". On November 12, 2009, the IASB issued IFRS 9 as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument. A debt instrument that meets the following two conditions can be measured at amortised cost (net of any writedown for impairment): the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments must be measured at fair value through profit or loss. Further, embedded derivatives that under IAS 39 would have been separately accounted for at fair value through profit and loss because they were not closely related to the financial host asset will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety, and the asset as a whole is measured at fair value through profit and loss if any of its cash flows do not represent payments of principal and interest. Also all equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in OCI. IFRS 9 does not address financial liabilities. The Company currently assesses the potential effects of application of IFRS 9 on its financial statements.
- f) IFRIC 17, 'Distribution of Non-Cash Assets to Owners' – this interpretation determines the accounting for distribution of non-cash assets to shareholders ("dividend in kind"). The Interpretation determined the time for initial recognition of such a liability and the way this liability is measured until actual distribution. This Interpretation will be applied prospectively as from January 1, 2010.

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS:

a. Financial risk factors

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance. The Company uses derivative financial instruments in order to partially hedge certain risk exposures.

The board of directors and senior management of the Company are responsible for determining and supervising the financial risk management fundamentals of each entity in accordance with each entity’s business activities, financial structure and the relevant market conditions.

Risk management is carried out by the chief financial officer and treasury department of each entity based on policies approved by the board of directors. Treasury identifies, evaluates and hedges financial risks in close cooperation with the Company’s operating units. The board of directors provides principles for overall risk management, covering specific areas, such as interest rate risk, credit risk, foreign exchange risk, use of derivative financial instruments and non-derivative financial instruments, raising long- term debt and investment of excess liquidity.

(a) Market risk

(i) Price risk

The Company is exposed to price risk in respect of its investments in debt securities that are classified as available for sale or at fair value through profit or loss. To manage its price risk arising from investments in debt securities, the Company diversifies its portfolio in accordance with the pre-defined limits set by the Company.

The Company invests in Israeli Government debt securities and debt securities of entities that are publicly traded on the Tel Aviv Stock Exchange that have a minimum rating of A+ at the date of investment.

The table below summarizes the impact on the Company’s post-tax profit for the year and on Comprehensive income of an increase/decrease of 5% in the market price of the investments. The analysis is based on the assumption that all other variables are held constant.

	Year ended December 31			December 31		
	2007	2008	2009	2007	2008	2009
	NIS in millions					
	Impact on post-tax profit			Impact on Comprehensive income		
Government bonds	0.1	-	-	3.1	2.7	4.1
Corporate bonds	1.1	0.5	0.2	3.9	3.5	2.9
	1.2	0.5	0.2	7.0	6.2	7.0

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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

Post-tax profit for the year would increase/decrease as a result of gains/losses on debt securities classified as at fair value through profit or loss. Equity would increase/decrease as a result of gains/losses on debt securities classified as available for sale and securities classified as fair value through profit and loss.

Blue Square and certain of its subsidiaries have issued convertible debentures. The conversion components are embedded derivatives which are measured at each reporting date at fair value. At December 31, 2009, if the market price of the Company's or the relevant subsidiary's shares had increased/decreased by 5% with all other variables held constant, the effect on the fair value of the embedded derivatives would have been increased/decreased post-tax profit for the year by NIS 1.2 million (2008: NIS 1.1 million, 2007: NIS 3.9 million).

(ii) Foreign currency risk

The operating units comprising the Company are domiciled and operate in Israel. Some of those units import part of their inventories and raw materials. Those units are exposed to foreign currency risk arising primarily with respect to the US dollar. Some units use forward currency contracts in order to hedge part of the foreign currency risk.

At December 31, 2009 and 2008, the Company did not have any substantial balances in foreign currencies and, therefore, the Company's exposure to foreign exchange risk was immaterial.

One of the Company's subsidiary signed a rent agreement which is fixed in Swiss Franc (CHF). This agreement include an embedded derivatives which is measured at each reporting date at fair value.

At December 31, 2009 if the currency had weakened/strengthened by 5% against the CHF with all other variables held constant, post-tax profit for the year would have been NIS 1.3 million lower/higher (2008: NIS 1.8 million, 2007: NIS 2.1 million).

(iii) CPI risk

The Company has an excess of CPI- linked liabilities over CPI - linked assets (mainly in respect of outstanding debentures and loans), (These derivatives do not qualify for hedge accounting under IFRS) The Company uses forward CPI contracts in order to partially hedge this risk. At December 31, 2009 if the CPI had increased/decreased by 2% with all other variables held constant, post-tax profit for the year would have decreased/increased by NIS 20.2 million (2008: NIS 13.6 million, 2007: NIS 17.2 million).

(iv) Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. At December 31, 2009 if interest rates on borrowings had been 5% higher/lower with all other variables held constant, post-tax profit for the year would have been NIS 0.1 million (2008: NIS 0.1 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Company's investments in debt securities of fixed rates and short-term deposit expose the Company to fair value interest rate risk. If interest rates had been 5% higher/lower with all the other variables held constant other components of equity would have been NIS 6.8 million (2008: NIS 5.7 million, 2007: NIS 5.8 million) lower/higher mainly as result of the decrease/increase in the fair value of these debt securities classified as available for sale.

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

(b) Credit risk

Credit risk is managed separately by each of the Company's operating units. Credit risk arises from cash and cash equivalents, marketable securities, short term deposits with banks as well as credit exposure to retail and wholesale customers.

Cash and cash equivalents, deposits and marketable securities are maintained with major banking institutions in Israel.

The Company's investments are comprised of Israeli Government debt securities and debt securities of entities that are publicly traded on the Tel Aviv Stock Exchange and that have a minimum rating of A+ at the date of investment. According to the Company's investment policy, there are no significant concentrations of credit risk in respect of investments in debt securities.

Sales to retail customers are collected principally through use of major credit cards, post-dated checks (partially guaranteed by credit insurance) or cash.

Sales to wholesale customers are mainly made under accepted market credit terms. The credit quality of each wholesale customer is assessed. The Company's customers are diversified and the risk of credit concentration is immaterial. Individual risk limits are set based on internal ratings that take into consideration the customer's financial position, credit history and other factors.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through and adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's operating units maintain flexibility in funding by use of credit facilities.

Management monitors rolling forecasts of the Company's liquidity reserve (comprised of borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is generally carried out at corporate's level. These reserves vary by location to take into account the liquidity of the market in which the Company operates. In addition, the Company's liquidity management policy involves projecting cash flows and considering the necessary level of liquid assets, monitoring statement of financial position liquidity requirements, and maintaining debt financing plans.

The table below analyses the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Therefore, these amounts will not reconcile to the amounts disclosed in the statement of financial position except for balances due within 12 months which equal their carrying amounts as the impact of discounting is not material.

The table does not include the liabilities for operating leases, and the related embedded derivatives, contractual cash flows for operating leases are presented in note 32c. Cash flows relating to conversion component of convertible debentures are included in the maturities of the debentures above.

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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

December 31, 2009					
	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total
	NIS in thousands				
Trade payables	915,845	-	-	-	915,845
Other payables	460,000	-	-	-	460,000
Bank loans	307,694	142,639	258,362	341,752	1,050,447
Debenture and convertible debentures	150,025	106,747	882,408	752,244	1,891,424
Other long-term payables	4,561	10,914	-	2,966	15,475
Total	1,838,125	260,300	1,140,770	1,096,962	4,336,157

December 31, 2008					
	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total
	NIS in thousands				
Trade payables	1,004,799	-	-	-	1,004,799
Other payables	436,471	-	-	-	436,471
Forward contracts (fair value)	-	11,593	-	-	11,593
Bank Loans	236,163	116,496	214,220	68,163	635,042
Debenture and convertible debentures	78,589	132,231	506,149	812,258	1,529,227
Other long-term payables	9,130	28,249	15,783	1,383	54,545
Total	1,765,152	288,569	736,152	881,804	3,671,677

b. Capital risk management

The Company’s objectives in managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt to EBITDA. Net debt is calculated as total borrowings (including ‘current and non-current borrowings’ as shown in the consolidated statement of financial position) less cash and cash equivalents and other liquid financial assets. This ratio is a non-GAAP figure not determined in IFRS and its definition and calculation may vary from one Company to another. The Company considers this ratio to be an important measure for investors, analysts and rating agencies. The debentures of Blue Square are rated ilA+ Negative by S&P Maalot, see note 19d. (3).

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

c. Fair value estimation

Effective January 1, 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Company’s assets and liabilities that are measured at fair value at December 31, 2009.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
	<u>NIS in thousands</u>			
Assets:				
Financial assets at fair value through profit or loss:				
Corporate bonds	4,733	-	-	4,733
Forwards contracts over Israeli CPI	-	9,690	-	9,690
Diners option	-	-	12,266	12,266
Embedded derivatives in rent agreements	-	425	-	425
Equity securities	-	-	25,000	25,000
Available-for-sale financial assets -				
Government Bonds	110,884	-	-	110,884
Corporate Bonds	72,295	-	-	72,295
Total assets	<u>187,912</u>	<u>10,115</u>	<u>37,266</u>	<u>235,293</u>
Liabilities:				
Embedded derivatives:				
Conversion component embedded in convertible debentures	-	11,898	-	11,898
Rent agreements	-	7,591	-	7,591
Total liabilities	<u>-</u>	<u>19,489</u>	<u>-</u>	<u>19,489</u>

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the Company is the closing market price. These instruments are included in level 1. Instruments included in level 1 investments in Israeli Government debt securities and debt securities of entities that are publicly traded on the Tel Aviv Stock Exchange. These instruments classified as trading securities or available-for-sale. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward contracts over the Israeli CPI are calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- For the Diners options – the fair value was determined based on binominal valuation model, which takes into account Diner's expected profits multiples of earnings of quoted companies in Israel in this field of operations, Costs of recruiting and mainting credit card users
- For the equity securities - discounted cash flow analysis was used to determine the fair value.

Regarding the fair value of non-current borrowings, see Note 19(1)(d).

The following table presents the changes in level 3 instruments for the year ended December 31, 2009.

	Investment in equity securities	Diners option	Total
	NIS in thousands		
Opening balance	15,000	4,700	19,700
Gains and losses recognized in profit or loss	10,000	7,566	17,566
Closing balance	25,000	12,266	37,266
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting year	10,000	7,566	17,566

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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

d. Financial Instruments by category

December 31, 2009				
	Loans and Receivables	Assets at fair value through profit and loss	Available for sale	Total
	NIS in thousands			
Cash and cash equivalents	612,227	-	-	612,227
Short term bank deposits	67	-	-	67
Investment in securities	-	29,733	183,179	212,912
Trade receivables	809,783	-	-	809,783
Other receivables excluding prepayments and other	55,823	-	-	55,823
Derivative financial instrument (Forward Contracts)	-	9,690	-	9,690
Loans to associates	2,094	-	-	2,094
Other long-term receivables	1,125	-	-	1,125
Non-current derivative financial instruments	-	12,691	-	12,691
Total	1,481,119	52,114	183,179	1,716,412

December 31, 2009			
	Other financial liabilities at amortized cost	Liabilities at fair value through the profit and loss	Total
	NIS in thousands		
Credit and loans from banks and others	143,086	-	143,086
Trade payables	917,585	-	917,585
Other account payables and accrued expensses	456,054	-	456,054
Bank loans	728,233	-	728,233
Convertible debentures	130,123	-	130,123
Conversion component embedded in convertible debentures	-	11,898	11,898
Debentures	1,327,986	-	1,327,986
Derivatives financial instruments	-	7,591	7,591
Other liabilities	20,919	-	20,919
Total	3,723,986	19,489	3,743,475

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

d. Financial Instruments by category (continued)

	December 31, 2008			
	Loans and Receivables	Assets at fair value through the profit and loss	Available for sale	Total
	NIS in thousands			
Cash and cash equivalents	95,325	-	-	95,325
Short term bank deposits	206	-	-	206
Investment in securities	-	*29,713	157,136	186,849
Trade receivables	729,970	-	-	729,970
Other receivables excluding prepayments and other	69,926	-	-	69,926
Loans to associates	2,180	-	-	2,180
Other long-term receivables	1,088	-	-	1,088
Non-current derivative financial instruments	-	5,248	-	5,248
Total	898,695	34,961	157,136	1,090,792

	December 31, 2008		
	Other financial liabilities at amortized cost	Liabilities at fair value through the profit and loss	Total
	NIS in thousands		
Credit and loans from banks and others	77,988	-	77,988
Trade payables	1,006,386	-	1,006,386
Other account payables and accrued expensses	394,918	-	394,918
Bank loans	474,499	-	474,499
Convertible debentures	148,549	-	148,549
Conversion component embedded in convertible debentures	-	7,975	7,975
Debentures	985,844	-	985,844
Non-current derivatives financial instruments	-	*21,074	21,074
Other liabilities	38,370	-	38,370
Total	3,126,554	29,049	3,115,603

*Reclassified

NOTE 3 - FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

e. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the internal composition based on historical information that has been accumulated in the Company's entities over the years, as follows:

	December 31	
	2008	2009
	NIS in thousands	
Trade receivables		
Balances with related party (note 34)	56,550	58,479
Credit cards	482,345	545,770
Insured checks receivables*	40,091	54,590
Checks receivables	81,935	85,276
Open accounts	48,663	44,052
	709,584	788,167

* The Company and part of the Company's subsidiaries are engaged with check credit companies to fully receive payments of checks that have been approved by the check credit company, even if no cover is available at the indicated time of payment.

Cash and cash equivalents and short term bank deposit

Most of the Company Cash and cash equivalents and short term deposit at December 31, 2009 were deposited with major banks in Israel.

Available-for-sale debt securities

As described in note 3, the Company's investments are publicly traded in the Tel-Aviv Stock Exchange and independently rated with a minimum A+ at the date of investment.

The balances are presented at fair value; provision for impairments were carried from equity into the income statements, when necessary.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets presented in the statement of financial position.

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NOTE 3 - FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

f. Company exposure of monetary balances:

1. The currency exposure of the Company's monetary assets and liabilities and their fair value balances is as follows:

December 31, 2009							
	NIS linked to CPI	NIS unlinked	US Dollar	Other currencies	Other(*)	Total	Fair value
	NIS in thousands						
Assets:							
Cash and cash equivalents	-	612,227	-	-	-	612,227	(**)
Short term bank deposit	-	67	-	-	-	67	(**)
Investment in securities	96,842	91,070	-	-	25,000	212,912	212,912
Trade receivables	-	809,783	-	-	-	809,783	(**)
Other accounts receivables	749	55,074	-	-	-	55,823	(**)
Income taxes receivable	84,274	-	-	-	-	84,274	(**)
Derivative financial instruments	9,690	-	425	-	12,266	22,381	22,381
Other long-term receivables	3,275	-	-	-	-	3,275	(**)
Total assets	194,830	1,568,221	425	-	37,266	1,800,742	
Liabilities:							
Credit and loans from banks and others	365	142,721	-	-	-	143,086	(**)
Trade payables	-	913,948	3,460	177	-	917,585	(**)
Other accounts payable and accrued expenses	24,860	462,819	-	-	-	487,679	(**)
Income tax payables	6,051	-	-	-	-	6,051	(**)
Provisions	-	51,298	-	-	-	51,298	(**)
Loans	317,409	410,824	-	-	-	728,233	737,316
Debentures	1,327,986	-	-	-	-	1,327,986	1,429,528
Convertible debentures	142,066	-	-	-	-	142,066	148,866
Other long-term liabilities	8,398	3,357	9,164	-	-	20,919	(**)
Derivative financial instruments	-	-	1,075	6,516	-	7,591	7,591
Total liabilities	1,827,135	1,984,967	13,699	6,693	-	3,832,494	

(*) Financial instrument that are not monetary assets

(**) The fair value of those monetary balances are usually identical or close to their carrying value.

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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

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

Year	Exchange rate of the US dollar	Israel known CPI (1)	Israel actual CPI (2)
	%	%	%
2009	(0.7)	3.8	3.9
2008	(1.1)	4.5	3.8

- (1) Calculated based on published CPI date (through November of end year)
(2) Calculated based on actual CPI date (through December of end year)

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS:

Estimates and judgments are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The uncertainty inherent in accounting estimates can result in outcomes that differ materially from the estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1) Impairment of non financial assets

In accordance with the accounting policy stated in note 2, the Company reviews at each statement of financial position date whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of property, plant and equipment and identifiable intangibles. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset in the Company's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision necessary to adjust the carrying amount to the recoverable amount.

The recoverable amount of an asset is the higher of the net selling price of the asset's fair value less cost to sell and its value in use. These calculations require the use of estimates.

Company tests at least annually whether goodwill has been impaired in accordance with the accounting policy stated in note 2. The recoverable amount of the cash-generating unit (CGU) to which goodwill has been allocated is determined based on value-in-use calculations. These calculations require the use of estimates. See note 8 for details of key assumptions.

Referring to goodwill (as allocated to the CGUs, see above), the Company performed a sensitivity analysis for the key assumption used in its annual goodwill impairment test, determined that an increase in the pre-tax discount rate of 0.5% would result in the estimated recoverable amount of Leisure CGU falling below its carrying amount by NIS 2.7 million.
At December 31, 2009, the recoverable amount of this CGU exceeded the carrying value of goodwill allocated to this CGU by 6%. The Company's management believes that the Leisure CGU is at risk for goodwill impairment in case that the pre-tax discount rate will increase by 0.5%.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued):

The fair values of other CGUs are substantially higher than the carrying value.

Referring to property plant and equipment, when the discount rate is different by 0.5% from management estimate the carrying value of property, plant and equipment will be NIS 776 thousand lower or NIS 762 thousand higher.
When growth rate is different by 0.5% from management estimate the carrying value of property, plant and equipment will be NIS 2.7 million lower or NIS 2.8 million higher.

2) Adjustment of investment property to fair value

Investment property is presented at fair value based on assessments of external independent appraisers, who have the appropriate qualifications. In certain cases fair value is determined using discounted cash flows that are based on assumptions as to discount rate. Changes in the discount rate will change the calculated fair value and may therefore materially affect the Company's results of operations.

When the discount rate is different by 0.5% from management estimate the fair value of investment property will be NIS 17.7 million lower or NIS 20 million higher. When the discount rate is different by 1% from management estimate the fair value of investment property will be NIS 34.3 million lower or NIS 41.6 million higher.

3) Retirement benefit obligations and provision for unutilized sick leave

The present value of the obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost of retirement benefits and provision for unutilized sick leave include the discount rate. Other key assumptions such as future wage increases and retirement rates, are based in part on current market conditions and past experience. Any changes in these assumptions will impact the carrying amount of the obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Company considers the interest rates of Israeli government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability.

4) Provisions for claims

The provisions for legal claims are recorded based on the estimates of the Company's management (after consulting with the legal counsel) as to the likelihood that cash flows will be required to settle these liabilities, and at the discounted amounts of such cash flows.

5) Income taxes and deferred taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain.

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NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued):

The Company recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters differs from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the Company recognizes deferred tax assets and tax liabilities based on the difference between the carrying value of such assets and liabilities and their amount for tax purposes. The Company continually assesses the recoverability of deferred tax assets, based on historical taxable income, expected taxable income, the expected timing of the reversals of temporary differences and the application of tax planning strategies. If the Company is unable to generate sufficient future taxable income, or actual results differ from its other assumptions, the Company might be required to reduce its deferred tax assets or to increase its deferred tax liabilities, which will increase its effective tax rate, and negatively affect its operations.

6) Impairment of available-for-sale financial assets

The Company follows the guidance in IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial position of and short-term business outlook of the issuer of the instrument, including factors such as industry and sector performance, changes in technology and operating and financing cash flows.

7) Fair value of derivative and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, derivatives and equity securities) is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of financial position date. The Company has used discounted cash flow analysis for various derivative financial assets that are not traded in active markets. Changes in assumptions could affect the reported fair value of these financial instruments.

NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES

i) Non Food Retail and Wholesale segment

a. Acquisitions:

1) Bee Group Retail Ltd. ("Bee group"):

- a) In April 2007, the Company purchased additional 10% of the issued and paid-up share capital of Bee Group – a 50% subsidiary controlled by the Company - in consideration for NIS 5 million. The excess of cost over the carrying amount of the minority interest acquired - in the amount of NIS 1.8 million - was recorded as goodwill.
- b) In September 2008, the Company acquired an additional 25% of the outstanding share capital of Bee Group, from the other shareholders of Bee Group (the "Sellers"), increasing the Company's interest in Bee Group to 85%. The Company paid NIS 35.4 million for these shares. The excess of cost over the carrying amount of the minority interest acquired in the amount of NIS 29.8 million was recorded as goodwill.

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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

Furthermore, during the five-year period from date of closing, the Company is entitled to acquire the remaining 15% of Bee Group's share capital (the "Remaining Shares") for the aggregate consideration of approximately NIS 21.24 million, increased by 7.5% annually until actual payment (the "Call Option") (see note 18 and note 20). At the second anniversary of the closing date, the Sellers are entitled to sell the Remaining Shares to the Company for the same exercise price as for the Call Option in the event the Company had not previously exercised the Call Option (the "Put Option"). The agreement provides that in the event Bee Group completes an initial public offering of its shares during the three years from date of closing, the exercise price in the Call Option and the Put Option would generally be adjusted in accordance with the value ascribed to the Bee Group in the offering (including in the event the Call Option and Put Option had been previously exercised). As a result of the above, the Company accounts for 100% ownership and control in Bee Group as from September 2008; the put option to the minority interest is accounted for as a financial liability based on the current redemption value of the exercise price of the option with a corresponding reduction of minority interest and an increase in goodwill of NIS 17.9 million.

As part of the acquisition arrangement, Bee Group has paid cash dividend to Bee Group shareholders in the aggregate amount of NIS 13.7 million, of which the Sellers received NIS 11 million.

2) Vardinon Textiles Ltd.("Vardinon")

In April 2007, Bee Group completed its acquisition of 85.8% of the shares conferring ownership and control of Vardinon Textiles Ltd, an Israeli public Company which is traded on the Tel-Aviv Stock Exchange ("TASE"). Vardinon is engaged in the field of housewares.

The consideration for the acquisition amounted to 38.1 million. The acquisition generated goodwill of NIS 9.8 million, brand name of NIS 3.8 million and customer base of NIS 0.9 million based on the purchase price allocation.

In December 2007, Bee Group sold approximately 1.2% of Vardinon's shares in consideration for NIS 0.4 million, which approximated its carrying amount.

The financial statements of Vardinon were consolidated for the first time in 2007. The consolidated income statements for the year 2007 include the share of profits of Vardinon for the period from the date of acquisition to December 31, 2007.

3) Na'aman Porcelain Ltd.("Na'aman")

On October 31, 2007, Bee Group completed the acquisition of 57.87% (51.5% on a fully diluted basis) of the shares of Na'aman, a public Company which is traded in the TASE. Na'aman is engaged in the field of housewares.

Total consideration amounted to NIS 101 million (including NIS 1 million relating to acquisition costs). The acquisition generated goodwill of NIS 55.7 million, customer base of NIS 44.4 million and brand name of NIS 7.1 million based on the purchase price allocation.

NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

The financial statements of Naaman were consolidated for the first time in 2007. The consolidated income statement for the year 2007 includes the share in the profits of Naaman for the period from the date of acquisition to December 31, 2007.

In May 2009, 446,723 options to purchase ordinary share of Naaman were exercised, and any remaining options expired. As a result, the Company's holding decreased and a gain in the amount of NIS 0.3 million was recognized in the income statement.

4) Other - first time consolidation

During 2009, the Company acquired shares of Rav Kat Natania ltd. which operates in the baby products field for a total consideration of NIS 1.75 million.

b. Bee Group Reorganization

During 2008 and 2009, Bee Group reorganized its holding of its subsidiaries .

1) Agreement for merger of Sheshet Chain of stores for House hold utensils Ltd with Na'aman:

As part of the reorganization, Na'aman issued ordinary shares to Bee Group in consideration for its 75% holdings in Sheshet's issued share capital, and as a result Bee Group has increased it holdings in Na'aman and decreased its holdings in Sheshet. In addition, Na'aman has also issued ordinary shares to the other shareholder of Sheshet in consideration for its 25% holdings in Sheshet's issued share capital, and as a result Bee Group decreased its holding in Na'aman.
As a result of the decrease in Bee Group holdings in Sheshet, Bee group recognized a gain of NIS 12 million, and as a result of the increase in Bee Group holdings in Na'aman, Bee group recognized an increase in goodwill in the amount of NIS 11.6 million.

2) Agreement for Na'aman's acquisition of shares of Vardinon

Na'aman acquired all of Bee Group's holdings in Vardinon such that subsequent to the completion of the agreement, Na'aman holds approximately 85% of Vardinon's share capital. The purchase price was determined based on the price paid by the Bee Group for the acquisition of Vardinon's shares from the previous shareholders in accordance with an agreement dated February 28, 2007, net of adjustments as stipulated in the agreement.

3) Doctor Baby

In November 2009, following Board of directors resolutions and notices given to its shareholders, Dr. Baby Ltd. (a 50% subsidiary that is controlled by the Company; hereafter - "Dr Baby"), issued 5,000 new shares to the Company, for the total consideration of NIS 19.5 million. As a result, the holding of the other shareholders of Dr Baby was diluted while the Company's holding increased by additional 48.1%.
The other shareholders are disputing this change in shareholding and the matter was brought to an arbitration process which is still ongoing (see note 311).

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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

The other shareholders have no commitment to provide additional funding to Dr. Baby and consequently, the Company is reflecting 100% of Dr Baby's losses. Hence, any unfavorable decision of the arbitrator as to the issuance of these shares and the exercise of their rights is not expected to have material effect the Company's financial statements.

- 4) In addition to Bee Group reorganization, in 2009, there was an union of headquarters, the expenses in an amount of approximately NIS 2.7 million were recognized in "other gains (losses)".

c. Additional investments in subsidiary

On June 1, 2009 Na'aman acquired 905,240 shares of Vardinon in consideration of NIS 1.4 million, after the acquisition Na'aman holds 88.74% of Vardinon's share capital. The excess of the consideration paid over the share in minority rights acquired in the amount of NIS 0.2 million was recorded as an addition to goodwill.

On March 22, 2009, Bee Group aquired 1,128,340 of the ordinary shares of Na'aman in consideration of NIS 6.6 million, following which the Company holds 68.4% of Na'aman share capital . The excess of the share on minority rights acquired over the consideration paid in the amount of NIS 2.5 million was recognized as "other gains" in the income statement.

ii) Supermarkets

Acquisitions:

- 1) Eden Briut Teva Market Ltd. ("Eden")

In October 2007, the Company completed its acquisition of 51% of the outstanding shares of Eden, a private Israeli retail Company established in 2003, operating at the date of acquisition two supermarkets, specializing in organic, natural and health food products. The consideration for the acquisition was approximately NIS 22.5 million. In addition, the Company provided Eden with shareholder loans in the amount of NIS 47 million of which NIS 33 million is a long-term loan (which is treated as inter-company loan and eliminated in consolidation). This loan is linked to the CPI and bears annual interest of 4%. The loan would be repaid commensurate with the distribution of a preferred dividend by Eden to the other shareholders, based on their shareholdings in Eden. The balance of NIS 14 million is a short-term loan. The loan bears interest of 2.55% as of December 31, 2009, which is similar to interest payable on short-term loans of the Company. Interest is payable on a quarterly basis. Principal is to be repaid in accordance with Eden's ability to do so. Should the terms for grant of a bonus of \$ 5 million to the CEO be met, half of the short-term owners' loan provided by the Company would be considered to be an owners' loan that is subject to the terms of the long-term owners' loan, as above. Should one of the terms for a grant of bonus to the CEO, which is the former owner of Eden, and currently holds 49% of the outstanding shares of Eden be met, one quarter of the owners' loan provided by the Company would be considered to be an owners' loan that is subject to the terms of the long-term owners' loan, as above.

The acquisition also provides for the Company to supply all guarantees and financing required in connection with Eden's operations in the future.

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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

The payment of the above mentioned bonus to Eden's CEO is stipulated upon the satisfaction of various operational and performance thresholds. Since Eden's CEO is obligated to continue working in Eden, the Company makes provisions in respect of possible future bonus payments.

The acquisition generated goodwill of NIS 39.9 million and brand name of NIS 6.6 million based on the purchase price allocation.

The financial statements of Eden were consolidated for the first time in 2007. The consolidated income statement for the year 2007 includes the share of the profits of Eden for the period from the date of acquisition to December 31, 2007.

2) Mega Retail (formerly Blue Square Chain Investment Properties)

In November 2008, the Company completed the cash tender offer to acquire Mega Retail's share capital for a consideration of NIS 150.7 million. Following completion of the acquisition, the Company now holds 100% ownership and control of the shares, and Mega Retail's shares are no longer traded on the Tel Aviv Stock Exchange. As a result of the acquisition, the Company recorded goodwill in the amount of NIS 50.6 million.

3) Other - first time consolidation

During 2009, the Company acquired operation of Israel Post which public a daily newspaper for a total consideration of NIS 3 million.

iii) Real estate:

Reorganization of real estate segment activity – transfer of real estate properties to the subsidiary Blue Square Real Estate Ltd.

In September 2009, the reorganization plan of the real estate activity of the Company and its centralization under the subsidiary (78.35%) Blue Square Real Estate (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).

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 deferral under the split agreement with BSRE, until the realization of the properties (when and if realized) or by the depreciation charge 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.

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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

BSRE pledged certain of the transferred properties as collateral for a loan taken in order to finance the transaction. Transaction costs, amounted to approximately NIS 2.5 million including the purchase tax, were recorded as expense in the statement of income (in "other gain (losses)").

iv) Other:

- 1) As to a commitment of the Company in connection with the acquisition of Diners Israel, see note 32.
- 2) The list of principal investee companies is presented in the appendix to the financial statements.

NOTE 6 – PROPERTY PLANTS AND EQUIPMENT:

- a.** Composition of assets and the accumulated depreciation and amortization thereon, grouped by major classifications, and changes therein are as follows:

	<u>Land and buildings</u>	<u>Leasehold improvements</u>	<u>Furniture, equipment and installations</u>	<u>Motor vehicles</u>	<u>Total</u>
	NIS in thousands				
Cost:					
Balance at January 1, 2009	1,324,387	604,631	1,470,299	22,406	3,421,723
Additions	36,809	66,464	99,865	925	204,063
Disposals	-	(2,836)	(14,421)	(7,247)	(24,504)
Acquisition of subsidiary consolidated for the first time	-	125	172	-	297
Transfer from investment property	12,131	-	-	-	12,131
Balance at December 31, 2009	<u>1,373,327</u>	<u>668,384</u>	<u>1,555,915</u>	<u>16,084</u>	<u>3,613,710</u>
Accumulated depreciation:					
Balance at January 1, 2009	299,814	372,634	1,009,452	11,518	1,693,418
Additions	18,943	39,116	83,062	3,141	144,262
Disposals	-	(2,762)	(13,043)	(6,406)	(22,211)
Balance at December 31, 2009	<u>318,757</u>	<u>408,988</u>	<u>1,079,471</u>	<u>8,253</u>	<u>1,815,469</u>
Impairment of property, plant and equipment (see b below)	8,391	15,615	16,517	-	40,523
Net book value at December 31, 2009	<u>1,046,179</u>	<u>243,781</u>	<u>459,927</u>	<u>7,831</u>	<u>1,757,718</u>

BLUE SQUARE – ISRAEL LTD.
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NOTE 6 – PROPERTY PLANTS AND EQUIPMENT (continued):

	Land and buildings	Leasehold improvements	Furniture, equipment and installations	Motor vehicles	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2008	1,287,117	542,236	1,449,253	21,480	3,300,086
Additions	37,788	81,301	117,935	3,220	240,244
Disposals	-	(18,906)	(96,889)	(2,294)	(118,089)
Transfer from investment property	14,880	-	-	-	14,880
Transfer to investment property	(15,398)	-	-	-	(15,398)
Balance at December 31, 2008	<u>1,324,387</u>	<u>604,631</u>	<u>1,470,299</u>	<u>22,406</u>	<u>3,421,723</u>
Accumulated depreciation:					
Balance at January 1, 2008	278,892	351,604	1,016,118	10,731	1,657,345
Additions	20,922	39,890	89,107	2,426	152,345
Disposals	-	(18,860)	(95,773)	(1,639)	(116,272)
Balance at December 31, 2008	<u>299,814</u>	<u>372,634</u>	<u>1,009,452</u>	<u>11,518</u>	<u>1,693,418</u>
Impairment of property, plant and equipment (see b below)	9,918	5,690	11,475	-	27,083
Net book value at December 31, 2008	<u>1,014,655</u>	<u>226,307</u>	<u>449,372</u>	<u>10,888</u>	<u>1,701,222</u>

- b. During 2009 the Company recorded impairment provisions resulting in net amount of NIS 18.5 million, including a provision of NIS 17.5 million and a reversal of provisions in the amount of NIS 1.4 million in the supermarkets segment, and an impairment in amount of NIS 2.4 million in the non-food retail and wholesale segment.

During 2008 the Company recorded impairment provisions resulting in net amount of NIS 3.4 million in the supermarkets segment. This was the result of recording provisions of NIS 9.3 million in respect of certain stores, against which was offset the reduction in the impairment provisions in respect of other stores that had been recorded in previous years in the amount of NIS 5.9 million.

During 2007 the Company recorded a reversal of impairment provisions resulting in the net amount of NIS 13.5 million in the supermarkets segment. This was the result of recording provisions of NIS 18.7 million for the first time in respect of certain stores, against which was offset the reduction in the impairment provisions in respect of other stores that had been recorded in previous years in the amount of NIS 32.2 million.

Impairment provisions or the reversal of such provisions are included in the income statement within Other gains or losses.

In calculating the impairment for the reported years, based on discounted expected future cash flows, the Company used a discount rate before tax for each cash-generating unit (CGU) as detailed in Note 8c.

The balance of the impairment provisions as of December 31, 2009 and 2008, is after a reduction for depreciation corresponding to the depreciation of the related assets and after elimination of the portion of the provision relating to assets that were disposed of during the period.

BLUE SQUARE – ISRAEL LTD.
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NOTE 6 – PROPERTY PLANTS AND EQUIPMENT (continued):

c. Additional details:

Certain real estate assets which have been transferred to the Company from the previous parent cooperative are in the process of being registered in the name of the Company.

d. As to liens placed on assets, see note 33.

NOTE 7 – INVESTMENT PROPERTY:

The changes in the carrying value of investment property for the years ended December 31, 2009, 2008 and 2007 respectively, are as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	NIS in thousands		
At January 1	*283,026	*300,778	419,232
Transfer to property, plant and equipment (b)	-	(14,880)	(16,601)
Transfer from property, plant and equipment (c)	-	15,398	-
Additions (d)	21,339	104,657	9,435
Disposals	(14,978)	(6,567)	(5,700)
Net gain from adjustments of investment property to fair value	<u>11,391</u>	<u>19,846</u>	<u>18,570</u>
At December 31	<u>300,778</u>	<u>419,232</u>	<u>424,936</u>

* Reclassified – see note 2ab

- a) All the Company's investments are located in Israel.
- b) The property was rented to subsidiaries and therefore it was transferred from investment properties to property, plant and equipment.
- c) In 2008, the construction of the investment property was completed and therefore it was transferred from property, plant and equipment to investment properties.
- d) The additions in 2009, totaling NIS 9.4 million, include NIS 1.7 million of rental offices and NIS 7.7 million of land in areas used for commercial and industrial development. The additions in 2008, totaling NIS 104.7 million, include NIS 39 million of rental offices and NIS 66 million of land in areas used for commercial and industrial development. The additions include the completion of investment property transactions, the balance of which, as of December 31, 2007 (NIS 35 million), was included in other long term receivables.
- e) The fair value of the investment property items was determined by "O. Haushner Civil Eng. & Real Estate Appraisal Ltd." and "Barak Friedman Cohen & Co. Economic & Real Estate Appraisal", independent qualified appraisers who are members of the Real Estate Appraisers Association in Israel – based on the current prices in an active market for similar property, locations and conditions, and based on the discount of the cash flows that are expected to arise from the assets. The range of discount rates used by the appraiser are 8%-12% per annum (mainly 8-8.5%).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 – INVESTMENT PROPERTY (continued):

f) Rental revenue that has been recognized in the income statement within sales:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Rental income	15,772	20,152	21,790

g) Break down of Investment property at December 31, 2009, by lease rights and ownership of land:

	December 31, 2009
	NIS in thousands
Ownership	103,850
Finance lease from the Israeli Land Administration for a period of 999 years	73,530
	177,380
Finance lease from Israeli Land administration for a period ending between the years 2010-2056, see detailed below:	
Lease for a period under 10 years	1,270
Lease for a period between 10-25 years	154,405
Lease for a period above 25 years*	91,881
	247,556
	424,936

* including land lease valued at NIS 3.8 million, for which the Company made additional payments to the Land Administration for the renewal of the lease. The company is in the process of signing new lease agreement. In Company's opinion, this will have no effect on the fair value of this asset.

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – INTANGIBLE ASSETS:

- a. Composition of intangible assets and the accumulated amortization thereon, grouped by major classifications, and changes therein in 2008 and 2009, are as follows:

	Goodwill	Software	Brand name and trade marks	Customer base	Evacuation Fees and Other	Total
	NIS in thousands					
At January 1,2008						
Cost	190,415	70,838	20,615	45,623	8,265	335,756
Accumulated amortization and impairment	-	(51,700)	(1,751)	(625)	(1,260)	(55,336)
Net carrying amount	<u>190,415</u>	<u>19,138</u>	<u>18,864</u>	<u>44,998</u>	<u>7,005</u>	<u>280,420</u>
Year ended December 31, 2008:						
Opening net carrying amount	190,415	19,138	18,864	44,998	7,005	280,420
Acquisitions of minority interest	111,890	-	-	-	-	111,890
Additions	-	19,299	122	-	11,311	30,372
Decrease in ownership interest in subsidiary due to dilution	(2,467)	-	-	-	(447)	(2,914)
Amortization charge	-	(8,493)	(1,925)	(3,207)	(2,081)	(15,706)
Closing net carrying amount	<u>299,838</u>	<u>29,944</u>	<u>17,061</u>	<u>41,791</u>	<u>15,788</u>	<u>404,422</u>
At December 31, 2008:						
Cost	299,838	90,137	20,737	45,623	19,129	475,464
Accumulated amortization and impairment	-	(60,193)	(3,676)	(3,832)	(3,341)	(71,042)
Net carrying amount	<u>299,838</u>	<u>29,944</u>	<u>17,061</u>	<u>41,791</u>	<u>15,788</u>	<u>404,422</u>
Year ended December 31, 2009						
Opening net carrying amount	299,838	29,944	17,061	41,791	15,788	404,422
Additions	227	20,009	115	-	387	20,738
Acquisition of subsidiary consolidated for the first time	1,200	-	-	-	5,189	6,389
Disposals	-	-	-	-	(274)	(274)
Amortization charge	-	(12,329)	(2,064)	(3,099)	(3,243)	(20,735)
Impairment	-	-	-	-	(1,346)	(1,346)
Closing net carrying amount	<u>301,265</u>	<u>37,624</u>	<u>15,112</u>	<u>38,692</u>	<u>16,501</u>	<u>409,194</u>
At 31 December 2009						
Cost	301,265	110,146	20,852	45,623	24,371	502,257
Accumulated amortization and impairment	-	(72,522)	(5,740)	(6,931)	(7,870)	(93,063)
Net carrying amount	<u>301,265</u>	<u>37,624</u>	<u>15,112</u>	<u>38,692</u>	<u>16,501</u>	<u>409,194</u>

NOTE 8 - INTANGIBLE ASSETS (continued):

- b. Amortization is included in the income statement within Selling, general and administrative expenses. Impairment loss and gain or loss resulting from changes in shareholding is presented in Other gain or loss.
- c. Impairment tests for goodwill

Goodwill is allocated to three identified groups of cash-generating units (CGUs).

The components of goodwill are as follows:

	December 31	
	2008	2009
	NIS in thousands	
Supermarkets	162,780	163,980
Non - Food retail and wholesale:		
Houseware	110,952	111,179
Leisure	26,106	26,106
	299,838	301,265

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management and management estimation covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value in-use calculations are as follows:

	Non - Food retail and wholesale		
	Supermarkets	Houseware	Leisure
	%		
Gross margin (1)	26.5	48.9	20
Growth rate (2)	2	2	2
Discount rate (3)	10.2	15.18	14.93

- (1) Expected gross margin.
- (2) Weighted average growth rate used to extrapolate cash flows beyond the budget management estimations covering a five-year period.
- (3) Pre-tax discount rate applied to cash flow projections.

These assumptions have been used for the analysis of each CGU.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating business unit.

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NOTE 9 - PREPAID EXPENSES IN RESPECT OF OPERATING LEASES:

Comprised of capitalized lease payments in respect of operating long term land leases from the Israeli Land Administration and Municipality of Tel Aviv, as follows:

	December 31
	2009
	Nis in thousands
Capitalized lease for a period of 999 years	3,996
Capitalized lease for a period ending between the years 2010-2056, see detailed below:	
Lease for a period under 10 years	4,617
Lease for a period between 10-25 years	17,840
Lease for a period above 25 years	166,775
	189,232
	193,228

NOTE 10 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

a. Investment in joint ventures

The following amounts represent the group 50% share of the assets and liabilities, and the results of these companies (the identity of these companies are listed in the appendix at the end of the financial statements).

	December 31	
	2008	2009
	NIS in thousands	
Assets:		
Current assets	3,226	2,222
Non current assets	51,221	55,720
	54,447	57,942
Liabilities:		
Current liabilities	2,327	1,704
Non current liabilities	9,663	8,659
	11,990	10,363
Net Assets:	42,457	47,579

	Year ended December 31	
	2008	2009
	NIS in thousands	
Sales	3,916	2,972
Net gain from adjustment of investment property to fair value	-	4,717
Expenses	1,128	494
Profit for the year	3,094	8,164

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NOTE 10 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued):

b. Investment in associates

1. Composition

	December 31	
	2008	2009
	NIS in thousands	
Shares:		
Cost of shares	402	402
Share in undistributed profits accumulated since acquisition	2,419	2,382
	2,821	2,784
Perpetual capital notes (a)	1,378	1,378
Long-term loans (b)	716	716
	4,915	4,878

- (a) Perpetual capital notes are linked to the Israeli CPI and bear interest at an annual rate of 5%.
The interest and difference of linkage to the CPI are paid on annual basis.
- (b) The loans are linked to the Israeli CPI and bear interest at an annual rate of 4.5%. The repayment date has not yet been determined.
The interest and difference of linkage to the CPI are paid on annual basis.
2. The Company share of the results of its principal associates, all of which are unlisted, and its interest held, are as follows:

Name	% interest held
2009 and 2008	
Radio "Non-stop" Ltd	33%
"Tush Hafakot" Ltd	25%

BLUE SQUARE – ISRAEL LTD.
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NOTE 11 – INVESTMENT IN SECURITIES:

Comprised as follows:

	December 31		
	2007	2008	2009
	NIS in thousands		
Available for sale financial assets	166,599	157,136	183,179
Financial assets at fair value through profit or loss	* 47,795	* 29,713	29,733
	<u>214,394</u>	<u>186,849</u>	<u>212,912</u>

*Reclassified, see note 2ab.

a. Available for sale financial assets

	2008	2009
	NIS in thousands	
At January 1	166,599	157,136
purchase	169,747	113,966
proceeds	(185,104)	(101,867)
Net gain	5,894	13,944
At December 31	<u>157,136</u>	<u>183,179</u>

In 2008 and 2009 the Company removed profits in the amount of NIS 3,810 thousands and NIS 4,547 thousands respectively from equity into the income statement. In addition, in 2008 the Company classified NIS 2,503 thousands to equity due to impairments.

Available-for-sale financial assets includes the following:

	December 31	
	2008	2009
	NIS in thousands	
Government Bonds	74,034	110,884
Corporate Bonds	83,102	72,295
	<u>157,136</u>	<u>183,179</u>

Available-for-sale financial assets are denominated in the following currencies:

	December 31	
	2008	2009
	NIS in thousands	
NIS - Unlinked	61,484	91,070
NIS linked to the Israeli CPI	90,090	92,109
Other - foreign currencies	5,562	-
	<u>157,136</u>	<u>183,179</u>

NOTE 11 – INVESTMENT IN SECURITIES (continued):

b. Financial assets at fair value through profit or loss

	December 31		
	2007	2008	2009
	NIS in thousands		
Government bonds	2,638	-	-
Corporate bonds	30,157	14,713	4,733
Investment in equity securities	* 15,000	* 15,000	25,000
Total	47,795	29,713	29,733

*Reclassified, see note 2ab

The fair value of all debt securities is based on closing prices in an active market

NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS:

Derivative financial instruments	Statement of financial position item	December 31			
		2008		2009	
		NIS in thousands			
		Assets	Liabilities	Assets	Liabilities
Forward contracts over the Israeli CPI (a)	Derivatives financial instruments	-	11,593	9,690	-
Embedded derivatives :					
Rent agreements	Derivatives financial instruments	548	8,539	425	7,591
Conversion component embedded in the convertible debentures (see note 19)	Convertible debentures	-	7,975	-	11,898
Diners option (b)	Derivatives financial instruments	4,700	-	12,266	-
Warrants	Derivatives financial instruments	-	942	-	-
Total		5,248	29,049	22,381	19,489

- (a) The notional principal amounts of the outstanding forward over the Israeli CPI contracts at December 31, 2009 and 2008 were NIS 351 million.
- (b) The agreement for the joint purchase of 49% of the share capital of Diners (36.75% by the Company), as described in note 32a, is treated as an option, under IAS 39. The Company has concluded that this transaction should be accounted for as a derivative financial instrument, because at this stage this is merely an option to purchase 36.75% of Diners' shares, where the option exercise price is the amount of loan repayment. This conclusion is supported, inter alia by the fact that the consideration paid was financed through a non-recourse loan provided by the seller, the pledge and restrictions on the shares until the loan is repaid and the Company's option to repay the loan and terminate the agreement by the end of the fourth year after the first credit card is issued, by returning the shares.

As a result, the said option is presented at its fair value using a binomial model. Changes in the fair value of the options are recognized in income or loss in each period.

NOTE 13 – TRADE RECEIVABLES AND OTHER RECEIVABLES:

a. Trade receivables

	December 31	
	2008	2009
	NIS in thousands	
Trade receivables	767,548	848,432
Less: provision for impairment of trade receivables	(37,578)	(38,649)
	<u>729,970</u>	<u>809,783</u>

As of December 31, 2009, trade receivables of NIS 9,663 (2008: NIS 11,165) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	December 31	
	2008	2009
	NIS in thousands	
Up to 3 months	3,199	7,043
3 to 6 months	7,966	2,620
	<u>11,165</u>	<u>9,663</u>

As of December 31, 2009, trade receivables of NIS 50,602 (2008: NIS 46,799) were impaired and provided for. The amount of the provision was NIS 38,649 as of December 31, 2009 (2008: NIS 37,578). The individually impaired receivables mainly relate to individual customers, which have unexpectedly encountered difficult situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is over 6 months.

Movements in the Company's provisions for impairment of trade receivables are as follows:

	2008	2009
	NIS in thousands	
At January 1	34,535	37,578
Provisions for receivables impairment	4,667	2,525
Receivables written off during the year as uncollectible	(1,354)	(1,199)
Unused amounts reversed	<u>(270)</u>	<u>(255)</u>
At December 31	<u>37,578</u>	<u>38,649</u>

The creation and release of provisions for impaired receivables have been included in the income statement within "Selling, general and administrative expenses." Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security.

The fair value of trade receivables is usually identical or close to their carrying value.

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NOTE 13 – TRADE RECEIVABLES AND OTHER RECEIVABLES (continued):

	December 31	
	2008	2009
	NIS in thousands	
b. Other receivables		
Prepayments	17,698	10,781
Related parties	8,104	7,930
Government authorities	7,772	-
Receivables in respect of gift certificates	20,388	21,875
Other	33,662	28,918
	<u>87,624</u>	<u>69,504</u>

The fair value of other receivables is usually identical or close to their carrying value.

NOTE 14 – CASH AND CASH EQUIVALENTS:

	Weighted average Interest rates at December 31, 2009	December 31	
		2008	2009
		NIS in thousands	
Cash at bank and on hand		14,149	18,357
Bank deposits	1.13%	81,176	593,870
		<u>95,325</u>	<u>612,227</u>

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	December 31	
	2008	2009
	NIS in thousands	
Cash and cash equivalents	95,325	612,227
Bank overdrafts (see note 19(1))	(12,187)	(493)
	<u>83,138</u>	<u>611,734</u>

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NOTE 15 – SHARE CAPITAL AND PREMIUM:

	Number of shares	Ordinary shares	Additional paid-in capital NIS in thousands	Total
At January 1, 2007	39,692,983	53,414	766,409	819,823
Change during 2007 -				
Issuance of shares upon conversion of convertible debentures	3,679,836	3,680	251,996	255,676
At December 31, 2007	43,372,819	57,094	1,018,405	1,075,499
Change during 2008 -	-:-	-:-	-:-	-:-
At December 31, 2008	43,372,819	57,094	1,018,405	1,075,499
Change during 2009 -				
Issuance of shares upon conversion of convertible debentures	344,239	344	11,854	12,198
At December 31, 2009	43,717,058	57,438	1,030,259	1,087,697

The total authorized number of ordinary shares as of December 31, 2009 and 2008 is 100 million shares with a par value of NIS 1 per share. All issued shares are fully paid.

In July 1996, the Company completed a global offering of 6,900,000 American Depositary Shares (ADS), each ADS representing one Ordinary share, at a price per share of \$11. In addition, in June 1999, 1,500,000 ADS were issued upon the exercise of stock options.

The ADS are traded on the New York Stock Exchange (NYSE). The issued shares represent as of December 31, 2009 1.2% of the outstanding Ordinary Shares of the Company. As of December 31, 2009 the shares are quoted at \$ 9.81 per ADS share.

Commencing in November 2000, the Company’s shares have also been listed for trading on the Tel Aviv Stock Exchange. As of December 31, 2009 the shares are quoted at NIS 38.06 per ordinary share.

During 2007, Company convertible debentures with a par value of NIS 107,636 thousands were converted into 3,679,836 ordinary shares. On June 17 2009, Company convertible debentures with a par value of NIS 6,917 thousands were converted into 344,239 ordinary shares.

Share options plan

On January 21, 2008, the Company's Board of Directors had resolved to adopt a share options plan (hereinafter - "the plan") for executives and employees of the Company. The total number of shares reserved for issuance under the plan will be 5 million shares, (including options issuable to the Company's President and Chief Executive Officer, Mr. Zeev Vurembrand). All exercises of options under the plan are to be on a cashless basis. Each option can be exercised to purchase one ordinary share of NIS 1 par value of the Company. Immediately upon allotment, the ordinary shares issued upon exercise of the options will have the same rights as other ordinary shares of the Company.

Under the plan, employees and/or executives who will exercise the options would be allotted only shares that reflect the benefit component embodied in the options, as computed at date of exercise, i.e., the difference between the exercise price of each option and the quoted price of a NIS 1 par value share at date of exercise.

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NOTE 15 – SHARE CAPITAL AND PREMIUM (continued):

The employees and executives are entitled to exercise the options at the end of the following vesting periods: 66.7% at the end of two years from the date of grant and the remaining 33.3% at the end of three years from the date of grant. The options granted to employees and executives can be exercised in the period of 30 days and 6 months from the end of the vesting period, respectively. Any options not exercised by this date will expire.

Following are details on options granted under the plan during the reported periods:

Grant date	Options granted	Exercise price (NIS)*	Market value (NIS)	Average fair value (NIS)**
March 2008	2,452,500	36.15	36.15	6.12
March 2008 (executives)	2,200,000	39.06	36.15	5.57
May 2008 (executives)	140,000	39.06	46.0	13.2
August 2008	135,000	36.15	36.23	6.7
August 2008 (executives)	100,000	39.06	36.23	6.1
March 2009	63,000	36.15	23.74	3.1
July 2009	92,000	36.15	32.53	7.7
August 2009 (executives)	80,000	39.06	33.85	8.0

* The exercise price of options granted was adjusted as a result of dividend distribution in October 2008 to NIS 34.42 to employees and NIS 37.33 to managers.

**The fair value of the options was computed according to the Black&Scholes option-pricing model - . based on the following assumptions:

Grant date	Expected dividend yield (%)	Expected volatility (%)	Risk free interest rate (%)	Expected term until exercise (years)
March 2008	6.4	28	4.5	2-3
March 2008	6.4	28	4.5	2.5-3.5
May 2008	6.4	29	5.1	2.5-3.5
August 2008	7.5	30	5.1	2-3
August 2008	7.5	30	5.1	2.5-3.5
March 2009	6.5	43	2.3	2-3
July 2009	6.5	45	2.5	2-3
August 2009	6.5	43	3.0	2.5-3.5

Volatility is based on historical volatility of the Company’s share price for periods matching the expected term of the option until exercise.

The plan is governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. In accordance with the track chosen by the Company and pursuant to the terms thereof, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company’s accounts, in respect of options granted to employees under the plan - with the exception of the work-income benefit component, if any, determined on the grant date.

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NOTE 15 – SHARE CAPITAL AND PREMIUM (continued):

Compensation expense included in the consolidated income statements in respect of the Company's options plan, amounts to NIS Nil million, NIS 8.0 million and NIS 11.7 million for the year 2007, 2008 and 2009, respectively.

Average exercise prices are as follows:

	Average exercise price per share * (NIS)	Number of options (thousands)
At January 1, 2008	-	-
Granted	35.83	5,028
Forfeited	34.42	(159)
At December 31, 2008	35.88	4,869
Granted	35.41	235
Forfeited	36.32	(614)
At December 31, 2009	35.79	4,490
Options that can be exercised at December 31, 2009	-	-

* After adjusting the option exercise price at the rate of 50% of cash dividends distributed.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Number of options (thousands)	Range of exercise prices (NIS)	Average of expiry date (years)
December 31, 2008	4,869	34.42-37.33	1.6
December 31, 2009	4,490	34.42-37.33	1.0

NOTE 15 – SHARE CAPITAL AND PREMIUM (continued):

Share options plans in subsidiaries

- a. In August 2008, BSRE's Board of Directors had resolved to adopt a share options plan for executives of BSRE. The total number of shares reserved for issuance under the plan will be 250,000 shares. All exercises of options under the plan are to be on a cashless basis. Each option can be exercised to purchase one ordinary share of NIS 1 par value of BSRE. Immediately upon allotment, the ordinary shares issued upon exercise of the options will have the same rights as other ordinary shares of BSRE. The exercise price of the option will set at date of grant, otherwise according to the average quoted price of BSRE's ordinary share during the 30 trading days before the date of the grant.

Under the plan, executives who will exercise the options would be allotted only shares that reflect the benefit component embodied in the options, as computed at date of exercise, i.e., the difference between the exercise price of each option and the quoted price of a NIS 1 par value share at date of exercise.

Under the plan, the options to executives can be exercised in the period of 6 months from the end of the vesting period. Any option not exercised by this date will expire.

In August 2008, BSRE granted 125,000 options to BSRE's Chief Executive Officer, who will be entitled to exercise the options at the end of the following vesting periods: 66.7% at the end of two years from the date of grant and the remaining 33.3% at the end of three years from the date of grant.

The exercise price is NIS 51.76 (unlinked) per share. The quoted price of BSRE's ordinary share before the date of approval of the grant of options by the Board of Directors, was NIS 46.91.

The benefit component based on Black & Scholes option pricing model is NIS 7.11 in respect of the first batch and NIS 9.83 in respect of the second batch, so that the total fair value amounts to NIS 1 million.

The fair value is based on the following assumptions: expected volatility of approximately 26%; risk-free interest rate of approximately 5%; and anticipated term until the end of the exercise period. The exercise price would be adjusted at the rate of 50% of cash dividends distributed during the term of the options.

The plan is governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. In accordance with the track chosen by the Company and pursuant to the terms thereof, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company's accounts, in respect of options granted to employees under the plan - with the exception of the work-income benefit component, if any, determined on the grant date.

Compensation included in the consolidated income statements in respect of BSRE option plan amounts to NIS 0.2 million and NIS 0.4 million for the year of 2008 and 2009, respectively.

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NOTE 15 – SHARE CAPITAL AND PREMIUM (continued):

- b. In November 2005, Na'aman granted 300,000 options to employees, under a cashless exercise option plan approved in August 2005. The beneficial employees were entitled to exercise the options at the end of the following vesting periods: 33% at the end of November 2006, 33% at the end of November 2007 and the remaining 34% at the end of November 2008. The options granted to employees were exercisable by the end of May 2009.

On May 2009 all the options above were forfeited.

NOTE 16 – OTHER RESERVES:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<u>Available-for-sale investments</u>		
	<u>NIS in thousands</u>		
At January 1	-	1,415	(261)
Revaluation – gross	3,090	(1,105)	12,016
Revaluation – tax	896	342	(2,096)
Impairment transfer to income statement - gross	-	2,112	-
Impairment transfer to income statement - tax	-	(559)	-
Gain from sales transfer to income statement – gross	1,097	(3,338)	(4,639)
Gain from sales transfer to income statement – tax	318	872	656
At December 31	<u>1,415</u>	<u>(261)</u>	<u>5,676</u>

NOTE 17 – ACCUMULATED DEFICIT:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<u>NIS in thousands</u>		
At January 1	29,539	(107,262)	(154,719)
Profit for the year	143,628	104,586	77,163
Dividends paid	(280,000)	(150,000)	-
Employee share-based payment	-	7,969	11,734
Actuarial gain (loss) on post employment benefitobligations, net of tax	(429)	(10,012)	858
At December 31	<u>(107,262)</u>	<u>(154,719)</u>	<u>(64,964)</u>

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NOTE 18 – OTHER ACCOUNT PAYABLES AND ACCRUED EXPENSES:

	December 31	
	2008	2009
	NIS in thousands	
Payroll and related expenses and other employee benefits	136,886	134,131
Government authorities	6,309	17,750
Liability in respect of gift certificates	167,919	159,290
Put option granted to a minority interest (see note 5a1)	-	23,317
Accrued expenses	62,914	93,775
Other	52,189	66,666
Total	426,217	494,929

NOTE 19 - LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES:

1) Loans from banks and others

a. Composition:

	December 31	
	2008	2009
	NIS in thousands	
Current liabilities:		
Bank overdrafts (note 14)	12,187	493
Bank loans	65,801	101,774
Commercial papers *		40,819
Current maturities of non-current loans	132,913	131,512
	210,901	274,598
Non-current liabilities:		
Bank loans	341,586	596,721
	552,487	871,319

* On June 30, 2009 the Company issued commercial papers to institutional investors in an amount of NIS 40 million for a period of four years. The commercial papers bear a variable annual interest and are payable every six months at demand of the holders.

NOTE 19 - LOANS FROM BANKS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

b. Composition and details of liabilities based on interest rates and linkage terms

			December 31	
			2008	2009
			NIS in thousands	
	Weighted interest rate (a)			
	%			
NIS - Linked to the Israeli CPI	(b)	5.2	113,880	317,409
NIS - Unlinked and bears a fixed annual interest rate	(c)	6.9	305,456	263,094
NIS - Unlinked and bears a variable annual interest rate	(d)	3.2	133,151	290,816
			552,487	871,319

- (a) Weighted average interest rate, as of December 31, 2009.
- (b) As of December 31, 2009 includes approximately NIS 255 million at weighted average interest rate of 4.8% , the balance of approximately NIS 61 million is at weighted average interest rate of 6.9% and the balance of approximately NIS 2.3 million us at weighted average interest rate of 4.1%.
- (c) As of December 31, 2009 includes: NIS 167 million at interest rate of 5.9% , the balance of approximately NIS 20 million is at weighted average interest rate of 3.8% and the balance of approximately NIS 76 million is at weighted average interest rate of 9.8%.
- (d) As of December 31, 2009 includes: approximately NIS 130 million at weighted average interest rate of 3.3%; approximately NIS 93 million at weighted average interest rate of 3.7%. The balance of approximately NIS 27 million is at weighted average interest rate of 1.9%. The balance of approximately NIS 40 million is of weighted average interest rate of 2.2%.

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NOTE 19 - LOANS FROM BANKS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

c. The long-term loans are repayable in the years subsequent to the statement of financial position date as follows:

	December 31	
	2008	2009
	NIS in thousands	
Second year	97,832	114,607
Third year	79,791	95,520
Fourth year	61,295	75,943
Fifth year and afterwards	102,668	310,651
	341,586	596,721

d. The carrying amounts and fair value of the non-current loans are as follows:

	December 31			
	2008	2009	2008	2009
	NIS in thousands			
	Carrying amount		Fair value	
Bank loans	474,499	728,233	477,750	737,316

The fair values of long-term loans are based on cash flows discounted using a rate based on the capitalization rate of 4.3% (linked) to the Israeli CPI and 4.9% (unlinked).

The carrying amounts of short-term loans approximate their fair value.

e. Financial covenants

Bee Group and its subsidiaries have loans in total amount of approximately NIS 190 million, whereby the companies have undertaken to meet certain financial covenants. These financial covenants include limitation on distribution of dividends. As of December 31, 2009, Bee Group and its investee companies meet the above mentioned covenants.

BSRE received a loan in a total amount of NIS 250 million, whereby the company have undertaken to meet certain financial covenants. As of December 31, 2009, BSRE meet the above mentioned covenants.

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NOTE 19 - LOANS FROM BANKS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

2) Debentures and convertible debentures

a. Composition

	December 31, 2009				Total			
	Issued by				December 31			
	The company		Subsidiaries		2009		2008	
	Debtentures	Convertible debtentures	Debtentures	Convertible debtentures	Debtentures	Convertible debtentures	Debtentures	Convertible debtentures
	NIS in thousands							
Face value of debtentures and conversion component (1)	227,719	15,093	1,150,086	107,119	1,377,805	122,212	1,037,546	142,318
Conversion component at fair value (2)	-	11,174	-	724	-	11,898	-	7,975
In addition of premium (less discount), net of accumulated amortization	(16,375)	-	(33,444)	7,956	(49,819)	7,956	(51,702)	6,231
	211,344	26,267	1,116,642	115,799	1,327,986	142,066	985,844	156,524
Less - current maturities of face value of debtentures and convertible debtentures (1)	76,653	-	-	45	76,653	45	-	18,354
Less - current maturities of conversion component		-	-		-	-	-	7,645
	134,691	26,267	1,116,642	115,754	1,251,333	142,021	985,844	130,525
NIS 1 par value (in thousands)	200,000	13,269	1,075,000	100,000*				

* Regards only to BSRE.

- (1) See also b below.
(2) The fair value is calculated based on the binominal model, as follows:

	December 31, 2008		December 31, 2009	
	The Company	Subsidiary BSRE	The Company	Subsidiary BSRE
Discount rate	5.81%	6.75%	1.53%	3.8%
Share price (NIS)	21.36	49.00	38.06	69.00
Standard deviation of the share price	39.24%- 62.57%	32.57%	50.19%	35.10%

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NOTE 19 - LOANS FROM BANKS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

- b. The debentures and the convertible debentures (linked to the Israeli CPI) are repayable in the years subsequent to the statement of financial position date as follows (not including premium or discount):

	December 31	
	2008	2009
	NIS in thousands	
First year - current maturities	18,354	76,698
Second year	73,117	37,683
Third year	18,339	73,240
Fourth year	48,754	312,931
Fifth year and afterwards	1,021,300	999,465
Total	1,179,864	1,500,017

- c. The carrying amounts and fair value of the debentures and the convertible debentures are as follows:

	December 31			
	2008	2009	2008	2009
	NIS in thousands			
	Carrying amount		Fair value	
Debentures	985,844	1,327,986	958,993	1,429,528
Convertible debentures	156,524	142,066	124,587	148,866
Total	1,142,368	1,470,052	1,083,580	1,578,394

The fair values of debentures and convertible debentures are based on market quotes.

- d. Debentures and convertible debentures of the Company

In August 2003, the Company issued NIS 400 million par value debentures to institutional investors in consideration for their par value as follows:

- (1) 200 million registered debentures (Series A) of NIS 1 par value each.

These debentures are linked (principal and interest) to the Israeli CPI, but in the event that the Israeli CPI is lower than the base index (index known at date of issuance), the amount of the debentures will not be adjusted below the base index. The principal is repayable in three equal annual installments on August 5 of each of the years 2012 to 2014, and bears interest at the rate of 5.9% per annum. The interest is payable semi-annually on February 5 and on August 5.

Notwithstanding the above, on August 5 of each of the years 2006, 2008 and 2010, the holders of the debentures will be entitled to early redemption of the principal provided that on each of the said dates the Company does not repay more than one third of the par value of the debentures outstanding as of that date.

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NOTE 19 – LOANS FROM BANKS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

Accordingly, one third of the par value of these debentures outstanding as of December 31, 2009, was classified as current liabilities.

- (2) 200 million registered convertible debentures (Series B) of NIS 1 par value each

These debentures are linked (principal and interest) to the Israeli CPI, but in the event that the Israeli CPI is lower than the base index (index known at date of issuance), the amount of the debentures will not be adjusted below the base index. The principal is repayable in three equal annual installments on August 5 of each of the years 2007, 2009 and 2011, and bears interest at the rate of 5.9% per annum. The interest is payable semi-annually on February 5 and on August 5.

The debentures (Series B) are convertible to ordinary shares of the Company at a conversion ratio that is subject to adjustments in the event of distribution of bonus shares and cash dividends and the issuance of rights. As of December 31 2009, the conversion ratio is that each NIS 20.095 par value of debentures are convertible to one ordinary share of 1 NIS par value. The aforementioned conversion ratio is after adjustment for cash dividends distributed since the date of issuance of the debentures (Series B) until statement of financial position date (see also note 30).

The terms of the debentures provide that the holders of the debentures will not be entitled to request the Company to register for trading on the New York Stock Exchange any shares derived from the conversion of the debentures (Series B). Such shares will be traded only on the Tel Aviv Stock Exchange (TASE).

On August 5, 2009 Company convertible debentures (Series B) with a par value of NIS 13,268,820 were repaid to the holders of the debentures.

As to the conversion of debentures into Company shares in the course of 2009, see note 15.

- (3) Other terms:

- (1) The terms of the debentures (Series A and Series B) provide that in the event that the shares of the Company are delisted from trading on the TASE, and/or in the event that the shares of the Company are no longer held by the public and/or in the event that Standard & Poor's Maalot ("S&P Maalot") reduces the Company's rating to BBB or lower, then within three months from one of the above mentioned events the Company, subject to the then prevailing law, will offer to acquire the debentures at a price equivalent to the price of debentures of the same type reflecting a return of 2.5% in excess of the return on Government debentures with an average life similar to the remaining average life of the debentures of that series as of the date of the offer, but in no event will the price exceed the carrying value of the debentures of that series. See also note 36a.
- (2) In 2009 S&P Maalot revised the rating of the debentures to ilA+ negative from positive.
- (3) On April 26, 2010 S&P Maalot inserted the ilA+ Company's debentures to Credit Watch with negative implications, due to the BSRE's wholesale market transaction, see also note 36f.

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NOTE 19 – LOANS FROM BANKS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

e. Debentures and convertible debentures of BSRE

(1) Pursuant to prospectus dated August 16, 2006, BSRE issued NIS 875 million par value debentures:

(a) 100 million registered convertible debentures (Series A) of NIS 1 par value each.

These debentures are to be redeemed in four equal annual installments on August 31 of each year in the period from 2013 through 2016. The Series A debentures are linked (principal and interest) to the CPI and bear interest at an annual rate of 6.25%, which is payable every six months, on February 28 and August 31 of each year from 2007 until the final redemption of the debentures. The Series A debentures are convertible into registered BSRE ordinary shares of NIS 1 par value at any time through August 16, 2016, except during the periods from August 17 through August 31 in each of the years between 2013-2015 (inclusive). Until August 31, 2008, the conversion could have been effected at the rate of NIS 100 par value of registered Series A debentures (NIS 96.83 par value after an adjustment on March 25, 2008, due to distribution of cash dividends) for each ordinary share of NIS 1 par value; after that date and through August 16, 2016, the conversion rate will be NIS 300 par value of registered Series A debentures (NIS 281.83 par value, after an adjustment on April 7, 2009, due to distribution of cash dividends) for each ordinary share of NIS 1 par value. The conversion rate is subject to adjustments in the event of distribution of cash dividends.

(b) 650 million registered debentures (Series B) of NIS 1 par value each.

These debentures are to be redeemed in four equal annual installments on August 31 of each year in the period from 2013 through 2016. The Series B debentures are linked to the CPI and bear interest at an annual rate of 4.7%, which is payable every six months, on February 28 and August 31 of each year from 2007 until the final redemption of the debentures.

(c) Expansion of Series B

On September 26, 2008, the BSRE Series B was expanded by way of private allocation of NIS 125,000 par value of debentures to institutional investors. The debentures (Series B) have been allocated in consideration for 97.5% of their par value – a total of NIS 121,875 – and their terms are identical to the terms of the Series B debentures as specified in section b. above.

The annual effective interest rate on the debentures, taking into account the issuance expenses as above, is 6.43%.

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NOTE 19 – LOANS FROM BANKS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

- (2) 300 million registered debentures (Series C) of NIS 1 par value each.

On October 18, 2009, BSRE issued to the public Series C debentures in the total amount of NIS 300,000; the debentures were issued through a tender under a shelf prospectus of the company dated May 20, 2009.

Total proceeds received in respect of the issuance of Series C debentures is NIS 294,280 (net of issuance expenses of NIS 5,720). 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.

- (3) The debentures and convertible debentures of BSRE are rated by Maalot S&P as of December 31, 2009 at iIA+ Negative. In order to maintain the present rating BSRE needs to keep certain financial ratios, which were met as of December 31, 2008 and 2009. Also, as from the year 2009 the debentures and convertible debentures of BSRE are rated by the Midroog, a subsidiary of Moody's. The debentures and convertible debentures of BSRE are rated by Midroog as of December 31, 2009 at A1 stable. In order to maintain the present rating BSRE needs to keep certain financial ratios, which were met as of December 31, 2009. On June 2, 2010 Midroog updated the rating of the debentures and convertible debentures of BSRE to A1 Negative from stable.

NOTE 20 – OTHER LIABILITIES:

	December 31	
	2008	2009
	NIS in thousands	
Long term liabilities, net of current portion	3,480	1,740
Put option granted to a minority interest (see note 5a1)	21,638	-
Other	14,807	17,428
	39,925	19,168

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NOTE 21 – DEFERRED INCOME TAX:

- a. Deferred tax assets and liabilities, as presented in the statement of financial position (after offsetting) are expected to be recovered or settled, as follows:

	December 31		
	2007	2008	2009
	NIS in thousands		
Deferred tax assets:			
Deferred tax asset to be recovered after more than 12 months	16,070	25,225	26,708
Deferred tax asset to be recovered within 12 months	17,472	19,283	19,283
	33,542	44,508	45,991
Deferred tax liabilities:			
Deferred tax liability to be recovered after more than 12 months	(53,322)	(55,843)	(40,800)
Deferred tax liability to be recovered within 12 months	(4,293)	(4,484)	(15,405)
	(57,615)	(60,327)	(56,205)
Deferred tax liabilities, net	(24,073)	(15,819)	(10,214)

The deferred taxes are computed at the tax rates of 18%-25% (2008; 25%-26%).

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NOTE 21 – DEFERRED INCOME TAX (continued):

b. The gross movement on the deferred income tax account is as follows:

	<u>2008</u>	<u>2009</u>
	<u>NIS in thousands</u>	
Balance at January 1	(24,073)	(15,819)
Income statement charge	4,000	9,587
Additions in respect of companies consolidated for the first time	-	453
Tax charged directly to OCI	4,254	(4,435)
Balance at December 31	<u>(15,819)</u>	<u>(10,214)</u>

c. The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Depreciable property, plant and equipment and investment property	Intangible assets and other	Total
Deferred tax liabilities			
	NIS in thousands		
Balance at January 1, 2007	(46,097)	(2,834)	(48,931)
Credited to the income statement	4,502	1,221	5,723
Additions in respect of companies consolidated for the first time	148	(16,225)	(16,077)
Charged directly to OCI (see note 28)	<u>-</u>	<u>(1,006)</u>	<u>(1,006)</u>
Balance at December 31, 2007	(41,447)	(18,844)	(60,291)
Charged (credited) to the income statement	(9,486)	3,267	(6,219)
Credited directly to OCI (see note 28)	<u>-</u>	<u>873</u>	<u>873</u>
Balance at December 31, 2008	(50,933)	(14,704)	(65,637)
Credited to the income statement	12,767	1,174	13,941
Additions in respect of companies consolidated for the first time	-	(1,901)	(1,901)
Charged directly to OCI (see note 28)	<u>-</u>	<u>(2,622)</u>	<u>(2,622)</u>
Balance at December 31, 2009	<u>(38,166)</u>	<u>(18,053)</u>	<u>(56,219)</u>

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NOTE 21 – DEFERRED INCOME TAX (continued):

Deferred tax assets	Provisions for employee rights	Carryforwards tax losses	Derivative instruments	Operating lease	Total
	NIS in thousands				
Balance at January 1, 2007	23,760	4,329	4,778	6,379	39,246
Charged (credited) to the income statement	(764)	54	(5,289)	1,498	(4,501)
Charged directly to OCI	99	-	-	-	99
Additions in respect of companies consolidated for the first time	1,374	-	-	-	1,374
Balance at December 31, 2007	24,469	4,383	(511)	7,877	36,218
Credited to the income statement	3,009	2,442	4,150	618	10,219
Credited directly to OCI (see note 28)	3,381	-	-	-	3,381
Balance at December 31, 2008	30,859	6,825	3,639	8,495	49,818
Charged (credited) to the income statement	(4,076)	8,464	(6,783)	(1,959)	(4,354)
Additions in respect of companies consolidated for the first time	-	2,354	-	-	2,354
Charged directly to OCI (see note 28)	(1,813)	-	-	-	(1,813)
Balance at December 31, 2009	24,970	17,643	(3,144)	6,536	46,005

d. Losses for tax purposes, carried forward to future years

As of December 31, 2009 and 2008 the subsidiaries have operating tax loss carryforwards of approximately 123 million and NIS 56.5 million, respectively. The balance of carryforward losses, in respect of which deferred tax assets were not included, amount to NIS 41 million and NIS 35.6 million as of December 31, 2009 and 2008, respectively. In addition, the Company and its subsidiaries have capital loss tax carryforwards of approximately NIS 32.5 million and NIS 28.1 million as of December 31, 2009 and 2008, respectively. The tax benefit in respect of capital tax loss carryforwards amounting to NIS 27.8 million has not been recorded due to uncertainty of their realization.

Capital gains (except for capital gain on sale of marketable securities subject to regular tax rates) are liable to a reduced tax rate of 25% on capital gains generated after January 1, 2003. The tax rate would be gradually reduced to 18% in 2016 in accordance with The Economic Realization Law as above; regular corporate tax rate would apply to income generated through that date.

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NOTE 22 – RETIREMENT BENEFIT OBLIGATIONS:

a. Composition:

	December 31	
	2008	2009
	NIS in thousands	
Statement of financial position obligations for:		
Present value of funded obligation	297,525	336,769
Provision in respect of unutilized sick leave	29,229	32,834
	326,754	369,603
Fair value of the plan assets	276,843	322,354
Total present value of the obligation, net	49,911	47,249

b. Changes in the liability for defined benefit plans:

	2008	2009
	NIS in thousands	
Liability in respect of defined benefit plans at January 1	308,494	326,754
Benefits paid	(21,512)	(38,252)
Current service costs	32,410	31,657
Actuarial losses (gains)	(9,953)	33,168
Interest costs	17,315	16,276
Liability in respect of defined benefit plans at December 31	326,754	369,603

c. Changes in plans assets:

	2008	2009
	NIS in thousands	
Fair value of plan assets at January 1	272,508	276,843
Employer contributions paid into the plan	29,090	28,750
Actuarial gains (losses)	(23,748)	35,287
Benefits paid	(18,532)	(31,299)
Expected return on plan assets	17,638	12,874
Other adjustments	(113)	(101)
Fair value of plan assets at December 31	276,843	322,354

The actual return (loss) on plan assets was NIS 48,060 (2008 – NIS (6,110)).
Expected contributions to post-employment benefit plans for the year ending December 31, 2010 are approximately NIS 32,000 thousands.

The accumulated amount of actuarial gains (losses) that were recognized in the OCI as of December 31, 2009, 2008 and 2007 is NIS (646) thousands, NIS (10,992) thousands and NIS (9,976) thousands, respectively.

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NOTE 22 – RETIREMENT BENEFIT OBLIGATIONS (continued):

d. Expense recognized in the income statement in respect of defined benefit plans:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Current services costs	28,693	32,410	31,657
Interest cost	14,537	17,315	16,276
Expected return on plan assets	(13,919)	(17,638)	(12,874)
Other adjustments	306	113	101
	<u>29,617</u>	<u>32,200</u>	<u>35,160</u>

e. The expenses were included in the following statement of income items:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
General and administrative expenses	28,999	32,523	31,758
Financial (income) expenses	618	(323)	3,402
	<u>29,617</u>	<u>32,200</u>	<u>35,160</u>

The principal actuarial assumptions used were as follows:

	December 31	
	2008	2009
Discount rate	5.1%-5.4%	5%-6%
Inflation rate	1.7%	2.6%
Expected return on plan assets	5.3%-6.15%	2.6%-6.1%
Future salary increases	3.4%-6%	4.4%-5.7%
Rates of employee turnover	4%-55%	4%-55%

Assumptions regarding future mortality rates are based on actuarial advice in accordance with published statistics and past experience in Israel. Mortality rates are based on the pension circular 2007-3-6 of the Ministry of Finance.

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NOTE 23 – PROVISION FOR OTHER LIABILITIES AND CHARGES:

	Termination benefits	Legal claims	Total
	NIS in thousands		
At January 1, 2008	-	35,073	35,073
Charged (credited) to the income statement:			
Provisions made during the period	6,000	6,072	12,072
Provisions reversed during the period	-	(1,304)	(1,304)
Provisions used during the period	-	(2,444)	(2,444)
At December 31, 2008	6,000	37,397	43,397
Charged (credited) to the income statement:			
Provisions made during the period	-	16,182	16,182
Provisions reversed during the period	-	(132)	(132)
Provisions used during the period	(6,000)	(2,149)	(8,149)
At December 31, 2009	-	51,298	51,298

a. Termination benefits

The Company approved a redundancy plan regarding the reduction of headcount in the Company's headquarters. An agreement was reached with the union representatives before the financial year-end of 2008. The estimated costs to be incurred are NIS 6,000 at December 31, 2008 (see note 26). These costs were fully provided for in 2008. The provision was fully utilized during 2009.

b. Legal claims

The provision charge is recognized in profit or loss within selling general and administrative expenses. In the Company's management opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at December 31, 2009. For more details see note 31.

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NOTE 24 – OTHER GAINS (LOSSES):

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Other gain:			
Capital gain in respect of changes in holdings of subsidiaries as a result of a reorganization (note 5b)	-	12,001	3,210
Gain from sale of property, plant and equipment	1,775	-	1,451
Reversal of impairment provision	14,060	-	-
Other	-	232	38
	<u>15,835</u>	<u>12,233</u>	<u>4,699</u>
Other losses:			
Capital loss in respect of the decrease in holdings of a subsidiary	1,520	2,220	-
Termination benefits	-	6,000	-
Loss from sale of property, plant and equipment and other assets	8,532	2,569	4,750
Impairment provisions of property, plant and equipment and intangible assets	2,376	3,420	19,981
Reorganization costs (see note 5b)	-	-	2,700
Other	327	507	5,372
	<u>12,755</u>	<u>14,716</u>	<u>32,803</u>
Other gains (losses), net	<u>3,080</u>	<u>(2,483)</u>	<u>(28,104)</u>

NOTE 25 – EXPENSES BY NATURE:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Change in inventories	(20,438)	(43,136)	(17,224)
Net purchases	5,019,277	5,273,649	5,175,890
Wages salaries and related expenses	*702,875	*775,079	780,332
Depreciation, amortization and impairment charges	141,100	153,935	165,248
Transportation and storage expenses	*95,775	*102,835	95,482
Advertising costs	75,811	87,191	82,070
Rent and maintenance expenses	154,238	183,313	226,517
Other expenses	<u>524,148</u>	<u>631,003</u>	<u>599,796</u>
Total cost of sales, selling general and administrative expenses	<u>6,692,786</u>	<u>7,163,869</u>	<u>7,108,111</u>

*Reclassified

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NOTE 26 – EMPLOYEE BENEFIT EXPENSES:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Wages, salaries, including social security costs	674,182	734,494	734,181
Termination benefits	-	6,000	-
Share options granted to managers and employees	-	8,175	12,166
Post-employment benefits*	28,693	32,410	37,387
	<u>702,875</u>	<u>781,079</u>	<u>783,734</u>
Number of position (100%)**	<u>7,421</u>	<u>7,475</u>	<u>7,149</u>

* Including employee benefit expenses that were charged to finance expenses.
** In certain cases several employees share one 100% position, i.e., each employee works part time.

NOTE 27 – FINANCE INCOME AND EXPENSES:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Income:			
Interests:			
Interest income on short-term bank deposits	27,896	10,668	3,044
Interest income from bank and others	8,921	8,208	8,543
Net gain from marketable securities	4,399	7,923	14,165
Net gain from equity securities at fair value through profit and loss	-	-	10,000
Changes in fair value of derivatives:			
Conversion component	9,262	32,744	-
Forward contracts on the Israeli CPI	-	-	21,283
Embedded derivatives	10,500	1,157	7,745
	<u>60,978</u>	<u>60,700</u>	<u>64,780</u>
Expenses:			
Interest and differences from linkage to the Israel CPI:			
Bank borrowings	24,910	36,197	45,836
Debentures and convertible debentures	69,910	102,670	112,277
Bank commissions and others	4,674	7,307	9,971
Changes in fair value of derivatives:			
Conversion component	18,496	1,199	8,659
Forward contracts on the Israeli CPI	-	11,593	-
Embedded derivatives	307	7,313	711
	<u>118,297</u>	<u>166,295</u>	<u>177,454</u>
Net finance cost	<u>57,319</u>	<u>105,595</u>	<u>112,674</u>

NOTE 28 – INCOME TAX EXPENSES:

a. Corporate taxation in Israel

1. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereinafter - “the inflationary adjustments law”)

Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the CPI. The Company and its subsidiaries are taxed under this law.

In February 2008, the Knesset (the Israeli parliament) passed a law according to which the provisions of Inflationary adjustments law will no longer apply to the Company in 2008 and thereafter.

2. Tax rates

The income of the Company and its 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 14, 2009 the Economic Rationalization Law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009 and 2010), 2009, was published. This law determined, inter alia a further gradual reduction of the corporate tax up to 18% in year 2016 onward.

The rates as from 2011 are as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

The effect of the change in the future tax rates was reflected in the results for the year 2009 by decrease in deferred tax liability and recognition in income from taxes in the amount of NIS 14.2 million.

Capital gains are taxed at a reduced rate of 25% on the capital gains derived after January 1, 2003 (as to marketable securities – that were acquired after January 1, 2006), and at the regular corporate tax rates on income derived through the aforementioned date.

b. Tax assessments

1. The Company has received final tax assessments, or assessments deemed to be final, for tax years through 1998 and for 2003. Regarding tax assessments for the years 1999-2001, see also note 31(f).
Some of the principal subsidiaries have received final assessments for tax years through 2004. For some of the subsidiaries, no final tax assessments have been received since their inception.
2. As to deduction assessment for the years 2001-2004, see note 31(g),(h).

c. Effect of adoption of IFRS in Israel on tax liability

As mentioned in note 2a, the Company prepares its financial statements in accordance with IFRS, commencing January 1, 2008.

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NOTE 28 – INCOME TAX EXPENSES (continued):

As also indicated in the said note, IFRS vary from Accounting Principles Generally Accepted in Israel and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the law for the amendment of the Income Tax Ordinance (No. 174 – Temporary Order as to Tax Years 2007, 2008 and 2009), 2010 that was passed in the Knesset on January 25, 2010 and published in the official gazette on February, 4, 2010 (hereafter – the amendment to the ordinance), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007, 2008 and 2009; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements.

The meaning of the amendment to the ordinance is that IFRS would actually not be applied upon computation of the income reported for tax purposes for the said tax years.

Company's management computed its taxable income for 2007, 2008 and 2009 based on Israeli GAAP existing prior to adoption of IFRS in Israel, subject to certain adjustments; therefore, the amendment to the Ordinance does not have any effect on the computation of the current and deferred taxes on income in the financial statements.

c. Taxes on income included in the income statements:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Current taxes:			
Current tax on profits for the year	76,505	47,676	33,899
Adjustments in respect of prior years	(5,504)	130	(1,188)
Total current taxes	71,001	47,806	32,711
Deferred taxes (note 21)	(1,222)	(4,000)	(9,587)
Income tax expense	69,779	43,806	23,124

d. The income tax charged/(credited) to OCI during the year is as follows:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Deferred tax:			
Tax on actuarial loss (gain) on post employment benefits scheme	99	3,381	(1,813)
Tax on fair value adjustments of available-for-sale financial assets	(1,006)	873	(2,622)
	<u>(907)</u>	<u>4,254</u>	<u>(4,435)</u>

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NOTE 28 – INCOME TAX EXPENSES (continued):

- e. The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended December 31		
	2007	2008	2009
	NIS in thousands		
Profit before tax	245,601	176,208	120,925
Theoretical tax expenses (29%, 27% and 26% respectively)	71,224	47,576	31,441
Tax effects of:			
Difference between the measurement basis of income for tax purposes and the measurement basis of income for book purposes, net	(2,460)	(6,115)	(5,651)
Expenses not deductible for tax purposes, net	3,287	9,241	5,001
Utilization of previously unrecognized tax losses	-	(1,420)	(762)
Tax losses for which no deferred income tax asset was recognized	-	8,031	9,669
Tax benefit recorded for the first time on carry forward capital losses (gains)	337	-	(2,976)
Decrease in taxes resulting from computation of deferred taxes at a rate which is different from the theoretical rate	(1,205)	(2,083)	(1,177)
Non-taxable financial (income) expenses*	4,100	(8,746)	3,030
Capital gains for which no deferred tax was recognized	-	(2,808)	(74)
Change in future tax rate	-	-	(14,189)
Adjustment in respect of prior years	(5,504)	130	(1,188)
Tax charge	69,779	43,806	23,124

* mainly resulting from changes in value of conversion component in convertible debentures.

NOTE 29 – 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, (see note 15).

	2007	2008	2009
Profit attributable to equity holders of the Company (NIS in thousands)	143,628	104,586	77,163
Weighted average number of ordinary shares in issue	42,355,339	43,372,819	43,558,614

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NOTE 29 – 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.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<u>NIS in thousands</u>		
Profit attributable to equity holders of the Company	143,628	104,586	77,163
Gain from conversion feature and Interest expense on convertible debt (net of tax)	-,-	(31,527)	-,-
Profit used to determine diluted earnings per share	<u>143,628</u>	<u>73,059</u>	<u>77,163</u>
Weighted average number of ordinary shares in issue adjustments for:	42,355,339	43,372,819	43,558,614
Assumed conversion of convertible debt	-,-	1,664,873	-,-
Weighted average number of ordinary shares for diluted earnings per share	<u>42,355,339</u>	<u>45,037,692</u>	<u>43,558,614</u>
Options which were not included in the computation of diluted earnings per share due to anti dilutive effect	-,-	4,869,000	4,490,332
Convertible debentures which were not included in the computation of diluted earnings per share due to anti dilutive effect	<u>33,455,162</u>	<u>-,-</u>	<u>13,268,880</u>

In addition there are convertible instruments in Company's subsidiary BSRE that had no dilutive effect on Company's earnings per share.

NOTE 30 – DIVIDENDS PER SHARE:

On August 20, 2008 the Board of Directors declared a dividend in the amount of NIS 150.0 million (NIS 3.46 per share). The dividend was paid on October 7, 2008.
As to the Board of Directors decision regarding dividend distribution due to financial covenants, see note 19.
As to dividend declared and paid in 2010, see note 36a.

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NOTE 31 – CONTINGENCIES:

- a. From April 2000 to May 2003, the Israeli Antitrust Authority conducted an investigation into alleged restrictive trade arrangements between major supermarkets chains in Israel and large suppliers. During the investigation, an inquiry was conducted in the Company's offices and a former CEO and other senior officers were questioned.

On January 5, 2005, the Commissioner of the Israeli Antitrust Authority issued his position regarding “commercial restrictive practices between the dominant food suppliers and the major supermarket retail chains”. According to the Commissioner’s position, some of these practices were found to be restrictive trade agreements under the antitrust laws. The Commissioner prohibited these practices unless approved by the Restrictive Trade Practices Court or exempted by the Commissioner himself.

Among the practices that were found to be restrictive according to the Commissioner were the following: arrangements with suppliers that determine the suppliers of the retail chains, their identity and their number; arrangements for the management of product categories in conjunction with suppliers; arrangements regarding the retail selling price; arrangements for determining market share of a particular supplier’s products and arrangements for determining prices made by suppliers to competing chains; arrangements with regard of the use of suppliers’ manpower to stock merchandise on the shelves of the chain stores. Limits were imposed on financial benefits to the chains with regard to display areas and on special offers to chains for meeting certain sale targets. After the publication of the position paper, the Commissioner stated his position that these directives constitute a position paper, which is “intended to provide the guidance concerning the normative status of various practices in the food retail industry as perceived by the Antitrust Authority”. The Commissioner indicated that this document does not have normative status.

The Company has been applying most of these directives among others, by adopting an internal compliance program.

Presently the Company has no knowledge of how, if at all, its business would be affected should the Commissioner take any action against it, with respect to those issues under dispute, which to the Company's opinion are legal based on consultations with its legal counsel.

In August 2006, the Restrictive Trade Practices Court approved a consent decree reached between the Commissioner and certain food suppliers. The consent decree is directed at the food suppliers listed therein and stipulates various prohibitions, conditions and restrictions that apply to these suppliers with regard to certain practices. The consent decree addresses the following arrangements: Reduction in the number of suppliers, acquisition of shelf and off-shelf display space, category management, discounts and rebates in exchange for meeting sales targets, setting market share, exclusivity in sales, price dictation by supplier, and shelf arrangements.

As to shelf arrangements: whereas in his position document, the Commissioner determined that the use of suppliers’ representatives to physically arrange the shelves in the chains’ stores constitutes a restrictive arrangement, the suppliers disagree with this position, and the Commissioner agreed not to take enforcement measures with regard to such arrangements for 30 months, so long as such arrangements satisfy certain conditions. In February 2009, the above period was extended by 36 months, until February 2012.

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NOTE 31 – CONTINGENCIES (continued):

The consent decree clarifies that nothing in the provisions contained therein prevents the chain stores from allocating shelf space at its own independent discretion, even if such allocation exceeds half the available shelf space, so long as there is no involvement or interference from the supplier and so long as there is no prior coordination or understanding with said supplier.

The Company is not a party to the consent decree; however, it could nevertheless have an effect on the practices of the Company's suppliers and indirectly on the Company. At this stage, the Company cannot estimate the effect of the Commissioner's position and the consent decree on its financial results.

- b. The operation of the Company's supermarkets in Israel requires permits from municipal authorities, which are conditioned on the prior approval of various agencies, including the Health and Environment ministries and the Police and Fire Departments. Some of these permits are currently in the name of the Co-Op Blue Square Services Society, or the Co-Op, our former controlling shareholder, and entities other than the Company, and have not yet been transferred or re-issued to the Company. As well as result of the reorganization conducted by the Company, such permits are to be transferred to the name of its wholly owned subsidiary, Mega Retail Ltd., which operates all of the Company's retail activity. Furthermore, as a result of the hostilities between Israel and the Palestinians, the relevant authorities, including the police, have required the Company to adopt various security measures. These safety requirements prescribe extensive investment in safety equipment, the retaining of security personnel and may lengthen the time dedicated for obtaining permits from the municipal authorities. In the event that the Company is unable to obtain or maintain the required permits, it may be required to close the affected stores or take other action. However, the Company does not anticipate that not obtaining the necessary permits will have a material adverse effect on its business.

As of the date of this Report, some of the Company's supermarket stores and a few of our Eden Nature stores have no valid business permits/license. In 2009, the Company and some of its directors and managers were indicted in connection with business licenses and planning and building regarding some of the Company's supermarkets stores. As of the date of this Report, there are provisional closure orders pending against a few of the Company's supermarket stores. The Company is working towards obtaining the required permits and at the same time delaying the effectiveness of the provisional orders until such required permits are obtained. Management estimates that neither the temporary lack of permits nor the provisional closure orders will have material adverse effect on the Company's operation.

- c. In June 2008, a claim was filed against a subsidiary, Blue Square Chain (Hyper Hyper) Ltd. (hereinafter - Hyper Hyper) and other defendants, in connection with the marketing of ink cartridges. The plaintiffs have requested to certify the claim as a class action. The claim alleges that the defendants coordinated the prices of certain Hewlett-Packard ("HP") ink cartridges sold by them in a manner that allegedly constitutes an agreement in restraint of trade. According to the claim, the defendants allegedly sell HP ink cartridges for a higher price than the price charged for such ink cartridges by smaller retailers. The plaintiff's personal claim is estimated at NIS 496, and if the claim is certified as a class action, the approximate claim against all the defendants is estimated by the plaintiff at NIS 81 million. The claim requests a declaratory relief of an agreement in restraint of trade, monetary compensation and an injunction to stop the alleged price coordination.

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NOTE 31 – CONTINGENCIES (continued):

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.

- d. In July 2005, the Income Tax Authority issued to the Company a notice of a deduction assessment for the years 2001- 2004. The amount claimed under these assessments totaled NIS 34 million, and primarily relates to certain benefits granted to employees in the Company's branches. In November 2005, several senior employees were questioned under warning, with respect to these benefits. Following these assessments and after the rejection of the Company's position on the matter, Income Tax Authority issued to the Company deduction assessment orders for the years 2001- 2004 in the amount of approximately NIS 44 million. The Company filed appeals with the District Court contesting these assessment orders which as of the filing of this Annual Report are still pending. In the opinion of the Company and its advisors, the provisions included in the Company financial statements are sufficient to cover the potential liabilities.
- e. In July 2007, the Israeli Tax Authority issued to the Company Value Added Tax assessment for the years 2001- 2006 in the amounts of approximately NIS 22 million in connection with the foregoing deduction assessments as specified in clause e. The Israeli Tax Authority did not accept most of the Company's assertions, although it agreed to deduct the total amount to NIS 16.3 million. The Company filed an appeal with the District Court on February 2009, which as of the filing of this Annual Report is still pending. In the opinion of the Company and its advisors, the provisions included in the Company financial statements are sufficient to cover the potential liabilities.
- f. In January 2009, the Company was served with a claim and a request for approval as a class action, in which it is being sued regarding the return of a credit note instead of cash, in accordance with the Deposit on Drink Containers Law 1999. The Claim alleges that Blue Square has to return cash returns to customers returning empty reusable bottles according to the law, while in fact instead of returning cash returns, it gives the customers a credit note. The plaintiff's personal claim is estimated at NIS 51.75 and if the claim is approved as a class action, the approximate claim is estimated by the plaintiff at NIS 5.8 million.
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.

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NOTE 31 – CONTINGENCIES (continued):

- g. 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 time, given this matter is preliminary in nature, our financial statements currently do not provide for any amount. We will continue to assess this matter as the request for the class action develops.
- h. 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. On April 28, 2010 the Claim has been dismissed, following an agreement reached between the Company and the Plaintiff.
- i. In February 2010, a claim was filed against the Company, regarding the grant of discounts to "YOU" card holders. The plaintiffs have requested to certify the claim as a class action. The claim alleged that during a period of time unknown to the plaintiff, the Company held a special sale in which customers of Mega that are members of the YOU club loyalty plan will receive an additional discount of 10% on the sale price of certain products, and such discount was not granted fully as advertised.

The plaintiff's personal claim is estimated at NIS 3.10, and if the claim is certified as a class action, the approximate claim is estimated by the plaintiff at NIS 2 million at least.

The Company is currently reviewing the Claim and denying all above allegations, however, at this time, given this matter is preliminary in nature, our financial statements currently do not provide for any amount. We will continue to assess this matter as the request for the class action develops.

NOTE 31 – CONTINGENCIES (continued):

- j. On March 2010, the Company's wholly owned subsidiary Mega Retail Ltd. and its "YOU" customer loyalty plan were served with a claim and a request for approval as a class action (the "Claim"), in which they are sued together with Dor Alon Energy in Israel Ltd. (which holds 25% of the customers club) regarding the grant of discounts to "YOU" card holders in certain stores of "Alonit" chain.

The Claim requests that the customer loyalty plan will return discount sums that according to the Claim should have been granted to YOU card holders who purchased in certain Alonit stores and did not receive a discount, or received a discount of 5% instead of allegedly claimed discount of 10%.

The plaintiff's personal claim is estimated by him at approx. NIS 130 million, and if the Claim is approved as a class action, the approximate claim is estimated by the plaintiff at approx. NIS 49.4 million. In addition, the plaintiff requests a declaratory relief according to which the customers club must grant a 10% discount in all Alonit chain stores.

The Company is currently reviewing the Claim and denying all above allegations, however, at this time, given this matter is preliminary in nature, our financial statements currently do not provide for any amount. We will continue to assess this matter as the request for the class action develops.

- k. The Company is involved in various other legal or other proceedings incidental to the ordinary course of its business. Management of the Company believes, based upon the opinions of the legal advisers handling the claims, that the amounts provided in the financial statements are sufficient under the circumstances, and that none of these proceedings, individually or in the aggregate, will have a material adverse effect on its business, financial position or operating results.
- l. Certain shareholders of Dr Baby and its former general manager (see also note 5), are disputing the issuance of additional 5,000 shares of the Company, which resulted in the dilution of their holdings, and the dismissal of the former general manager of Dr Baby; they are requiring that any such issuance will be annulled, or alternatively, that the Company will pay them a compensation in the amount of NIS 15 million. The issue is in the process of hearing before an arbitrator. The Company, based on the opinion of its legal advisers, believes that the likelihood of these demands to be accepted by the arbitrator are lower than 50% and therefore did not include any provision in its accounts.

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NOTE 32 – COMMITMENTS:

- a. On December 26, 2006, all conditions precedent for the completion of the agreement between the Company and Dor Alon Energy (1988) Ltd., a related party, (hereinafter - Dor Alon), the first party, and Cal - Israel Credit Cards Ltd. (hereinafter - CAL) and Diners Club Israel Ltd (hereinafter - Diners Israel), a subsidiary of CAL, the second party, were satisfied.

According to the said agreement, the Company and Dor Alon jointly purchased from CAL 49% of the issued share capital of Diners in consideration for a total amount of approximately NIS 21.3 million (hereinafter - the Consideration). The holdings of the Company and Dor Alon in the issued share capital of Diners are as follows: The Company - 36.75% and Dor Alon - 12.25%. The consideration was financed through a non recourse loan provided by CAL to the Company and Dor Alon. The loan is for a period of 8 years, and it is linked to the CPI and bears interest in an annual rate of 6%. The loan will be repaid in a single payment at the end of the period. The loan and interest are secured only by the shares of Diners. Both parties can cancel the agreement if, at the end of a period of 4 years and/or 6 years, the number of credit cards will not exceed a pre-agreed quantity, as set in the agreement, or if the loyalty plan ceases to function or the customer club agreement (referred to in a below) is terminated.

Furthermore, the Company and Dor Alon are entitled to receive income arising from the activity of the loyalty program, in proportion to their holdings in the shares of Diners. The entitlement of the Company and Dor Alon to participate in the income from that activity of Diners, which is not part of the loyalty program's activity, is contingent upon meeting some milestones in defined periods of times as specified in the agreement. As of the date of this report, the entitlement has not yet been established as aforementioned, and hence, the Company has not presented its share in the investment in Diners, and in conjunction, no liability was recorded in respect of its share in the said loan. The Company and Dor Alon will be entitled, under certain conditions and during a pre-defined period, to purchase the right to participate in the income of Diners, against a one-time payment.

- b. In addition, the Company entered into two additional agreements:

1. An agreement between the Company and Dor Alon for the establishment of a joint loyalty club for the benefit of the customers of the Company and Dor Alon under the brand name "YOU" (hereinafter - the Loyalty Program) that has been incorporated as a partnership of the Company (75%) and Dor Alon (25%) (hereinafter - the Customers' Club).
The Customer's club partially finances its activities through the annual member's fees collected. The excess of the expenses incurred over the revenues collected is charged against the partners, in each period, partly in accordance with their relative share in the partnership, and partly based on their customers' share in the relative benefit being utilized. Based on the above, the Company's share in this Customer's club results is zero; the amounts allocated and charged by the partnership are classified among the relative income statements line items based on their nature.
2. The agreement of the Company and Dor Alon with Diners Israel prescribes that the members of the Customers' Club will receive a Diners credit card, and defines the cooperation between the customers' club and Diners, and includes accompanying agreements to the said agreement.

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NOTE 32 – COMMITMENTS (continued):

The agreement determines, among other things, the division of costs between the partnership and Diners in respect of the costs of attracting new customers to the loyalty program, mailing and advertising costs including the participation of Diners in the advertising budget of the loyalty program, and clearing fees.

- c. Operating lease commitments - the Company leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements.
The lease terms are between five and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The Company leases cars under cancellable operating lease agreements. The Company is required to give up to two month notice for the termination of these agreements. Future minimum payments under non-cancelable operating leases for the years subsequent to the statement of position dates are as follows:

	December 31	
	2008	2009
	NIS in thousands	
First year	171,055	214,530
Second year	170,293	201,450
Third year	151,656	188,394
Fourth year	140,542	149,649
Fifth year	110,045	113,184
Sixth year and thereafter	286,886	308,778
	<u>1,030,477</u>	<u>1,175,985</u>

- d. Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred is as follows:

	December 31,	
	2008	2009
	NIS in thousands	
Property, plant and equipment	<u>35,764</u>	<u>38,557</u>
Inventory	<u>3,000</u>	<u>17,200</u>

In addition, BSRE has entered into an agreement for the development of land located in the land area of Kibbutz Eyal and the construction of a housing and logistic warehouse on this land. 41 dunams have been approved by the Israeli Land administration out of the 57 dunams referred to in the agreement. The agreement is pending on the fulfillment of certain other conditions which not all have been met yet. The purchase price will be no less than \$70,000 per dunam. The Company has an option to withdraw from the agreement if the price requested is above \$ 100,000 per dunam.

NOTE 33 - LIENS AND GUARANTEES:

LIENS:

- a. Liens for liabilities to banks, a proportionately consolidated Company have registered fixed charges on its land, goodwill, rights to insurance and share capital and floating charge on rent income. As of December 31, 2009, the proportionately consolidated Company has liabilities to banks in the amount of NIS 9.4 million.
- b. The Bee Group and some of its investee companies (excluding Na'aman and Vardinon) placed unlimited, fixed and floating charges and a first ranking lien on the warehouse and all its assets, property, book debts, rent, goodwill, profits, revenues, rights of ownership and other benefits in favor of banks to secure their liabilities to the banks, amounting as of December 31, 2009 to NIS 166.4 million.

In order to secure the liabilities of Na'aman and Vardinon, the companies have undertaken not to pledge any of their assets and/or provide any kind of guarantee to a third party without first addressing the banks.

- c. As of December 31, 2009 there are charges on four of the transferred properties to BSRE for the purpose of securing the liabilities of the vendors of the above properties acquired by the Company vis-à-vis third parties (mainly banks). In addition, such charges have been registered on nine further properties from among the properties transferred. In the latter case, however, the Company has received 'exclusion letters' (hereinafter - the conditional 'exclusion letters') from the holders of the above charges. The Company has advised BSRE, that it has abided by, or will abide by, the terms of the conditional 'exclusion letters,' and that there is no significant impediment to the completion of their transfer to BSRE.
- d. As of December 31, 2009 there are charges on 15 of the transferred properties from Mega Retail to BSRE for the purpose of securing the liabilities to the bank, amounting as of December 31, 2009 to NIS 248.2 million.
- e. On December 31, 2009 BSRE's subsidiary took a loan in an amount of NIS 75 million to finance the establishment of logistic center in Beer Tuvia. A first ranking lien on the property and the accompanying rights was registered in favor of the bank to secure the pay back of the loan.
- f. As of December 31, 2009 there is charge on one of the transferred properties from Mega Retail to BSRE for the purpose of securing the liabilities of the vendors of the property acquired by Mega Retail to the third parties. In addition, such charge has been registered on one further property. In the latter case, however, Mega Retail has received "exclusion letter" from the holders of the above property.

NOTE 33 - LIENS AND GUARANTEES (continued):

GUARANTEES:

- a. The Company has provided bank guarantees for third parties such as service suppliers, gift certificates and customers in an aggregate amount of approximately NIS 7 million. Furthermore, the Company has provided bank guarantees for its subsidiary, Eden, in an aggregate amount of approximately NIS 80.3 million.
- b. BSRE has provided bank guarantees for it's subsidiary in an aggregate amount of NIS 75 million. Furthermore, BSRE has provided guarantees for it's vendor in an aggregate amount of approximately NIS 10 million.
- c. Mega Retail has provided bank guarantee for a third party in an amount of approximately NIS 0.7 million. A subsidiary (Hyper Hyper) has provided bank guarantee for a third party in an amount of approximately NIS 2.3 million.
- d. As of December 31, 2009, Bee Group and some of its investee companies (excluding Na'aman and Vardinon) provided guarantees to each other for the total liabilities to the banks of the group (excluding Na'aman and Vardinon) in an amount of NIS 110.1 million.

NOTE 34 – RELATED-PARTY TRANSACTION:

"Related Parties" – As defined in IAS 24 revised – "Related Party Disclosures."

Key management personnel – include the members of the board of directors and senior managers in the Company, and the CEOs of the Bee Group and BSRE.

Goods and services are bought from associates and an entity controlled by key management personnel, in the normal course of business and under normal trade terms.

The principal related parties of the Company are, among others: Alon Retail Ltd., Alon Israel Oil Company Ltd., Bielsol Investments (1987) Ltd. collective acquisition entities of kibbutzim in Israel that hold Alon Israel Oil Company Ltd, Dor Alon Energy in Israel (1988) Ltd., , Dor Food Chains Holdings Ltd., and many other companies, whose interests are controlled by the Company's directors among others.

Transactions with related parties:

	Year ended December 31		
	2007	2008	2009
Directors' fees	1,032	1,709	1,718
Legal consulting (5)	1,282	2,024	5,051
Purchases (4)	755,396	851,666	840,486
Commissions (1)	(3,597)	(5,743)	(6,636)
Discounts (2)	716	924	444

- 1) In January 2004 the shareholders of the Company approved an agreement according to which the Company will provide to related parties purchasing and supply services for stores operated by the related parties. In consideration for these services, the Company is entitled to payment equivalent to the cost of the services provided with the addition of a margin as stated in the agreement.
- 2) On September 13, 2005, the Company’s general shareholders meeting approved a discount arrangement for some of the employees of the companies holding directly or indirectly in the Company’s shares (some of the employees of Alon Group) (hereinafter - “the entitled employees”).
The discounts to be given to the entitled employees will be identical to those given to the Company’s employees, which during 2009 were: 9% at the Mega In Town stores, 9% at the Mega stores and 4% at the Shefa Shuk stores. Since the launch of the Mega Bool stores in December 2008, the discounts for employees at the Mega Bool stores and Shefa Shuk stores is 6%.
The discounts are limited to purchases in a total amount of NIS 7,000 a month.
- 3) The Company is selling gift certificates for the par value in the certificate less discount, according to the commercial terms that were negotiated with the clients during regular course of business.

NOTE 34 – RELATED-PARTY TRANSACTION (continued):

- 4) The Company purchases goods from Tnuva and Dor Alon. These arrangements are in the ordinary course of our business, and the terms and conditions of these arrangements are at "arm's-length". The Company purchase most of our dairy, fresh produce and poultry products from the Tnuva corporation, which holds a leading position in the domestic dairy and poultry markets. To our knowledge, some of the collective acquisition entities of kibbutzim in Israel that hold shares of Alon, our controlling shareholder, hold 21.5% of Tnuva.
- 5) The Company receives legal services from S. Biran & Co. a related party of the Company.
- 6) Employment agreement with Ms. Moran Wiessman

The Chairman's of the Board of Directors daughter, Ms. Moran Wiessman, is employed in Bee Group (private company 85% holding by the Company) as a process engineer since January 2009. Moran Wiessman receives a basic gross monthly wage of NIS 10,000, car maintenance (in the amount of NIS 600 gross per month in addition to fuel expenses) and social benefits as acceptable for an employee in her status. The employment agreement was approved by the audit committee, the board of directors and the general meeting of the Company in July 2009, whereas under such approval, the approval procedures in the Company necessary for a pay increase or grants to Ms. Wiessman were determined. Ms. Wiessman holds a B.Sc degree in Industry and Management from Ben Gurion University.

As to agreement signed with Dor Alon in connection with the purchase of Diners Israel and establishing a joint customer club, see note 32b.

As to protocol signed between BSRE and Gindy investments Ltd. in connection with the purchase of rights in the area located in the wholesale market site. See note 36f.

Year-end balances arising from sales/purchases of goods/services:

	December 31,	
	2008	2009
	NIS in thousands	
Trade receivables (note 3e):	56,550	58,479
Other receivables (note 13b):	8,104	7,930
	<u>64,654</u>	<u>66,409</u>
Trade payables	74,403	70,894
Other payables	80	233
	<u>74,483</u>	<u>71,127</u>

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. There are no provisions held against receivables from related parties (2008: nil).

NOTE 34 – RELATED-PARTY TRANSACTION (continued):

Key management compensation

The compensation paid or payable to key management (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit for employee services is shown below:

	Year ended December 31,		
	2007	2008	2009
	NIS in thousands		
Salaries and other short-term employee benefits	17,071	17,539	20,741
Post employment benefits	957	1,401	1,597
Share-based payments	-	3,977	6,172
	18,028	22,917	28,510

NOTE 35 – SEGMENT INFORMATION:

The Company includes segment information, according to IFRS 8. 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 reports. The Company presents three reportable segments: Supermarkets, Non-food Retail and wholesale and Real estate. All Company's activities are located in Israel. Selling, general and administrative 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 is 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 December 31, 2009, the Company operated 203 supermarkets in this segment. This segment also includes properties owned through BSRE, in connection with the supermarket operation of the Company's stores (including warehouses and offices).
- (2) Non-food Retail and Wholesale – The Company is engaged, through Bee Group Retail Ltd. ("Bee Group"), in Non- food Retail and wholesale activities .As of December 31, 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 is engaged through 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.

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NOTE 35 – SEGMENT INFORMATION (continued):

	Supermarkets	Non - food Retail and wholesale	Real estate	Adjustments	Total consolidated
	NIS in thousands				
Year ended December 31, 2009:					
Net segment revenues	6,863,020	464,266	21,790	-	7,349,076
Inter segment revenues	-	58,874	-	(58,874)	-
Operating profit before other gains and losses and net gain from adjustment of investment property to fair value	211,120	34,321	12,145	720	258,306
Segment profit	190,882	23,245	32,920	720	247,767
Unallocated corporate expenses					(17,341)
Unallocated corporate gains due to changes in holdings					3,210
Financial income					64,780
Financial expenses					(177,454)
Share in losses of associated companies - net					(37)
Income before taxes on income					120,925
Additional information -					
Depreciation and amortization	153,347	11,901	-	-	165,248
Year ended December 31, 2008:					
Net segment revenues	6,966,839	442,130	20,152	-	7,429,121
Inter segment revenues	-	55,393	-	(55,393)	-
Operating profit before other gains and losses and net gain from adjustment of investment property to fair value	258,168	23,355	7,378	2,957	291,858
Segment profit	246,096	23,163	26,445	2,957	298,661
Unallocated corporate expenses					(26,606)
Unallocated corporate gains due to changes in holdings					9,781
Financial income					60,700
Financial expenses					(166,295)
Share in losses of associated companies - net					(33)
Income before taxes on income					176,208
Additional information -					
Depreciation and amortization	143,704	10,178	-	-	153,882
Year ended December 31, 2007:					
Net segment revenues	6,655,845	310,367	15,772	-	6,981,984
Inter segment revenues	-	42,111	-	(42,111)	-
Operating profit before other gains and losses and net gain from adjustment of investment property to fair value	281,200	20,284	9,775	277	311,536
Segment profit	286,375	19,709	20,231	277	326,592
Unallocated corporate expenses					(22,338)
Unallocated corporate losses due to changes in holdings					(1,520)
Financial income					60,978
Financial expenses					(118,297)
Share in losses of associated companies - net					186
Income before taxes on income					245,601
Additional information -					
Depreciation and amortization	137,290	3,810	-	-	141,100

The Company does not regulatory reports to the chief operating decision maker any segment assets and liabilities measure, see also note 2c.

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NOTE 36 – EVENTS SUBSEQUENT TO DECEMBER 31, 2009:

- a. On January 14, 2010 the Board of Directors declared a dividend in the amount of NIS 75 million (NIS 1.7043168 per share).

The dividend, net of taxes withheld at source pursuant to Israeli law, was paid on February 25, 2010 to shareholders of record as of close of business on February 11, 2010. US 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.

Following the dividend distribution, the conversion ratio of the Company's 5.9% convertible debentures issued in August 2003 (outstanding principal amount of 7,464,560 as of February 11, 2010), and the exercise price per share of the Company's employee and executives options were adjusted on February 12, 2010. Following the adjustment, each NIS 18.390 par value of the convertible debentures will be convertible into one ordinary share of the Company, the exercise price per share of the company's employee and executives options will be NIS 33.56 for the employees and NIS 36.47 for the executives.

The dividend was declared after the Board of Directors decided on January 14 2010, in view of the changes and development of the Company since 2003, that the ratio of net financial obligations to EBITDA is to be calculated by deducting from the net financial obligations Company's debt which is related by the Company to real estate that is not in use of the Company. The board of directors further resolved that the net debt to EBITDA ratio for dividend distribution will not exceed 4.5. As of December 31, 2009 the Company met the aforementioned ratio.

- b. On April 7, 2010 the Company announced that it is considering a transaction with its controlling shareholder, Alon Israel Oil Co. ("Alon"), pursuant to which the Company would acquire from Alon all of Alon's 80.05% holdings in Dor Alon Energy in Israel Ltd. ("Dor Alon"), a publicly traded company listed on the Tel Aviv Stock Exchange (the "Acquisition"). Dor Alon is one of the four largest fuel companies in Israel based on number of gas stations and convenience stores. As of March 10, 2010, Dor Alon supplied motor fuels and other petroleum products to 183 public retail outlets operating under the "Dor Alon" brand and operated 168 convenience stores, including 124 convenience stores branded "Alonit" and "Super Alonit" and 44 convenience stores operated by the AM:PM chain of stores. Dor Alon's sales and operating income in 2009 were approximately NIS 6,247 million and NIS 183 million, respectively. Dor Alon trades on the Tel Aviv Stock Exchange ("TASE"). In exchange for the shares in Dor Alon, the Company would issue to Alon 20,327,710 shares of the Company (which would materially increase the capital of the Company) so that each Dor Alon share held by Alon will be exchanged for 1.8 ordinary shares of the Company. Following the Acquisition the Company is to distribute dividend in amount of NIS 800 million not out of profits, which would be subject to the approval of the Israeli courts and to the completion of the Acquisition. In connection with the acquisition Alon and the Company obtained a preruling from the Israeli Tax Authority. The pre-ruling is subject to various conditions and provides, among other things, that the cost basis and the purchase date of the shares of Dor Alon for tax purposes in the possession of the Company following the acquisition will be the original price and acquisition date, respectively, as they had been for Alon prior to the acquisition. Alon has clarified to the Company that, in connection with the payment of tax at the time of any future sale by the Company of all or part of its shares in Dor Alon, if any, to a third party, Alon will pay that portion of any applicable tax payable in an amount equal to the amount of tax deferred by the Tax Authority in its pre-ruling (*i.e.*, the amount of tax that would have been payable by Alon in connection with the acquisition had the acquisition not been tax exempt according to the pre-ruling).

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NOTE 36 – EVENTS SUBSEQUENT TO DECEMBER 31, 2009 (continued):

On May 17, 2010 Company's Audit Committee and Board of Directors approved the transaction. The Acquisition and the dividend distribution are subject to approval of the general meeting of shareholders and approval of the dividend by the Israeli courts and are subject to other approvals required by applicable law and customary closing conditions.

- c. Through March 31, 2010, additional convertible debentures with par value of NIS 5,804 were converted to 288,844 shares of the Company. In addition, 630,000 shares were issued for the exercise of employee and managers options.
- d. On March 25, 2010, the Company purchased 89,888 of its own shares ("treasury shares") from a related party at market value (NIS 47.64).
- e. On January 20, 2010 the Company purchased 150,200 subordinated Class B limited partnership units of Holly Energy Partnership, L.P. for a total consideration of approximately \$ 6 million from Alon Assets Inc., a related party. These units were converted, after March 2010, into ordinary partnership units which are quoted in the New York Stock Exchange (NYSE). The Company chose to classify this investment as available for sale financial asset.
- f. On April 15, 2010, the audit committee and board of directors of BSRE, approved the agreements to purchase land rights in part of the wholesale market area in Tel Aviv, the development, construction and marketing of a project that includes an apartment building complex, areas for commercial use and areas for multi-purpose use, in a joint venture (50%:50%) with a third party (a company under the control of Moshe and Yigal Gindi and Gindi investments 1 Ltd. - together referred to hereinafter as "Gindi").

Under these agreements, BSRE and Gindi ("the Purchasers") will jointly acquire (50% each) the rights to the long term land lease (through 31.8.2099), in the specified area located in the wholesale market site in Tel Aviv (the "Property") from the municipality of Tel Aviv and the Wholesale Market for Agricultural Produce in Tel Aviv Company Ltd. (the "Sellers"), for the total consideration of NIS 950 million to be paid in installments according the project milestones. The first installment of NIS 260 million, which most of it has been transferred to a trustee on 20, May 2010 and will be paid in three installments over a period of six months from the date of approval by the Israeli Minister of Interior. NIS 660 million will be paid when the project's first construction permit is available, or after 24 months have elapsed from the date of signing the purchase agreements, whichever comes first, and the balance when Form 4 of construction completion is available. The Sellers are also entitled, pending on certain sale targets, to additional consideration, calculated by reference to the sale price of apartments that are sold in the apartment buildings complex.

The Purchasers have also undertaken to plan and construct public buildings and parking lots for the sellers, for a consideration that will not exceed NIS 102 million. As collateral to performing their obligations the purchasers also have to provide guarantees to the sellers; in this respect, BSRE is required to provide Gindi with a bank guarantee of NIS 19 million (of which NIS 13 million have been transferred to date).

In an agreement of principles signed between BSRE and Gindi, BSRE agreed to pay 60% of the first NIS 260 million of the consideration and will be eligible to receive the excess amount (the 10% difference from its 50% share of the project), not later than eight years after the signing of the agreement of principles, including linkage differences and interest. Gindi is to provide management services for the Project, including inter alia services relating to its selling and marketing, in exchange for a management fee to be paid by the Purchasers calculated as 16% of the profits from the residential part and 16% of the profit from the commercial part, computed as defined in the agreement of principles between the parties. An advance of NIS 15 million will be paid on account of the management services during the five years period that starts after the agreements are signed.

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NOTE 36 – EVENTS SUBSEQUENT TO DECEMBER 31, 2009 (continued):

The signing of the final agreements was approved by an extraordinary meeting of the shareholders of BSRE (required according to Israeli companies Law, since some of the BSRE's controlling shareholders may have an interest on the sellers side), on June 2, 2010, the agreements were signed on June 3, 2010 and are subject to the approval by the Israeli Minister of the Interior within 60 days of signing such agreements.

- g. On April 21, 2010 BSRE announced the approval by the Audit Committee and Board of Directors of BSRE of (i) an agreement ("the acquisition agreement") to purchase approximately 240-dunam parcel of property in Point Wells, near Seattle, Washington, which serves primarily as a plant for storage and distribution of fuel and oils (the "Property"), and (ii) an agreement to develop the Property. ("the development agreement"). The acquisition and development agreements will be entered by BSRE, through a special purpose corporation that will be established in the USA (hereinafter: "the Partnership") with subsidiaries of Alon USA Energy Inc. (a public company whose shares are traded on the New York Stock Exchange ;hereafter "Alon USA") who own and operate the Property. Alon USA and the Company are companies under common control.

The present zoning of the property is for heavy industrial and Alon USA has begun furthering a plan for a change of zoning of the Land to an urban center zoning. To the best of the BSRE's knowledge, as at the date of this announcement, the abovementioned change has been approved in principle, subject to completion of local statutory proceedings, the hearing of objections and additional approval proceedings, including the preparation and approval of a detailed plan which will, inter alia, make it possible to erect residential buildings and commercial space on the Land.

The Partnership will pay Alon USA a sum of \$19.5 million for the purchase of the land at the time of closing of the transaction in consideration for the rights in and to the Land only. Buildings and the existing equipment / property on the Land (including fuel storage tanks, technical systems, pipes and various installations) will remain in the ownership of Alon USA. The Partnership will bear the expenses relating to the transaction, including the transfer tax (estimated at \$ 350,000) and ancillary costs for completion of the transfer of the rights into its name.

Upon the closing of the transaction, the Partnership will grant Alon USA a right of use of the property, without consideration, for a period commencing at the time of closing of the transaction and terminating: (1) at the end of 10 years from the date of closing of the transaction, or (2) at the time of sale of the property sold, after the enhancement thereof, to a third party in accordance with the development agreement, whichever is the earlier ("the License Period").

BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS amounts are in thousands unless otherwise stated)

NOTE 36 – EVENTS SUBSEQUENT TO DECEMBER 31, 2009 (continued):

Under a separate development agreement the Partnership will prepare a detailed plan for approving the construction of at least 2000 residential units on the Land. All the expenses relating to the approval of the change of zoning, including the initiation and preparation of a detailed plan, which are estimated at approximately 4 - 5 million US dollars, will be borne by the Partnership. If the detailed plan is not approved and/or if it does not contain at least 2000 residential units, the Partnership will bear no responsibility to Alon USA. In consideration for Alon USA’s right to participate in the development of the Land and in the proceeds that will be received from the sale of the Land to a third party after the enhancement thereof, Alon USA will pay the Partnership quarterly participation fees in the sum of \$438,750 (hereinafter: “the Participation Fees”) The Participation Fees will be paid commencing July 1, 2010 and throughout the entire License Period.

The Development Agreement further stipulates provisions regarding a division of the consideration that will be received from the sale of the developed Land to a third party after the change of zoning and enhancement of the Land.

The acquisition agreement was signed on May 7, 2010 by the corporation that BSRE founded BSRE – Point Wells, LP that is a registered limited partnership in Delaware State, USA and by the owner of the property – Paramount Petroleum Corporation (POW) as conditional agreement. The acquisition and development agreements were approved by a general meeting of the shareholders of BSRE, on May 30, 2010. The Company was notified that the agreement was approved by the Board of Directors of POW and the lessee of the property Paramount Petroleum Corporation (PPC) and the audit committee of Alon USA. As of June 1, 2010 all of the contingent conditions of the agreement were met, the transaction completed and BSRE – Point Wells, LP paid the full compensation for the land in the amount of \$19.5 million U.S. dollars.

BLUE SQUARE – ISRAEL LTD.
DETAILS OF PRINCIPAL SUBSIDIARIES, PROPORTIONATELY CONSOLIDATED COMPANIES
AN ASSOCIATED COMPANIES
AT DECEMBER 31, 2009

APPENDIX

Holding Company	Name of Company	Percentage of ownership and control by holding Company as of December 31, 2009	
Blue Square-Israel Ltd.	Mega Retail Ltd.	100%	Subsidiary
	Blue Square Real Estate Ltd.	78.35%	Subsidiary
	Bee Group Ltd.	85% (see note 5a1c)	Subsidiary (see note 5a1c)
	Diners Club Israel Ltd.	36.75%	See note 32(1)
Mega Retail Ltd.	TheBlue Square Chain (Hyper Hyper) Ltd.	100%	Subsidiary
	Eden Briut Teva Market Ltd.	51%	Subsidiary
	Loyalty plan-partnership	75%	See note 32(1)
The Blue Square Chain (Hyper Hyper) Ltd.	Shefa Mehadrin Ltd.	100%	Subsidiary
	Radio Non-Stop Ltd.	33%	Associated Company
Blue Square Real Estate Ltd.	Kenyon Hadar Management Company Ltd.	50%	Proportionately consolidated
	Hyper Lod Center Ltd.	100%	Subsidiary
	Joint venture Blue Square - Hadar	50%	Proportionately consolidated
	Logistic Center Bee Square Real Estate Ltd.	100%	Subsidiary
	Center Investments 1108 Ltd.	50%	Proportionately consolidated
	Izdarehet Investments Company Ltd.	50%	Proportionately consolidated
Bee Group Ltd.	Na'aman Porcelain Ltd	66.85%	Subsidiary
	Doctor baby	100%	Subsidiary
Na'aman Porcelain Ltd.	Vardinon Textile Ltd.	88.74%	Subsidiary
	Sheshet Chain of Stores for Household Utensils Ltd.	100%	Subsidiary

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

BLUE SQUARE-ISRAEL LTD.

By: /s/ Zeev Vurembrand
Name: Zeev Vurembrand
Title: President and Chief Executive Officer

By: /s/ Dror Moran
Name: Dror Moran
Title: Vice President and Chief Financial Officer

Date: June 23, 2010

ARTICLES OF ASSOCIATION
OF

The name of the Company in Hebrew is:

ריבוע כחול - ישראל בע"מ

The name of the Company in English is:

Blue Square – Israel Ltd.
("THE COMPANY")

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CHAPTER ONE - GENERAL

1. **Introduction**

1.1 In these articles, each of the following expressions shall bear the meanings set forth alongside them:

"shareholder" - someone in whose favor a share is registered with a stock exchange member and that share is entered in the Company's register of shareholders in the name of a nominees company, or one who is entered as a shareholder in the Company's register of shareholders;

"financial statements" - the financial statements which the Company must prepare pursuant to the law;

"law" - the provisions of any law prevailing in the State of Israel;

"director" - as defined in section 1 of the Companies Law, including an alternate or empowered representative;

"the Companies Law" - the Companies Law, 5759-1999;

"the Securities Law" - the Securities Law, 5728-1968;

"business day" - Sundays to Thursdays, save for public holidays in the State of Israel;

"writing" - print and any other form of printed words, including documents sent in writing by facsimile, cable, telex, e-mail, computer or through any other electronic media, which creates or enables the creation of a copy and/or printout of the document;

"office" - the Company's registered office;

"securities" - shares, debentures, capital notes, securities convertible into shares and rights to any of the aforementioned, issued by the Company;

"the Companies Ordinance" - the Companies Ordinance (New Version), 5743-1983;

"ordinary majority" - a majority of more than half the votes of the shareholders entitled to vote and voting themselves, by proxy or through a voting instrument at a general meeting. Abstentions shall not be included in the ordinary majority count;

"**articles**" - the Company's articles as formulated herein or as altered, expressly or pursuant to the law;

"**the Companies Regulations**" - regulations promulgated by virtue of the authority granted pursuant to the Companies Law;

"**Securities Regulations**" - regulations promulgated by virtue of the authority granted pursuant to the Securities Law.

"**Blue Square group**" – the Company and any other company which is consolidated in its financial reports”

- 1.2
- The provisions of sections 3-10 of the Interpretation Law, 5741-1981 shall also apply, mutatis mutandis, to the interpretation of the articles, if there is no provision to the contrary or unless the context otherwise admits.

Save as provided in this section, every word and expression herein shall bear the meaning designated to them in the Companies Law, and if none - the meaning designated to them in the Companies Regulations, and if none - the meaning designated to them in the Securities Law, and if none - the meaning designated to them in the Securities Regulations, and if none - the meaning designated to them in any other law, unless the context otherwise admits.

Where these articles refer to any legal provision and such provision is amended or cancelled, the said provision shall be deemed valid and as part of the articles, unless such is prohibited by the law.

2.
- Public Company**

The Company is a "public company" as defined in section 1 of the Companies Law.

3.
- The Company's Purpose**

The Company's purpose is to act pursuant to business considerations to make profits; however, the Company may contribute a reasonable amount for an appropriate object, even if the contribution is not within the framework of the said business considerations.

4.
- The Company's Objects**

The Company shall engage in any legal business.

5.
- Limitation of Liability**

The liability of the Company's shareholders is limited, each to payment of the full amount which he undertook to pay for the shares allotted to him at the time of the allotment.

CHAPTER TWO - THE COMPANY'S SHARE CAPITAL

6. The Share Capital

- 6.1 The Company's registered share capital is NIS 100,000,000 divided into 100,000,000 ordinary shares of NIS 1 par value each (hereinafter referred to as “share”, "ordinary share", "shares" or "ordinary shares", as the case may be).
- 6.2 Each share vests a right to receive invitations, to participate in and vote at the general meetings. A shareholder shall have one vote for each share held by him.
- 6.3 All the shares rank pari passu in relation to the amounts of capital paid or credited as paid on their nominal value, in connection with dividend, the distribution of bonus shares and any other distribution, return of the capital and participation in a distribution of the Company's surplus assets on winding up.

7. The Issue of Shares and Other Securities

- 7.1 The Company's board of directors may issue shares and other securities of the Company, up to the limit of the Company's registered share capital, subject to any applicable law, provided that private placement of the Company’s shares or convertibles of more than 10% of the outstanding share capital of the Company shall require the approval of the shareholders of the Company at a general meeting.

 With respect to the above, securities convertible or exercisable into shares shall be deemed to have been converted or exercised on the date of their issue.
- 7.2 The Company's board of directors may issue redeemable securities, with such rights and on such conditions as the board of directors prescribes.
- 7.3 Subject to the provisions of the articles, the board of directors may allot shares to any person with restrictions and conditions, for their nominal value or with a premium, as it deems fit.

- 7.4 The Company's board of directors may resolve to issue a series of debentures within the framework of its authority to borrow on the Company's behalf, and within the limits of such authority. The aforementioned does not negate the authority of the general manager or someone authorized by him to borrow on the Company's behalf, to issue debentures, promissory notes and bills of exchange, within the limits prescribed by the board of directors.
- 7.5 The Company's existing shareholders shall not have a pre-emptive right, preferred right or any other right to purchase the Company's securities. The board of directors may, in its exclusive discretion, first offer the Company's securities to the existing shareholders or to some of them.
- 7.6 The Company may pay any person a commission (including underwriting fees) in consideration for the underwriting, marketing or distribution of the Company's securities, conditionally or unconditionally, on such terms and conditions as the board of directors prescribes. Such payments may be made in cash or securities of the Company, or in part by one way and in part by another.

8. **Calls for Payment**

- 8.1 If, pursuant to the conditions of the allotment of the shares, there is no fixed date for the payment of any part of the price payable for them, the board of directors may from time to time make calls upon the shareholders in respect of the monies not yet paid in relation to the shares held by them (hereinafter referred to as "calls" or "call", as the case may be).

The call shall determine the date by which the amount specified therein must be paid, together with interest, linkage and the expenses incurred as a result of the non-payment, at the rates and for the amounts prescribed by the board of directors. Such date shall not be less than 30 days from the date of the call.

The call shall also specify that in the event of non-payment by the date fixed as required, the shares in relation to which the call is being made are likely to be forfeited. If a shareholder does not comply with the call, any share in relation to which the said call has been made may be forfeited at any time thereafter, pursuant to a resolution of the board of directors. Share forfeitures shall include all the dividends on such shares that have not been paid prior to the forfeiture, even if declared.

- 8.2 Any amount which pursuant to a share's allotment conditions is payable at the time of the allotment or at a fixed time, on account of the amount of the share or for premium, shall be deemed in respect of the articles a call duly made and notified, and the payment date is the date fixed for payment. In the event of non-payment, all the sections of the articles dealing with the payment of interest, linkage and expenses, the forfeiture of shares and the like and all the other sections hereof relating to the matter shall apply as if the said amount had been duly called and as if a notice was given as determined above.
- 8.3 The board of directors may distinguish between the shareholders in relation to the amounts of the calls and/or their payment times.
- 8.4 Joint holders of a share shall be jointly and severally liable for payment of the calls made on such share.
- 8.5 Any payment on account of a share shall first be attributed on account of the nominal value and only thereafter on account of the premium in respect of each share.
- 8.6 A call may be cancelled or postponed to another date, as resolved by the board of directors. The board of directors may waive all or any of the interest, linkage and expenses.
- 8.7 The board of directors may accept from a shareholder willing to pay in advance, payments on account of his shares in addition to amounts actually called and the board of directors may pay such shareholder interest on the amounts paid in advance as aforesaid, or on such part thereof as exceeds the amount called on account of the shares, in relation to which the payment was made in advance, or come to any other arrangement with him which is such as to compensate him for the advance payment.
- 8.8 A shareholder shall not be entitled to his rights as shareholder, including to a dividend, unless he has paid all the amounts detailed in the calls made on him, together with interest, linkage and expenses, if any, unless otherwise prescribed by the board of directors.
- 8.9 The board of directors may sell, re-allot or otherwise transfer any share forfeited in such manner as it resolves, including without consideration, provided that the Company is paid the full nominal value in respect of such share.

- 8.10

The board of directors may, at any time prior to selling or otherwise transferring the forfeited share, cancel the forfeiture on such conditions as it resolves.
- 8.11

A shareholder whose shares have been forfeited shall, notwithstanding the forfeiture, be liable to pay the Company for all the calls not paid in relation to such shares prior to the forfeiture, together with interest, linkage and expenses up to the date of the payment as though the shares had not been forfeited, and to comply with all the other claims and demands enforceable by the Company in relation to the shares up to the date of the forfeiture, without a deduction or discount for the value of the shares on the date of the forfeiture. His obligation shall only come to an end after the Company has received the full payment specified at the time of the issue of the shares.
- 8.12

The board of directors may collect the calls not paid in respect of the shares forfeited or some of them, as it deems fit, but shall not be obliged to do so.
- 8.13

Share forfeitures shall result, at the time of the forfeiture, in the cancellation of any right in the Company and any claim or demand vis-a-vis it in relation to the share, save for those rights and obligations which are excluded from this rule pursuant to these articles or which the law grants or imposes on the former shareholder.
9.

The Company's Register of Shareholders and the Issue of Share Certificates

9.1

The Company shall keep a register of shareholders and a register of material shareholders, managed by the Company’s secretary.

9.2

The board of directors may close the register of shareholders for an overall period of up to 30 days each year.

9.3

A shareholder, who was entered as a shareholder in the Company’s register of shareholders, is entitled to receive from the Company, without payment, within two months of the allotment or registration of the transfer (unless the issue conditions specify another period of time) one certificate or a number of certificates, in accordance with the Company's resolution, in respect of all the shares of a particular class registered in his name, which shall specify the number of shares and any other detail which in the board of directors' opinion is important. In the case of a jointly held share, the Company shall not be liable to issue more than one certificate to all the joint shareholders, and the delivery of such a certificate to one of the joint shareholders shall be deemed delivery to all of them.

- 9.4 Every certificate shall bear the Company's seal or stamp or its printed name and shall be signed by one director and the Company's secretary, or by two directors or by any other person appointed by the board of directors for such object.
 - 9.5 The Company may issue a new certificate instead of a certificate which was issued and lost, spoilt or defaced, in reliance upon such proof and guarantees as the Company requires, and after payment of the amount prescribed by the board of directors and the Company may, in accordance with a resolution of the board of directors, replace existing certificates with new certificates without payment, on such conditions that the board of directors shall prescribe.
 - 9.6 Where two or more persons are registered as joint holders of a share, each of them may confirm the receipt of a dividend or other payments in connection with such share and his confirmation shall bind all the joint shareholders.
 - 9.7 The Company shall not have to recognize any person as holding a share on trust, and shall not be bound or compelled to recognize any equitable, contingent, future or partial interest in any share, or any other interest in connection with a share, save for the absolute right of the registered holder in respect of any share, except in reliance upon a judicial decision or pursuant to the requirements of any law.
10. **Transfer of the Company's Shares**
- 10.1 The Company's shares may be transferred. A share transfer shall not be registered unless a share transfer deed (hereinafter referred to as “share transfer deed”) is submitted to the Company (or its transfer agent). The share transfer deed shall be drawn up in the following manner or in a manner as similar thereto as possible or in another manner approved by the board of directors.

Transfer Deed

I _____, ID/Company No. _____, of _____ (hereinafter referred to as “the transferor”) transfer to _____, ID/Company No. _____, of _____ (hereinafter referred to as “the transferee”), in consideration for NIS _____, _____ ordinary shares of NIS _____ par value each, which are marked with the numbers _____ to _____ inclusive, of _____ Ltd. (hereinafter referred to as “the Company”), to be held by the transferee, administrators of his estate, guardians and successors and assigns on the same terms and conditions pursuant to which I held these shares at the time of signing this deed, and I the transferee agree to accept the aforementioned shares on the terms and conditions mentioned above and subject to the Company's articles, as shall be from time to time.

As duly witnessed on _____.

The Transferor -
Name:
Signature:

The Transferee -
Name:
Signature:

Witness to Transferor's Signature -
Name: _____, Adv.
License No.
Signature:

Witness to
Transferee's Signature-
Name: _____, Adv.
License No.
Signature:

10.2 A transfer of shares which are not fully paid, or of shares on which the Company has a lien or encumbrance, shall not be valid, unless approved by the board of directors which may, in its absolute discretion and without giving any grounds therefor, refuse to register such a transfer.

The board of directors may refuse a transfer of shares as aforesaid and may make such a transfer conditional upon the transferee undertaking, to the extent and in the manner prescribed by the board of directors, to perform the transferor's obligations in respect of the shares or the obligations in respect of which the Company has a lien or an encumbrance on the shares.

- 10.3 The transfer of part of a share shall not be valid.
- 10.4 The transferor shall continue to be considered the holder of the shares being transferred until the transferee's name is entered in the Company's register of shareholders.
- 10.5 The share transfer deed shall be submitted to the office for registration together with the certificates in which the shares to be transferred are registered (if issued) and any other proof, which the Company requires regarding the transferor's proprietary right in the shares or his right to transfer them. The share transfer deeds shall remain with the Company. The Company shall not be bound to keep share transfer deeds and share certificates, which have been cancelled.
- 10.6 A joint shareholder wishing to transfer his right in a share, who is not in possession of the share certificate, shall not be obligated to attach the share certificate to the share transfer deeds, provided that in the share transfer deeds it shall state that the transferor does not hold the share certificate relating to the share in which his right is being transferred and that the share that is being transferred is jointly held, together with details of the other joint shareholders.
- 10.7 The Company may demand the payment of a fee for registering the transfer of such amount as prescribed by the board of directors from time to time.
- 10.8 Upon the death of a shareholder of the Company, the Company shall recognize the guardians, administrators of the estate or executors of the will, or in the absence of any of the aforementioned, the shareholder's legal heirs, as the only persons having a right to his shares, after entitlement thereto is proved as prescribed by the board of directors.
- 10.9 Where the deceased shareholder held shares jointly with others, the Company shall recognize the surviving joint shareholders as holders of the said shares, unless all the joint shareholders have notified the Company in writing prior to the death of one of them of their wish that the provisions of this article shall not apply; however, such shall not exempt the estate of a joint shareholder from any obligation by which the joint shareholders would have been bound were it not for his death.
- 10.10 A person acquiring a right to shares in consequence of his position as guardian, administrator of the estate, executor of the will, heir, receiver, liquidator or trustee on bankruptcy of a shareholder or pursuant to the provisions of any other law may, on furnishing proof of his right, as required by the board of directors, be registered as the holder of the shares or transfer them to another person, subject to the provisions of the articles in relation to transfer.

- 10.11A person acquiring a right to a share as a result of their transferal shall be entitled to dividend and the other rights in respect of the share and may accept and give receipts for dividend or other payments payable in connection with the share, but shall not be entitled to receive notices of the Company's general meetings and to participate therein or vote thereat in connection with such share or exercise any right vested by the share, save for the aforementioned, unless he has been entered into the shareholders' register.
- 11.Bearer Share Deed
- The Company shall not issue bearer share deeds from which it derives that the holders thereof have a right in the shares specified therein.
- 12.Lien
- 12.1The Company shall have a first and paramount charge and right of lien on all the shares not paid up in full which are registered in the name of any shareholder, and on the proceeds from the sale thereof, in relation to monies (whether currently payable or not) called or payable at a fixed time in respect of such shares.
- The Company shall also have a first and paramount charge over all the shares (other than fully paid shares) registered in the name of any shareholder to secure monies due from him or from his property, whether such debts are due from him alone or together with others.
- The said charge shall also apply to dividends declared from time to time on such shares.
- 12.2In order to realize the charge and the lien, the board of directors may sell the shares to which the charge applies, or any part of them, in such manner as it deems fit. No sale as aforesaid shall be effected until after the date specified for payment and after written notice has been given to the shareholder of the Company's intention to sell the shares, and the sums are not paid within 14 days of such notice.
- 12.3The net proceeds from any such sale, after payment of the sale expenses, shall be applied towards the discharge of the debts or obligations of such shareholder and the balance (if any) shall be paid to him.

- 12.4
- If shares are sold in order to realize a charge or a lien through prima facie use of the powers given above, the board of directors may enter these shares in the shareholders’ register in the purchaser's name, and the purchaser shall not be obligated to check the legality of the acts or the nature of the application of the purchase money. After the said shares are registered in the purchaser's name in the shareholders’ register, no person shall be entitled to appeal the validity of the sale.
13.
- Alterations to the Share Capital**
- The general meeting may at any time resolve to do any of the following acts:
- 13.1
- Increasing the registered share capital**
- To increase the Company's registered share capital, whether or not all the shares registered at such time have been issued. The increased capital shall be divided into shares with ordinary, preferred, deferred or other special rights (subject to the special rights attached to an existing class of shares) or shall be subject to such conditions and restrictions in relation to dividend, return of capital, voting or other conditions as directed by the general meeting in its resolution to increase the registered capital.
- 13.2
- Classes of shares**
- To divide the share capital into different classes of shares and to determine and alter the rights attached to each class of shares, on the following conditions -
- (a)
- for as long as the conditions of issue of shares do not otherwise provide, the rights attached to any class of shares may be altered after a resolution is passed by general meetings of the holders of each class of shares separately or after obtaining the written consent of the holders of all the classes of shares;
- (b)
- the rights vested in the holders of shares of a particular class shall not be deemed to have been altered by the creation or issue of other shares with identical rights or alteration of the rights attached to existing shares, unless the issue conditions of such shares otherwise provide.
- 13.3
- Consolidation of the share capital**

To consolidate and divide any or all of its share capital into shares of a nominal value greater than that specified in the articles. In the event that there are shareholders who are left with fractions of shares as a result of the consolidation, the board of directors may, if it receives the approval of the general meeting, in a resolution on the consolidation of the capital as aforesaid:

- (a) to sell all the fractions and for such object appoint a trustee in whose name the share certificates containing the fractions shall be issued, who shall sell them, and the consideration received less commissions and expenses shall be distributed amongst those entitled. The board of directors is permitted to resolve that shareholders entitled to a consideration that is less than the amount prescribed by it, shall not receive any consideration from a sale of the fractions as aforesaid, and their share of the consideration shall be distributed amongst the shareholders entitled to a consideration exceeding the amount to be prescribed, pro rata to the consideration to which they are entitled;
- (b) to allot to all the shareholders left with fractions of shares as a result of the consolidation and division, fully paid shares of the class of shares which existed prior to the consolidation in such number the consolidation of which with the fraction shall suffice for one whole consolidated share, and an allotment as aforesaid shall be deemed valid just before the consolidation;
- (c) to determine that shareholders shall not be entitled to receive a consolidated share in respect of a fraction of a consolidated share deriving from the consolidation of half or less of the number of shares the consolidation of which creates one consolidated share, and shall be entitled to receive a consolidated share in respect of a fraction of a consolidated share deriving from the consolidation of more than half the number of shares, the consolidation of which created one consolidated share.

In the event that an act pursuant to sub-sections (b) or (c) above, obliges the issue of additional shares, the payment thereof shall be effected in the manner in which bonus shares may be paid. Consolidation and division as aforesaid shall not be deemed alteration of the rights attached to the shares the subject of the consolidation and division.

13.4 Cancellation of unallotted share capital

To cancel registered share capital, which has not yet been allotted, provided that the Company has not undertaken to allot such shares.

13.5 Division of the share capital

To divide the Company's share capital or any part thereof into shares of a nominal value smaller than that specified in the articles by a division of all or any of the Company's shares at such time.

CHAPTER THREE - GENERAL MEETINGS

14. **The Powers of the General Meeting**

14.1 Matters within the general meeting's authority

The general meeting shall pass Company resolutions on the following matters:

- (a) alterations to the articles.
- (b) the exercise of the board of directors' powers, provided that the general meeting has prescribed that the board of directors is unable to exercise its powers and that the exercise of any of its powers is essential for proper management of the Company;
- (c) the appointment or renewal of the appointment of the auditor, the termination of his office or the non-renewal thereof and the determination of his remuneration in accordance with the provisions of articles 15.1 (b) and 29 below;
- (d) the appointment of directors, including external directors, and the termination of their office in accordance with article 23 below;
- (e) the approval of acts and transactions requiring the general meeting's approval in accordance with the provisions of sections 255 and 268 - 275 of the Companies Law;
- (f) alterations to the Company's share capital, in accordance with the provisions of article 13 above;

- (g) a merger as provided in section 320 of the Companies Law;
- (h) any resolution which must be passed pursuant to the law or these articles by a resolution of the general meeting.

14.2 The general meeting's authority to transfer powers between the organs

The general meeting may assume powers given to another organ, and the general meeting may transfer powers given to the general manager to the authority of the board of directors.

The assumption and/or transfer of powers as aforesaid shall be for a particular matter or for a particular period of time, all as provided by the resolution of the meeting.

15. Annual and Special General Meetings and Class Meetings

15.1 Annual meetings

The annual general meeting shall be held every year and no later than the end of 15 months from the last annual general meeting. These general meetings shall be called "annual meetings". The meeting shall be held at the Company's registered offices, unless the board of directors otherwise prescribes.

- (a) The annual meeting shall be convened in order to pass resolutions on the following matters:
 - (1) the appointment of directors and the termination of their office in accordance with article 23 below;
 - (2) the appointment of the auditor or the renewal of his office.
 - (3) discuss the financial statements and the board of directors' report submitted by the Company pursuant to the Securities Regulations as of 31st December of the calendar year preceding the year in which the general meeting is being held;

(b) Similarly, the annual meeting shall include a discussion and/or resolution on any other matter placed on the agenda.

15.2 Special meetings

General meetings of the Company, which are not convened pursuant to article 15.1 above, shall be called "special meetings".

A special meeting shall only discuss and resolve on all the matters not discussed at the annual meeting which are detailed on the agenda of the special meeting.

15.3 Class meetings

The provisions of these articles relating to general meetings shall apply, mutatis mutandis, to class meetings of the Company.

16. **Convening of General Meetings**

16.1 Convening the annual meeting

The board of directors shall convene annual meetings in accordance with the provisions of article 15.1 above.

16.2 Convening a special meeting

The board of directors shall convene a special meeting pursuant to its resolution; however, it shall be obliged to convene such a meeting if requested by one of the following:

- (a) two directors or one quarter of the directors holding office, whichever is the lower;
- (b) one or more shareholders holding at least 5% of the Company's issued capital.

If the board of directors does not convene a general meeting as aforementioned in subsection 16.2, the person requesting the meeting may, and where shareholders are involved - also some of them, who have more than half the voting rights in the Company, convene the meeting themselves, provided that it is not held more than three months after the date the requisition was made, and it shall be convened, wherever possible, in the same manner in which meetings are convened by the board of directors.

Where a general meeting is convened as aforesaid, the Company shall cover the reasonable expenses incurred by the person requesting it.

16.3 The time for calling a special meeting pursuant to a request

Where the board of directors is requested to call a special meeting, as provided in section 16.2 above, it shall do so within 21 days of the request being submitted, for a date that shall not be later than 35 days from the date on which the notice of the special meeting is published.

16.4 Notice of a general meeting

16.4.1 Subject to the provisions of the law and as long as the law requires, notice of a general meeting shall be published in two Hebrew-language daily newspapers in Israel, at least 14 days prior to the meeting, and where the agenda includes matters which may be voted on through voting instruments, at least 21 days prior to the meeting.

Save for giving notice as aforesaid, the Company shall not give the shareholders notice of the general meeting.

16.4.2 Notwithstanding the foregoing, the board of directors may determine that notice of a particular general meeting shall be sent to every shareholder entered in the register of shareholders and the date of sending notice as aforesaid.

16.4.3 The notice of the general meeting shall specify the type of meeting, the place and time at which the meeting shall be convened, its agenda, a summary of the proposed resolutions, the majority required to pass the resolutions, the date determining the shareholders' entitlement to participate in and vote at the general meeting in accordance with section 182 of the Companies Law as long as these details required by law and any other detail required pursuant to the law.

17. **The General Meeting's Agenda**
- 17.1

The general meeting's agenda shall be prescribed by the board of directors and may also include matters in respect of which a special meeting is required as provided in article 15.2 above, and matters obliged in accordance with the provisions of article 17.2 below.
- 17.2

One or more shareholders holding 1% of the Company's voting rights may ask the board of directors to include a matter on the agenda of a general meeting to be held in the future. The board of directors shall include such a matter on the agenda provided that in its discretion such matter is suitable for discussion at a general meeting of the Company.
- 17.3

The general meeting may only pass resolutions on the matters on its agenda.
- 17.4

So long as not otherwise obliged by the law, the general meeting may pass or defeat a proposed resolution that was on the general meeting's agenda the text or a summary description of the main points of which was published by the Company, including with changes; however, it may not pass a resolution materially different from the proposed resolution.
18. **The Discussion at General Meetings**
- 18.1

Entitlement to participate in a vote

Subject to the provisions of section 182(c) of the Companies Law and the Companies Regulations, the shareholders who are entitled to participate in and vote at a general meeting shall be the shareholders on the date prescribed in the resolution to call the general meeting.
- 18.2

Quorum

No discussion may be commenced at a general meeting unless a quorum is present at the time of a discussion. Two shareholders present in person or by proxy, or who has sent the Company a voting instrument indicating the way in which he is voting, and holding or representing at least 50% of the voting rights in the Company, shall constitute a quorum.

A shareholder or his proxy, who is also acting as the proxy of other shareholders, shall be considered two or more shareholders, in accordance with the number of shareholders represented by him.

- 18.3

The general meeting's adjournment in the absence of a quorum

If no quorum is present within half an hour of the time fixed for the meeting, the meeting shall be adjourned to the same day in the next week, following the meeting, to the same time and place, without further notice being given thereof, or to such other date, time and place as prescribed by the board of directors in notice to the shareholders, and the adjourned meeting shall discuss those matters for which the first meeting was called. If no quorum is present at the adjourned meeting, one shareholder, at least, present in person or by proxy, shall constitute a quorum, subject to the provisions of section 79 of the Companies Law.
- 18.4

The general meeting's chairman

The board of directors' chairman (if appointed) shall chair the general meeting. In the absence of a chairman, or if he does not appear at the meeting within 15 minutes of the time fixed therefor, those shareholders present at the meeting shall elect one of the Company's directors as chairman, or if no director is present, they shall elect one of the shareholders present to chair the meeting.

The meeting's chairman shall not have an additional or casting vote.
- 18.5

Adjourned meeting

With the agreement of a meeting at which a quorum is present, the chairman may, and on the demand of the meeting he must, adjourn the meeting from time to time and from place to place, as the meeting resolves (hereinafter in this article referred to as “adjourned meeting”). If a meeting is adjourned for more than 21 days, notice of the adjourned meeting shall be given in the same way in which notice is given of a first meeting. Save for the a foregoing, a shareholder shall not be entitled to receive notice of an adjournment or of the matters to be discussed at an adjourned meeting. The adjourned meeting shall not discuss any matters save for those which could have been discussed at the meeting at which the adjournment was resolved upon. The provisions of articles 17.1 and 17.2 hereof shall apply to an adjourned meeting as mentioned in this article.
19.

Voting by Shareholders

19.1

Passing a resolution

A resolution put to the vote at any general meeting shall be passed if it acquires an ordinary majority or any other majority especially prescribed for it pursuant to the law or these articles.

If the votes are tied, the resolution shall be deemed to have been defeated.

19.2 Examining the majority

19.2.1 The majority shall be examined through a poll, each shareholder being entitled at the time of voting to one vote in respect of each share held by him which has been fully paid or the calls in respect of which have been fully paid.

19.2.2 The chairman's declaration that a resolution at the general meeting has been passed or defeated, unanimously or by a particular majority, shall constitute prima facie evidence of that stated therein.

19.3 Right to participate and vote

A shareholder shall not be entitled to participate in and vote at any general meeting or to be counted amongst those present so long as he owes the Company any payment called in respect of the shares held by him, unless the shares' issue conditions otherwise provide.

19.4 Confirmation of title

A shareholder in whose favor a share is registered with a stock exchange member and such share is included amongst the shares entered in the register of shareholders in the name of a registration company may not participate in and vote at a general meeting unless he has given the Company confirmation of title, as required under the law.

19.5 Personal interest in resolutions

A shareholder wishing to vote on a resolution the majority required to pass which includes the votes of those who do not have a personal interest shall notify the Company before the vote on the said resolution commences, or if voting through a proxy or voting instrument within the framework thereof, whether he does or does not have a personal interest in the resolution.

A shareholder who has not given any notice as aforesaid shall be deemed to have notified the Company that he does not have a personal interest in the resolution.

19.6 Disqualification of voting instruments

Subject to the provisions of the law, the Company's secretary may, in his discretion, disqualify voting instruments or proxy appointment instruments in the following cases:

- (a) there is a reasonable apprehension that they are forged or were given by virtue of shares in respect of which other proxy appointment instruments or voting instruments were given;
- (b) in respect of voting instruments -
 - (1) if more than one choice for a particular resolution is marked therein;
 - (2) if in respect of resolutions the majority required to pass which includes the votes of persons who do not have a personal interest in the approval, it is not marked whether or not there is a personal interest as aforesaid.

19.7 Voting by a legally incapacitated person

A legally incapacitated person may only vote by a trustee, natural guardian or other legal guardian. These persons may vote in person or by proxy.

19.8 Voting by joint shareholders

Where two or more shareholders are joint holders of a share, one of them shall vote, himself, by proxy or through a voting instrument. If more than one joint shareholder wishes to participate in the vote, only the first joint shareholder may vote. For such object, the first joint shareholder shall be the person whose name is entered first in the register of shareholders.

19.9 Minutes of the general meeting

The general meeting's chairman shall procure that minutes are properly kept of every general meeting which shall include:

- (a) the name of the shareholder or proxy and the number of shares held by him;
- (b) the main points of the discussion, all the resolutions passed or defeated at the general meeting and if passed - by what majority.

19.10 A defect in convening or conducting the general meeting, including a defect deriving from the non-fulfillment of any provision or condition laid down in the Law or the Company's articles, including with regard to the manner of convening or conducting the general meeting, shall not disqualify any resolution passed at the general meeting and shall not affect the discussions which took place thereat.

20. **The Appointment of a Proxy**

20.1 Voting through a proxy

A shareholder may appoint a proxy to participate and vote in his stead, at a particular general meeting or at general meetings of the Company in general, personally or through a voting instrument, provided that the proxy appointment instrument is given to the Company at least two business days prior to the date of the general meeting. Notwithstanding the above, the chairman of the general meeting may approve, at his sole discretion, a proxy received by the Company at a later time prior to the general meeting. In the event that the proxy appointment instrument is not for a particular general meeting, a proxy appointment instrument deposited prior to one general meeting shall also be valid for subsequent general meetings.

The foregoing shall also apply to a shareholder, which is a corporation, appointing a person to participate and vote in its stead at the general meeting.

A proxy need not be a shareholder of the Company.

20.2 The proxy appointment instrument's form of wording

The proxy appointment instrument shall be signed by the shareholder or by the person authorized therefor in writing, and if the appointee is a corporation, it shall be signed in the manner binding the corporation. The Company may demand that it be given written confirmation to its satisfaction of the authority of those signing to bind the corporation. The proxy appointment instrument shall be drawn up in the form of wording set forth below. The Company's secretary may, in his discretion, accept a proxy appointment instrument in a different form of wording, provided that the changes are not material. The Company shall only accept an original proxy appointment instrument or a copy thereof, provided that it is certified by an attorney with an Israeli license or a notary.

Proxy Appointment Instrument

Date: _____

To
[The Company's Name]
[The Company's Address]

Dear Sirs,

Annual/Special General Meeting of _____ **("the Company" to be held on** _____ **("the Meeting")**

I the undersigned, _____, Identity/Registration No. _____, of _____, the registered owner of _____^(*) shares [ordinary of NIS 1 n.v. each], hereby empower _____, Identity No. ^(**) _____ and/or _____, Identity No. _____ and/or _____, Identity No. _____ to participate and vote in my name and stead at the above meeting of the Company and at any adjourned meeting thereof/at any general meeting of the Company, until I notify you otherwise.

Signature

- (*) A registered shareholder may grant a number of proxy appointment instruments, each in relation to another quantity of the Company's shares held by him, provided that he does not grant proxy appointment instruments for a quantity of shares larger than the quantity held by him.
- (**) Where the proxy does not have an Israeli identity document, the passport number and the country which issued the passport may be stated.

- 20.3
- Voting pursuant to a proxy appointment instrument shall be legal even if prior thereto the shareholder dies or becomes legally incapacitated or bankrupt, or in the case of a corporation - is liquidated or cancels the proxy appointment instrument or transfers the shares in relation to which it is given, unless written notice is received at the Company's office prior to the meeting that such an event has occurred.

CHAPTER FOUR - THE BOARD OF DIRECTORS

21.

The Board of Directors' Powers

21.1

The management of the business of the company shall be vested in the board of directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by any other organ of the Company.

Any regulation or resolution adopted from time to time by the Company by action of its Members at a General Meeting shall not invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

21.2

The Company's signatory rights and power of attorney on its behalf

- 21.2.1
- The board of directors shall determine the signatory rights in the Company for various matters. The signature of any person appointed from time to time by the board of directors, in general or for a special matter, himself or together with others, together with the Company's seal or stamp or its printed name, shall bind the Company, on such conditions as prescribed by the board of directors.
- 21.2.2
- The board of directors may determine separate signatory rights in respect of different matters of the Company and in respect of the amounts in respect of which such persons are authorized to sign.

21.2.3 The board of directors may from time to time empower any person to be the Company's empowered representative for such objects, with such powers, on such conditions and for such period as it deems fit, and it may give any empowered representative as aforesaid the power to delegate all or any of the powers, authorities and discretion given to him.

21.3 The Company's registered office

The board of directors shall determine what is the Company's registered office.

22. **The Appointment of Directors and Termination of Their Office**

22.1 The number of directors

The number of directors in the Company shall be not less than five nor more than 15, unless the general meeting otherwise resolves.

22.2 The director's identity

22.2.1 A member of the board of directors may hold another office in the Company.

22.2.2 A corporation may hold office as a director in the Company, subject to the provisions of article 23.6 below.

22.3 The appointment and tenure of directors

(a) The directors shall be elected at each annual meeting and shall hold office until the end of the next annual meeting and so long as an annual meeting is not convened, unless their office is vacated prior thereto in accordance with the provisions of these articles.

The elected directors shall enter into their positions from the end of the meeting at which they are elected, unless a later date is specified in the resolution appointing them.

(b) At every annual meeting the directors appointed at the previous annual meeting shall be deemed to have resigned from their office. A resigning director may be re-elected. Notwithstanding the foregoing, if no directors are appointed at an annual meeting, the current directors shall continue to hold office.

- (c) A special meeting of the Company may appoint directors for the Company instead of directors whose office has been terminated and wherever the number of members of the board of directors falls below the minimum specified in the articles or by the general meeting.
- (d) The provisions of sections 23.3(a) to (c) above shall not apply to the appointment and tenure of external directors, in respect of whom the provisions of the Companies Law shall apply.

22.4 The appointment of directors by the board of directors

The directors have the right at any time to appoint any person as a director, subject to the maximum number of directors specified herein, to fill a place which has randomly been vacated or as an addition to the board of directors. Any director so appointed shall hold office until the next annual meeting and may be re-elected.

22.5 Alternates

A director may from time to time appoint an alternate for himself (hereinafter referred to as “alternate”), dismiss such alternate and appoint another alternate instead of any alternate whose office has been vacated for any reason, for a particular meeting or on a regular basis, subject to the approval of the board of directors. A person who is not qualified to be appointed as a director and a person holding office as a director or alternate shall not hold office as an alternate.

22.6 Empowered representative of a corporation holding office as director

A director which is a corporation shall appoint an individual who is qualified to be appointed as a director in the Company to hold office on its behalf on a permanent basis, or for a particular meeting, or for a particular period, and the said corporation may dismiss the individual and appoint another in his stead.

22.7 Empowered director

Each director and each alternate director may appoint an empowered director to participate and vote on his behalf in any Board or Board’s committee meeting or for any resolution. Such appointment shall be only for a particular meeting or resolution.

22.8 The manner of appointing or dismissing an alternate or empowered representative of a corporation holding office as a director

The appointment or dismissal of empowered representatives of corporations holding office as directors or of alternates shall be effected by written notice to the Company's secretary signed by the appointors and shall enter into force on the date specified in the notice of appointment or dismissal, or on the date of its delivery to the Company's secretary, whichever is the later.

22.9 Termination of the office of a director

22.9.1 The office of a director shall terminate in any one of the following cases:

- (a) if he resigns from his office by a letter signed by him which is submitted to the Company;
- (b) if his office is terminated, in accordance with the provisions of the Companies Law;
- (c) if he is dismissed from his office following a resolution passed by the Company's general meeting, before the end of his term of office, provided that the director had been given a reasonable opportunity to present his position to the general meeting;

22.10 The implications of the termination of a director's office on the board of directors' operation

Where the place of a director is vacated, the remaining directors may continue to act so long as the number of directors remaining does not fall below the minimum number of directors specified in the articles or by the general meeting.

Where the number of directors falls below the minimum number, the remaining directors may only act in order to call a general meeting of the Company.

22.11 The Directors' remuneration

The members of the board of directors who do not hold other offices in the Company and who are not external directors shall not receive remuneration from the Company's monies, unless the general meeting otherwise resolves and in such amount as the general meeting prescribes, subject to the provisions of the law.

The directors' remuneration may be prescribed as an overall payment or as payment in respect of participation at meetings or any combination thereof.

The Company may, in a board of directors' resolution, reimburse expenses incurred by a director for the purpose of performing his position.

23. **The Directors' Acts**

23.1 The board of directors' meetings

- (a) The board of directors' chairman may convene the board of directors at any time.
- (b) The board of directors' chairman shall convene the board of directors pursuant to the Company's requirements and at least four times a year, in a manner enabling the Company to comply with the provisions of the law regarding the publication of financial statements and reporting to the public.
- (c) The board of directors' chairman shall convene the board of directors and hold a board of directors' meeting on a specified matter on the demand of at least two directors or one director alone if the Company has less than five directors.
- (d) The board of directors' chairman shall act without delay to call a meeting of the board of directors within 14 days of being notified by a director of the Company that he has learned of a matter of the Company in which a breach of the Law or impairment to proper business procedure has prima facie been discovered or of the date on which the Company's auditor reports to him that he has learned of material deficiencies in the audit of the Company's accounts.

- (e) If a notice or report of the general manager obliges action by the board of directors, the board of directors' chairman shall, without delay and within 14 days of the notice or report, call a meeting of the board of directors.
- (f) If the board of directors' chairman did not convene the board of directors in accordance with the above, two directors may convene the board of directors.

23.2 Calling a board of directors' meeting

23.2.1 Notice of a board of directors' meeting may be given orally or in writing, provided that the notice is given in seven days prior to the date fixed for the meeting, unless all the members of the board of directors or their alternates or empowered representatives agree to a shorter time. However, in a case that the board of directors' chairman finds that an urgent meeting is required, the notice of a board of directors' meeting shall be given not later than 24 hours prior to the date fixed for the meeting.

Notice as aforesaid shall be sent in writing or by facsimile or e-mail or by other media, to the postal address, facsimile number, e-mail address or other address given for the sending of notices by other media, as the case may be, given by the director to the Company's secretary upon his appointment, or in written notice to the secretary thereafter.

Notice as aforesaid shall be given orally to a director personally or by telephonic notice to the telephone number given by the director to the Company's secretary upon his appointment, or in written notice to the secretary thereafter.

Notice given or sent as aforesaid shall be deemed to have been given to a director personally on the date of being given or sent as aforesaid.

23.2.2 The notice calling the meeting shall include the place and date of the board of directors' meeting, arrangements with regard to the manner of conducting the meeting and details of the matters on the agenda, and any other material which the board of directors' chairman wishes to attach to the notice of the meeting.

23.3 The agenda for the board of directors' meetings

The agenda for the board of directors' meetings shall be prescribed by the board of directors' chairman and shall include the following matters:

- (a) matters prescribed by the board of directors' chairman;
- (b) matters in respect of a meeting has been fixed, as provided in sections 24.1(c) to (e) above;
- (c) any matter which a director or the general manager requests the board of directors' chairman, a reasonable time (having regard to the nature of the matter) prior to the board of directors' meeting, to include on the agenda.

23.4 Quorum

The quorum for meetings shall be one third of the members of the board of directors but not less than 5 members, or any other quorum prescribed by a majority of the members of the board of directors from time to time.

23.5 Voting by the board of directors

Issues arising at the board of directors' meetings shall be decided by a majority of votes of the directors present (or participating, in the case of voting by media) and voting, each director having one vote.

23.6 Passing resolutions without convening

The board of directors may pass resolutions without actually convening, provided that all the directors entitled to participate in a discussion and vote on a matter brought for resolution have agreed thereto.

In case such resolutions were passed, as aforesaid, the chairman of the board shall write the resolutions protocol and indicate specifically that it was agreed upon by all directors in writing, orally or by other means of media.

23.7 Resolution approved by media

A resolution approved by media by the directors shall be treated as a resolution duly passed at a meeting of the board of directors, and the provisions of section 24.6 above shall apply thereto.

A resolution as aforesaid may be passed by the approval given by media of some of the directors, to the extent that the directors who do not approve the resolution were not entitled to participate in the discussion and vote on such resolution pursuant to the law and provided that they confirm by media that they are aware of the intention to pass the said resolution.

23.8 Validity of the directors' acts

All acts done in good faith at the directors' meeting or by a board of directors' committee or by any person acting as a director shall be valid even if it later transpires that there was some defect in the appointment of such director or person or that they or one of them were actually disqualified as though every such person had been duly appointed and was qualified to be a director.

23.9 Minutes of board of directors' meetings

The board of directors' chairman shall procure that minutes are properly kept of the board of directors' meetings, which shall include:

- (a) the names of those participating and present at each meeting;
- (b) all the resolutions and main points of the discussion at the said meetings.

All such minutes which are signed by the board of directors' chairman at such meeting or by the board of directors' chairman at the subsequent meeting shall be accepted as prima facie proof of the matters recorded therein.

24. **Board of Directors' Committees**

- 24.1

Subject to the provisions of section 112 of the Companies Law, the directors may delegate their powers, or any of them, to committees as they deem fit and they may from time to time widen, narrow or cancel the delegation of such a power; however, the narrowing or cancellation of a power as aforesaid is not such as to prejudice the validity of a committee resolution pursuant whereto the Company acted vis-a-vis another person, who was not aware of the said change. Every such committee must, at the time of exercising a power as aforesaid, comply with all the directions given to it from time to time by the directors.
- 24.2

A board of directors' committee shall include at least two directors, one of whom shall be an external director, save for the audit committee, which shall include at least three directors and all the company's external directors shall be members thereof.
- 24.3

The Quorum for each committee of the board of directors shall be a majority of the committee’s members or other quorum determined by the board of directors.
- 24.4

The meetings and discussions of the board of directors' committees shall be governed by the provisions regarding the meetings of the directors, mutatis mutandis, so long as other provisions are not prescribed by the directors in such regard, and provided that the quorum for meetings of such committees shall be at least two members.
- 24.5

A resolution passed or an act done by a board of directors' committee shall be treated as a resolution passed or act done by the board of directors, unless expressly otherwise prescribed by the board of directors for a particular matter or in respect of a particular committee.

25. **The Board of Directors' Chairman**

- 25.1

Appointment

The Board of Directors may from time to time, elect one of its members to be the chairman of the Board of Directors, remove such chairman from office and appoint other in his place. The chairman of the board of Directors shall preside at every meeting of the Board of Directors, but if there is no such chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting.

25.2 Powers

- (a) The board of directors' chairman shall conduct the board of directors' meetings and shall sign the discussion minutes.
- (b) If the votes on a board of directors' resolution are tied, the board of directors' chairman shall not have an additional vote.
- (c) The board of directors' chairman may, at any time, on his own initiative or pursuant to a resolution of the board of directors, demand reports from the general manager on matters relating to the Company's business.

25.3 Provisions to the acts of the board of directors' chairman

- (a) The board of directors' chairman shall not serve as the Company's general manager, unless appointed in accordance with the provisions of article 27.2 below.
- (b) The board of directors' chairman shall not be a member of the audit committee.

25A. **Approvals for Ordinary Interested Party Transaction.**

Subject to the provisions of the Companies Law, (i) a transaction between the Company and an officer of the Company or a person that controls the Company or (ii) a transaction between the Company and another person in which an officer of the Company or a person that controls the Company has a personal interest, which transaction is not in any such case extraordinary (“Ordinary Interested Transactions”), will be approved by the Company in the following manner:

25A.1 By the Board of Directors, or by the Audit Committee, or by the Chief Executive Officer with two directors that have no personal interest in the transaction, or by another body authorized by the Board of Directors, whether such body is authorized by the Board of Directors by means of a specific resolution or by board practice, or whether such body is granted authority by means of a general authorization, an authorization for a particular type of transaction or an authorization for a particular transaction.

25A.2 The approval of Ordinary Interested Transactions by the bodies or persons identified in clause 25A.1 may be done by means of an approval of a particular type of transaction or an approval of a particular transaction.

CHAPTER FIVE - OFFICERS OF THE COMPANY, WHO ARE NOT DIRECTORS, AUDITOR

26. The General Manager

26.1 The appointment and dismissal of the general manager

The board of directors may from time to time appoint one or more persons, whether or not director, as general manager or managers, or managing director, and may confer upon such person(s), and from time to time modify or revoke, such title(s) and such duties and authorities as the board of directors may deem fit, subject to such limitations and restrictions as the board of directors may from time to time prescribe. Unless otherwise determined by the board of directors, the general manager shall have authority with respect of the management of the Company in the ordinary course of business. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places, subject to any applicable law.

26.2 The board of directors' chairman as general manager

- (a) The Company's general meeting may authorize the board of directors' chairman to fill the position of general manager or to exercise his powers, provided that the majority of votes to the resolution shall be the needed under the Companies Law.

- (b) The validity of such a resolution is limited to a period not exceeding three years from the date the resolution is passed by the general meeting. If no period is specified for authority as aforesaid, the authority shall be for a period of three years.

Before the end of the said three year period and even after it has come to an end, the general meeting may pass another resolution, and so on and so forth.
- (c) The said resolution may relate to the authorization of the board of directors' chairman in general or it may relate to the authorization of a particular board of directors' chairman.

26.3 The general manager's powers

- (a) The general manager is responsible for the routine management of the Company's affairs within the framework of the policy prescribed by the board of directors and subject to its guidelines.

The general manager shall be under the supervision of the board of directors and subject to its guidelines.

The general manager shall appoint and dismiss the Company's officers, save for the directors and general manager, and shall determine the terms of their employment, including terms of salary, subject to the approval of the board of directors, in relation with appointments, dismissals or terms of employment of such officers, which the board of directors determines that its approval is required for.
- (b) The board of directors may instruct the general manager how to act in a particular matter; if the general manager does not obey the instruction, the board of directors may exercise the power required to implement the instruction in his stead.
- (c) If the general manager is unable to exercise his powers, the board of directors may exercise them in his stead or authorize someone else to exercise them.
- (d) Subject to the provisions of the Companies Law, the board of directors may delegate to the general manager powers which the board of directors has pursuant to the Company's articles, as it deems fit, and it may delegate these powers, or any of them, for such period and objects, on such conditions and with such restrictions as it deems fit. The board of directors may alter or cancel any delegation of powers as aforesaid.

- 26.4 The general manager's reporting duties

The general manager must notify the board of directors' chairman of any exceptional matter which is material to the Company or of any material deviation of the Company from the policy prescribed by the board of directors. If the Company does not have a board of directors' chairman, for any reason, the general manager shall notify all the board of directors' members as aforesaid.

The general manager shall submit reports to the board of directors on the matters, at the times and on the scale prescribed by the board of directors.

The general manager shall report to the board of directors' chairman, on his demand, on matters relating to the Company's business and the proper management thereof as mentioned in article 24.1 above.
- 26.5 Delegation of the general manager's powers

The general manager may, with the board of directors' approval, delegate any of his powers to another, who is subordinate to him.

27. **Secretary, Internal Auditor and Other Officials in the Company**

- 27.1 Secretary

27.1.1 The board of directors may appoint a secretary for the Company, on such terms as it deems fit, and may appoint a deputy secretary and determine their duties and powers.

27.1.2 If a secretary is not appointed for the Company, the general manager, or someone authorized by him for such purpose and in the absence of a general manager someone authorized for such purpose by the board of directors, shall perform the duties prescribed for the secretary pursuant to the law, these articles and the board of directors' resolution.

- 27.1.3

The Company's secretary shall be liable for all the documents kept at the Company's registered office, as provided in section 124 of the Companies Law, and shall keep the registers kept by the Company pursuant to the law.
- 27.2

Internal auditor
- 27.2.1

The board of directors shall appoint an internal auditor; the internal auditor shall be appointed on the proposal of the audit committee.
- 27.2.2

The Company's organizational superior over the internal auditor shall be nominated by the board of directors.
- 27.2.3

The internal auditor shall submit a proposal for an annual or periodic work plan to the board of directors, which shall be approved by it, with such changes as it deems fit.
- 27.2.4

The internal auditor shall examine whether the Company’s acts are correct in terms of obedience the law and of orderly business practice.
28.

Auditor
- 28.1

The annual general meeting shall appoint an auditor for the period up to the end of the following general meeting. The general meeting may appoint an auditor for a period that shall not extend beyond the end of the third general meeting after the general meeting at which he was appointed. Where the auditor is appointed for such a period, the annual meeting shall not discuss the appointment of an auditor during the said period, unless a resolution is passed to terminate his office.
- 28.2

The general meeting may at any time terminate the office of the auditor or decline to renew it.

- 28.3

The board of directors shall determine the remuneration of the Company's auditor and shall report thereon to the Company's annual meeting.
- 28.4

The board of directors shall determine the auditor's remuneration for services other than the audit and shall report thereon to the Company's annual meeting.

CHAPTER SIX - SAFEGUARDING THE COMPANY'S CAPITAL AND THE DISTRIBUTION THEREOF

29. **Dividend and Bonus Shares**

- 29.1

Right to dividend or bonus shares
- 29.1.1

The Company's shareholders have a right to receive dividend or bonus shares, if the Company resolves thereon, in accordance with the rights attached to any class of shares in such regard.
- 29.1.2

Dividend or bonus shares shall be distributed amongst anyone who become a shareholder on the date of the resolution on the distribution or at a later date, if another date is prescribed therefor in such resolution (hereinafter referred to as “the determining date”).
- 29.1.3

Subject to the special rights granted to special shares pursuant to their issue conditions, the Company's profits, in respect of which a resolution was passed to distribute them as dividend or bonus shares, shall be paid pro rata to the amount paid or credited as paid on account of the nominal value of the shares held by the shareholder.
- 29.1.4

If not otherwise provided in the shares' issue conditions or in the general meeting's resolution, all the dividends and bonus shares on shares which are not fully paid within any period in respect of the dividends or bonus shares are payable shall be paid pro rata to the amounts paid or credited as paid on the nominal value of the shares during any part of the said period (pro rata temporis).

The board of directors may, in its discretion, make provisions to special funds of any amount from the Company's profits, or from a revaluation of its assets, or its proportional part in the revaluation of the assets of its affiliates, and determine the purpose of these funds.

29.2 Payment of the dividend

29.2.1 The Board of directors may distribute dividends subject to any applicable law.

29.2.2 Manner of payment

If not otherwise provided in the resolution on the dividend's distribution, it shall be possible to pay any dividend less the tax required pursuant to the law by a cheque to the payee alone, which shall be sent by registered mail in accordance with the registered address of the shareholder entitled thereto, or by a bank transfer. Any such cheque shall be made out to the order of the person to whom it is being sent.

In the case of registered joint shareholders, the cheque shall be sent to the shareholder whose name is entered first in the register of shareholders in relation to the joint shareholding.

The dispatch of the cheque to a person who on the prescribed date is entered in the register of shareholders as the holder of a share, or in the case of joint shareholders - one of the joint shareholders, shall serve as a release in relation to all the payments made in connection with such share.

The Company may resolve that it shall not send a cheque under a certain amount, and the dividend amounts that should have been payable as aforesaid shall be treated as unclaimed dividend.

29.2.3 Unclaimed dividend

The board of directors may invest any dividend not claimed within a year of being declared or otherwise use it in favor of the Company until it is claimed. The Company shall not be liable to pay interest or linkage for unclaimed dividend.

29.2.4 Dividend in specie

Where the Company declares a dividend, it may resolve that such dividend shall be paid, in whole or in part, by the distribution of particular assets, including paid shares or debentures of any other company or by a combination of such assets.

29.3 The capitalization of profits and the distribution of bonus shares

29.3.1 Subject to any applicable law, the Company's undistributed profits, or premium on shares, or funds created from a revaluation of the Company's assets, or funds created on an equity basis from the profits of affiliated companies, or from a revaluation of the assets of affiliated companies and capital redemption funds - may be capitalized and distributed amongst the entitled shareholders, pursuant to section 31.1 above, to be held by them as capital, and all or any of the money from this capitalization may be used in the name of such shareholders for the full payment, at the nominal value or with such premium as the resolution prescribes, of shares distributed in accordance therewith, and such distribution or payment shall be accepted by such shareholders as full consideration for their benefit in the aforementioned capitalized amount, as prescribed by the board of directors.

- 29.3.2 Where the Company resolves to distribute bonus shares, it may resolve to transfer to a special fund designated for a distribution of bonus shares in the future such amount the capitalization of which would be sufficient to allot to anyone who at such time has a right to purchase shares of the Company (including a right which is only exercisable at a later date) bonus shares of such nominal value as would have been due to him had he exercised the right to purchase the shares prior to the determining date at the price of the right in force at such time. If after the determining date the holder of the said right exercises his right to purchase the shares or part thereof, the board of directors shall allot him fully paid bonus shares at such nominal value and of such class as would have been due to him had he exercised the right to purchase the shares which he actually purchased prior to the determining date, by appropriate capitalization that shall be effected by the board of directors from the said special fund. With regard to determining the nominal value of the bonus shares that are distributed, any amount transferred to the special fund created in respect of a distribution of previous bonus shares shall be treated as though already capitalized and as if shares entitling the holders of the right to purchase shares of the Company to bonus shares had already been allotted therefrom.
- 29.3.3 In a distribution of bonus shares, all the Company's shareholders shall receive shares of a uniform class or of the class which vested him with the rights to receive the bonus shares, as prescribed by the board of directors.
- 29.3.4 In order to implement any resolution pursuant to the provisions of section 31.4, the board of directors may settle any difficulty arising in relation to a distribution of bonus shares as it deems fit, and in particular may issue certificates for fractions of shares and sell the fractions in order to pay the proceeds thereof to entitles and may determine the value for the purpose of distribution of certain assets and resolve that payments in cash shall be made to the shareholders in reliance upon the value so prescribed, or that fractions whose value is less than NIS 1 shall not be taken into account for the purpose of adjusting the rights of all the parties. The board of directors may pay cash or grant these particular assets to trustees on trust in favor of the persons entitled to dividend or capitalized fund, as it deems beneficial.

- 29.4 Purchase of the Company’s Share
- The purchase of the Company’s share by the Company is subject to any applicable law.
- CHAPTER SEVEN– INSURANCE, INDEMNITY AND EXEMPTION OF OFFICERS
- 30 **Insurance of Office Holders**
- 30.1 The Company may insure its Office Holders against liabilities derived from their duties towards the Company in accordance with the following provisions of this article.
- 30.2 The Company may enter into a contract for the insurance of an Office Holder against any liability he may incur in consequence of an act which he performed in his capacity as an Office Holder, in each of the following cases:
- 30.2.1 a breach of his duty of care towards the Company or towards another person;
- 30.2.2 a breach of his duty of loyalty towards the Company, provided that the Office Holder acted in good faith and that he had reasonable grounds to believe that the act would not harm the Company;
- 30.2.3 a monetary obligation that maybe imposed on him for the benefit of another person; and
- 30.2.4 a breach of any other duty or any other obligation, to the extent insurance may be permitted by law.
- 31 **Indemnification of Office Holders**
- 31.1. The Company shall not indemnify an Office Holder except in accordance with the following provisions of this section.

- 31.2. The Company may indemnify an Office Holder, in advance and retroactively, to the fullest extent permitted under the Statutes.
- 31.3. Without derogating the aforesaid under this Article 31.2 hereinabove, the Company may undertake to indemnify an Office Holder as follows:

31.3.1. The Company may undertake to indemnify an Office Holder for future obligation or expense imposed on him/her in consequence of an act done in his/her capacity as an Office Holder therein or as a result of being an Office Holder, in another company in which the Company holds shares or has interests, as specified in this Section below:

31.3.1.1. a monetary obligation imposed on him/her or incurred by him/her in favor of another person pursuant to a judgment, including a judgment given in settlement or a court approved settlement or arbitrator's award;

31.3.1.2. reasonable legal fees, including attorney’s fees, incurred by an Office Holder in consequence of an investigation or proceeding filed against him by an authority that is authorize to conduct such investigation or proceeding, and that resulted without filing an indictment against him/her and without imposing on him/her financial obligation in lieu of a criminal proceeding, or that resulted without filing an indictment against him/her but with imposing on him a financial obligation as an alternative to a criminal proceeding in respect of an offense that does not require the proof of criminal intent. For the purposes of these Articles:

"A proceeding that ended without an indictment in a matter in respect of a which an investigation was conducts", means – closing the case pursuant to Section 62 of the Criminal Procedure Act [Combined Version] 5742 – 1982 (the “**Criminal Procedure Act**”) or a stay of proceedings by the Administrator General pursuant to Section 231 of the Criminal Procedure Act;

“Financial obligation in lieu of a criminal proceeding”, means – a financial obligation imposed by law as an alternative to a criminal proceeding, including an administrative fine pursuant to the Administrative Offenses Act 5746 – 1985, a fine with respect to an offense which was defined as a “finable offense” under the Criminal Procedure Act, a fine or a forfeit.

- 31.3.1.3.

reasonable litigation costs, including attorney’s fees, incurred by an officer or which he is order to pay by a court, in proceedings filed against him by the Company or on its behalf or by another person, or in a criminal charge of which he is acquitted, or in a criminal charge of which he is convicted of an offence that does not require proof of criminal intent.
- 31.3.2.

Such undertaking to indemnify for future events as set forth in Article 31.3.1.1 must be limited to events which in the Board's opinion are foreseeable at the time of giving the indemnity undertaking in view of the Company’s business, and in such amount or standard as the Board deems reasonable under the circumstances.

Such undertaking must specify the events that in the Boards' opinion are foreseeable in view of the Company’s actual business at the time of the undertaking and the amount or the standards that the Board deemed reasonable at the time.

The aggregate amount of indemnification (in addition to any insurance proceeds received) payable pursuant to all such undertakings shall not exceed 25% of the shareholders’ equity of the Company, as set forth in the Company’s most recent consolidated financial statements prior to the applicable payment of indemnification.
- 31.3.3.

Without prejudice to the aforesaid provisions, the Company may retroactively indemnify an Office Holder for events specified in Article 31.3.1 above, beyond the limits set forth in Article 31.3.2 above.

32

Exemption of Office Holder

- 32.1

The Company shall not exempt an Office Holder from his liability except as specified in the following provision of this article.
- 32.2

The Company may exempt an Office Holder prospectively from liability, in whole or in part, for damage in consequence of a breach of his duty of care towards the Company.

32

Insurance, Indemnification and Exemption of Office Holders – General

- 33.1

The Company shall not enter into a contract to insure against the liability of an Office Holder or undertake to indemnify an Office Holder or exempt an Office Holder for any of the following:
- 33.1.1

a breach of his duty of loyalty towards the Company, unless it is in accordance with the provisions of sub-article 33.2.2;
- 33.1.2

an intentional or reckless breach of his duty of care;
- 33.1.3

an act done with the intention of unduly deriving a personal profit; or
- 33.1.4

a fine imposed on him.

CHAPTER EIGHT - WINDING UP AND REORGANISATION OF THE COMPANY

34

Winding Up

- 34.1

If the Company is wound up, voluntarily or otherwise, the liquidator may, with the general meeting's approval, distribute parts of the Company's property in specie amongst the shareholders, and he may, with similar approval, deposit any part of the Company's property with trustees in favor of the shareholders as the liquidator, with the approval mentioned above, deems fit.
- 34.2

Subject to the special rights attached to shares, if shares are issued with special rights, the Company's shares shall rank equally inter se in relation to the amounts of capital paid or credited as paid on the nominal value of the shares, in connection with the return of the capital and participation in a distribution of the Company's surplus assets on winding up.

35

The Company's Reorganisation

- 35.1

At the time of selling the Company's property, the board of directors, or the liquidators (in the case of winding up) may, if so permitted in a resolution passed by the Company's general meeting by a special majority, accept fully or partially paid shares, debentures or securities of another company, Israeli or foreign, incorporated or about to be incorporated for the purpose of purchasing the Company's property, or part thereof, and the directors (if the Company's profits so permit) or the liquidators (in the case of winding up) may distribute the shares or securities mentioned above or any other property of the Company amongst the shareholders, without realizing them or depositing them with trustees for the shareholders.
- 35.2

The general meeting may, in a resolution passed by the Company's general meeting by a special majority, resolve on a valuation of the securities or property mentioned above at such price and in such manner as the general meeting resolves, and all the shareholders shall be liable to accept any valuation or distribution permitted as aforesaid and waive their rights in such regard, save, where the Company is about to be wound up or is in winding up proceedings, for those legal rights (if any) which pursuant to the provisions of the law may not be altered or qualified.

- 36.1 Subject to the provisions of section 16.4 above, notice or any other document may be sent by the Company to all the shareholders appearing in the Company's register of shareholders personally or by registered mail to such shareholder's address as entered in the register of shareholders or at the address given by the shareholder to the Company in writing for the purpose of sending notices.
- 36.2 All the notices which must be given to the shareholders shall be given, in relation to shares which are jointly held, to the person whose name is entered first in the register of shareholders and any notice given in such manner shall be adequate notice to all the joint shareholders.
- 36.3 Subject to the provisions of section 16.4 above, every shareholder entered in the register of shareholders according to address, whether in Israel or abroad, shall be entitled to have sent to him, at such address, any notice which he is entitled to receive in accordance with the articles or the provisions of the law. Save for the foregoing, no person who is not entered in the register of shareholders shall be entitled to receive any notice from the Company.
- 36.4 Any notice or other document delivered or sent to a shareholder in accordance with these articles shall be deemed to have been duly delivered and sent in respect of all the shares held by him (alone or together with others), even if such shareholder has passed away at such time, or become bankrupt, or an order has been given for its winding up, or a trustee or liquidator or receiver has been appointed for his shares (whether or not the Company was aware thereof), until another person is entered in the register of shareholders in his stead as the holder thereof, and the giving or dispatch of a notice or document as mentioned above shall be deemed adequate delivery or dispatch to any person who has a right in these shares.
- 36.5 any notice or other document sent by the Company by mail in accordance with an address in Israel shall be deemed to have been delivered within 48 hours of the letter containing the notice or document being mailed, or within 96 hours where the address is abroad, and when coming to prove the delivery it shall be sufficient to prove that the letter containing the notice or document was properly addressed and mailed.

36.6 An accidental omission in giving notice of a general meeting to any shareholder or non-receipt of notice of a meeting or any other notice by a shareholder shall not cause the cancellation of a resolution passed at such meeting or cancellation of proceedings based on such notice.

36.7 Every shareholder and every board of directors' member may waive his right to receive notice or his right to receive notice within a particular time and may agree that a general meeting of the Company or a board of directors' meeting, as the case may be, be convened or take place despite the fact that he has not received notice thereof, or despite the fact that the notice was not received by him within the required time, subject to the provisions of any law prohibiting such waiver or consent.

37. **Amendment to the articles of association**

The Company may amend its articles of association by a resolution adopted by a majority of two thirds of the shareholders entitled to vote and voting themselves, by proxy or through a voting instrument at a general meeting. Abstentions shall not be included in the count;

* * *

[Unofficial Translation]

AGREEMENT

Made and entered into on the 31st day of March 2009

Between

BLUE SQUARE CHAIN PROPERTIES & INVESTMENTS LTD.
Publ. Co. 520036187
whose address is 2 Amal Street, Ofek Industrial Zone, Rosh Ha’ayin
(hereinafter: “the Seller”)

of the one part;

And

BLUE SQUARE REAL ESTATE LTD.
Pvte. Co. 513765859
whose address is 2 Haamal Street, Park Ofek, Rosh Ha’ayin
(hereinafter: “the Buyer”)

of the other part;

- WHEREAS
- The Seller engages in the operation of retail chain stores and is the owner of activities in the field of leasing, management, development and improvement of real estate properties owned by it; and
- WHEREAS
- The Seller wishes to spin off its activities, in a manner whereby assets and liabilities connected with and/or related the Seller’s activities in the field of leasing, management, development and improvement of real estate properties owned by it (hereinafter: “the Real Estate Activities Transferred”) will be transferred to the Buyer (hereinafter: “the Spin-Off”); and
- WHEREAS
- The Buyer is a public company engaged in the development, initiation and management of real estate and is controlled by Blue Square Israel Ltd., which is also the controlling shareholder in the Seller; and
- WHEREAS
- The parties declare that the Spin-Off is being effected for a commercial and economic objective; and
- WHEREAS
- The Spin-Off is being effected in accordance with 105I of the Income Tax Ordinance, and all the conditions and sub-sections thereof, and is contingent upon approval by the tax authorities and approval of the applicability of the tax benefits pursuant to Section 105B of the Income Tax Ordinance; and

WHEREAS For purposes of effecting the aforesaid Spin-Off the Seller wishes to sell the Property Sold to the Buyer, and the Buyer wishes to purchase the Property Sold from the Seller, as same is defined below, all in accordance with the terms and conditions set forth in this Agreement; and

WHEREAS The parties have applied to the tax authorities with an application to obtain an approval in advance pursuant to which the Property Sold will be transferred from the Seller to the Buyer in accordance with Section 105I of the Income Tax Ordinance (New Version), 5721-1961 and on the terms and conditions as will be specified in the approval of the tax authorities; and

WHEREAS The parties wish to specify and define in the framework of the provisions of this Agreement the legal relationship between them regarding the acquisition of the Property Sold and the transfer thereof, all in accordance with the terms and conditions set forth below in this Agreement;

Now therefore it is agreed, declared and stipulated by the parties
as follows:

1. **Preamble and interpretation**
- 1.1 The preamble to the Agreement, the appendices hereto and the declarations by the parties constitute an integral part hereof.

1.2 The division of this Agreement into clauses and sub-clauses and the headings which appear herein have been inserted solely for the sake of convenience, and no use shall be made thereof for purposes of the interpretation of the Agreement.
2. **Definitions**
- The terms set forth below will have the meaning in this Agreement as set opposite them:
- 2.1 “The property sold” – the properties transferred and the liabilities transferred, as defined below.

- 2.2 **“The properties transferred”** – the real estate properties listed in **Appendix A** to this Agreement (hereinafter: **“the Real Estate Properties”**), including all the Seller’s rights in relation to the Real Estate Properties (including goodwill), as well as the Seller’s shares in the holding companies listed in **Appendix A** to this Agreement (hereinafter: **“the Shares Transferred”**, and **“Holding Companies”**, respectively), including all the Seller’s rights in relation to the Shares Transferred (including goodwill) and in relation to shareholders’ loans that were given by the Seller to the Holding Companies, and the Seller’s rights pursuant to the Agreement.
- 2.3 **“The liabilities transferred”** – the Seller’s liabilities pursuant to the agreements, as well as the Seller’s financial liabilities in connection with financing the Real Estate activities being transferred against which encumbrances have been created and/or will be created over the properties transferred or part thereof, all as described in **Appendix B** which will be signed and attached to this Agreement after receipt of the approval from the tax authorities (hereinafter: **“the Financial Liabilities”**). The balance of the Financial Liabilities as at the effective date will stand at a sum equivalent to the value of the Real Estate Properties and the shares transferred as set forth in **Appendix A** to this Agreement, plus a sum equivalent to the balance of the shareholders loans which were provided to the Holding Companies by the Seller, as same are presented in the financial statements of the Holding Companies as at the effective date, and the plus or minus (as the case may be) the increase or decrease, respectively, in the Seller’s proportionate share (according to its percentage holdings in the Holding Company) in the difference between the total assets of one of the Holding Companies (excluding the Real Estate Property) as at the effective date and the total liabilities of each of the Holding Companies as at the effective date, as against the difference specified in **Appendix C** to this Agreement.
- 2.4 **“The agreements”** – contractual engagements between the Seller and third parties in connection with the Real Estate Properties and/or the Shares Transferred, including leasehold agreements and/or lease agreements and/or co-ownership agreements and/or purchase agreements and/or management agreements and/or any other agreement between the Seller and any third party in connection with the Real Estate Properties and/or the Shares Transferred, including and without derogating from the generality of the foregoing, the finance agreement between the Seller and the bank / the financial entity which is providing the finance in connection with the financial liabilities (hereinafter: **“the Finance Agreement”**).
- 2.5 **“The effective date”** – March 31, 2009.

3. **Declarations and undertakings by the Seller**

The Seller hereby declares and undertakes to the Buyer that:

- 3.1 The Seller’s rights in each of the Real Estate Properties are as stated alongside each Real Estate Property in **Appendix A** to this Agreement, with it being agreed that in relation to Property No. 20 (Tel Aviv – Tel Kabir) the contents of **Appendix D** to this Agreement will apply.
- 3.2 The Seller is the sole owner of the Shares Transferred.
- 3.3 Apart from the properties listed alongside each company in **Appendix A** to this Agreement (hereinafter: **“the Holding Company’s Properties”**), the liabilities mentioned in the financial statements that are attached to this Agreement as **Appendix E**.
- 3.4 The Seller’s rights in Real Estate Properties and in the Shares Transferred are free and clear of any attachment and/or encumbrance and/or pledge and/or any other right in favor of a third party, except only encumbrances that have been created and/or may be created as security for the liabilities transferred, and which shall continue to remain in force and be binding on the Buyer in all respects, according to the terms and conditions of the Financial Liabilities. The Seller undertakes that its rights as aforesaid will remain in the condition as described above until same are registered in the name of the Buyer in the Land Registry and/or until the transfer thereof into the Buyer’s name in the relevant register of the companies, as the case may be.
- 3.5 The leasehold contracts between the Seller and the Israel Lands Administration or the Tel Aviv Municipality, as the case may be, in respect of the Real Estate Properties that are leased under leasehold to the Seller and/or to the Holding Companies by the Israel Lands Administration or the Tel Aviv Municipality, are in force, and the Seller is not aware of any grounds for the cancellation of any of them.
- 3.6 Except for the legal proceedings described in **Appendix F** to this Agreement, no legal proceedings are pending against the Company and/or the Holding Companies in connection with the Real Estate Properties and/or the Holding Companies’ assets and/or the Shares Transferred.
- 3.7 In relation to the Real Estate Properties and the Holding Companies’ assets which are not registered in the name of the Seller or the Holding Companies, as the case may be, the Seller declares that there is no material impediment to completing registration of the rights in and to the Properties in the name of the Seller or the Holding Companies, as the case may be.
- 3.8 Except for the Property in Kfar Saba (Property No. 6, to which the provisions of sub-clause 6.5 below will apply), there are no faults and/or defects and/or damage in the structural frame of the buildings and/or in the water-proofing of the buildings which form part of the Real Estate Properties and/or the Holding Companies’ assets.

3.9 Subject to the fulfillment of the conditions precedent, there is no legal, contractual or other bar or impediment to the Seller entering into this Agreement and to performance of its obligations pursuant to this Agreement in full and punctually on due date.

4. **Declarations and undertakings by the Buyer**

The Buyer hereby declares and undertakes to the Seller that:

- 4.1 It is purchasing the Property Sold in its condition “as is” at the time of signing of this Agreement, without any representation and/or declaration by the Seller, including, without limitation, in regard to the condition of the Real Estate Properties and/or the Holding Companies’ assets and/or the Shares Transferred from the physical and/or zoning and/or legal aspect and/or from any other aspect and/or in regard to the value thereof, except only the Seller’s representations as set forth in Clause 3 above, and the Seller’s undertaking as set forth below in this Agreement.
- 4.2 Subject to the fulfillment of the conditions precedent, there is no legal, contractual or other bar or impediment to its enter into this Agreement and to the performance of its obligations under this Agreement in full and punctually on due date.

5. **Conditions precedent**

- 5.1 This Agreement and the implementation hereof are contingent upon the fulfillment of and compliance with the following cumulative conditions (hereinafter: **“the Conditions Precedent”**):
- 5.1.1 Receipt from the Seller’s competent organs of all the resolutions and approvals that are required for implementation of the transaction that is the subject matter of this Agreement.
- 5.1.2 Approval of the Buyer’s audit committee and its board of directors to implementation of the transaction that is the subject matter of this Agreement, including to the terms and conditions of the Finance Agreement and the conditions of the approval of the tax authorities, as well as further approval by the Buyer’s general meeting for implementation of the transaction that is the subject matter of this Agreement, to the extent that it is specified by the Buyer’s audit committee that such approval is necessary.
- 5.1.3 Obtaining an approval from the Income Tax Commission for effecting the Spin-Off in accordance with the provisions of this Agreement, to the satisfaction of the parties (hereinbefore and hereinafter: **“the Approval of the Tax Authorities”**).

5.1.4 Fulfillment of the conditions for the coming into force and implementation of the lease agreements mentioned in Clause 6.2.2 below.

- 5.2 If the Conditions Precedent or any of them are not fulfilled within 6 months from the date of signing of this Agreement, and the parties have not agreed on extending the period as stated in sub-clause 5.3 below, this Agreement will be null and void without this being deemed to be a breach hereof and without any party having any right to relief as a consequence thereof.
- 5.3 Notwithstanding the contents of sub-clause 5.2 above, the board of directors of either of the parties will be entitled, by way of written notice to the other party, to extend the period for fulfillment of the Conditions Precedent, each time for a period of an additional 60 days beyond the last date that was fixed for fulfillment of the Conditions Precedent prior to the giving of the notice, but it is agreed that under no circumstances will the period for fulfillment of the Conditions Precedent be extended beyond a period of 12 months from the date of signing of this Agreement.

6. **The transaction and the effective date**

- 6.1 On the date of closing, as defined below, the Seller will transfer the Property Sold to the Buyer and the Buyer will accept same from the Seller, with effect from the effective date, including in a manner in which with effect from the effective date, the Seller will assign its rights in the Properties transferred to the Buyer, including its rights pursuant to the Agreement and its rights in connection with the shareholders' loans that were provided by the Seller to the Holding Company (including in a manner in which the obligation of the Holding Company for payment of the shareholders' loan, in accordance with the conditions thereof, will apply in full *vis-à-vis* the Buyer), and the Seller will assign the liabilities transferred to the Buyer, including in a manner in which all the income and expenditure in respect of the Property Sold shall be borne and paid by the Buyer, with effect from the effective date. Included in the foregoing it is agreed that (a) guarantees and collateral security that were given to the Seller, if given, in the framework of any of the Agreements, will be endorsed into the name of the Buyer and/or will be held by the Seller in trust for the Buyer; (b) the Buyer will take upon itself all the Seller's rights and obligations under co-ownership agreements to which the Seller is a party in relation to any of the Real Estate Properties, and to the extent necessary the Buyer will sign such co-ownership agreements in place of the Seller; (c) the encumbrances mentioned in Clause 3.4 shall continue to remain in force and shall be binding on the Buyer, for all intents and purposes, according to the conditions of the financial liabilities, on a basis that the Buyer will take action for completing registration of the aforesaid encumbrances, in accordance with and subject to the conditions of the financial liabilities (including the terms and conditions of the Finance Agreement).

Notwithstanding the foregoing, it is agreed that on the date of closing the parties will do an accounting in relation to the financial costs in respect of the financial liabilities for the period between the effective date and the date of closing (hereinafter: **“the Interim Period”**), in a way that the Seller will bear the financial costs *vis-à-vis* the Bank/the financial entity providing the finance, which apply on the total financial liabilities in respect of the Interim Period, while the Buyer will pay the Seller in respect of the total financial liabilities interest at a rate equivalent to on-call interest (as defined below), for the period commencing from the effective date and up to the date of closing, with it in any event being agreed that the Buyer will not bear the financial costs which exceed the financial costs that would have applied to it in respect of the Interim Period had the transaction been executed on the effective date (where for these purposes the calculation shall be made also taking into account financial income from which the Buyer benefited during the Interim Period).

In this sub-clause – “on-call interest” means variable interest at the rate of interest that was paid in the Interim Period by Blue Square Israel Ltd. in respect of “on-call credit”, on an average weighted monthly basis, while the interest will be calculated weekly.

- 6.2 If one of the parties should bear any payment and/or receive any income in connection with the Property Sold beyond its entitlement or its obligation, as the case may be, in accordance with the provisions of this sub-clause 6.1 above, then the parties shall do an accounting between them, in a manner whereby each party will bear expenses and will receive income according to the provisions of this sub-clause 6.1 above. Included in the contents of sub-clause 6.1 above it is agreed between the parties as follows:
- 6.2.1 In relation to assets (or part thereof) forming part of the Real Estate Properties that are leased to third parties, it is agreed that all the Seller’s rights and obligations under the lease agreements will be assigned in favor of the Buyer, with effect from the effective date, in a manner whereby the Buyer will be entitled and will be obliged *vis-à-vis* such third parties, with effect from the effective date onwards, for everything connected with the lease agreements. For the removal of doubt it is clarified that at the latest with effect from the effective date all the existing lease agreements between the Seller and Blue Square Israel Ltd. or Blue Square Chain (Hyper Hyper) Ltd. in relation to any of the Real Estate Properties will be cancelled and in their place the lease agreement between the Seller and the Buyer as set forth in sub-clause 6.2.2 below shall come into force with respect to such assets.

- 6.2.2 In relation to properties forming part of the Real Estate Properties (or part thereof) in which the Seller makes self-use (including Real Estate Properties the use of which was transferred to the Seller by Blue Square Israel Ltd. or the Blue Square (Hyper Hyper) Chain Ltd. and also in relation to the property held by Hyper Lod Center Ltd. (hereinafter: **“Hyper Lod”**) – it is agreed that these properties will be leased to the Seller by the Buyer or by Hyper Lod, as the case may be, with effect from the date of closing onwards, in accordance with the conditions of lease as will be set forth in lease agreements that have been signed or may be signed between the Seller and the Buyer and between the Seller and Hyper Lod, and which will come into force on the date of closing as stated in sub-clause 9.1 below.
- 6.3 If the consent of third parties is required for the transfer of the Property Sold and/or any part thereof, then the Seller undertakes to act diligently and continuously in order to obtain the consent of such third parties, until the aforesaid consents are obtained and transfer of the Property Sold to the Buyer is completed, and the Seller declares and undertakes that there is no impediment to obtaining all the consents that are required from third parties for purposes of transferring the Property Sold to the Buyer. In a situation in which consent of any third party is required for the transfer of a right or obligation being transferred and such consent has not been obtained (hereinafter: **“Property the Transfer of which Requires Consent”**) the Seller will continue performing the contractual arrangement in trust for the Buyer until the transfer is completed, including on a basis that the income and expenditure in respect of the Property the Transfer of which Requires Consent will be attributed to the Buyer, so that receipts that are received by the Seller in respect of such properties will be transferred to the Buyer, while expenses in respect of such properties will be paid by the Buyer. It is agreed that in a case in which it becomes apparent that notwithstanding the Seller’s representation as set forth above in this sub-clause, there is an impediment to obtaining the consent of any third party, the provisions of sub-clause 10.2 of this Agreement will apply to the matter.
- 6.4 It is agreed that consent fees and/or capitalization fees to the Israel Lands Administration and/or to the Tel Aviv Municipality, to the extent that same apply, and in respect of which a deduction was made from the value of the Real Estate Properties and/or the Shares Transferred in the scope of assessing the value that was made for purposes of the transaction that is the subject matter of this Agreement, shall be borne and paid by the Buyer. If it should transpire that in respect of any of the Real Estate Properties and/or the holding companies’ assets capitalization fees and/or consent fees to the Israel Lands Administration and/or to the Tel Aviv Municipality apply, the payment of which is required for purposes of transferring the rights in the Property Sold into the name of the Buyer, and which were not deducted in the scope of the assessments of value referred to above, then such payment shall be borne and paid by the Seller.

- 6.5 It is agreed between the parties that payments and/or expenses that may be demanded for purposes of repairing defects and/or faults and/or the existing damage in the structural frame of the building in Kfar Saba shall be borne by the Seller and the Buyer in equal shares.
7. **Registration of the rights in the Buyer’s name**
- 7.1 The parties will act in cooperation until completion of registration in the name of the Buyer of the transfer of the Seller’s rights in the Real Estate Properties and in the Shares Transferred, which shall include the parties signing any deed and/or application and/or any other document that may be required for purposes of completing the registration as aforesaid. Included in the foregoing, the Seller undertakes to furnish any document required from the Seller and to take any action (including legal proceedings) that may be required from the Seller and to bear all the expenses connected with furnishing of documents and/or taking of actions as aforesaid, in order to facilitate execution of the registration as aforesaid. It is agreed that the Buyer shall bear all the costs and fees connected with registration of the rights in the Buyer’s name.
- 7.2 Commencing from the date of closing, the Buyer will be entitled to register a *caveat* in its favor in the Land Registry with respect to the Real Estate Properties, to the extent that this is possible. It is further agreed, that in relation to properties in respect of which it is not possible to register a *caveat* as aforesaid, the Buyer will be entitled, after the date of closing, and to the extent that this is possible, to register a pledge in its favor over the Seller’s contractual rights, which shall remain in force until completion of registration of the rights in the Buyer’s name.
- 7.3 It is agreed that if attachments and/or encumbrances exist and/or are imposed on any of the Real Estate Properties and/or the Shares Transferred the origin of which is connected with the Seller, apart from the encumbrances for securing the liabilities transfers that are mentioned in Clause 3.4 above, the Seller undertakes to take steps for the removal of such attachments and/or encumbrances, including in a manner that will facilitate completion of registration of the transfer of rights from the Seller to the Buyer.
8. **Transfer without consideration**
- Since the total Financial Liabilities being transferred to the Buyer are to an extent equal to the value of the assets being transferred, the transfer of the Property Sold to the Buyer (including the transfer of the liabilities transferred) shall be without consideration.

9. **The closing**

- 9.1 Within 14 days from the date on which the Conditions Precedent are fulfilled (hereinbefore and hereinafter: “**the Date of Closing**”), after the parties have verified that all the Conditions Precedent have been fulfilled to their satisfaction, the parties shall perform all the following acts at one and the same time and will complete the transaction that is the subject matter of this Agreement, with effect from the effective date, as follows:
- 9.1.1 Possession of the properties transferred shall be delivered by the Seller to the Buyer (subject to the lease agreements mentioned in sub-clause 6.2 above).
- 9.1.2 The Seller and the Buyer shall sign a share transfer deed in respect of the Shares Transferred.
- 9.1.3 The Seller’s rights arising from the shareholders loans that were provided by the Seller to the holding company shall be assigned to the Buyer.
- 9.1.4 The Seller shall lodge with the Buyer an irrevocable notarial power of attorney in two copies in favor of the Buyer, which enables the Buyer to perform any act in connection with the Real Estate Properties and/or the Property Sold, including the transfer of rights in the Real Estate Properties and the Shares Transferred into the name of the Buyer.
- 9.1.5 The lease agreement between the Seller and the Buyer in relation to the Properties forming part of the Real Estate Properties that will be let to the Seller by the Buyer as stated in sub-clause 6.2.2 above shall come into force.
- 9.1.6 The lease agreement between Hyper Lod and the Seller in relation to Property No. 7 will be cancelled, and the new lease agreement between the Seller and Hyper Lod Center (as referred to in sub-clause 6.2.2 above) shall come into force.
- 9.1.7 The parties shall sign all the documents required for purposes of the transfer / assignment of the liabilities being transferred to the Buyer, in accordance with the terms and conditions of this Agreement.
- 9.1.8 The parties shall sign any document and shall perform any act that may be required for purposes of completing the transaction that is the subject matter of this Agreement.

10. **Liability and indemnity**

- 10.1 All responsibility and/or liability according to law and/or agreement *vis-à-vis* any person and/or any body (including authorities and/or other third parties) in connection with the use of the Real Estate Properties and/or the Holding Companies’ assets and/or the Property Sold and/or acts or omissions in connection with the Real Estate Properties and/or the Holding Companies’ assets and/or the Property Sold, the origin and/or the cause of action and/or the facts which found same pertain to the period prior to the effective date or relate to the aforesaid period (whether or not legal proceedings were instituted in respect thereof as at the date of signing of this Agreement, including as described in the representations to this Agreement) shall be borne by the Seller to the exclusion of responsibility for the Buyer. The Seller shall indemnify the Buyer in respect of any damage or expense that may be incurred by it, as a result of a claim or demand in connection with the Property Sold and the responsibility for which is imposed on the Seller in accordance with the foregoing in this clause, provided that the Buyer has notified the Seller about any demand and/or claim which was instituted or made against it in connection therewith, within a reasonable period of time from the date of receipt thereof, and has enabled the Seller to defend such demand or claim. It is further agreed that the Buyer will not be entitled to make a compromise in connection with any such demand or claim, except subject to receiving the Seller’s prior written consent.
- 10.2 Without derogating from the provisions of Clause 10.1 above, it is agreed that if during a period of 24 months commencing from the Date of Closing, it transpires that any of the Seller’s representations in Clause 3 above is incorrect and/or inaccurate (hereinafter: **“Non-Conformity”**), on a basis that had it been aware of the aforesaid Non-Conformity at the time of signing of this Agreement, this would have had the effect of reducing the value of any of the Real Estate Properties and/or the Shares Transferred as same were valued in the appraisals of value that were done immediately prior to the signing of this Agreement (hereinafter: **“the Appraisals of Value”**), then and in that event, without derogating from any remedy available to the Buyer according to any law, the Seller undertakes to indemnify the Buyer in respect of the difference (in nominal values) between the value of the Real Estate Properties and/or the Shares Transferred, as the case may be, which was fixed for purposes of this Agreement as stated in the **Appendix G** to this Agreement, and the value of the Real Estate Properties and/or the Shares Transferred (as the case may be) as at the date of the Appraisals of Value, had the Non-Conformity been known at the time of the Appraisals of Value.

For the removal of doubt it is clarified that the indemnity arrangement set forth in this sub-clause above does not derogate from any other remedy available to the Buyer according to any law in respect of the incorrectness of any of the Seller’s representations, with it being clarified that the incorrectness of a representation in relation to a particular property shall not constitute a breach of this Agreement as a whole. It is further clarified, for the removal of doubt, that the existence of the Non-Conformity as also the question of entitlement to indemnity and the amount thereof will be fixed by an arbitrator in accordance with the mechanism described in Clause 12 below.

- 10.3 It is further agreed, without derogating from the provisions of sub-clauses 10.1-10.2 above, that since for purposes of drawing up the appraisals of value for purposes of the transaction that is the subject matter of this Agreement, data and/or information and/or documents were delivered by the Seller to the appraiser, O. Haushner Civil Engineering and Real Estate Appraisal Ltd. and/or Haushner & Co. and/or Oded Haushner (hereinafter: **“the Appraiser”**), and since the Buyer undertook to indemnify the Appraiser in respect of a claim in connection with the opinion resulting from data that was supplied to the Appraiser and which turn out to be incorrect and/or materially inaccurate, the Seller undertakes that if the Buyer is called upon to pay the Appraiser any amount by virtue of the aforesaid undertaking for indemnity, the Seller will then indemnify the Buyer, on a back-to-back basis, in respect of any such payment.
- 10.4 Commencing from the effective date the Buyer will own all the rights and obligations in respect of the property sold and will bear all responsibility and/or liability to any person and/or body, including to various administrative authorities, in connection with the property sold, the origin of which and/or the cause of action and/or the facts which serve as a basis for them pertain to any date subsequent to the effective date – will be borne by the Buyer alone. The Buyer will indemnify the Seller in respect of any damage or expense that it may incur, as a result of a claim or demand in connection with the property sold the responsibility for which is imposed on the Buyer in accordance with the foregoing, provided that such indemnity shall be given subject to the condition that the Seller has notified the Buyer about any amount and/or claim that was instituted or made against it in connection therewith, within a reasonable period of time from the time of receipt thereof, and has enabled the Buyer to defend against it. It is further agreed that the Seller will not be entitled to make a compromise in connection with any such demand or claim, except subject to receiving the Buyer’s prior written consent.
11. **Taxes**
- 11.1 The parties are aware that a request has been made to the tax authorities in connection with the implementation of the transaction that is the subject matter of this Agreement for obtaining an approval from the tax authorities to the effect that the property sold will be transferred from the Seller to the Buyer in accordance with Section 105I of the Income Tax Ordinance, and on conditions that will be specified in the aforesaid approval of the tax authorities. The parties agree that with regard to tax payments the following provisions will apply between them:

- 11.2 The Seller shall bear the payment of any tax or levy, if and to the extent that same apply to it, in its capacity as seller of the Property Sold, by virtue of the provisions of any law in respect of any transfer of a right in the Real Estate that is the subject matter of this Agreement (except consent fees and/or capitalization fees which are imposed on the Buyer in accordance with the provisions of sub-clause 6.4 above). In addition, it is agreed by the parties that the Seller will bear a betterment levy as referred to in sub-clause 11.5 below (subject to the contents of sub-clause 11.6 below).
- 11.3 The Buyer shall bear the payment of Land Acquisition Tax (at a rate of 0.5%) and the payment of any tax or levy, if and to the extent that same is imposed on it, in its capacity as purchaser of the property sold, by virtue of provisions of any law in respect of any acquisition of a right in the Real Estate that is the subject matter of this Agreement.
- 11.4 All the taxes, rates, fees, levies, and current payments which applied and/or apply and exist and/or which may apply in connection with the Real Estate Properties and/or the Holding Companies' assets, whether or not the payment thereof has been demanded, including debts to property tax, if any, in relation to any period up to the effective date, shall be borne by the Seller, and from the effective date onwards the payments mentioned in this clause shall be borne by the Buyer.
- 11.5 A betterment levy which applies and/or which may apply in respect of a plan (including a concession, permit for exceptional use and so forth) which was approved in relation to any of the Real Estate Properties and/or the Holding Companies' assets before December 31, 2008, shall be borne and paid by the Seller. A betterment levy which applies and/or which may apply in respect of a plan (including a concession, permit for exceptional use and so forth) which was approved in relation to any of the Real Estate Properties and/or the Holding Companies' assets after December 31, 2008, shall be borne by the Buyer.
- 11.6 Notwithstanding the contents of sub-clauses 11.4-11.5 above, it is agreed that betterment levies and past fees levies in respect of which a deduction was made from the value of the Real Estate Properties and/or the Shares Transferred in the framework of the appraisals of value – shall be borne and paid by the Buyer.

- 11.7 It is agreed between the parties that in connection with (1) Land Appreciation Tax and/or capital gains tax payments in respect of the difference between the value of the assets being transferred to the Buyer and the value of the assets that are being transferred for tax purposes, as at the effective date, which shall be borne by the Buyer at the time of the sale and/or realization of any of the transferred assets and (2) the depreciation element in respect of the difference between the value of the assets being transferred to the Buyer and the value of the assets being transferred for tax purposes as at the effective date – the compensation and indemnity mechanism described in **Appendix H** to this Agreement (which shall be signed and attached to this Agreement after receipt of the approval of the tax authorities) will apply between the parties in a manner that will place the Buyer in the same position with regard to the abovementioned elements as the position in which it would have been had the fair value of the Properties Transferred been recognized as cost for tax purposes in the case of the Buyer.
12. **Arbitration**
- 12.1 Any differences of opinion that may arise between the parties, *inter alia* in connection with and/or relating to this Agreement and/or in connection with any of the provisions hereof and/or in connection with the performance and/or the breach hereof, if any, shall be referred for the decision of an arbitrator who shall be appointed by the parties by consensus agreement and in the absence of agreement, the arbitrator will be appointed by the legal advisor of Blue Square Israel Ltd.
- 12.2 The arbitrator shall adjudicate on the aforesaid differences of opinion or any of them after having been requested to do so by way of written notice signed by either of the parties to this Agreement.
- 12.3 The arbitrator will be bound by the substantive law, but will not be bound by the rules of evidence and of procedure.
- 12.4 This clause constitutes a valid arbitration agreement within the meaning thereof in the Arbitration Law, 5728-1968.
13. **Miscellaneous**
- 13.1 This Agreement does not constitute an agreement in favor of a third party.
- 13.2 The expenses of the transaction that is the subject matter of this Agreement shall be borne by the Seller and the Buyer in equal shares, with it being agreed that the Buyer will bear the fees of the appraiser and in addition will bear part of the total other expenses of the transaction (in respect of attorney's fees, payments to consultants and so forth) so that the aggregate amount of the expenses of the transaction that will be paid by the Buyer (in respect of the appraiser's fees and in respect of the other expenses) will stand at one-half of the total expenses of the transaction that is the subject of this Agreement.

- 13.3 No alteration, amendment and/or addition to this Agreement will be of any validity and same will be deemed not to have been made, unless drawn up in writing and signed by all the parties to this Contract.
- 13.4 The parties mutually agree to sign any deed and document and to furnish any certificate and document that is required for purposes of the actual implementation of the transaction according to this Agreement. For the removal of doubt it is clarified that the parties will be entitled to extend the validity of any period specified in this Agreement.
- 13.5 The parties shall render reports according to law to the competent authorities in connection with this transaction and the implementation hereof, to whatever extent may be required by law.

In witness whereof the parties have hereunto signed:

/s/ David Wiessman, Ilan Kliger
Blue Square Chain Properties
& Investments Ltd.

/s/ David Wiessman, Zeev Stein
Blue Square Real Estate Ltd.

Addendum No. 1 to Agreement dated March 31, 2009

made and entered into at Tel Aviv on the 13th day of September 2009

Between: **MEGA RETAIL LTD.**
(formerly Blue Square Chain Properties & Investments Ltd.)
Publ. Co. 520036187
whose address is 2 Amal Street, Afek Industrial Zone, Rosh Ha'ayin

(hereinafter: "the Seller")

of the first part;

And: **BLUE SQUARE REAL ESTATE LTD.**
Pvte. Co. 513765859
whose address is 2 Haamal Street, Park Afek, Rosh Ha'ayin

(hereinafter: "the Buyer")

of the second part;

And: **BLUE SQUARE - ISRAEL LTD.**
Publ. Co. 520042847
whose address is 2 Haamal Street, Park Afek, Rosh Ha'ayin

(hereinafter: "Ribua Israel")

of the third part;

WHEREAS: On March 31, 2009 a Spin-Off Agreement was signed between the Buyer and the Seller in accordance with Section 105I of the Income Tax Ordinance (hereinafter: **"the Agreement"**); and

WHEREAS: The parties wish to make certain amendments to the Agreement, *inter alia* in accordance with an approval from the tax authorities as has been received by the parties, all in accordance with and subject to the contents of this Addendum below;

Now therefore it is declared, stipulated and agreed by the parties as follows:

1. The preamble to this Addendum constitutes an integral part hereof. All the terms and expressions in this Addendum will have the same meaning ascribed to them in the Agreement, unless otherwise expressly defined in this Addendum.
2. In Clause 2.3 of the Agreement, the passage starting with the words: "The balance of Financial Liabilities as at the effective date" and ending at the end of the clause shall be deleted and in place thereof the following shall be inserted: "The balance of the financial liabilities as at the effective date shall stand at a sum equivalent to NIS 390 million (hereinafter: **"Amount of the Financial Liabilities"**)".

3. Clause 2.6 will be added to the Agreement in the following text:
- “2.6 **“Value of the properties transferred”** – the value of the Real Estate Properties and the Shares Transferred as mentioned in **Appendix A** to this Agreement, plus a sum equivalent to the balance of the shareholders loans which were provided by the Seller to the Holding Companies, as same are reflected in the financial statements of the Holding Companies as at the effective date, and plus or minus (as the case may be) the increase or decrease, respectively, in the Seller’s *pro rata* share (according to its percentage holdings in the Holding Company) of the difference between the total assets of each of the Holding Companies (excluding the Real Estate Properties) as at the effective date, and the total liabilities of each of the Holding Companies as at the effective date, as against the difference set forth in **Appendix C** to this Agreement”.
4. Clause 3.3 of the Agreement shall be replaced by the following text: “Except the assets listed alongside each company in **Appendix A** to this Agreement (hereinafter: **“Holding Companies’ Assets”**) and the liabilities mentioned in the financial statements attached to this Agreement as **Appendix E**, the Holding Companies do not have any additional material assets or liabilities”.
5. In Clause 6.1 of the Agreement, after the words “at the date of closing, as defined below”, the following words shall be added: “and against effecting of payment of the difference in the consideration as stated in Clause 8.2 below”.
6. In Clause 6.1 of the Agreement, the second paragraph and the third paragraph shall be deleted, and in their stead the following shall be inserted:
- “Notwithstanding the foregoing, it is agreed that within 7 days from the date of closing, the parties will conduct an accounting in regard to the financial costs in respect of “the financial liabilities” and in respect of “the difference in the consideration”, for the period from the effective date until the date of closing (hereinafter: **“the Interim Period”**), in a manner whereby the Seller shall bear *vis-à-vis* the bank/the financial entity which finances the financial costs that apply to the total financial liabilities in respect of Interim Period, and the Buyer will bear the financial costs that would have applied to the Buyer in respect of the Interim Period had the transaction been implemented on the effective date. In addition the parties shall within 7 days from the date of closing conduct an accounting in regard to the rentals pursuant to the lease agreements mentioned in Clause 6.2 below in respect of the Interim Period, in a manner whereby the Seller will pay the Buyer the rentals to which the Buyer is entitled in respect of the Interim Period plus “on-call” interest for the Interim Period, which is variable interest at a rate equivalent to the interest **which was paid by Blue Square Israel Ltd. in the Interim Period in respect of “on-call credit”**”.

7. Clause 8 of the Agreement shall be replaced by the following text:
- “8. **Consideration:**
- 8.1 As consideration for the Property Sold, Ribua Israel which is the sole shareholder in the Seller, is entitled to receive an allotment on the date of closing of ordinary shares of NIS 1 par value each of the Buyer (hereinafter: **“the Consideration Shares”**) to the value of the difference between “the value of the properties transferred” (as defined above) and “the amount of the financial liabilities” (as defined above) (hereinafter: **“the Difference in the Consideration”**), where in relation to the Consideration Shares, Ribua Israel will be entitled to compel the Buyer to purchase the Consideration Shares from it against payment in cash of a sum equivalent to the Difference in the Consideration (hereinafter: **“the Put Option”**).
- 8.2 Upon the signing of this Agreement, Ribua Israel hereby notifies the Buyer unconditionally and irrevocably that had the Consideration Shares as referred to sub-clause 8.1 above been allotted to it, Ribua Israel would have exercised the Put Option **immediately** after the allotment of the Consideration Shares. In light of the foregoing and in accordance with the conditions of the approval from the tax authorities, it is hereby agreed that the Consideration Shares will not be allotted to Ribua Israel, and that in lieu of the Consideration Shares, the Buyer shall pay Ribua Israel an amount in cash equivalent to the Difference in the Consideration on the Date of Closing.
- 8.3 The parties declare that no consideration has passed and/or will pass between them within the framework of the Spin-Off, except payment of the Difference in the Consideration as described above”.
8. In Clause 9 of the Agreement sub-clause 9.1.9 in the following text will be added: “The Difference in the Consideration, as mentioned in Clause 8.1 above, shall be paid to Ribua Israel by the Buyer”.
9. In Clause 11 of the Agreement sub-clause 11.8 shall be added in the following text: “For the removal of doubt, it is agreed that in a case in which, for any reason, any of the conditions and/or restrictions specified in the approval of the tax authorities are not complied with and/or if the approval is cancelled, this will not have the effect of derogating from the validity of the transaction that is the subject matter of this Agreement, and the provisions of this Clause 11 above will apply as between the parties in relation to the taxes in respect of the transaction, where in relation to Land Acquisition Tax it is agreed that if the rate of Land Acquisition Tax should exceed 0.5%, then the Seller and the Buyer will bear the surplus Land Acquisition Tax (above 0.5%) as may be imposed in practice, in equal shares”.

10.

In every case of a conflict or non-conformity as between the clauses and provisions of this Addendum and the clauses and provisions of the Agreement, the provisions of this Addendum shall prevail.
11.

Apart from provisions and clauses of the Agreement which have been expressly altered in this Addendum, all the remaining provisions of the Agreement shall apply in full and shall continue to bind the parties in all respects.

In witness whereof the parties have hereunto signed:

/s/ David Weissman, Zeev Stein

Blue Square Real Estate Ltd.

/s/ David Weissman, Zeev Vurembrand

Mega Retail Ltd.

/s/ David Weissman, Zeev Vurembrand

Blue Square - Israel Ltd.

[Unofficial Translation]

DEED OF TRUST

made and entered into at Tel Aviv on the 19th day of May 2009

Between:

BLUE SQUARE REAL ESTATE LTD.
of 2 Ha'amal Street, Rosh Ha'ayin
Telephone: 03-9282670/1
Fax: 03-9282498
(hereinafter: "the Company")

of the one part;

And:

HERMETIC TRUST (1975) LTD.
of 113 Hayarkon Street, Tel Aviv
Telephone: 03-5272272
Fax: 03-5271736
(hereinafter: "the Trustee")

of the other part;

WHEREAS:

The board of directors of the Company decided on May 18, 2009 to offer the public, by way of a shelf prospectus which the Company will publish in May 2009 (hereinafter: "the Prospectus" or "the Shelf Prospectus"), a series of Debentures (Series C) having an overall par value of up to NIS 500,000,000, a series of Debentures (Series D) having an overall par value of up to NIS 500,000,000 a series of Debentures (Series E) having an overall par value of up to NIS 500,000,000, a series of Debentures (Series F) having an overall par value of up to NIS 500,000,000, a series of Debentures (Series G) having an overall par value of up to NIS 500,000,000 convertible into ordinary shares of the Company, a series of Debentures (Series H) having an overall par value of up to NIS 500,000,000 convertible into ordinary shares of the Company, all in the manner and on the conditions that will be stipulated in this Deed of Trust; and

WHEREAS:

The Trustee is a company limited by shares which was incorporated in Israel in February 1995 in accordance with the Companies Ordinance, whose main object is to engage in trusteeships; and

WHEREAS:

The Trustee has declared that there is no bar or impediment under the Securities Law, 5728-1968, or any other law, to its entering into this Deed of Trust with the Company and that it complies with the qualification requirements and conditions prescribed in the Securities Law to serve as a trustee for the issue of the Debentures that are the subject matter of the Prospectus; and

WHEREAS: The Company has made a request to the Trustee to serve as trustee for the holders of the Debentures (Series C-H), and the Trustee has agreed thereto, all subject to and in accordance with the terms and conditions of this Deed of Trust;

Now therefore it is agreed, declared and stipulated between the parties as follows:

1. Preamble, interpretation and the definitions

- 1.1

The preamble to this Deed of Trust and the appendices attached hereto form a fundamental and integral part hereof.
- 1.2

The division of this Deed of Trust into clauses and the insertion of headings to the clauses has been done for the sake of caution and as place-finders only, and no use shall be made thereof for purposes of interpretation.
- 1.3

Everything stated in this clause in the plural shall also include the singular and *vice versa*, and everything in the masculine gender shall also include the feminine, and *vice versa*, and anything relating to a person shall also include a body corporate, wherever there is no express and/or implied provision to the contrary in this Deed and/or unless the content and the context otherwise dictates.
- 1.4

In this Deed of Trust and in the Debentures (Series C to H) the following expressions will have the meanings set opposite them, unless a different meaning is to be inferred from the content or the context:

“This Deed” or “the Deed of Trust”	This Deed of Trust including the appendices attached hereto which form an integral part hereof;
“The Offering Report” or “the Shelf Offering report”	As defined in Paragraph 2.1 of the Prospectus;
“The Prospectus”	A shelf prospectus the Company will publish in May 2009, <i>inter alia</i> in respect of the issue of the Debentures (Series C-H);
“The Debentures”	The Debentures (Series C-H) of the Company, which will be issued in accordance with the Prospectus and which are in circulation at the time in question;
“The Trustee”	Hermetic Trust (1975) Ltd. and/or whoever serves from time to time as trustee for the holders of the Debentures in accordance with this Deed;

“Register”	A register of holders of the Debentures of each of the series C-H as stated in the First Schedule to this Deed;
“Debenture holders” and/or “holders of the Debentures”	The persons whose names are registered for the time being in the register of holders of the Debentures of each of the series C to H and in the case of several joint holders, the joint holder whose name stands first in the register;
“Debenture certificate”	In respect of each of the aforesaid series of Debentures – a debenture certificate the wording of which appears in the First Schedule to this Deed;
“The Law” or “the Securities Law”	The Securities Law, 5728-1968 and the regulations pursuant thereto, as in force from time to time;
“Principal”	The par value of the Debentures of the relevant series that are in circulation, which has not yet been repaid;
“Trading day”	A day on which the banks in Israel are open for the execution of transactions;
“The Stock Exchange”	The Tel Aviv Stock Exchange Ltd.;
“Business day” or “banking business day”	Any day on which most of the banks in Israel are open for the execution of transactions with the public;
“The Offering Report”	A shelf offering report that will be prepared and published in accordance with the provisions of Section 23A(f) of the Securities Law, 5728-1968, in which all the special conditions for the offer of each of the series of the Debentures offered pursuant to the Prospectus will be completed, including the composition of the units offered, in accordance with the provisions of any law and in conformity with the regulations and directives of the Stock Exchange, as in force for the time being;
“The Nominee Company”	Bank Hapoalim Nominee Company Ltd.;
“The Stock Exchange Clearing House”	The Tel Aviv Stock Exchange Clearing House Ltd.

2. **Issue of the Debentures and applicability of the Deed of Trust**

The Company will issue shares in accordance with the Prospectus as follows:

- 2.1 Up to four series of registered Debentures (Series C to F), where of each of the series of Debentures will have an overall par value of up to NIS 500,000,000, repayable (principal) in a number of installments which shall not be less than one and not more than fifteen (15) annual installments, or which shall not be less than one installment and shall not exceed thirty (30) half-yearly installments, payable at the times as set forth in the Offering Report, as will be described in the Offering Report, pursuant to which each of the aforesaid series will first be offered; the indexation basis (or absence of indexation) and the type of interest the principal amount of Debentures of each of the aforesaid series that will be issued will bear shall be specified in the Offering Report pursuant to which each of the aforesaid series is first issued. The rate of interest the principal amount of the Debentures of each of the aforesaid series that will be issued in accordance with the Prospectus will bear, or the margin above or below the base interest the principal amount of the Debentures of each of the aforesaid Debentures will bear, as the case may be, will be specified in the Offering Report or will be fixed in a tender pursuant to which the initial offering of the Debentures of that series will be made. The interest in respect of the Debentures of each of the aforesaid series will be payable each year in one annual payment or in two half-yearly payments or in four quarterly payments, as will be specified in the Offering Report pursuant to which each of the aforesaid series is initially offered. The dates and number of repayments of principal, the indexation basis (or absence of indexation), the type of interest, the rate of interest or the manner for fixing it and the times for payment of interest on the Debentures of each of the aforesaid series, will be fixed by the Company immediately prior to the initial offering of the Debentures of the relevant series.
- 2.2 Up to two series of registered convertible Debentures (Series G to H), where each of the series of Debentures will have an overall par value of NIS 500,000,000, repayable (principal) in a number of payments which shall not be less than one payment and shall not exceed thirty (30) half-yearly payments, payable at the times as set forth in the Offering Report, all as will be described in the Offering Report, pursuant to which each of the aforesaid series will be initially offered (“**the Convertible Debentures**”); the indexation basis (or absence of indexation) and the type of interest the principal of each of the series of Convertible Debentures that will be issued will bear shall be specified in the Offering Report pursuant to which each of the series of Convertible Debentures of is initially offered; the rate of interest the principal each of the series of Convertible Debentures that will be issued in accordance with the Prospectus will bear, or the margin above or below the base interest the principal of the Debentures of each of the aforesaid series will bear, as the case may be, will be specified in the Offering Report or will be fixed in a tender pursuant to which the initial offering of the Debentures of that series will be made; the interest in respect of the Debentures of each of the aforesaid series will be paid each year in one annual payment or in two half-yearly payments or in four quarterly payments, as will be described in the Offering Report pursuant to which each of the aforesaid series is initially offered. The times and number of repayments of principal, indexation basis (or absence of indexation), the type of interest, the rate of interest or the manner for fixing it and the times for payment of interest on the Debentures of each of the aforesaid series, will be decided by the Company immediately prior to the initial offering of Debentures of the relevant series, as will be specified in the Offering Report pursuant to which each such series is initially offered (“**the Initial Offering of the Convertible Debentures**”); the Convertible Debentures of each of the series will be convertible into ordinary shares of NIS 1 par value each of the Company, on any trading day commencing from the date of their listing for trading on the Stock Exchange and up to a number of days before the end of the period of the Debentures of that series, save and except a number of days prior to the effective date for partial redemption in accordance with the directives of the Stock Exchange and up to the date on which the partial redemption is effected, with this being at a conversion rate that will be fixed in the shelf offering report, subject to adjustments as stated in Paragraph 2.12.2.6B of the Prospectus, in such manner and on such conditions as will be set forth in the first Offering Report of Convertible Debentures of that series, in accordance with the fixing of such details by the Company immediately prior to the Initial Offering of the Convertible Debentures of the relevant series.

Upon the first issue to the public of Debentures of any of the abovementioned series (Series C to H), the Company will issue the appropriate debenture certificate (including the conditions recorded on the reverse side thereof) in accordance with the appropriate wording which is attached as a first schedule to this Deed, in which all the particulars relevant to the Debentures of that series are completed.

The provisions of this Deed of Trust will apply to the Debentures that will be issued as aforesaid in accordance with the Prospectus and which will be held from time to time by the public, unless otherwise stated. For purposes of this Deed of Trust, “public” means – any person who holds a debenture (of Series C to H).

3. Conditions of the issue; purchase by the Company and additional issues

- 3.1 The Company will issue the Debentures under the conditions as set forth in the Prospectus, in the Offering Report and in the Debentures. The Company will be entitled to issue additional series of debentures of different classes, whether same rank prior to the conditions of the Debentures pursuant to the Prospectus, are equal or inferior thereto.

- 3.2 The Company reserves the right to buy debentures of this issue on the open market at any time, whether on or off the Stock Exchange, at any price it may deem fit, without prejudicing the obligation for repayment as described above. In the case of such purchase by the Company, the Company will give notice to that effect in an immediate report, a copy of which shall be delivered to the Trustee. The debentures that will be bought by the Company will be cancelled and will be expunged from trading on the Stock Exchange, and the Company will not be entitled to reissue same.

3.3 A company under the control of the Company, the controlling shareholders in the Company and/or companies under the control of the controlling shareholders in the Company (hereinafter: **“Related Holders”**) are entitled at any time to buy and/or sell Debentures at any price they may deem fit, and to sell same accordingly. In the case of a purchase and/or sale as aforesaid, the Company shall deliver an immediate report/notice to that effect to the Trustee, upon it becoming aware of the fact. The Debentures which are held as aforesaid by a Related Holder will be deemed to be an asset of the Related Holder, and will not be expunged from trading on the Stock Exchange. Debentures which are held as aforesaid will not confer voting rights at meetings of debenture holders and will not be taken into account for purposes of determining the presence of a quorum at such meetings.

At the time a meeting of debenture holders is held, the Trustee shall examine the existence of conflicting interests of holders of debenture certificates generally, according to the circumstances of the case. The Company and the Trustee will take steps to convene class meetings of debenture holders in accordance with the provisions of any law, decided cases, provisions of the Securities Law and the regulations and directives that have been issued pursuant thereto, as the Trustee shall direct. There is a presumption that Related Holders have conflicting interests. In the case in which any of the Related Holders holds Debentures of any series, there will be a necessity for class meetings of debenture holders in a manner whereby one of the classes of meetings will be a group that does not include Related Holders.

The Trustee may, in its sole discretion, determine that a resolution requiring approval of debenture holders of any series does not require a meeting of a particular class (including the Trustee being entitled to decide that it does not require the convening of a meeting of Related Holders) or that such meeting will not be called.

3.4 The Company may at any time, subject to any law, including in a period up to the date of final redemption of the Debentures of a particular series, issue additional Debentures of the same series (whether by way of a private placement, or in the framework of a prospectus or pursuant to a shelf offering report) at such price and in such manner as the Company shall deem fit, including a different discount rate or premium than other issues made of the same series, provided that it gives notice to that effect to the debenture holders and to the Trustee of such series. The Debentures which will be issued in the first offering of the Debentures of that series pursuant to the Prospectus and additional Debentures of the same series that will be issued (if any) pursuant to this clause will (from the time of their issue) constitute one series for all intents and purposes, and the Deed of Trust for that series will also apply with respect to additional Debentures as aforesaid that may be issued by the Company. In the case of an increase of a series of Debentures forming part of Series C to H, the Trustee will have the right to demand an increase in its remuneration proportionate to 50% of the extent of the enlarged series, and by contracting under this Deed the Company gives its consent in advance to an increase in the Trustee’s remuneration as aforesaid. The Company will apply to the Stock Exchange requesting to list the additional debentures for trading on the Stock Exchange.

3.5 The Company may at any time, without requiring the consent of the Trustee and/or the consent of the debenture holders, issue additional series of Debentures, whether same confer a right of conversion into shares of the Company or do not confer such right, and on such conditions with regard to redemption, interest, indexation, ranking for repayment in the event of a winding-up and other conditions as the Company shall deem fit, whether such conditions are more favorable than the conditions of the Debentures offered pursuant to this Prospectus, equal or inferior thereto. This right which the Company has does not exempt the Trustee from examining such issue, wherever such obligation is imposed by law on the Trustee, and it does not derogate from the rights of the Trustee and of a meeting of debenture holders pursuant to this Deed, including their right to make the Debentures immediately due and payable as stated in Clause 7.2 or 7.3 below.

The Company will notify the Trustee, and the Trustee will notify the debenture holders, about the issue of such Debentures.

It is clarified that if at the time of a shelf offering report the Trustee serves as a trustee for an additional series Debentures of the Company and/or the shelf offering report relates to more than one series of Debentures, the possibility of the Trustee serving as a trustee for the additional series of Debentures, or any of them, will be examined both by the Company and by the Trustee, and subject to the directive of the Securities Authority and/or the law which applies at such time. If a different trustee is appointed for any of series of Debentures as a result of the foregoing, the particulars of such trustee will be described in the framework of the relevant offering report.

3.6 Nothing contained in this clause above shall in itself oblige the Company or the debenture holders to buy Debentures or to sell the Debentures held by them.

3.7 The Company reserves the right to make early repayment of the Debentures upon the fulfillment of the conditions set forth in Clause 6 of this Deed.

4. **The Company’s obligations**

The Company hereby undertakes to pay all amounts of principal, interest and indexation differences that will be payable pursuant to the terms and conditions of the Debentures, and to comply with all the remaining conditions and obligations imposed on it in accordance with the conditions of the Debentures and pursuant to this Deed.

5. **Securing of the Debentures**

5.1 The Debentures that will be offered pursuant to the shelf offering reports in the framework of the Prospectus may be and may not be secured by any encumbrance. In a case in which the Debentures are secured by any collateral, the Trustee’s remuneration will be increased in accordance with the provisions of Clause 3.4 above.

The Company reserves the right to create collateral security in favor of holders of the Debentures that may be issued in accordance with the Shelf Prospectus. Details about the mechanism for securing the Debentures that will be issued in accordance with the Shelf Prospectus, to the extent that they are secured by collateral, will be outlined in the framework of the relevant shelf offering report, and the conditions for the amendment to the Deed of Trust that is required by virtue of the addition of collateral security as aforesaid will be such that shall be agreed in advance with the Trustee.

For the avoidance of doubt it is clarified that there shall be no obligation on the Trustee to examine, and at the date of issue of a series from the shelf the Trustee has in practice not examined and will not examine, the necessity for providing collateral security to secure the payments to the debenture holders, and the Trustee will not examine the economic value of the collateral security that will be provided (if any) to secure the payment to the debenture holders. Likewise the Trustee will not be required to carry out, and in practice the Trustee has not carried out, a financial, accounting or legal due diligence examination regarding the state of the business of the Company and/or the subsidiaries, and will not carry out such examination at the time of issue of a series from the shelf. By entering into this Deed of Trust, and by it agreeing to serve as trustee for the debenture holders, the Trustee is not expressing its opinion, whether expressly or impliedly, with regard to the Company’s ability to meet its obligations to the debenture holders. Nothing in the foregoing shall derogate from the duties and obligations of the Trustee according to law and/or under the Deed of Trust, including there being nothing which derogates from the Trustee’s obligation (to the extent that such obligation applies to the Trustee according to any law) to examine the effect of changes in the Company from the date of the Prospectus onwards, where such changes could adversely affect the Company’s ability to meet its obligations to the debenture holders. Nothing in the foregoing shall derogate from the duties and obligations of the Trustee according to law and/or according to the Deed of Trust.

5.2 The Company will be entitled to sell, let under leasehold, assign, make over, encumber or otherwise dispose of all and/or part of its assets, in favor of whomever it deems fit, without any limitation, and at any ranking, including for securing series of debentures or other obligations, and without the necessity for the consent of the Trustee or the debenture holders and without it being obliged to notify the Trustee about the creation of such encumbrances.

5.3 The Debentures will rank *pari passu* amongst themselves in connection with the Company’s obligations pursuant to the Debentures of that series, and without one series having a right of priority or preference over another.

6. **Early redemption of the Debentures**

6.1 **Early redemption due to delisting from trading**

After the Debentures have been listed for trading on the Stock Exchange, and if and to the extent that after such listing for trading it is decided by the Stock Exchange on the delisting of the Debentures which are not convertible due to a decline in the value of the series of Debentures below the amounts specified in the Stock Exchange directives or of the delisting of the Convertible Debentures due to a decline in the value of the public’s holdings below the amount specified in the Stock Exchange directives as aforesaid, the Company will be entitled to allow early redemption of the Debentures (Series C to H). Unless the Company gives notice to the contrary in the shelf offering report pursuant to which a particular series of Debentures forming part of the series (C to H) is offered for the first time, the Company will not allow such early redemption of the series due delisting as aforesaid.

If the Company elects to allow redemption of the Debentures of the aforesaid series (C to H), the Company will act as follows:

6.1.1 Within 45 days from the date of the decision by the board of directors of the Stock Exchange, the Company will give notice about the date of early redemption on which the holder of Debentures will be entitled to redeem same. The Company will pay the holder the principal and the interest which has accrued up to the date of actual redemption.

Notice regarding the date of early redemption will be published in an immediate report and also in two widely-circulating Hebrew dailies in Israel and shall be delivered in writing to all the registered debenture holders.

6.1.2 The date of early redemption that will fall with respect to Debentures that are not convertible (Series C to F) not earlier than 17 days from the date of publication of the notice, and with respect to the Convertible Debentures (Series G to H) not earlier than 30 days from the date of publication of the notice, and with respect to all the series of Debentures not later than 45 days from the aforesaid date, but not during the period between the date fixed for payment of interest and the date of actual payment thereof.

6.1.3 At the time of early redemption the Company will redeem the Debentures which the holders thereof have requested to redeem, according to the balance of the par value thereof plus indexation differences and the interest that has accrued on the principal up to the date of actual redemption (calculation of the interest shall be made on a basis of 365 days in the year).

Fixing of a date for early redemption as aforesaid does not prejudice the redemption rights specified in the Debentures or the rights of conversion of the Convertible Debentures, for any of the debenture holders who do not redeem the Debentures at the time of early redemption as aforesaid, but the Debentures will be delisted and the tax implications arising from this will apply to them.

Early redemption of the Debentures as aforesaid will not confer the right to payment of interest in respect of the period subsequent to the date of redemption on any person who held the Debentures that were redeemed as aforesaid.

6.2 **Early redemption on the Company’s initiative**

The Company will be entitled to make the Debentures of any of the Series C to H, which will be offered pursuant to the offering report and in accordance with the Shelf Prospectus subject to early redemption, on such terms and conditions, price, mechanism, timetable and the remaining conditions that are specified in the Stock Exchange directives as in force for the time being, as shall be specified in the first offering report of the Debentures of the relevant series.

7. **Immediate repayment**

- 7.1 On the occurrence of one or more of the events enumerated below:
 - 7.1.1 If the Company does not pay any amount that is due from it in connection with the Debentures within 30 days after the due date for payment thereof has arrived.
 - 7.1.2 If a provisional liquidator has been appointed by a court, or a valid resolution has been passed for the winding-up of the Company (save and except a winging-up for purposes of merging with another company and/or a change in the Company’s structure), and such appointment or such decision has not been set aside within 20 business days from the date on which it was granted.
 - 7.1.3 If an attachment is imposed on material assets of the Company, in whole or in part, and the attachment is not removed within 60 days from the date on which it was imposed.
 - 7.1.4 An Execution Office operation is executed against a material asset of the Company, in whole or in part, and the operation is not set aside within 60 days.

- 7.1.5 If a receiver is appointed for the Company and/or for its material assets, in whole or in part, and the appointment is not set aside within 60 days.
- 7.1.6 If the Company ceases payments on the Debentures and/or gives notice of its intention to cease payments on the Debentures.
- 7.1.7 If the Company ceases to continue to engage in and/or conduct its businesses and/or gives notice of its intention to cease continuing to engage in its businesses and/or the conduct thereof.
- 7.1.8 If another series of debentures the Company has issued has been made immediately due and payable.
- 7.1.9 If a stay of proceedings order is granted under Section 350 of the Companies Law, 5759-1999 against the Company, and such order is not set aside within 60 (sixty) days from the date of commencement thereof.
- 7.1.10 If an application is lodged in relation to the Company for the making of an arrangement with the Company's creditors pursuant to Section 350 of the Companies Law, 5759-1999, or if a stay of proceedings order is granted against the Company in accordance with the aforesaid section, and the application or the order has not been withdrawn or set aside within 60 days from the date of filing or the date of grant thereof, as the case may be.
- 7.1.11 If the Company is liquidated or expunged for any reason.
- 7.1.12 If a genuine fear exists that the Company will cease payments on the Debentures and/or will cease to continue its businesses and/or be due to cease continuing its businesses and/or a material fear exists that it will cease conducting its business.
- 7.1.13 Upon the occurrence of any event that constitutes material prejudice and/or could cause material prejudice to the rights of the holders of Debentures of that series.

The provisions of Clauses 7.2 or 7.3 below will apply as the case may be.

For purposes of this clause "material asset" means – an asset the value of which in the Company's books exceeds 25% of the Company's equity capital according to the last consolidated financial statements (audited or reviewed), which were published prior to the date of the event.

- 7.2 Upon the occurrence of any of the events noted in Clauses 7.1.1 to 7.1.11 above (inclusive):
- 7.2.1 The Trustee will be obliged to call a meeting of debenture holders the date for convening of which will be after 30 days from the date of calling thereof (or an earlier date in accordance with the provisions of Clause 7.2.4 below), whose agenda shall contain a resolution regarding the making of the entire unpaid balance of the Debentures immediately due and payable by virtue of the occurrence of one of the events mentioned in Clauses 7.1.1 to 7.1.11 above (inclusive).
 - 7.2.2 In the event that up to the date of convening of the meeting any of the events described in Clauses 7.1.1 to 7.1.11 above (inclusive) has not been set aside or removed, and the resolution at such meeting of debenture holders is passed as a special resolution (as defined in the Second Schedule to this Deed), the Trustee will be obliged, within a reasonable time, to make the entire unpaid balance of the Debentures immediately due and payable.
 - 7.2.3 A copy of a notice calling such meeting shall be sent by the Trustee to the Company immediately upon publication of the notice and it shall constitute prior written warning notice to the Company of the Trustee's intention to act as aforesaid.
 - 7.2.4 The Trustee may, in its discretion, shorten the aforesaid period of 30 days (as mentioned in Clause 7.2.1 above) in a situation in which the Trustee is of the opinion that any delay in making the Company's debt due and payable endangers the rights of the debenture holders, but under no circumstances shall the aforesaid period be shortened to less than 7 days.
- 7.3 On the occurrence of any of the events described in Clauses 7.1.12 to 7.1.13 above (inclusive):
- 7.3.1 Each of the debenture holders and the Trustee will be entitled, but not obliged, to call a meeting of debenture holders, the date for convening of which shall be after 30 days from the date on which it was called (or an earlier date in accordance with the provisions of Clause 7.3.4 below), whose agenda shall contain a resolution regarding the making of the entire unpaid balance of the Debentures immediately due and payable by virtue of the occurrence of any of the events mentioned in Clauses 7.1.12 to 7.1.13 above (inclusive).
 - 7.3.2 In a case in which a resolution is passed at a meeting of debenture holders as referred to in Clause 7.3.1 above as a special resolution (as defined in the Second Schedule to this Deed), the Trustee shall be obliged, within a reasonable time, to make the entire unpaid balance of the Debentures immediately due and payable.
 - 7.3.3 A copy of the notice calling such meeting shall be sent by the party calling the meeting to the Company and to the Trustee immediately upon publication of the notice, and shall constitute prior written warning notice to the Company about the intention to act as aforesaid.

- 7.3.4 A debenture holder or the Trustee, as the case may be, who calls the meeting will be entitled, in his or its discretion, to shorten the aforesaid 30 day period (mentioned in Clause 7.3.1 above) in the event that the party calling the meeting is of the opinion that any delay in making the Company's debt payable endangers the rights of the debenture holders, but under no circumstances shall the aforesaid period be shortened to less than 7 days.
- 7.3.5 The Trustee, after it becomes aware of the fact, shall be responsible for reporting to the debenture holders about the occurrence of any of the events mentioned in Clauses 7.1.12 to 7.1.13 above (inclusive), whether on the strength of public announcements the Company has published or in accordance with a notice the Company has sent to it in accordance with the provisions of Clause 22 below, shortly after this has been brought to its notice and/or has been delivered to it.

8. Claims and proceedings by the Trustee

- 8.1 In addition to any other provision in this deed, the Trustee will be entitled as a matter of right and independent authority, in its discretion, and it will be obliged to do so by any special resolution passed at a meeting of the debenture holders, and without giving additional notice to the Company, to take all such proceedings, including legal proceedings as it sees fit and subject to the provisions of any law, for purposes of enforcing the Company's obligations pursuant to this Deed, for purposes of exercising the rights of the debenture holders and protecting their rights under this Deed. The Trustee will be entitled to commence legal and/or other proceedings also if the Debentures have not been made immediately due and payable, in order to protect the rights of the debenture holders and subject to any law. Notwithstanding the contents of this clause, a right to make the Debentures immediately due and payable shall only arise in accordance with the provisions of Clause 7 above and not on the strength of this clause.
- 8.2 The Trustee will be entitled, subject to any special resolution of the debenture holders as aforesaid, to waive the compliance with such obligations of the Company, in whole or in part, on such conditions as it shall deem fit.
- 8.3 The Trustee may, in its sole discretion and without the necessity for giving notice to the Company, apply to the appropriate court with an application for instructions on any matter connected with and/or arising from this Deed.
- 8.4 Subject to the provisions of this Deed, the Trustee is entitled, but not obliged, to convene a general meeting of the debenture holders at any time in order to consider and/or to obtain its instructions on any matter pertaining to this Deed and it may reconvene such meeting.

- 8.5 The Trustee may, in its sole discretion, delay the performance of any act by it in accordance with this Deed, for purposes of referring to a meeting of debenture holders and/or to the court, until such time as it receives instructions from the meeting of debenture holders and/or the instructions of the court on how to act. Notwithstanding the foregoing, the Trustee is not entitled to delay proceedings for making the Debentures immediately due and payable which were decided upon by a meeting of the debenture holders in accordance with the provisions of Clauses 7.2 or 7.3 above.
- 8.6 For the avoidance of doubt it is hereby clarified that none of the provisions set forth above shall prejudice and/or derogate from the Trustee’s right which is hereby conferred on it to apply to judicial instances, in its sole discretion, even before the Debentures are made immediately due and payable, for purposes of the grant of any order in regard to the affairs of the trust.

9. **Distribution of receipts**

All the receipts that will be received by the Trustee in any manner, including, without limitation, as a result of proceedings it may take, if any, against the Company, shall be held by it in trust and shall serve in its hands for the following objectives according to the order of priorities set forth below:

Firstly for liquidating the expenses, payments, levies and undertakings the Trustee has incurred, or were imposed on it, or which were caused due to or as a result of actions for performing the trust or otherwise in connection with the conditions of this Deed, including its remuneration (on condition that the Trustee shall not receive double remuneration both from the Company and from the debenture holders). Secondly – in order to pay the debenture holders the arrear interest due to them pursuant to the conditions of the Debentures and subject to the conditions of indexation contained in the Debentures *pari passu* and *pro rata* to the amount of interest in arrears which is due to each of them, without any preference or prior right for any of them; thirdly – in order to pay the debenture holders the amounts of principal and/or arrears on principal which are due to them in accordance with the Debentures held by them, *pari passu* and subject to the conditions of indexation contained in the Debentures, whether or not the time for payment of the amounts of principal has arrived and *pro rata* to the amounts that are due to them, without any preference in connection with the precedence in the time of issue by the Company of the Debentures or otherwise, and the balance, if any, shall be paid by the Trustee to the Company or its successors-in-title.

Payment by the Trustee of the amounts to the debenture holders is subject to the rights of other creditors of the Company, if there are such.

9A. **Power to demand payment to the holders through the Trustee**

The Trustee, in its sole discretion and without the necessity for giving any explanation or grounds, may instruct the Company in writing (“**Notice**”) to transfer to the Trustee, to the credit of such account as it shall direct, any payment the Company owes to the holders, one banking business day before the intended date of payment. The Company is not entitled to refuse to act in accordance with such notice and the Company shall be deemed to have fulfilled its obligation to the holders if it proves that it transferred the full amount of the debt the due date for which has fallen to the credit of the account the details of which were specified in the Notice. The Trustee will be entitled to set off any amount the Company owes and/or the holders owe to the Trustee (whether as payment on account of remuneration or as a reimbursement of expenses) in accordance with the Trustee’s rights to receive such amounts pursuant to this Deed of Trust, and it may do so without the necessity for a resolution of a meeting of holders and/or the consent of the Company, on condition that the Trustee notifies the holders and the Company by way of notice in writing which the Company shall publish on the Magna and the Maya system.

10. **Power to withhold distribution of money**

- 10.1 Notwithstanding the contents of Clause 9 above, if the monetary amount that is received as a result of the taking of the aforesaid steps which is available for distribution at any time, as stated in that clause, is less than the rate of interest in respect of the unpaid balance of the principal of the Debentures and the interest, subject to the conditions of indexation of the Debentures of the relevant series, the Trustee will be not obliged to distribute same and it will be entitled to invest such amount, in whole or in part, in investments which are permitted according to this Deed, and to vary and replace such investment from time to time with other permitted investments, as it sees fit.
- 10.2 When the aforesaid investments, together with the profits thereon and together with additional moneys which are received by the Trustee for purposes of payment thereof to the debenture holders, if any, reach the amount specified in Clause 10.1 above, the Trustee shall pay same to the debenture holders as stated in Clause 9 above.

11. **Notice regarding distribution and deposit with the Trustee**

The Trustee shall notify the debenture holders about the day and the place on which any of the payments mentioned in Clauses 9 and 10 above will be made, by way of prior notice of 14 days which shall be delivered in the manner stipulated in Clause 22 below.

After the date fixed in the notice the debenture holders will be entitled to interest in respect of the Debentures at the rate specified in the Debentures, only on the balance of the amount of the principal (if any), after deduction of the amount which has been paid or which was offered to them for payment as aforesaid.

12. Failure to make payment for a reason over which the Company has no control

- 12.1 Any amount that is due to a debenture holder which has not been paid in practice for a reason that is not dependent on the Company, at a time the Company was prepared to make payment thereof, shall cease to bear interest and indexation differences from the date specified for the payment thereof, and the debenture holder will only be entitled to those amounts to which he was entitled at the date specified for the effecting of such payment on account of the principal, the indexation differences or the interest.
- 12.2 The Company shall deposit with the Trustee, not later than 14 business days from the date specified for such payment, the amount of the payment which was not paid for a reason that was not dependent on the Company, and such deposit shall be deemed to be liquidation of such payment, and in the case of liquidation of everything due in respect of the Debenture, also as redemption of the Debenture.
- 12.3 The Trustee shall deposit any such amount at a bank to the credit of those account owners and shall invest such amounts in investments that are permitted to it in accordance with the Deed of Trust, which are securities of the State of Israel and other securities in which the laws of the State of Israel allow the investment of trust moneys, all as the Trustee shall see fit and subject to the provisions of the law. Where the Trustee has done so, it will not be liable to the entitled persons in respect of such amounts, except the proceeds that will be received from realization of investments, less the expenses, commissions and compulsory payment, if any, connected with the aforesaid investment in the management of the trust account, less its remuneration.
- 12.4 Out of those moneys that were deposited as aforesaid, less all the expenses, commissions, compulsory payments and its remuneration, the Trustee shall transfer to every debenture holder for whom amounts and/or moneys that are due to the debenture holders have been deposited with the Trustee, and shall do so against presentation of such proof as may be demanded by the Trustee to its full satisfaction.

13. Presentation of Debenture to the Trustee and registration in connection with partial payment

- 13.1 A debenture holder will be obliged, at the time of payment of any interest or partial payment of principal, interest and indexation differences pursuant to Clauses 9, 10 and 11 above, to present to the Trustee the Debenture in respect of which the payments are being made.
- 13.2 The Trustee shall record a note on the Debenture regarding the amounts that have been paid as aforesaid and the date of payment thereof.
- 13.3 The Trustee will be entitled in any special situation, in its discretion, to waive the presentation of the Debenture after a deed of indemnity and/or adequate guarantee to its satisfaction has been given to it in respect of damage likely to be caused due to the non-recording of such note, all as it shall see fit.

13.4 Notwithstanding the foregoing, the Trustee may, in its discretion, maintain records in another manner with regard to such partial payments.

14. The Company's obligations to the Trustee

The Company hereby undertakes to the Trustee and the debenture holders that so long as the Debentures (including the indexation differences thereon) have not been paid, as follows:

- 14.1 To notify the Trustee immediately and in writing in regard to the Company's reasonable fear that all or any of the events mentioned in Clause 7.1 above are likely to occur and in regard to the occurrence of all or any of the events mentioned in Clause 7.1 above.
- 14.2 Not later than the end of 30 days from the date of this Deed of Trust to deliver to the Trustee an amortization table in an Excel file for payment of the Debentures (principal and interest).
- 14.3 To notify the Trustee in writing within 4 business days about the effecting of any payment to the debenture holders and in regard to the balance of the amounts the Company owes at that time to the debenture holders after the effecting of the aforesaid payment.
- 14.4 To continue to manage and operate the business of the Company in a regular, proper and efficient manner.
- 14.5 Not later than the date specified for the publication thereof, to deliver the Company's consolidated audited financial statements for the financial year ended on December 31, of the preceding year and periodic reports to the Trustee.
- 14.6 Not later than the date specified for the publication thereof, to deliver the Company's consolidated interim financial statements and any quarterly statement accompanied by a review report from an accountant in relation thereto to the Trustee.
- 14.7 To deliver to the Trustee, immediately upon the delivery thereof, any report it is obliged to submit to the Securities Authority. Any report that may be published by the Company on the Magna system (including financial statements) shall be deemed to be actual delivery to the Trustee in accordance with this clause.
- 14.8 Each December 31 of every year, and so long as this Deed is in force, the Company shall furnish the Trustee with a certificate signed by the chairman of the board of directors or the CEO of the Company to the effect that, to the best of his or their knowledge, as the case may be, in the period from the date of the Deed and/or from the date of the previous certificate that was delivered to the Trustee, whichever is the later, and up to the date of giving of the certificate, there has been no breach of this Deed by the Company (including a breach of conditions of the Debenture) unless otherwise expressly stated.

- 14.9 To cause a situation that the Company's accountant will, within a reasonable time, provide the Trustee and/or such persons as the Trustee shall direct, with any explanation, document, calculation or information concerning the Company, its business and/or its assets that may be reasonably required, in the Trustee's discretion, for purposes of examinations that are performed by the Trustee for purposes of protecting holders of the Debentures that have been issued in accordance with the shelf offering report.
- 14.10 To maintain proper books of account in accordance with accepted accounting principles.
- 14.11 The Trustee, by its signing this Deed of Trust, undertakes to keep all information given as aforesaid confidential. It is clarified that the passing on of information to the debenture holders for purposes of passing a resolution relating to their rights pursuant to the Debenture or for purposes of providing a report regarding the condition of the Company, does not constitute a breach of the Trustee's confidentiality undertaking.
- 14.12 To notify the Trustee, immediately it becomes aware thereof, in regard to any event in which an attachment has been imposed on its assets, in whole or in part, and also in every case in which a receiver has been appointed for its assets, in whole or in part, and immediately and at its expense to take all the reasonable steps necessary for the removal of such attachment or setting aside of the receivership.
- 14.13 To give the Trustee notice of all its general meetings (whether to annual general meetings or to special general meetings of the shareholders of the Company) without conferring a right on the Trustee to vote at such meetings.
- 14.14 To deliver to the Trustee, upon its written request, a certificate in writing signed by the Company's auditor that all the payments to the debenture holders were paid on due date, and the balance of the par value of the Debentures that are in circulation.
- 14.15 A copy of every document the Company sends to its shareholders or to debenture holders and any additional information in accordance with the Trustee's reasonable demand which is necessary for fulfilling the Trustee's function of protecting the rights of the debenture holders.
- 14.16 To deliver to the Trustee, upon its demand, an affidavit and/or declarations and/or documents and/or particulars and/or information, as may be demanded by the Trustee, in its sole discretion, for the exercise and implementation of the powers, authorities and permissions of the Trustee and/or its representatives in accordance with the Deed of Trust.

15. **Additional obligations**

After the Debentures have been made immediately due and payable, as defined in Clause 7 above, the Company shall from time to time and at any time that it is called upon to do so by the Trustee, perform all the reasonable operations in order to allow for and to enable the exercise of all the powers conferred on the Trustee, and in particular the Company shall perform the following acts:

- 15.1 It shall make the declarations and/or sign all the documents and/or shall perform and/or cause the performance of all the requisite and/or necessary acts in accordance with the law for giving validity to the exercise of the powers, authorities and permissions of the Trustee and/or its representatives.
- 15.2 It shall give all the notices, the orders and instructions which the Trustee may deem to be beneficial and may demand.
- 15.3 For purposes of this clause – a notice in writing signed by the Trustee confirming that an act demanded by it, in the scope of its powers and authorities, is a reasonable act, shall constitute *prima facie* evidence of the fact.

16. **Other agreements**

Subject to the provisions of the law and the restrictions that are imposed by law on the Trustee, the fulfilling of its function as trustee, in accordance with this Deed, or its status as a trustee, shall not prevent it from entering into various contracts with the Company or from executing transactions with it in the ordinary course of the Trustee’s business.

17. **Reporting by the Trustee**

Not later than the end of 3 months from the end of each year of the trust the Trustee shall draw up an annual report regarding the affairs of the trust (hereinafter: **“the Annual Report”**).

The Annual Report shall contain details on the following subjects:

- 17.1 Current particulars regarding the course of business of the trust in the preceding year.
- 17.2 A report on exceptional events in connection with the trust which occurred during the course of the preceding year.

The debenture holders will be entitled to peruse the annual report at the Trustee’s offices during working hours and will be entitled to receive a copy of the report in accordance with a demand. A copy of the report shall be furnished to the Company simultaneous with its being made available for perusal of the debenture holders.

The Trustee shall give the debenture holders notice regarding the time of submission of the report, in the manner stated in Clause 22 below. If the Trustee becomes aware of a material breach of this Deed by the Company, it shall notify the debenture holders about the breach and about the steps it has taken to prevent the breach or for the fulfillment of the Company’s obligations, as the case may be.

18. **Remuneration and cover of the Trustee’s expenses**

The Trustee’s remuneration is in accordance with an agreement between it and the Company from the date of this Deed.

19. **Special powers**

- 19.1
- The Trustee will be entitled to lodge all the deeds and documents which evidence, represent or specify its right in connection with any asset which is for the time being in its possession, in a safe and/or at another place it may choose, with any banker and/or any banking corporation and/or with an attorney. Where the Trustee has done so, it will not be liable in respect of any loss that may be caused in connection with such deposit, unless the Trustee acted negligently or maliciously.
- 19.2
- The Trustee may, in the scope of performing the affairs of the trust pursuant to this Deed, requisition an opinion and/or advice of any attorney, accountant, appraiser, valuer, surveyor, real estate agent or other expert, and will be entitled to act in accordance with the conclusions thereof, whether such opinion and/or advice was prepared at the request of the Trustee and/or by the Company. The Trustee will not be liable for any loss or damage that may be caused as a result of any act and/or omission committed by it on the strength of such advice or opinion, unless the Trustee acted negligently or maliciously.
- 19.3
- Any such advice and/or opinion may be given, sent or received by way of letter, telegram, facsimile and/or any other electronic means for the transfer of information, and the Trustee will not be liable in respect of acts it performed on the strength of advice and/or an opinion and/or information transmitted in one of the ways mentioned above, notwithstanding that errors were made in it and/or that they were not authentic, unless the Trustee acted negligently or maliciously.
- 19.4
- In a case in which the Trustee receives a certificate signed by the Company through two directors of the Company and/or an assessment confirming that in their opinion a transaction, step, operation or anything else being done or intended to be done by the Company are desirable and are for the benefit of the Company, this shall constitute sufficient proof that the transaction, step, operation or thing are indeed desirable and for the Company’s benefit. Where the Trustee has acted in reliance on such certificate, it will not be liable for any damage and/or loss that may be caused as a consequence of such step, operation and/or thing, unless the Trustee acted negligently or maliciously.

- 19.5 Subject to the provisions of this Deed, the Trustee shall be entitled, but not obliged, to call a general meeting of debenture holders at any time in order to consider and discuss and/or to obtain its instructions on any matter pertaining to this Deed, and it may reconvene such meeting.
- 19.6 The Trustee shall not be obliged to give notice to any party about the signing of this Deed and it is not entitled to interfere in any way in the conduct and management of the Company’s business or its affairs, except in accordance with the powers and authorities conferred on the Trustee pursuant to this Deed.
- 19.7 In performing the trust The Trustee shall exercise the powers, permissions and authorities that have been conferred on it under this Deed, in its absolute discretion, and it will not be liable for any damage that may be caused as a result of an error in such discretion, unless the Trustee acted negligently or maliciously.

20. Trustee’s power to employ agents

The Trustee will be entitled to appoint an agent/s to act in its stead, whether an attorney or other person, in order to carry out or to participate in the performance of special operations that require to be performed in connection with the trust, and without derogating from the generality of the foregoing, the taking of legal proceedings. The Trustee shall further be entitled to make payment at the Company’s expense of the reasonable fees of any such agent, and the Company shall refund any such expense to the Trustee immediately upon its first demand, on condition that the Trustee gave the Company advance notice regarding the appointment of such agents.

The Trustee may at any time delegate the trusts, powers, permissions and authorities granted to it under this Deed of Trust, in whole or in part, to another person or to other persons, and any such delegation shall be made according to the conditions and instructions (including permission to the agent to appoint an agent) which the Trustee deems to be conducive, but the delegation of powers as aforesaid shall not release the Trustee from any liability that would have been imposed on it had it not been for the delegation of powers.

21. Indemnification of the Trustee

- 21.1 The Trustee will be entitled to receive indemnity from the debenture holders or from the Company, as the case may be, in respect of reasonable expenses it has incurred and/or may incur in connection with the operations it has performed or is obliged to perform by virtue of its obligation pursuant to the terms and conditions of this Deed, and/or according to law and/or a directive of a competent authority and/or any statute and/or on a demand by the debenture holders and/or at the Company’s request, provided that:
 - 21.1.1 The expenses in respect of liability for damage are reasonable.

21.1.2 The Trustee acted in good faith, and the act was performed in the scope of fulfilling its function.

- 421.2 Without prejudice to the rights to compensation and to indemnity granted to the Trustee according to the law and/or without prejudice to the commitments of the Company and/or the debenture holders in accordance with this Deed, the Trustee, its attorney, manager, agent or other person appointed by the Trustee in accordance with this Deed, will be entitled to receive indemnity out of the moneys that will be received by the Trustee as a consequence of proceedings it has taken and/or otherwise in accordance with this Deed, with regard to the obligations they have assumed regarding the expenses that have been incurred in the course of performing the trust or in connection with such operations, which in their opinion were necessary for performing the matters aforesaid and/or in connection with the exercise of the powers and permissions conferred by virtue of this Deed and also in connection with all kinds of legal proceedings, opinions of attorneys and other experts, negotiations, discussions, expenses, claims and demands relating to any matter and/or thing that was done and/or was not done in any manner in relation to the foregoing, and the Trustee may withhold money in its possession and make payment out of such money of the requisite amounts for purposes of paying such indemnity. All the aforesaid amounts will rank ahead of and prior to the debenture holders and subject to the provisions of any law, provided that the Trustee acted in good faith.
- 21.3 Wherever the Trustee is obliged pursuant to the terms and conditions of the Deed of Trust and/or according to law and/or a directive of a competent authority and/or any statute and/or upon a demand by the debenture holders and/or at the request of the Company, to perform any act, including, without limitation, the commencing of proceedings or the filing of claims on a demand by the debenture holders, as stated in the Deed of Trust, the Trustee will be entitled to refrain from taking any such action until it receives a deed of indemnity to its satisfaction from the debenture holders or any of them, and if the act is performed on a demand by the Company, from the Company, in respect of any liability for damage and/or for expenses that might be incurred by the Trustee and the Company or either of them, as a consequence of the performing of such act. The Trustee's power to refrain from such act shall not apply in circumstances where urgent action is necessary in order to prevent material prejudice to the rights of the debenture holders.

- 21.4 Notwithstanding the contents of this Clause 21 above (including the sub-clauses hereof), whenever the Trustee deems fit, for purposes of the protection and/or the realization of the rights of the debenture holders, and/or is obliged, according to the conditions of this Deed and/or according to law and/or a directive of a competent authority and/or any law and/or at the request of the Company and/or the debenture holders, to institute legal proceedings, the Company shall deposit with the Trustee an amount that will be fixed by the Trustee as the anticipated amount of the Trustee's expenses in connection with such proceedings. In the event that the Company does not deposit the aforesaid amount at the time it was requested by the Trustee to do so and/or where in the Trustee's opinion there is doubt regarding the Company's ability to cover the expenses connected with the taking of proceedings by the Trustee, the Trustee shall immediately call a meeting of debenture holders in order to confirm their liability for the cover of the expenses connected with the proceedings which the Trustee will take. In a case in which the debenture holders refuse to bear the expenses connected with the taking of proceedings by the Trustee, there will be no obligation on the Trustee to take such proceedings. It is hereby clarified that the agreement of the debenture holders as aforesaid does not release the Company from its obligations to bear and to cover all the expenses connected with the taking of such proceedings. Likewise, all the moneys that will be received from proceedings for realization shall also serve for refund and cover of expenses which the debenture holders have undertaken to bear as aforesaid.
- 21.5 It is agreed that indemnity for the Trustee as set forth in this Clause 21 in respect of: (1) operations it has performed and/or has been called upon to perform by virtue of its obligation under the terms and conditions of the Deed of Trust or for purposes of protecting the rights of the debenture holders (including by virtue of a demand by a holder) – shall be borne and paid by the Company; (2) acts it has performed and/or has been called upon to perform at the request of the Company – shall be borne and paid by the Company; and (3) actions it has performed and/or has been called upon to perform on a request by the debenture holders (excluding acts as aforesaid that were taken on a demand by holders for purposes of protecting the rights of the debenture holders) – shall be borne and paid by the debenture holders. It is further agreed that if there is an obligation for indemnity on the Company as aforesaid and the indemnification is not received from the Company within 60 days from the Trustee's demand, the holders will be liable for the indemnity to the Trustee. It is clarified that actual payment by the holders to the Trustee shall not derogate from the Company's obligation to refund to the holders the amount that was paid in a situation in which it was obliged to make payment thereof in accordance with the provisions of this Deed.

22. **Notices**

- 22.1 Any notice by the Company and/or the Trustee to the debenture holders shall be given as follows:
- 22.1.1 By reporting on the Magna system of the Securities Authority; (the Trustee may instruct the Company and the Company shall be obliged to report forthwith on the Magna system in the name and on behalf of the Trustee with respect to any report in the text as will be transmitted to the Company in writing by the Trustee); **and also by way of:**
- 22.1.2 A notice that shall be published in two widely circulating dailies that are published in Hebrew in Israel;
- or**

by sending a notice by registered mail to every registered holder of Debentures according to his last address as recorded in the register of debenture holders (in the case of joint holders – to the joint holder whose name stands first in the register).

Any notice that may be published or sent as aforesaid, will be deemed to have been delivered to the debenture holder on the date of publication thereof as aforesaid or after three days from the date of posting thereof, as the case may be.

- 22.2 Any notice or demand by the Trustee to the Company may be given by way of letter to be sent by registered mail according to the address set forth in the Deed of Trust, or according to such other address of which the Company has given the Trustee written notice, or by the transmission thereof by facsimile or via a messenger, and any such notice or demand will be deemed to have been received by the Company: (1) in the case of posting by registered mail – after three business days from the date of delivery thereof to the post office; (2) in the case of transmission by facsimile (together with telephonic verification regarding the receipt thereof) – after one business day from the day of its transmission; (3) and in the case of it being sent via messenger – upon delivery thereof by the messenger to the addressee or upon it being offered for acceptance to the addressee, as the case may be.
- 22.3 Any notice or demand by the Company to the Trustee may be given by letter to be sent by registered mail according to the address set forth in the Deed of Trust, or according to such other address of which the Trustee has given the Company written notice, or by the transmission thereof by facsimile or via a messenger, and any such notice or demand shall be deemed to have been received by the Trustee: (1) in the case of posting by registered mail – after three business days from the date of delivery thereof to the post office; (2) in the case of transmission by facsimile (together with telephonic verification regarding the receipt thereof) – after one business day from the day of its transmission; (3) and in the case of it being sent via messenger – upon delivery thereof by the messenger to the addressee or upon it being offered to the addressee for acceptance, as the case may be.
- 22.4 Copies of notices and invitations to meeting that may be given by the Company and/or the Trustee to the debenture holders – shall also be sent by the Company in an immediate report, a copy of which shall be delivered to the Trustee.

23. Waiver; compromise; and amendments to the terms and conditions of the Deed of Trust

- 23.1 Subject to the provisions of any law, the Trustee may from time to time and at any time, if it has been persuaded that this does not, in its opinion, constitute any form of prejudice to the rights of the debenture holders, waive any breach or non-fulfillment by the Company of any of the terms and conditions of this Deed.

- 23.2 Subject to the provisions of the law and with prior approval to be given by a general meeting of debenture holders of a particular class by a 75% majority of the persons participating in the vote, at which the holders of at least 50% of the balance of the par value of the Debentures of that series which are in circulation were personally present or represented by proxy, or at an adjourned meeting, at which the holders of at least 10% of the aforesaid balance were personally present or represented by proxy, the Trustee may, either before or after the principal of the Debentures becomes due for payment, compromise with the Company in connection with any right or claim of holders of the Debentures of that series and may agree with the Company on any arrangement in connection with its rights or the rights of holders of the Debentures of that series, including the waiving of any right or claim of the debenture holders against the Company in accordance with this Deed. Where the Trustee has compromised with the Company after obtaining prior approval of the holders of the Debentures as aforesaid, the Trustee will be exempt and released from any liability in respect of such action.
- 23.3 Subject to the provisions of the law, the Trustee and the Company may, either before or after the principal of the Debentures becomes due for payment, alter the Deed of Trust (including an alteration to the terms and conditions of the Debentures) if one of the following conditions is fulfilled:
- 23.3.1 The Trustee has been persuaded that the alteration is not prejudicial to the debenture holders.
- 23.3.2 The debenture holders have agreed to the proposed alteration, by way of a special resolution passed at a general meeting of the debenture holders, at which the holders of at least 50% of the unpaid balance of the principal of the Debentures that are in circulation were personally present or represented by proxy, or at an adjourned meeting, at which the holders of at least 10% of the aforesaid balance were personally present or represented by proxy.
- 23.4 The Company shall lodge an immediate report in regard to any such alteration.
- 23.5 The general meetings mentioned in this clause above shall be called as stated in the Second Schedule to this Deed.

In every case of the exercise by the Trustee of its right pursuant to this clause above, the Trustee shall be entitled to demand from the debenture holders that they deliver to it or to the Company their certificates, for purposes of recording a note in regard to any compromise, waiver, alteration or amendment as aforesaid and upon the Trustee's demand, the Company shall record such note on the certificates that will be delivered to it.

24. **Release**

When it has been proved to the Trustee’s satisfaction that all the Debentures have been repaid, redeemed or when the Company deposits in trust with the Trustee amounts of money that will be sufficient for redemption, and where it has been proved to the Trustee’s satisfaction that all the obligations and the expenses that were incurred or caused by the Trustee in connection with this Deed and in accordance with its instructions have been paid in full, the Trustee will be obliged, upon the Company’s first demand, to deal with the moneys that were deposited in respect of the Debentures redemption of which was not demanded, in accordance with the terms and conditions stipulated in this Deed.

25. **Release**

After it has been proved to the Trustee’s satisfaction that all the Debentures have been repaid, redeemed or after the Company has deposited amounts of money in trust with the Trustee which will be sufficient for redemption, and after it has been proved to the Trustee’s satisfaction that all the obligations and expenses that were incurred or caused by the Trustee in connection with this Deed and in accordance with the provisions hereof have been paid in full, the Trustee shall be obliged, upon the Company’s first demand, to act with the moneys that have been deposited in respect of Debentures the redemption of which was not demanded, in accordance with the conditions stipulated in this Deed.

25. **Appointment of new Trustee and termination of its office as trustee**

- 25.1

The provisions of the law will apply to the holding of office by the Trustee and the expiration thereof and to the appointment of a new trustee. Subject to the provisions of the law, the Trustee and any trustee who replaces it shall be entitled to resign from their positions as trustees after giving the Company three (3) months written notice in which the reasons for the resignation shall be specified.

The resignation shall come into force only after confirmation by the court and from the day fixed for this in the confirmation. In the case of such resignation or in the event of the expiration of the Trustee’s term of office, the court may appoint another trustee in place of the Trustee, for such period and on such conditions as it sees fit.
- 25.2

According to the provisions of the Deed of Trust, where the Trustee or any trustee who replaces it have acted in this way, they will not be responsible for expenses or losses that may be caused as a result of their resignation.
- 25.3

The court may dismiss a trustee if it has not fulfilled its function properly or if the court has found another reason for its dismissal.

- 25.4 The holders of ten percent of the unpaid balance of the Debentures and/or the Company shall be entitled to convene a general meeting of holders of debenture certificates. Any meeting that is convened as aforesaid shall be entitled to decide, according to the vote of the holders of at least fifty percent of the unpaid balance of the Debentures, on the removal of the Trustee from its office.
- 25.5 The Securities Authority is entitled to apply to the court with an application to terminate the Trustee’s term of office, in accordance with Section 35N of the Law.
- 25.6 The Trustee and the Company shall lodge an immediate report with the Securities Authority regarding any event as mentioned above in this clause, in connection with the Trustee’s term of office.
- 25.7 Where the Trustee’s term of office has expired, the court may appoint another trustee for such period and on such conditions as it sees fit. The Trustee whose term of office has expired shall continue to serve in its function until the appointment of such other trustee.
- 25.8 Every new trustee will have the same powers, authorities and other permissions and may act in all senses as if it was appointed as a trustee from the outset, subject to the provisions of Section 35N of the Law.

26. **Meetings of debenture holders**

Meetings of debenture holders shall be conducted in the manner stated in the Second Schedule to this Deed.

27. **Investment of money**

All the moneys which the Trustee is entitled to invest in accordance with this Deed shall be invested by it at a bank/s in its name or to its order, in investments in which the laws of the State of Israel allow the investment of trust moneys and as it deems conducive, all subject to the terms and conditions of this Deed of Trust, provided that every investment in securities shall be in securities that have been rated with a rating of not less than AA. Where the Trustee has done so, it will not be liable to the entitled persons in respect of those amounts, but only the proceeds which will be received from the realization of the investments, less the expenses connected with the aforesaid investment and the maintaining of the trust accounts, the commissions and less the compulsory payments that are imposed on the trust account. The Trustee shall transfer out of such moneys amounts to the debenture holders who are entitled thereto, and shall do so as soon as possible after proof and confirmations have been furnished to the Trustee regarding their right to such amounts, to the Trustee’s full satisfaction, and less its expenses and commission at a rate that shall be acceptable to it at such time.

28. Governing law

The Debentures are subject to the provisions of the Israeli law. On any matter which has not been mentioned in this Deed and also in any instance of a conflict between the provisions of the law and this Deed, the parties will act in accordance with the provisions of the Israeli law. In every case of a conflict between the provisions described in the Prospectus and/or in the shelf offering report in connection with this Deed and/or the Debentures, the provisions of this Deed shall prevail.

29. Addresses

The Debentures are subject to the provisions of the Israeli law. On any matter that has not been mentioned in this Deed and also in any case of a conflict between the provisions of the law and this Deed, the parties will act in accordance with the Israeli law.

30. General

Without derogating from the other provisions of this Deed and of the Debenture, any waiver, extension of time, indulgence, silence, failure to take action (“**Waiver**”) on the part of the Trustee in regard to non-fulfillment or partial fulfillment or improper fulfillment of any of the obligations to the Trustee under this Deed and the Debenture, will not be deemed to be a waiver on the part of the Trustee of any right, but as limited acquiescence to the particular instance in which it was given. Without derogating from the other provisions of this Deed and the Debenture, any alteration to the obligations to the Trustee necessitates the obtaining of the Trustee’s prior written consent. Any other consent, whether verbal or by way of waiver and failure to take action or in any other manner that is not in writing, will not be deemed to be consent at all. The Trustee’s rights under this Agreement are independent of one another, and are in addition to any right which exists and/or which may exist for the Trustee according to law and/or agreement (including this Deed and the Debenture).

31. Authorization for Magna

In accordance with the provisions of the Securities Regulations (Electronic Signature and Reporting), 5763-2003, the Trustee hereby gives approval to the authorized entity on behalf of the Company to report electronically to the Securities Authority in regard to this Deed of Trust.

In witness whereof the parties have hereunto signed

/s/

Hermetic Trust (1973) Ltd.

/s/ David Weissman, Zeev Stein

Blue Square Real Estate Ltd.

I the undersigned, Meirav Tamir, Adv., certify that this Deed of Trust was signed through Mr. David Weisman and Mr. Zeev Stein and their signature binds Blue Square Real Estate Ltd. in connection with this Deed of Trust.

/s/ Meirav Tamir

Meirav Tamir, Adv.

Lic. No. 32164

2 Ha'amal St., Rosh Ha'ayin 48092

ADDENDUM TO DEED OF TRUST DATED MAY 20, 2009

entered into at Tel Aviv on the 18th day of October 2009

Between:

BLUE SQUARE REAL ESTATE LTD.
of 2 Ha'amal Street, Rosh Ha'ayin
Telephone: 03-9282670/1
Fax: 03-9282498
(hereinafter: "the Company")

of the one part;

And:

HERMETIC TRUST (1975) LTD.
of 113 Hayarkon Street, Tel Aviv
Telephone: 03-5272272
Fax: 03-5271736
(hereinafter: "the Trustee")

of the other part;

WHEREAS

On May 20, 2009 the Company and the Trustee signed a deed of trust in connection with the Shelf Prospectus the Company published on May 20, 2009 (hereinafter: **"the Deed of Trust"**), pursuant to which the Company is entitled, *inter alia*, to issue Debentures (Series C) of the Company (hereinafter: **"Debentures (Series C)"**); and

WHEREAS

The Company intends publishing a shelf offering report in accordance with the Shelf Prospectus, pursuant to which the Company will for the first time offer Debentures (Series C) (hereinafter: **"the Shelf Offering Report"**); and

WHEREAS

On October 7, 2009 Midroog Ltd. gave notice of having fixed a A1 rating for the Company's new series of debentures to an extent of up to NIS 300,000,000; and

WHEREAS

On October 7, 2009 Standard & Poor's Maalot gave notice of having fixed a A+/negative rating for the Company's new series of debentures to an extent of up NIS 300,000,000; and

WHEREAS

As an integral part of the Deed of Trust the parties hereby agree to make alterations in the Deed of Trust which will apply in connection with Debentures (Series C), as described below in this Addendum;

Now therefore it is agreed, declared and stipulated by the parties as follows:

- 1. It is hereby clarified, agreed and declared that to the extent that any of the provisions of the Deed of Trust have not been expressly altered, those provisions will apply in full and will bind the parties in all respects.
- 2. It is agreed that to the extent that the meaning of terms and expressions in the Deed of Trust or any of them have not been expressly altered in this Addendum, the meaning of the aforesaid terms and expressions will be the same meaning as accorded to them in the Deed of Trust.
- 3. In the Deed of Trust, **in connection with Debentures (Series C) only**, the following alterations will apply:
 - 3.1 In Clause 4 of the Deed of Trust, after the words “the interest”, the following words will be added: “(including penalty interest, if same applies)”.
 - 3.2 In Clause 7 of the Deed of Trust (immediate payment), the following changes and additions will be made:
 - 3.2.1 In Clause 7.1.1 of the Deed of Trust, instead of: “30 days” there shall be inserted: “21 days”.
 - 3.2.2 Clause 7.1.14 shall be added to the Deed of Trust, as follows:

“7.1.14 If the Debentures (Series C) cease to be rated by any rating company, solely for a reason dependent on the Company, and this is not rectified within 60 business days. For the removal of doubt it is clarified that if the Debentures (Series C) are rated by a number of rating companies, then for purposes of this clause “cessation of rating” means “cessation of rating by all the rating companies.”
 - 3.3 In Clause 14 of the Deed of Trust (the Company’s obligations to the Trustee) Clauses 14.17 and 14.18 will be added as follows:
 - “14.17 Even if the Company ceases to be a reporting corporation, the Company shall continue to deliver quarterly and annual financial statements to the Trustee at the times at which a reporting corporation publishes same until the final and absolute repayment of the Debentures (Series C).
 - 14.18 Solely if this is dependent on the Company, the Company shall cause a situation that the Debentures (Series C) will continue to be rated by any rating company until a final and absolute repayment of the Debentures (Series C).”

- 3.4 In Clause 21 of the Deed of Trust, the following alterations and additions will be made:
- 3.4.1 Clause 21.1.2 of the Deed of Trust after the words: “in good faith”, the words “was not negligent” shall be inserted.
- 3.4.2 In Clause 21.2 of the Deed of Trust, wherever the word “expenses” appears the word: “reasonable” shall be added ahead of it.
- 3.4.3 In Clause 21.5 of the Deed of Trust, at the end of the clause before the period the following words will be added: “and in such case, the Trustee will be obliged to address a demand to the Company for reimbursement of this amount”.
- 3.5 In Clause 23.3 of the Deed of Trust, the following paragraph will be added at the end thereof:
- “It is clarified that a reduction in the rate of interest specified in the debenture, a change in the times of payment of the principal and the interest, the deletion of any of the grounds enumerated in Clause 7 of this deed, or the deletion of any of the reports according to this deed which the Company has undertaken to send to the Trustee – will be capable of being changed only if the provisions specified in Clause 23.3.2 above have been fulfilled”.
- 3.6 In Clause 27 of the Deed of Trust, instead of: “at the bank/s” there shall be substituted: “at one of the five largest banks”, and instead of: “provided that any investment in securities shall be in securities that have been rated with a rating of not lower than a AA rating” there shall be inserted: “provided that any investment in securities shall be in government bonds and/or in bank deposits only.”
4. It is clarified that the alterations in the Deed of Trust as set forth in this Addendum shall apply only in regard to the Debentures (Series C) and this Addendum does not make the conditions set forth in this Addendum applicable to other series of debentures the Company is entitled to offer pursuant to the Shelf Prospectus (that is to say, Debentures (Series D to H)).

In witness whereof the parties have hereunto signed:

/s/
Hermetic Trust (1975) Ltd.

/s/ Dror Moran, Zeev Stein
Blue Square Real Estate Ltd.

[Unofficial Translation]

DEED OF TRUST
signed on February 18, 2010

Between:

BLUE SQUARE – ISRAEL LTD.
2 Ha’amal Street, Sibel Industries, Rosh Ha’ayin
Tel.: 03-9282672; fax: 03-9282498
(hereinafter: **“the Company”**)

of the one part

And:

HERMETIC TRUST (1975) LTD.
of 113 Hayarkon Street, Tel Aviv
Tel.: 03-5272272; fax: 03-5271736
(hereinafter: **“the Trustee”**)

of the other part

- WHEREAS
- On February 18, 2010 the board of directors of the Company approved the publication of a shelf prospectus (hereinafter: **“the Prospectus”** or **“the Shelf Prospectus”**) pursuant to which the Company may, *inter alia*, issue up to 5 series of Debentures (Series C to Series G) which are not convertible into shares of the Company and up to 3 series of Debentures (Series H to J) which are convertible into shares of the Company (hereinafter collectively: **“the Debentures”**) to the public in Israel in the framework of shelf offering reports; and
- WHEREAS
- The Trustee is a company limited by the shares which was duly incorporated in Israel and whose object is to engage in trusteeships; and
- WHEREAS
- The Trustee declares that there is no impediment according to the law (as defined below), or any other rule or law, to its entering into this Deed of Trust with the Company and that it meets the requirements and conditions of qualification specified in the Law (as defined below) to serve as a trustee in accordance with this Deed of Trust; and
- WHEREAS
- The Trustee has no material interest in the Company, and the Company has no personal interest in the Trustee; and
- WHEREAS
- The Company declares that there is no impediment according to any law to its contracting with the Trustee under this Deed of Trust; and

WHEREAS The Company has made a request to the Trustee that subject to the issue to the public in Israel of a series forming part of the series of Debentures, that the Trustee serve as trustee for the holders of Debentures that will be issued in this framework, and the Trustee has agreed thereto, all subject to and in accordance with the terms and conditions of this Deed of Trust, subject to the condition that at the time of offering by the Company of the Debentures the Company and the Trustee will examine a possibility of the Trustee serving as a trustee for the series of Debentures offered, coupled with examining the existence or absence of a conflict of interest between holders of the relevant series, with this being in accordance, *inter alia*, with the terms and conditions of this Deed of Trust, the directives of the Securities Authority and/or the law which applies at such time; and

WHEREAS The Trustee agrees to sign this Deed of Trust and to act as trustee for the debenture holders;

Now therefore it is agreed, declared and stipulated by the parties as follows:

1. **Preamble, interpretation and definitions**
- 1.1 The preamble to this Deed of Trust and the appendices hereto constitute an integral part hereof.

1.2 The division of this Deed of Trust into clauses and to the insertion of headings to the clauses has been done for reasons of convenience and as place-finders only, and no use shall be made thereof for purposes of interpretation.

1.3 Everything stated in this deed in the plural shall also include the singular, and *vice versa*, everything in the masculine gender shall also include the feminine, and *vice versa*, and any words importing a person shall also include a body corporate, provided that there is no other express and/or implied provision in this deed and/or if the contents or the context thereof otherwise dictate.

1.4 In every case of a conflict between the Deed of Trust and the documents which accompany it, the provisions of the Deed of Trust shall prevail. In every case of a conflict between the provisions described in the Prospectus in connection with this deed and/or the Debentures, the provisions of this deed shall prevail.

1.5 In this Deed of Trust the following expressions will have the meanings set opposite them, unless a different meaning is to be inferred from the content or the context thereof;
- “The Company”

Blue Square – Israel Ltd.;

“This deed” or “the Deed of Trust”

This Deed of Trust including the addenda and appendices attached hereto which form an integral part hereof;

“The Trustee”	The Trustee mentioned at the head of this deed and/or any entity that may from time to time serve as Trustee for the debenture holders pursuant to this deed;
“Shelf Prospectus”	The Company’s Shelf Prospectus which is due to be published in February 2010;
“Offering report” or “shelf offering report”	The offer of the Debentures of any of the series in accordance with the Shelf Prospectus, which is made by way of an offering report in accordance with the provisions of Section 23 of the Law (as defined below), in which all the special particulars relating to such offering shall be completed, including the composition of the units offered, in accordance with the provisions of any law and in conformity with the regulations and directives of the Stock Exchange, as in force for the time being;
“The Law”	The Securities Law, 5728-1968 and the regulations made pursuant thereto, as in force from time to time;
“Register”	The register of debenture holders as referred to in Clause 24 of this deed;
“Stock Exchange”	The Tel Aviv Stock Exchange Ltd.;
“Principal”	The par value of the Debentures of the relevant series;
“Special resolution”	A resolution passed by a general meeting of debenture holders of the relevant series, at which the holders of at least fifty percent (50%) of the balance of the par value of the Debentures of that series in circulation, were personally present or represented by proxy, or at an adjourned meeting at which the holders of at least ten percent (10%) of the aforesaid balance were personally present or represented by proxy, and which resolution was passed (whether at the original meeting or at the adjourned meeting) by a majority of at least seventy-five percent (75%) of all the votes of the persons participating in the votes, excluding abstentions;

“The nominee company”	Bank Hapoalim Nominee Company Ltd.;
“Series of Debentures” or “the relevant series”	Series of registered debentures which will be called Series C to G and/or Series H to J of the Company’s Debentures, on a basis that each of these series of Debentures will have an aggregate par value of up to NIS 1,500,000, the conditions of each of which being in accordance with the debenture certificate of such series and the first offering report of the Debentures of that series, which will be issued by the Company from time to time in its sole discretion;
“The debenture holders” and/or “holders of the Debentures” and/or “the holders”	Any person who holds the Debentures;
“Trading day”	Any day on which transactions are executed on the Tel Aviv Stock Exchange Ltd.;
“Stock Exchange Clearing House”	The clearing house of the Tel Aviv Stock Exchange Ltd.;
“Rating company”	A rating company which has been approved by the Supervisor of the Capital Market at the Ministry of Finance;

2. **General**

- 2.1 Unless otherwise expressly stated, the contents of this deed will apply separately to each of the series of Debentures of Series C to G and of Series H to J which may be issued pursuant to the Shelf Prospectus, and this Deed of Trust shall be deemed to have been signed separately for each series forming part of the aforesaid series of Debentures.
- 2.2 Unless otherwise expressly stated in this Deed of Trust, the issue of any of the series of the Debentures mentioned in this Deed of Trust is not dependent on another series. Each series forming part of the series of Debentures is separate and independent from the other series of Debentures that might be issued pursuant to the Shelf Prospectus, and the reference in this Deed of Trust to the series of Debentures shall be in relation to each series separately without being connected to the other series of Debentures.

3. **Issue of Debentures**

- 3.1 The Company may in its sole discretion, subject to the publication of a shelf offering report, issue up to 5 series of registered Debentures (Series C to G) where each of the series of Debentures will have a total par value of up to NIS 1,500,000,000, repayable (principal) in one payment or in several equal payments which shall not exceed four quarterly payments per annum as shall be particularized in the first offering report, and will be paid on each of the dates, as shall be particularized in the offering report pursuant to which each of the aforesaid series of Debentures is first issued (**“Debentures of Series C to G”**). The linkage basis (or absence of linkage) and the type of interest (or absence of interest) which the principal of the Debentures of any of the aforesaid series that may be issued will bear will be specified in the offering report pursuant to which these Debentures are first issued. For particulars regarding the linkage bases for the Debentures of Series C to G, that are possible under the Shelf Prospectus, and for particulars regarding the possible types of interest pursuant to the Shelf Prospectus, see Paragraphs 3.1.3 and 4 of the conditions appearing on the reverse side of the Debentures (Series C to G), respectively. The rate of interest which the principal of the Debentures of each of the aforesaid series that may be issued in accordance with the Shelf Prospectus, or the margin above or below the base interest which the principal of the Debentures of each of the aforesaid series will bear, or the absence of interest which the principal of the Debentures of each of the aforesaid series will bear, as the case may be, will be particularized in the offering report pursuant to which these Debentures are first offered, or will be fixed in a tender pursuant to which the first offering thereof will be made. The interest, if any, on the principal of the Debentures of Series C to G will be paid in a number of payments which shall not exceed four quarterly payments per annum, as will be particularized in the offering report pursuant to which these Debentures are first offered. The times and the number of payments of principal, the linkage basis (or absence of linkage), the type of interest, the rate of interest or the manner of determining it and the times for payment of the interest (or the absence of interest) of Debentures of Series C to G, as will be particularized in the offering report pursuant to which the aforesaid series of Debentures are first offered, will be decided by the Company immediately prior to the first offering of the Debentures of the relevant series (**“First Offering of Debentures of Series C to G”**). For further details see also Paragraph 3, 4 and 5 of the conditions on the reverse side of the Debentures (Series C to G).

- 3.2 In addition the Company may in its sole discretion, subject to the publication of a shelf offering report, issue up to 3 series of registered Debentures (Series H to J), on a basis that each of the series of Debentures will be to an aggregate par value of up to NIS 1,500,000,000, repayable (principal) in one payment or in several equal payments which shall not exceed four quarterly payments per annum, as shall be particularized in the first offering report, and which will be paid on each of the dates, as will be particularized in the offering report pursuant to which each of the aforesaid series of Debentures is first offered (**“the Debentures of Series H to J”**). The linkage basis (or absence of linkage) and the type of interest (or absence of interest) which the principal of the Debentures of each of the aforesaid series that will be issued will bear will be particularized in the offering report pursuant to which these Debentures are first issued. For details of the linkage bases of the Debentures of Series H to J that are possible under the Shelf Prospectus, and for particulars of the possible types of interest pursuant to the Shelf Prospectus, see Paragraphs 3.1.3 and 4 of the conditions appearing on the reverse side of the Debentures (Series H to J), respectively. The rate of interest which the principal of the Debentures of each of the aforesaid series that may be issued in accordance with the Shelf Prospectus will bear, or the margin above or below the base interest which the principal of the Debentures of each of the aforesaid series will bear, or the absence of interest which the principal of the Debentures of each of the aforesaid series will bear, as the case may be, will be particularized in the offering report pursuant to which these Debentures are first offered. The interest, if any, on the Debentures of each of the aforesaid series will be paid in a number of payments which shall not exceed four quarterly payments per annum and which will be particularized in the offering report pursuant to which these Debentures are first offered. The times and number of payments of principal, the linkage basis (or absence of linkage), type of interest, the rate of interest or the manner for fixing it and the dates of payment of the interest (or absence of interest) of the Debentures of Series H to J, as will be particularized in the offering report pursuant to which each of the aforesaid series is first offered, will be fixed by the Company immediately prior to the first offering of the Debentures of the relevant series (**“First Offering of Debentures of Series H to J”**). Debentures of Series H to J will be convertible into ordinary shares of the Company of NIS 1 par value each, on any trading day commencing from the date of the listing of these Debentures for trading on the Stock Exchange and up to a number of days before the end of the period of the Debentures of that series, except a number of days before the effective date for partial redemption in accordance with the Stock Exchange directives, as in force on the date of the offering report, as defined in Clause 1.6 above, and up to the date partial redemption is made, at a conversion price that shall not be less than the par value of the ordinary shares at the date of the first offering report of Debentures of Series H to J (subject to adjustments as stated in Paragraph 6.3 of the conditions appearing on the reverse side of the Debenture (Series H to J), in such manner and on such conditions as will be particularized in the first offering report of the Debentures of each of the aforesaid series, in accordance with the fixing of such details by the Company immediately prior to the first offering of the Debentures of the relevant series. For further particulars see also Paragraphs 3, 4, 5 and 6 of the conditions appearing on the reverse side of the Debenture (Series H to J).

3.3 Enlargement of the series

The Company may at any time and from time to time, in its sole discretion, without the necessity for the consent of the debenture holders or the Trustee, or for the giving of notice to any of them to that effect, including a related corporation as defined in Clause 4.2 below, and in accordance with the provisions of any law, issue additional debentures of any series (whether by private placement or by an offering to the public) the conditions of which shall be identical to the conditions of the Debentures of the same class which have been issued, at such price and on such conditions as it deems fit, and this deed shall also apply with respect to any such additional Debentures that may be issued by the Company, and the status of the additional Debentures from the date of their issue shall, *mutatis mutandis* as the case may be, be the same as the Debentures issued in this issue. The Trustee shall serve as trustee for the Debentures of the relevant series as may be in circulation from time to time, also in the case of an enlargement of a series, and the Trustee's consent to serving as aforesaid for the enlarged series shall not be required. For the removal of doubt, holders of the additional Debentures referred to above in this clause will not be entitled to interest in respect of interest periods which ended prior to the date of their issue. Notwithstanding the foregoing, in a case in which the series of Debentures is rated – the enlargement of the series shall be made subject to obtaining prior approval from the rating company to the effect that the enlargement of the series as aforesaid will not adversely affect the rating of the Debentures as applies at such time. In the case of an enlargement of a series of Debentures of the relevant series, the Trustee will have the right to demand an increase in its remuneration, proportionate to one-half of the extent of the enlargement of the series (50%), and the Company, by contracting under this deed, gives its consent in advance to such increase in the Trustee's remuneration.

The Debentures (Series C to G) and the Debentures (Series H to J) may be issued at their par value, at a discount or at a premium.

Should the discount rate that will be fixed for the Debentures of any series as a consequence of the enlargement of a series of Debentures of that series differ from the discount rate of the Debentures of the same existing series in circulation for the time being (if any), the Company will apply to the Taxes Authority, shortly before the enlargement of the series of Debentures, in order to obtain its approval that for purposes of deduction of tax at source from the discount charges in respect of the aforesaid Debentures, a uniform discount rate will be fixed for the aforesaid Debentures according to a formula which weights the different rates of discount in such series, if any.

In the event of receiving such approval, the Company shall calculate the weighted discount rate in respect of all the Debentures of that series, and shall publish an immediate report shortly before the enlargement of the series in regard to the weighted uniform discount rate and shall deduct tax on the dates of payment of the aforesaid Debentures, according to such weighted discount rate and in accordance with the provisions of the law. If such approval is not received, the Company shall give notice in an immediate report, shortly after receipt of the Taxes Authority's notice and prior to enlargement of the series about the non-receipt of such approval and that the uniform discount rate will be the highest discount rate created in respect of the Debentures of that series. The Company shall deduct tax at source in respect of the payment of Debentures of that series in accordance with the discount rate that will be reported as aforesaid.

Accordingly, situations are likely in which the Company will deduct tax at source in respect of discount charges at a higher rate than the discount charges that were fixed for anyone who held Debentures of that series prior to the enlargement of the aforesaid series. In such case a taxpayer who held Debentures of that series, before the enlargement of the series and until repayment of the aforesaid Debentures, will be entitled to submit a tax return to the Taxes Authority and to receive a refund of the tax that was deducted from the discount charges, if he is entitled to such refund according to law.

3.4 Issue of additional securities

The Company may at any time and from time to time (whether by private placement or by an offering to the public) and in its discretion, and without the necessity for the consent of the debenture holders or the Trustee or the giving of notice to any of them about this, including a related corporation as defined in Clause 4.2 below, issue debentures of a different class or other series of debentures or other securities of any sort, with or without ancillary rights for the purchase of shares of the Company, under conditions of interest, linkage, collateral security, repayment, and other conditions as the Company shall see fit, whether such conditions are more favorable than the conditions of the Debentures, or are equal or inferior thereto.

4. Purchase of Debentures by the Company and/or by a related corporation

- 4.1 The Company reserves the right to buy Debentures of the series of Debentures at any time and from time to time at such price as it deems fit, without prejudice to the obligation for repayment of the Debentures that will be held by others apart from the Company. Debentures that will be bought by the Company will be cancelled upon their purchase and will be delisted, and the Company will not be entitled to reissue same. In the event of the purchase of Debentures by the Company as aforesaid, the Company will give notice to that effect to the Trustee shortly after the purchase and shall also lodge an immediate report to that effect. Where the Debentures are bought as aforesaid by the Company in the course of trading on the Stock Exchange, the Company will apply to the Stock Exchange Clearing House with a request to withdraw the certificates.
- 4.2 Any subsidiary of the Company and/or company under its control and/or the controlling shareholder in the Company (directly or indirectly) or a company under the control of the controlling shareholder in the Company (apart from a company with respect to which the contents of Clause 4.1 above apply) (hereinafter: **“Related Corporation”**) will be entitled to buy and/or to sell Debentures of any series of Debentures at any time and from time to time, including by way of an issue by the Company. The Debentures that will be held as aforesaid by a Related Corporation will be deemed to be an asset of the Related Corporation, same will not be delisted and will be transferable in the same way as the other Debentures of the Company (subject to the provisions of the Deed of Trust and the Debenture). For purposes of holding a meeting of debenture holders the provisions of the Second Schedule to the Deed of Trust [shall apply]. In the case of buying and/or selling of Debentures by such Related Corporation, the Company will give notice to that effect to the Trustee shortly after the purchase and/or sale as aforesaid and will also lodge an immediate report to that effect. In addition, for purposes of a quorum and in the counting of the persons who vote at general meetings of the debenture holders, the contents of the provisions of the Second Schedule to this deed shall apply.

4.3 Nothing contained in this Clause 4 shall in itself oblige the Company or the debenture holders to buy Debentures or to sell the Debentures held by them.

5. **The Company’s obligations**

The Company hereby undertakes to pay all amounts of principal, interest (including penalty interest as defined in Paragraph 5.3 of the conditions appearing on the reverse side of the Debenture, if and to the extent that it applies) and linkage differences which are payable in accordance with the conditions of the Debentures, to the extent that same are payable, and to comply with all the remaining conditions and obligations that are imposed on it in accordance with the terms and conditions of the Debentures and according to this deed. In every case in which the date of payment on account of an amount of principal and/or interest falls on a day which is not a business day, the due date for payment will be postponed to the immediately following next business day, without any additional payment, interest or linkage.

6. **Collateral security**

6. The Debentures of Series C to G and of Series H to J may or may not be secured by collateral security, by any encumbrances or in any other manner. Particulars regarding the mechanism for securing the Debentures of Series C to G and of Series H to J, in the event that they are secured by collateral, any encumbrances or in any other manner, will be published in the framework of the first shelf offering report of each of the series of Debentures and in the scope of an addendum to the Deed of Trust which will be signed between the Company and the Trustee. In such case the Trustee will be entitled to extra remuneration as shall be fixed between it and the Company.
- 6.2 For the removal of doubt it is clarified that there shall be no obligation on the Trustee to examine, and in practice the Trustee has not examined, the necessity for providing collateral security to secure the payments to the debenture holders. The Trustee was not requested to perform, and in practice the Trustee has not performed, an economic, accounting or legal due diligence examination in regard to the state of business of the Company or the subsidiaries. By its entering into this Deed of Trust and by its consent to serve as trustee for the debenture holders, the Trustee is not expressing its opinion, expressly or impliedly, in regard to the Company’s ability to meet its obligations to the debenture holders. Nothing in the foregoing shall derogate from the Trustee’s duties and obligations according to any law and/or the Deed of Trust, nor does it derogate from the Trustee’s duty and obligation (to the extent that such duty is imposed on the Trustee according to any law) to examine the impact of changes in the Company from the date of the issue onwards, to the extent that such changes could have an adverse effect on the Company’s ability to meet its obligations to the debenture holders.

- 6.3 The Company may, from time to time, sell, encumber, lease under leasehold, assign, make over or otherwise transfer or dispose of its property, in whole or in part, without the necessity for obtaining approval from the Trustee or the debenture holders, and the Company is not obliged to notify the Trustee in regard to the creation of any encumbrance over its assets.

7. **Priority ranking**

All the Debentures that may be offered shall rank *pari passu* with one another in regard to the amounts due in respect thereof, without any debenture having precedence or priority over another.

8. **Right to make Debentures immediately due and payable**

- 8.1 On the occurrence of one or more of the events mentioned below in this clause, the provisions of Clause 8.2 will apply, as the case may be –
- 8.1.1 If the Company does not pay any amount that is due from it in connection with the Debentures within 45 days after the due date of payment thereof has arrived.
- 8.1.2 If a permanent or final liquidation order is granted by the court in respect of the Company.
- 8.1.3 If a provisional liquidation order is granted by the court, or if a valid resolution is passed for the winding-up of the Company (apart from a winding-up for purposes of a merger with another company and provided that the absorbing company has assumed the Company's full obligations to the debenture holders) and such order or resolution has not been set aside or rescinded within 60 days from the date on which the order was given or the resolution passed, as the case may be, provided that this has the effect of endangering the possibility of payment of any amount due from the Company in accordance with the Debentures.
- 8.1.4 If an attachment is imposed on the Company's assets, in whole or in part, and the attachment is not removed within 60 days from the date on which it was imposed, provided that this has the effect of endangering the possibility of payment of any amount that may be due from the Company in accordance with Debentures.

- 8.1.5 If an Execution Office operation is executed against some or all of the Company's assets, and such action is not rescinded or set aside within 60 days from the date on which it was performed, provided that this has the effect of endangering the possibility of payment of any amount that may be due from the Company in accordance with the Debentures.
- 8.1.6 If a permanent receiver is appointed for the Company and/or its assets, in whole or in part.
- 8.1.7 If a provisional receiver is appointed for the Company and/or for its assets, in whole or in part, and the appointment is not set aside within 60 days, provided that this has the effect of endangering the possibility of payment of any amount that may be due from the Company in accordance with the Debentures.
- 8.1.8 If the Company ceases, or gives notice of its intention to cease, its payments, or if it ceases, or gives notice of its intention to cease, conducting its business as same applies from time to time.
- 8.1.9 If a stay of execution order is granted or if an application has been filed by the Company for the making of an arrangement with creditors of the Company pursuant to Section 350 of the Companies Law, 5759-1999 (except for purposes of a merger with another company and/or a change in the Company's structure).
- 8.1.10 If a genuine fear exists that the Company will cease making its payments or that the Company will, for reasons of insolvency, discontinue its business.

"The Company's assets" mean: assets owned by the Company the value of which exceeds 75% of the Company's consolidated equity, according to its last consolidated financial statements that were published.

It is clarified that if any particular series of Debentures is rated, a cessation of rating or a reduction of rating will not confer on the holders a right to make the Debentures of the relevant series immediately due and payable.

- 8.2 On the occurrence of any of the events mentioned in Clause 8.1 above, and in accordance with the provisions contained in the sub-clauses thereof, the following provisions shall apply:
- 8.2.1 On the occurrence of any of the events referred to in Clauses 8.1.1 – 8.1.9 (above), the Trustee will be entitled to call a meeting of the debenture holders; **or**

- 8.2.2 On the occurrence of the event mentioned in Clause 8.1.10 above, the Trustee shall be entitled (but not obliged), and each of the debenture holders (without reference to the extent of his holdings of Debentures), will be entitled to call a meeting of the debenture holders.
- 8.2.3 The date for convening of the meeting, which will be called in accordance with the provisions of Clauses 8.2.1 or 8.2.2 above, shall be after 30 days from the date on which it was called (or a shorter period in accordance with the provisions of Clause 8.2.6 below), the agenda of which shall contain a resolution regarding the making of the entire unpaid balance of the Debentures (of the relevant series) immediately due and payable, by virtue of the occurrence of any of the events described in Clause 8.1 above. The Trustee's action shall be performed in the aforesaid instances without delay and at the first possible reasonable time. In the notice calling the meeting it shall be specified that if the Company causes the cancellation and/or stoppage of the event mentioned in Clause 8.1 above by virtue of which the meeting has been called up to the time the meeting is convened, then the calling of the meeting of debenture holders as aforesaid will be cancelled. It is clarified, that nothing in the foregoing shall prevent the Trustee from calling a meeting of debenture holders (Series C to G) and Debentures (Series H to J) at an earlier time, provided that the Trustee shall not be able to make the Debentures immediately due and payable, except subject to the times set forth in this Clause 8.2.
- 8.2.4 In a case in which any of the events mentioned in Clause 8.1 above has not been cancelled or removed up to the time of convening of the meeting, and the resolution of the meeting of debenture holders as mentioned in Clause 8.2.3 above was passed by a special resolution (as defined in Clause 1.6 above), the Trustee shall be obliged, within a reasonable time and as soon as possible, to make the entire unpaid balance of the Debentures of the relevant series immediately due and payable, provided that it has given the Company written warning notice of 15 days of its intention to do so, and the event by virtue of which the resolution was passed has not been cancelled or removed within such period.
- 8.2.5 A copy of the notice calling such meeting shall be sent by the Trustee to the Company immediately upon publication of the notice and shall constitute prior written warning notice to the Company of the Trustee's intention to act as aforesaid.
- 8.2.6 The Trustee may in its discretion shorten the period of 30 days aforesaid (as mentioned in Clause 8.2.3 above) and/or the aforesaid 15 days warning notice (mentioned in Clause 8.2.4 above) in the event that the Trustee is of the opinion that any delay in making the Company's debt due and payable substantially endangers the rights of the debenture holders, but under no circumstances shall the Trustee do so without prior written reference to the Company setting forth the reasons for shortening the period and on condition that no reply satisfactory to the Trustee in this regard has been received from the Company within 2 business days from the date of the aforesaid notice.

8.2.7 The Trustee shall notify the debenture holders of the occurrence of an event which constitutes grounds for making the Debentures immediately due and payable, after it has actually become aware of the fact. Such notice shall be published as an immediate report.

9. **Claims and proceedings by the Trustee**

9.1 In addition to any provision as aforesaid as a right and independent authorization, the Trustee shall, without giving additional notice, take all such steps, including legal proceedings, as it deems fit and subject to the provisions of any law, for purposes of safeguarding the rights of the debenture holders.

Nothing in the foregoing shall prejudice and/or derogate from the Trustee’s rights to commence legal and/or other proceedings also if the Debentures have not been made immediately due and payable, all of which is intended to safeguard the debenture holders and/or for purposes of the grant of any order in relation to the affairs of the trust, and subject to the provisions of any law. Notwithstanding the contents of this Clause 9, it is clarified that the right to make the Debentures immediately due and payable shall only arise in accordance with the provisions of Clause 8 above and not pursuant to this Clause 9.

9.2 The Trustee shall be obliged to act as stated in sub-clause 9.1 above if it is called upon to do so by special resolution passed at a general meeting of the debenture holders, unless it finds that in the circumstances of the matter it is not fair and/or is not reasonable to do so, and has applied to the appropriate court with an application to receive instructions on the subject at the first reasonable opportunity.

9.3 The Trustee may, before taking proceedings as aforesaid, convene a meeting of the debenture holders in order for it to be decided by the holders by special resolution what steps should be taken to exercise their rights pursuant to this Deed. The Trustee shall further be entitled to reconvene meetings of the debenture holders for purposes of obtaining instructions in regard to the conduct of such proceedings. The Trustee’s action shall be taken in such cases without delay and at the first possible reasonable time. For the avoidance of doubt it is clarified that the Trustee will not be entitled to delay the taking of steps as aforesaid in a situation in which the procrastination is likely to prejudice the rights of the debenture holders.

9.4 Subject to the provisions of this Deed of Trust, the Trustee shall be entitled, but not obliged, to call a general meeting of the debenture holders, at any time, in order to discuss and/or to receive instructions of the meeting on any matter pertaining to this Deed. For the avoidance of doubt it is clarified that the Trustee will not be entitled to delay the calling of the meeting in a situation in which the procrastination is likely to prejudice the rights of the debenture holders.

9.5 Whenever the Trustee is obliged according to the terms and conditions of this Deed to perform any action, including the commencement of proceedings or the institution of claims on a demand by the debenture holders as stated in this clause, the Trustee shall be entitled to refrain from taking such action until it receives instructions from a meeting of the holders and/or instructions of a court to which the Trustee has applied, in its discretion, with an application for instructions in a situation in which it believes that there is a necessity for such instructions. For the avoidance of doubt it is clarified that the Trustee will not be entitled to delay the taking of action or of such proceedings in a situation in which the procrastination is likely to prejudice the rights of the debenture holders, including in a case of the taking of proceedings for making the Debentures immediately due and payable as decided by a meeting of the debenture holders in accordance with Clause 8 above, and subject to the instructions thereof.

10. **Trust over receipts**

All the receipts that will be received by the Trustee, save and except its remuneration and payment of any debt to it in any manner, including, without limitation, as a result of proceedings it may take, if any, against the Company, shall be held by it in trust and shall be used by it for the objectives and according to the sequence of priority set forth below:

Firstly for discharging the reasonable expenses, payments, levies and obligations incurred by the Trustee, imposed on it, or caused in the course of or as a consequence of actions for performing the trust or otherwise in connection with the terms and conditions of this Deed, including its remuneration. Secondly – in order to pay the debenture holders the arrear interest and/or arrears on principal that are due to them under the terms and conditions of the debenture *pari passu* and *pro rata* to the amount of the interest and/or the principal that is in arrear which is due to each of them, without preference or prior right with respect to any of them; thirdly – in order to pay the debenture holders the amounts of principal and/or interest which are due to them according to the Debentures held by them, *pari passu*, whether or not the time for discharge and liquidation of the amounts of principal and/or interest have arrived, and *pro rata* to the amounts that are due to them, without any preference in regard to priority in time of the issue by the Company of the Debentures or otherwise, and the surplus, if there is such, shall be paid by the Trustee to the Company or its successors-in-title, as the case may be.

Payment of the amounts by the Trustee to the debenture holders as aforesaid, out of the receipts that will be received by it, is subject to the rights of the Company's other creditors, if there are such, and according to the provisions of the law.

The Trustee may instruct the Company in writing to transfer any payment which the Company owes to the holders to the Trustee's account (for the debenture holders). The Company shall act in accordance with the Trustee's notice and the Company shall be deemed to have fulfilled its obligation to the holders if it proves that it transferred the full amount of the debt to the credit of the account the details of which were given in the Trustee's notice. Subject to the provisions of any law, the Trustee may set off any amount the Company and/or the holders owe to the Trustee pursuant to this Deed of Trust. Nothing in the foregoing shall release the Company from its liability to bear the aforesaid payments of expenses and remuneration wherever it is obliged to bear same in accordance with this Deed or according to law.

11. **Authority to delay distribution of money**

- 11.1 Notwithstanding the contents of Clause 10 above, if the monetary amount that will be received as a result of the taking of the proceedings described above and which is available at any time for distribution, as stated in that clause, is less than NIS 3,000,000, the Trustee will be not obliged to distribute same and it may invest the aforesaid amount, in whole or in part, in the investments that are permitted pursuant to this Deed and may from time to time vary and replace such investments with other permitted investments, as it sees fit.
- 11.2 When the investments referred to above, together with the profits thereon and together with additional moneys that may come into the possession of the Trustee for purposes of payment to the debenture holders, if any, reach an amount that will be sufficient for the payment of at least NIS 3,000,000, the Trustee shall make payment thereof to the debenture holders as stated in Clause 10 above. If within a reasonable period of time the Trustee does not have possession of an amount that will be sufficient in order to pay at least NIS 3,000,000, the Trustee shall distribute the moneys held by it to the debenture holders and under all circumstances not later than once every three months. Notwithstanding the foregoing, the debenture holders may, by ordinary resolution, compel the Trustee to pay them the amounts that have accumulated in the Trustee's possession even if such amounts have not reached NIS 3,000,000. Notwithstanding the foregoing, payment of the Trustee's remuneration and the Trustee's expenses shall be paid out of the aforesaid moneys immediately the due date for payment thereof arrives, even if the amounts that have come into the Trustee's possession are lower than a sum of NIS 3,000,000 as aforesaid.

12. **Notice regarding distribution and deposit with the Trustee**

- 12.1 The Trustee shall notify the debenture holders of the date and place at which any of the payments mentioned in Clauses 10 and 11 above will be made, and shall do so by way of prior notice of 14 days that shall be delivered in the manner specified in Clause 24 below, not less than ten days and not more than twenty days in advance.

After the effective date mentioned in the notice, the debenture holders will be entitled to interest according to the rate fixed in the Debentures, only on the balance of the amount of principal (if any) after deduction of the amount that was paid or offered to them for payment as aforesaid.

- 12.2 The moneys that will be distributed as stated in Clause 12.1 above will be deemed to be a payment on account of repayment.
- 12.3 Any amount which is due to the debenture holder which was not actually paid on the date specified for the payment thereof, for a reason not associated with the Company, and where the Company was prepared to pay it, shall cease to bear interest and linkage differences from the date that was fixed for the payment thereof, and the debenture holder will be entitled only to those amounts he would have been entitled to at the date fixed for the settlement of such payment on account of the principal, the interest and the linkage differences.
- 12.4 The Company shall, within 15 business days from the date fixed for such payment, deposit with the Trustee, in bank accounts in the name of the Trustee and to its order, the amount of the payment that was not paid on due date, as referred to in sub-clause 12.3 above, and shall give notice in writing according to the addresses in its possession to the debenture holders about such deposit, and the aforesaid deposit shall be deemed to be liquidation and discharge of such payment, and in the case of liquidation and discharge of everything due in respect of the Debenture, shall also be deemed to be redemption of the Debenture.
- 12.5 The Trustee shall, in the framework of the trust accounts in its name and to its order, invest the moneys that will be transferred to it as stated in sub-clause 12.4 above, in investments which are permitted to the Trustee in accordance with this Deed (as stated in Clause 15 below). Where the Trustee has done so, it will not be liable to the entitled persons in respect of such amounts, except to the extent of the proceeds that will be received from realization of the investments, less reasonable expenses connected with the aforesaid investments and management of the trust accounts, the reasonable commissions and less the compulsory payments imposed on the trust account. Out of the aforesaid moneys the Trustee shall transfer amounts to the debenture holders who are entitled thereto, and shall do so as soon as possible after reasonable proof and approvals of their right to these amounts has been furnished to the Trustee, less all the Trustee's reasonable expenses, commissions, compulsory payments and its remuneration as mentioned in Clause 12.4 above.
- 12.6 The Trustee shall hold these moneys and shall invest same in the aforesaid manner, until the end of one year from the final date of repayment of the Debentures. After that date, the Trustee shall transfer to the Company the moneys referred to in sub-clause 12.5 above, including profits arising from the investment thereof, less its reasonable expenses and other reasonable expenses that were incurred in accordance with the provisions of this Deed (such as the remuneration of service providers, etc.), if any remain in its possession at that time. The Company shall hold such amounts in trust for the debenture holders who are entitled to such amounts, and the provisions of sub-clause 12.5 above shall apply, *mutatis mutandis*, with respect to the amounts that will be transferred to it by the Trustee as aforesaid.

- 12.7 Upon transfer of the money from the Trustee to the Company, to the Trustee's satisfaction, the Trustee will be exempt from payment of such amounts to the entitled debenture holders. The Company shall confirm to the Trustee in writing the holding of the amounts and the fact of receipt thereof in trust for the aforesaid debenture holders. It is clarified that in accordance with the operations and pursuant to this clause, the indemnity provisions contained in Clause 22 below shall apply and shall indemnify the Trustee in respect of any claim and/or expenses and/or damage of whatsoever nature that may be sustained by it due to and in respect of the transfer of such moneys, unless the Trustee acted with gross negligence.
- 12.8 The Company shall hold these moneys in trust for the debenture holders who are entitled to such amounts for an additional one year from the date of transfer thereof to it from the Trustee and shall make no use thereof, and shall invest same in accordance with the provisions of this Deed. Moneys which are not claimed from the Company by a debenture holder up to the end of two years from the final date of repayment of the Debentures, will be transferred to the Company, and it will be entitled to make use of the remaining moneys for any purpose. The foregoing shall not derogate from the obligation of the Company to the debenture holders to pay moneys to which they are entitled as aforesaid according to any law.
13. **Receipt from the debenture holders and from the Trustee**
- 13.1 A receipt from the Trustee regarding deposit of amounts of principal, interest and linkage differences with it to the credit of the debenture holders shall provide the Company with an absolute release in regard to the actual effecting of payments of the amounts denominated in the receipt.
- 13.2 A receipt from a debenture holder in respect of the amounts of principal, interest and linkage differences which were paid to him by the Trustee in respect of the debenture shall give the Trustee and the Company an absolute release in connection with the actual making of payment of the amounts denominated in the receipt.
- 13.3 Moneys that have been distributed as stated in Clause 12 above shall be deemed to be a payment on account of repayment of the Debentures.
14. **Presentation of debenture to the Trustee and note in connection with partial payment**
- 14.1 The Trustee will be entitled to demand from a debenture holder that he exhibit to the Trustee, at the time of payment of any interest or partial payment of the principal amount, interest and linkage differences in accordance with the provisions of Clauses 10, 11 and 12 above, the debenture certificate in respect of which the payments are made, and the debenture holder shall be obliged to present such debenture certificate, provided that this shall not make the debenture holders liable for any payment and/or expense and/or impose any responsibility and/or liability on the debenture holders.

- 14.2 The Trustee will be entitled to record a note on the debenture certificate regarding amounts that were paid as aforesaid as well as the date of payment thereof.
- 14.3 The Trustee will be entitled in a special case, in its discretion, to waive the presentation of the debenture certificate after a deed of indemnity and/or guarantee which is adequate in the Trustee's opinion for damage likely to be sustained due to the non-recording of such note, as the Trustee sees fit, has been given to the Trustee by the debenture holder.
- 14.4 Notwithstanding the foregoing, the Trustee may, in its discretion, maintain records in another manner with regard to such partial payments.

15. **Investment of moneys**

All moneys which the Trustee is entitled to invest according to this Deed, shall be invested by it at a bank/s which is rated with an AA- rating and higher, in its own name or to its order, in investments in securities of the State of Israel or other securities in which the laws of the State of Israel permit the investment of trust moneys, in such manner as it deems fit, all subject to the terms and conditions of this Deed of Trust, provided that any investment in securities shall be in securities that have been rated by a rating company with a rating of not less than AA- or a rating that corresponds thereto. Where the Trustee has done so, it will not be liable to entitled persons in respect of those moneys, except the proceeds that will be received from the realization of the investments, less the Trustee's remuneration and its reasonable expenses, the commissions and expenses connected with the aforesaid investment and management of the trust accounts, the bank charges and less the compulsory payments that are imposed on the trust account, and the Trustee shall act with respect to the balance of such moneys in accordance with the provisions of Clauses 10 and/or 12.5-12.6 above, as the case may be.

16. **The Company's obligations to the Trustee**

The Company hereby undertakes to the Trustee, that until such time as the Debentures have been repaid in full, it will act as follows:

- 16.1 To continue uninterruptedly to conduct its business in a regular and proper manner;

- 16.2 To maintain proper books of account in accordance with accepted accounting principles, to keep the books and the documents that serve as vouchers and authorities for them, and to allow any authorized representative of the Trustee to peruse and inspect, at any reasonable time that shall be coordinated in advance with the Company, any such book and/or document the Trustee may request to peruse. For these purposes, the Trustee's authorized representative means anyone whom the Trustee may appoint for purposes of such perusal and inspection, which shall be done by way of written notice from the Trustee to be delivered to the Company prior to such perusal and which shall also contain the Trustee's confirmation that such authorized person has signed the deed of confidentiality contained in **Appendix A**. The Trustee undertakes, by its signing this Deed of Trust, to keep all information given as aforesaid secret and confidential. It is clarified that subject to any law, the passing on of information to the debenture holders for purposes of the passing of a resolution pertaining to their rights under the debenture or for purposes of reporting on the condition of the Company does not constitute a breach of such confidentiality undertaking. For these purposes, the Trustee and any representative on its behalf shall sign a deed of confidentiality in the text attached to this Deed of Trust as **Appendix A**.
- 16.3 To notify the Trustee as soon as reasonably possible, and not later than 4 business days after it becomes aware of the fact, of any instance in which an attachment has been imposed on all or any of the Company's material assets, and of any situation in which a receiver, special manager and/or provisional and/or permanent liquidator has been appointed in respect of all or any of the Company's material assets, and at its expense to take all reasonable steps as soon as possible for the removal of such attachment or the setting aside of the receivership, liquidation or management, as the case may be.
- 16.4 To notify the Trustee in writing as soon as possible and not later than 3 business days in regard to the occurrence of any of the events mentioned in Clause 8.1 above (including all the sub-clauses thereof) or with regard to the Company's actual knowledge that such event is about to take place.
- 16.5 To provide the Trustee with a copy of any document or any information the Company has passed on to the debenture holders, to the extent that it does so. The Company shall further transfer additional information concerning the Company (including explanations, documents and calculations pertaining to the Company, its business or its assets) to the Trustee or to the Trustee's authorized representative, who shall be an attorney or accountant by profession (in respect of whose appointment notice shall be given to the Company by the Trustee) and the Company shall also instruct its accountant and its legal advisors to do so, upon a reasonable written request from the Trustee, with this being to the extent that, in the Trustee's reasonable opinion, such information is likely to be essential and required for protecting the rights of the debenture holders, provided that the Trustee is acting in good faith, and acts skillfully and reasonably. The Trustee undertakes, by its signing this Deed of Trust, to keep all information given as aforesaid confidential. It is clarified that subject to any law the passing on of information to the debenture holders for purposes of passing a resolution relating to their rights under the debenture or for purposes of reporting on the condition of the Company, does not constitute a breach of its confidentiality undertaking as aforesaid. Any information which has not passed into the public domain, which may be transferred to the Trustee or to its authorized representative as aforesaid shall be kept confidential by them, and no use shall be made thereof except for purposes of fulfilling the Trustee's function as a trustee pursuant to this Deed of Trust, and the Trustee and any authorized representative of the Trustee as aforesaid shall for that purpose sign a deed of confidentiality in the text attached to this Deed as **Appendix A**.

- 16.6 To notify the Trustee, after its demand, by way of written notice signed by a senior officer of the Company, and within 7 business days, about the making of any payment to the debenture holders and about the balance of the amounts (including the balance of the par value of Debentures in circulation) which the Company owes at that time to the debenture holders after the making of the aforesaid payment.
- 16.7 To deliver to the Trustee not later than the end of 30 days from the date of this Deed of Trust an amortization table for payment of the Debentures (principal and interest) in an Excel file.
- 16.8 If the Debentures were rated at the time of their initial issue, to take steps to whatever extent that this is under its control, for the continuation of a rating of the Debentures by at least one of the rating companies approved by the Supervisor of the Capital Market, throughout the entire period of the Debentures.
- 16.9 To invite the Trustee to its general meetings (whether ordinary general meetings or extraordinary general meetings of the shareholders of the Company), without conferring any right on the Trustee to vote at such meetings.
- 16.10 To deliver to the Trustee, at its request, documents and/or particulars and/or information, as may be reasonably requested by the Trustee, in its reasonable discretion, for purposes of implementing and exercising the powers and authorities of the Trustee and/or its authorized representatives in accordance with the Deed of Trust, with this being subject to the provisions of Clause 16.5 above.
- 16.11 Each December 31 of each year, and as long as this Deed remains in force, the Company shall furnish the Trustee with a confirmation to the effect that, to the best of the Company's knowledge, there has not been a material breach by the Company of this Deed, including a material breach of the terms and conditions of the Debentures, in the period from the date of the Deed and/or from the date of the previous confirmation that was delivered to the Trustee, whichever is the later, and up to the date the confirmation is given, unless otherwise expressly stated in the confirmation.
- 16.12 To deliver the statements and reports described in Clause 29 below to the Trustee.
- 16.13 To perform all the requisite and/or reasonably necessary acts and all acts according to any law for purposes of giving validity to the exercise of the powers and authorities of the Trustee and/or its authorized representatives in accordance with the provisions of the Deed of Trust.

17. **Additional obligations**

After the Debentures have been made immediately due and payable in accordance with the provisions of Clause 8 above, in the event of such action being taken, the Company shall from time to time and at any time it is called upon to do so by the Trustee, perform all the reasonable acts in order to enable the exercise of all the powers and authorities vested in the Trustee, and in particular the Company shall perform the following acts if they are reasonable:

- 17.1 It will make the declarations and/or will sign all the documents and/or will perform and/or cause the performance of all the actions that are requisite or required in accordance with the law for purposes of giving validity to the exercise of the powers and authorities of the Trustee and/or its authorized representatives in accordance with this Deed of Trust.
- 17.2 It shall give all the notices, the deposits and the instructions which the Trustee may deem to be beneficial and which the Trustee may demand for purposes of implementing the provisions of this Deed.

18. **Reporting by the Trustee**

- 18.1 If the Trustee becomes aware of a material breach of the Deed of Trust by the Company, it shall notify the debenture holders within a reasonable time and without procrastination, and subject to the provisions of the law, in regard to the breach and the steps that were taken to prevent it or to achieve the fulfillment of the Company’s obligations, as the case may be.
- 18.2 Each calendar year the Trustee shall draw up an annual shelf offering report in regard to the affairs of the trust (hereinafter: **“the Annual Report”**).

The Annual Report shall contain particulars on the following subjects:

- 18.2.1 Current particulars about the course of the affairs of the trust in the preceding year.
- 18.2.2 A report regarding exceptional events in connection with the trust that occurred during the preceding year.
- 18.2.3 The Holders are entitled to read the Annual Report at the Trustee’s offices during normal working hours and will be entitled to receive a copy of the Report upon request.

18.3 The Trustee shall send the debenture holders a notice regarding any exceptional event that occurred in the Company that is likely to have a material impact on the rights of the debenture holders, and shall do so immediately after it has actually become aware of the fact. This duty will not apply if the event involved was an event published by the Company according to the law.

19. **Trustee's remuneration**

The Company shall pay the Trustee remuneration for its services, in accordance with the Deed of Trust, in the manner described below:

19.1 Within one business day after publication of the Shelf Prospectus to the public, a sum of NIS 5,000.

19.2 One business day after publication to the public of an offering report in respect of a series (in relation to each series separately) a sum of NIS 5,000.

19.3 In respect of each year from the date of publication of the shelf offering report in respect of each series separately (including the first year) and so long as Debentures of that series are still in circulation, to pay one of the following amounts:

19.3.1 In a case in which Hermetic is serving for the time being as trustee for 2 series or more – an amount of NIS 10,000; or

19.3.2 In a case in which Hermetic is serving for the time being as a trustee for one series or less – an amount of NIS 15,000.

The amounts according to this Clause 19.3 will be referred to as “the annual remuneration.

The annual remuneration shall be paid to the Trustee at the beginning of each year of trust in respect of each series separately. The annual remuneration shall be paid to the Trustee in respect of the period up to the end of the trust period in accordance with the terms and conditions of the Deed of Trust even if a receiver and/or receiver and manager has been appointed for the Company and/or if the trust pursuant to the Deed of Trust is managed under the court's supervision.

If the Trustee's term of office has come to an end, as stated in Clause 26 above [sic], the Trustee will not be entitled to payment of its remuneration commencing from the date of expiration of its term of office. If the Trustee's term of office came to an end during the trust year, the remuneration that was paid in respect of the months in which the Trustee did not serve as a trustee for the Company, shall be refunded. The contents of this clause shall not apply with respect to the first year of trust.

The Trustee is entitled to reimbursement of the reasonable expenses it incurred in the scope of fulfilling its duties and/or by virtue of powers conferred on it pursuant to the Deed of Trust, including in respect of advertisements in newspapers, provided that in respect of the expenses for an expert opinion, as elucidated in Clause 19.2 above, the Trustee shall give notice in advance of its intention to obtain an expert opinion.

The Trustee is entitled to an additional payment, in respect of an act arising from a breach of the Deed of Trust by the Company and/or in respect of the action for making the Debentures immediately due and payable and/or in respect of special actions it was called upon to perform, if any, for purposes of fulfilling its functions pursuant to the Deed of Trust, all in addition to and without prejudice to the payments that are due to it as stated in this appendix.

The Trustee will be entitled to an additional payment as aforesaid in a sum of NIS 600 in respect of each hour of labor that may be required as described above, linked to the known index at the time of publication of the Prospectus, but under no circumstances less than the amounts specified above.

In respect of each annual shareholders' meeting or meeting of debenture holders (with this being in addition to the payment pursuant to Clause 4 above) and which the Trustee participates, the Trustee shall be paid additional remuneration of NIS 500 per meeting, linked to the known index at the time of publication of the Prospectus, but under no circumstances less than the amount specified above.

If there should be changes in the provisions of the law pursuant to which the Trustee is required to perform acts and/or examinations and/or the preparation of additional statements and reports, the Company undertakes to bear all the reasonable expenses that may be incurred by the Trustee in connection therewith, including a reasonable fee in respect of such actions.

V.A.T., if same applies, shall be added to the payments that are due to the Trustee in accordance with the provisions of this appendix and shall be paid by the Company.

The amounts mentioned in this Agreement are linked to the known index at the time of publication of the Shelf Prospectus, but under no circumstances shall an amount which is lower than the amount specified in the Agreement be paid.

20. **Special powers and authorities**

- 20.1 The Trustee may in the scope of carrying out the affairs of the Trust in accordance with this Deed, requisition an opinion or written advice from any attorney, accountant, chartered real estate appraiser, valuer, surveyor, real estate agent or other expert, whether such opinion or advice was prepared at the request of the Trustee and/or by the Company, and may act in accordance with the conclusions thereof, and the Trustee shall not be liable for any loss or damage that may be caused as a result of any act or omission committed by it in reliance on such advice or opinion, unless it is held in an unappealable judgment that the Trustee acted with gross negligence and/or not in good faith. The Trustee shall make available for the perusal of the debenture holders and the Company, upon their request, a copy of such opinion or advice. The Company shall bear the full fees and the reasonable expenses involved in engaging the consultant who will be appointed as aforesaid. The Trustee and the Company shall reach agreement regarding a list of not more than three offices of consultants possessing goodwill and reputation and the relevant expertise, to which the Trustee may refer to obtain price quotations with regard to such fees. The Company shall choose one price quotation amongst those that will be submitted, and it will be entitled to conduct negotiations with the offices in regard to their price quotation or proposal.
- 20.2 Any such advice or opinion may be given, sent or received by way of a letter, telegram, facsimile or any other electronic means for the transfer of information, and the Trustee will not be responsible in respect of any acts it performed in reliance on advice or an opinion or information transferred in one of the ways described above, even though there were mistakes in them or they were not authentic, unless it was possible by way of a reasonable examination to discover the mistakes or the lack of authenticity, provided that the Trustee did not act with gross negligence and/or a lack of good faith. It is clarified that the documents will be capable of being transferred, on the one hand, and the Trustee will be entitled to rely thereon, on the other hand, only where they are received clearly, and where no difficulty arises in reading them. In any other case, the Trustee will be entitled to demand receipt thereof in a manner which makes it possible, as aforesaid, to read and understand same properly.
- 20.3 The Trustee will be not obliged to notify any party about the signing of this Deed and will not be entitled to interfere in any manner in the management of the Company’s business or its affairs. Nothing contained in this clause shall limit the Trustee in the actions it is obliged to perform in accordance with this Deed of Trust.
- 20.4 The Trustee shall utilize the Trust, and the powers and authorities granted to it under this Deed in its absolute discretion and will not be liable for any damage caused as a result of an error in such discretion, unless it is held in an unappealable judgment that the Trustee acted with gross negligence and/or not in good faith and/or maliciously.

21. **Trustee’s power to engage agents**

The Trustee will be entitled to appoint an agent/s who will act in its stead, whether an attorney or otherwise, in order to perform or to participate in the performance of special acts that require to be performed in connection with the Trust, and may pay a reasonable remuneration to every such agent, and without derogating from the generality of the foregoing, the institution of legal proceedings. The Company will be entitled to object to such appointment on any reasonable grounds, including in a case in which the agent is a competitor, directly or indirectly, with the business of the Company, provided that the Company shall not unreasonably withhold such consent which shall be delivered to the Trustee in writing. It is clarified that the appointment of an agent as aforesaid shall not derogate from the Trustee’s responsibility in respect of its own actions and the actions of its agents. The Trustee will further be entitled, at the Company’s expense, to defray and liquidate the reasonable fee of any such agent, and the Company shall refund any such expense to the Trustee upon its demand, provided that prior to the appointment of such agent, the Trustee notified the Company in writing about the appointment, accompanied by particulars of the agent’s fees and the objective of his appointment, and in the circumstances the cost of the agents’ fees does not go beyond the bounds of reasonability. For the removal of doubt, the Company will not refund to the Trustee the fees of an agent who fulfilled the regular operations which the Trustee is obliged to perform pursuant to this Deed of Trust, the performance of which is included in the remuneration which the Trustee receives from the Company in accordance with the provisions of Clause 19 above. For the removal of doubt in the case that the Debentures have been made immediately due and payable, the actions which the Trustee is obliged to perform in connection therewith will not be deemed to be regular operations which the Trustee is obliged to perform by virtue of this Deed of Trust for purposes of this clause.

The Company shall bear the reasonable fees of the agent. The Trustee and the Company will reach agreement on a list of not more than three experts possessing goodwill and reputation and the relevant expertise, to whom the Trustee will refer to obtain price quotations regarding the fee for their appointment as agents as aforesaid. The Company will select one of the price quotations which are submitted, and will be entitled to conduct negotiations with the experts in regard to their offer.

22. **Indemnity to the Trustee**

22.1 The Trustee will be entitled to receive indemnity from the debenture holders and/or from the Company in respect of reasonable expenses it incurred and/or may in the future incur in connection with acts it has performed or is obliged to perform by virtue of its obligation under the terms and conditions of this clause, and/or according to law and/or a directive of a competent authority and/or any statute and/or on a demand by the debenture holders and/or at the request of the Company. If the Company does not provide such indemnity within 60 days from the date of the Trustee’s demand, the debenture holders will indemnify the Trustee in respect of reasonable expenses it has incurred and/or may incur as aforesaid, in connection with actions it has performed or is obliged to perform in accordance with the demands by the debenture holders. Notwithstanding the foregoing, it is hereby clarified and agreed that:

22.1.1 The Trustee will not be entitled to demand such indemnity in advance, on an urgent matter that cannot be postponed.

22.1.2 The Trustee will be entitled to indemnity in respect of liability in tort, in a case in which it is held liable for such liability under a final judgment or under a compromise that has been concluded with a third party.

22.2 The right of indemnity referred to in Clause 22.1 above is subject to the following conditions:

22.2.1 The expenses in respect of liability for damage are reasonable.

22.2.2 The Trustee acted in good faith and in the course of exercising reasonable discretion, and such action was performed in the scope of fulfilling its function, in accordance with the provisions of the law and according to this Deed of Trust, and the Trustee was not guilty of gross negligence.

22.2.3 Such right of indemnity will not apply in respect of reasonable expenses that were paid to the Trustee in accordance with Clause 19 above.

22.3 Subject to the provisions of Clauses 22.1 and 22.2 above, and without prejudice to the rights to compensation and indemnity that are granted to the Trustee according to the law and/or the commitments of the Company and the debenture holders under this Deed, the Trustee, its authorized attorney, manager, agent or other person appointed by the Trustee in conformity with this Deed, are entitled to receive indemnity out of moneys that will be received by the Trustee as a consequence of proceedings it has instituted and/or in another manner in accordance with this Deed, in connection with reasonable obligations which they have assumed, and in regard to reasonable expenses they incurred in the course of performing the trust or in connection with such actions, which in their opinion were reasonably required for performing the matters aforesaid and/or in connection with the exercise of the rights and authorities conferred pursuant to this Deed, and in connection with all types of legal proceedings, opinions of attorneys and other experts, negotiations, discussions, expenses, claims and demands relating to any matter and/or thing that were made and/or that were not made in any way in relation to the matters aforesaid, and the Trustee may withhold the moneys that are in its possession and make payments out of such moneys of the amounts required for payment of the aforesaid indemnity. All the aforesaid amounts shall rank prior to the rights of the debenture holders and shall be subject to the provisions of any law, provided that the Trustee did not act without good faith and that it acted in accordance with the obligations imposed on it according to law and according to this Deed.

22.4 Whenever the Trustee is obliged pursuant to the terms and conditions of the Deed of Trust and/or according to law and/or a directive of a competent authority and/or any statute and/or in accordance with a demand by the debenture holders and/or at the request of the Company, to perform any act, including, but without limitation, the commencement of proceedings or the filing of claims in accordance with a demand by the debenture holders, as stated in the Deed of Trust, the Trustee shall be entitled to refrain from taking any such action, until it has received, to its satisfaction, a deed of indemnity from the debenture holders or any of them, and if the action is carried out by virtue of a request from the Company – then from the Company in respect of any liability for damage and/or expenses that might be caused to the Trustee and the Company or to either of them, as a consequence of carrying out the aforesaid action.

22.5 Notwithstanding the contents of this Clause 22 above, whenever the Trustee sees fit, for purposes of safeguarding and/or realizing the rights of the debenture holders, and/or will be obliged, in accordance with the terms and conditions of this Deed and/or according to law and/or a directive of a competent authority and/or any statute and/or at the Company's request and/or a request by the debenture holders, to institute legal proceedings, the Company shall deposit with the Trustee an amount that will be fixed by the Trustee as the anticipated amount of the Trustee's expenses in connection with the proceedings. In a situation in which the Company has not deposited the aforesaid amount within the time it was requested to do so by the Trustee and the Trustee has doubts about the Company's ability to cover the expenses connected with the taking of proceedings by the Trustee, the Trustee shall immediately call a meeting of the debenture holders in order to confirm their liability to cover the expenses connected with and entailed in the proceedings the Trustee will prosecute. It is clarified that the Trustee will not be entitled to delay the taking of legal proceedings until the convening of a meeting, in every case in which such delay is likely to have an adverse effect on the rights of the debenture holders. In a situation in which the debenture holders refuse to bear the expenses attendant on the institution of proceedings by the Trustee, there shall be no obligation on the Trustee to institute such proceedings. It is hereby clarified that nothing contained in the consent of the debenture holders as aforesaid shall have the effect of releasing the Company from its obligations and liabilities, to the extent that same apply pursuant to this Deed, to bear and cover all the expenses attendant on the instituting of such proceedings. Likewise, all moneys that may be received from execution and realization proceedings shall also serve for reimbursement and cover of expenses which the debenture holders have undertaken to bear as aforesaid.

Notwithstanding all the foregoing, it is clarified that under no circumstances will the Trustee be entitled to double indemnity.

23. **Notices**

- 23.1 Any notice from the Company and/or the Trustee to the debenture holders shall be given by way of the publication of an immediate report. And in the cases mentioned below the notice shall also be published in two widely-circulating Hebrew dailies published in Israel: (a) an arrangement or compromise under Section 350 of the Companies Law, 5759-1999; (b) a merger. Any notice that is published or sent as aforesaid shall be deemed to have been delivered to the debenture holders on the date of publication of the immediate report (or publication in newspapers, as the case may be).
- 23.2 The Trustee shall be entitled to instruct the Company and the Company shall be obliged to make a report forthwith by way of an immediate report on behalf of the Trustee of any report to the debenture holders in the text that will be sent to the Company by the Trustee in writing.

- 23.3 If the Company ceases to report in Israel in accordance with the provisions of Chapter E3 of the Law and is not regarded as “a reporting corporation” within the meaning thereof under the law, any notice from the Company and/or the Trustee to the debenture holders shall be given by way of sending it by registered mail according to the last address of the registered holders of the Debentures as appearing in the register, or by any other means, as shall be agreed between the Company and the Trustee. Any notice that is sent as aforesaid shall be deemed to have been delivered to the debenture holders after three (3) business days from the date of its posting by registered mail.
- 23.4 Copies of notices and invitations to meetings that are given by the Company to the debenture holders shall also be sent by the Company to the Trustee. It is clarified that such notices and invitations to meetings do not include the Company’s current reports to the public. Copies of notices and invitations to meetings that are given by the Trustee to the debenture holders shall also sent by it to the Company.
- 23.5 Any notice or demand by the Trustee to the Company or by the Company to the Trustee may be given by way of letter to be sent by registered mail according to the address set forth in the Deed of Trust, or at such other address of which one party has notified the other in writing, and any such notice or demand shall be deemed to have been received by the party to whom the notice was sent after three business days from the date of its posting.
24. **Waiver, compromise and/or alterations to the terms and conditions of the Debentures and the Deed of Trust**
- 24.1 Subject to the provisions of the law, the Trustee may from time to time and at any time, if it has been satisfied that this does not, in its opinion, constitute material prejudice to the rights of the debenture holders, waive any breach or non-fulfillment by the Company of any of the terms and conditions of the Debentures or of this Deed, except in regard to dates and payments in accordance with the terms and conditions of the Debentures (but including a technical change in dates or in the dates specified for the payment thereof), to the conditions of repayment of the Debentures and grounds for making the Debentures immediately due and payable, to a reduction in the rate of interest specified in the debenture, to a waiver regarding effecting of payments and reports which the Company is obliged to give to the Trustee.

- 24.2 Subject to the provisions of the law and with the prior approval of a special resolution passed at a general meeting of the debenture holders, at which two or more holders who hold at least fifty percent (50%) of the par value of the unpaid balance of the principal of the Debentures were personally present or represented by proxy, or at an adjourned meeting, at which two or more holders of at least ten percent (10%) of the aforesaid balance were personally present or represented by proxy, the Trustee may, either before or after the principal of the Debentures is due for repayment, compromise with the Company in connection with any right or claim of the debenture holders or any of them, and may agree with the Company on any arrangement of their rights, including the waiver of any right or claim the Trustee and/or the debenture holders or any of them may have as against the Company.
- 24.3 Subject to the provisions of the law, the Company and the Trustee may, either before or after the principal of the Debentures is due for repayment, alter the Deed of Trust and/or the terms and conditions of the Debentures, if one of the following conditions is fulfilled:
- 24.3.1 The Trustee has been persuaded that the alteration does not constitute genuine prejudice to the rights of the debenture holders, apart from a change relating to times and payments in accordance with the terms and conditions of the Debentures (but including a technical change in dates or in the dates specified for the payment thereof), or pertaining to the conditions for repayment of the Debentures and grounds for making the Debentures immediately due and payable, to a reduction in the rate of interest specified in the debenture, to a waiver regarding the making of payments and reports the Company is obliged to give to the Trustee, provided that it gave written notice to that effect to the debenture holders, and the Trustee will be entitled in respect thereof to a reimbursement of expenses from the Company as stated in Clause 19 above.
- 24.3.2 The proposed alteration has been approved by a special resolution passed at a general meeting of the debenture holders, at which two or more holders who hold at least fifty percent (50%) of the par value of the unpaid balance of the principal of the Debentures were personally present or represented by proxy, or at an adjourned meeting, at which two or more holders who hold at least ten percent (10%) of the aforesaid balance were personally present or represented by proxy.
- 24.4 The Company shall give the debenture holders written notice of any such alteration pursuant to Clause 24.1, Clause 24.2 above, without delay and as soon as possible after same was made.
- 24.5 In every case of the exercise of the Trustee's right pursuant to this clause, the Trustee shall be entitled to demand from the debenture holders that they deliver the debenture certificates to it or to the Company, for purposes of recording a note thereon in regard to any compromise, waiver, alteration or amendment as aforesaid, and upon the Trustee's request, the Company shall record such note on the certificates that will be delivered to it. In every case of the exercise of the Trustee's right pursuant to this clause, it shall give written notice to that effect to the debenture holders without delay and as soon as possible.

25. **Register of debenture holders**

- 25.1 The Company shall keep and maintain at its registered office a register of the debenture holders, in which the names and addresses of the debenture holders shall be recorded together with the serial number and par value of the Debentures registered in their names. Any transfer of ownership of the Debentures shall also be recorded in the register. The Trustee and any debenture holders will be entitled to inspect the aforesaid register at any reasonable time. The Company may from time to time close the register for a period or periods which shall not collectively exceed thirty days in any year.
- 25.2 The Company will not be obliged to record in the register of debenture holders any notice regarding an express, implied or assumed trust, or pledge or encumbrance of any sort or any right in equity, claim or set-off or any other right in connection with the Debentures. The Company will only recognize the title of the person in whose name the Debentures are registered. The legal heirs of a debenture holder, his administrators or executors and any person who may be entitled to Debentures as a consequence of the bankruptcy of any registered holder (and if it is a body corporate – as a consequence of its liquidation or dissolution), will be entitled to be registered as holders thereof after having provided such proof as in the opinion of the Company is sufficient to prove their right to be registered as the holders thereof.

26. **Certificates and splitting of certificates**

- 26.1 One certificate shall be issued in respect of the Debentures registered in the name of a single holder, or at his request, several certificates shall be issued to him (the certificates mentioned in this clause will henceforth be referred to as – **“the Certificates”**), each in a minimum quantity of NIS 1,000 (one thousand) par value (hereinafter: **“the Minimum Quantity”**).
- 26.2 Every Certificate shall be capable of being split into Certificates in which the total par value of the Debentures included therein shall be equal to the total par value of the Debentures that were included in the Certificate the split of which is requested, provided that the par value in respect of any Certificate shall not be less than the Minimum Quantity. The split shall be effected in accordance with an application for a split signed by the registered holder of the Debentures that are the subject of the Certificate the split of which is requested, against delivery to the Company at its registered office of the Certificate the split of which is requested. The split will be effected within 30 days from the end of the month in which the Certificate, together with an application for the split thereof, was delivered to the Company’s registered office. The new Debenture Certificates that will be issued following the split will be in par value amounts in whole new shekels. All the expenses connected with the split, including any levies, if any, shall be borne by the applicant for the split.

27. **Expiry of Trustee's term of office**

- 27.1 The provisions of the law shall apply to the Trustee's term of office and the expiration thereof and to the appointment of a new trustee.
- 27.2 The Trustee will be entitled to resign from its position at any time it wishes, after having given prior written notice to the Company of 3 months, in which reasons for the resignation are set forth. The Trustee's resignation will be of no force and effect unless it has received the confirmation of the court, and then from the date specified for this in the court's confirmation as aforesaid.
- 27.3 In the event that the Debentures are listed for trading on the Stock Exchange – the Securities Authority is entitled to apply to the court with an application to terminate the Trustee's term of office, in accordance with Section 35N of the Securities Law or any other provision that may replace it.
- 27.4 The Trustee shall cease to hold office if it becomes apparent that it is barred from continuing to serve in its function, due to a change in the provisions of the law or statute that applies with regard to fitness to serve as a trustee, including in a case that such impediment is created in connection with the listing of the Debentures for trading on the Stock Exchange. For these purposes "impediment" shall also be deemed to be a demand by the Securities Authority for termination of the Trustee's term of office. In such case a new trustee, who shall be proposed by the Company, shall be appointed, subject to the approval of a meeting of debenture holders as mentioned in Clause 27.7 below.
- 27.5 The Company shall notify the debenture holders about any event as mentioned above in connection with the Trustee's term of office.
- 27.6 The holders of ten percent (10%) of the par value of the unpaid balance of the principal of the Debentures may convene a general meeting of the debenture holders, and such meeting may resolve, on a vote by two or more holders of at least fifty percent (50%) of the aforesaid balance, given personally or by way of proxy, on the removal of the Trustee from its office. In such case the provisions of Clause 27.7 below shall apply.
- 27.7 Where the Trustee's term of office has expired, the court may appoint another trustee, which shall be a company registered in Israel whose main field of business is the performing of trusts and which meets the conditions of fitness required under the law, for such period and on such conditions as the court shall see fit. The Trustee whose term of office has expired shall continue to serve in its function until the appointment of another trustee.
- 27.8 It is clarified that any appointment of a replacement trustee in accordance with the provisions of this Clause 27, shall require the approval of the debenture holders by a resolution on a vote, given personally or by way of proxy, by two or more holders of at least fifty percent (50%) of the par value of the unpaid balance of the principal of the Debentures.

- 27.9 Every new trustee will have the same powers and other authorities as the Trustee whose term of office has expired, and it may in all respects act as if it was appointed as trustee from the outset. It is clarified that the Trustee's obligation to perform actions in accordance with the Deed of Trust and according to the Debenture will not end until the transfer to the new trustee has been completed of the trust moneys, the assets and the rights of the trust, to whatever extent there may be such. The Trustee undertakes to act in cooperation with the Company and the replacement trustee for purposes of such transfer. It is clarified that termination of the Trustee's term of office shall not derogate from the rights, claims or allegations which the Company and/or the debenture holders may have against the Trustee, if any, the cause of action for which arose prior to the date of termination of the Trustee's term of office, and this shall not have the effect of releasing the Trustee from any liability according to any law.
- 27.10 In every case of a resignation of the Trustee and/or appointment of another trustee, the Company shall publish an immediate report.
28. **Reporting to the Trustee**
- 28.1 Until such time as all the Debentures have been repaid, the Company shall draw up and deliver to the Trustee:
- 28.1.1 The Company's audited financial statements for the financial year ended on December 31 of the preceding year, immediately after publication thereof by the Company. Publication by the Company of these statements on Magna will be deemed to be delivery of the statements to the Trustee. If for any reason the Company ceases to render reports in Israel, the Company shall send the aforesaid statements to the Trustee by mail, e-mail or by fax.
- 28.1.2 Any publication of the Company's financial results, immediately after the publication thereof by the Company. Such publications by the Company on Magna will be deemed to be delivery of the reports to the Trustee. If for any reason the Company ceases to render reports in Israel, the Company shall send the aforesaid reports to the Trustee via mail, e-mail or fax.
- 28.2 A copy of any document the Company sends to the debenture holders.
- 28.3 A report regarding any change in the rating of the Debentures or regarding a stoppage of the rating.
29. **Applicability of the Securities Law**
- With regard to any matter that has not been mentioned in this Deed and in every instance of a conflict between the provisions of the law and the regulations thereunder (which cannot be altered) and this Deed, the parties shall act in accordance with the provisions of the law and the regulations thereunder.

30. **Meetings of debenture holders**

The general meetings of debenture holders shall be convened and conducted in accordance with the conditions set forth in **the Second Schedule** to this Deed.
31. **Addresses**

The addresses of the parties shall be those appearing at the head of this Deed, or any other address about which appropriate written notice has been given by one party to the other.
32. **Governing law and jurisdiction**

The law which governs this Deed of Trust, including all the appendices hereto, is the Israeli law. Sole and exclusive jurisdiction on any matter connected with this Deed shall be vested in the competent courts in Tel Aviv-Jaffa.
33. **Authorization to report on Magna**

By its signing this Deed the Trustee empowers the Company’s electronic signature signatories for the time being to report in its name on Edgar and on Magna about its having entered into this Deed and its signing hereof, to the extent that this is required according to law.

In witness whereof the parties have hereunto signed:

/s/ David Weissman, Yitzhak Bader
Blue Square – Israel Ltd.

/s/
Hermetic Trust (1975) Ltd.

I the undersigned, Eli Levinson-Sela, Adv., certify that this Deed of Trust was duly signed by Blue Square Israel Ltd. in accordance with its Articles, by – David Weissman and Yitzhak Bader, whose signatures bind the Company in connection with this Deed.

/s/ Eli Levinson-Sela
Eli Levinson-Sela, Adv.

BLUE SQUARE – ISRAEL LTD.

FIRST SCHEDULE

DEBENTURE CERTIFICATE (SERIES C TO G)

A Debenture is hereby issued which is repayable in _____ payments in the years _____ to _____ (inclusive), [bearing / not bearing] [annual interest / linkage differences] as stated below.

Registered Debentures (Series C to G)

Certificate number: _____

Total par value of the Debentures contained in this certificate – NIS _____.
Registered owner of the Debentures contained in this certificate _____.

1. This certificate witnesses that Blue Square – Israel Ltd. (hereinafter: **“the Company”**) will pay ____% of the par value of the Debentures contained in this certificate on the ____ day of _____ in each of the years ____ to ____ (inclusive), to whomever is the registered holder (as defined in the conditions appearing on the reverse side hereof) of the Debenture on the date specified for such payment, all subject to what is set forth in the conditions appearing on the reverse side hereof and subject to the Deed of Trust dated February 18, 2010 between the Company, of the one part, and Hermetic Trust (1975) Ltd. and/or whoever serves from time to time as trustee for the debenture holders under the Deed of Trust (**“the Trustee”** and **“the Deed of Trust”**, respectively).
2. This Debenture bears interest at the annual rate of interest specified above which will be paid at the times as mentioned in the conditions appearing on the reverse side hereof.
3. This Debenture will be [linked / unlinked] (principal and interest), as more fully particularized in the conditions appearing on the reverse side hereof.
4. This Debenture is issued as part of Series _ of the Debentures the terms and conditions of which are identical to the terms and conditions of this Debenture (**“the Relevant Series”**), subject to the conditions set forth appearing on the reverse side hereof and in accordance with the Deed of Trust (hereinafter: **“Deed of Trust”**) dated February 18, 2010, which was signed between the Company and Hermetic Trust (1975) Ltd. (hereinafter: **“the Trustee”**), and are not secured by any charge.
5. It is clarified that the provisions of the Deed of Trust shall constitute an integral part of the provisions of this Debenture and shall be binding on the Company and on the holders of the Debentures included in the abovementioned series. In every case of a conflict between the contents of this certificate and the contents of the Deed of Trust, the provisions of the Deed of Trust shall prevail.

6. Payment of the principal and the last payment of interest shall be made against surrender of the Debenture to the Company at its registered office, as mentioned in the conditions appearing on the reverse side hereof, or at such other place of which the Company shall give notice, not later than five business days before the date of payment.
7. All the Debentures of this series shall rank *pari passu* with one another, without any series having a preferential right over another.
8. The Company is entitled at any time and from time to time (whether by private placement or by an offering to the public) and in its sole discretion, without the necessity for the consent of the debenture holders or of the Trustee or the giving of notice to that effect to any of them, including a related corporation of the Company, to issue debentures of a different class or other series of debentures or other securities of any sort, with or without ancillary rights to purchase shares of the Company, on such conditions as to interest, linkage, collateral security, repayment, and other conditions as the Company shall see fit, whether more favorable than the terms and conditions of the Debentures, or equal or inferior thereto. In addition, the Company reserves the right to enlarge the series from time to time in its sole discretion, in accordance with the provisions of any law and subject to the provisions of Paragraph 2.3 of the conditions appearing on the reverse side hereof, provided that the enlargement of the series shall be made subject to obtaining prior approval of the rating company to the effect that such enlargement of the series will not adversely affect the rating of the Debentures as prevailing for the time being.
9. Any transfer of the Debentures is subject to the restrictions on transfer as set forth in Paragraph 8 of the conditions appearing on the reverse side of the debenture certificate.

Signed by the Company on _____

By –
Authorized signatory: _____

Blue Square – Israel Ltd.

Authorized signatory: _____

I the undersigned _____, Adv., certify that this debenture certificate was duly signed by Blue Square – Israel Ltd. in accordance with its Articles, by _____ and _____ and that their signatures bind the Company for purposes of this Debenture.

_____, Adv.

BLUE SQUARE – ISRAEL LTD.

FIRST SCHEDULE

DEBENTURE CERTIFICATE (SERIES H TO J)

A Debenture is hereby issued which is repayable in _____ payments in the years _____ to _____ (inclusive), [bearing / not bearing] [annual interest / linkage differences] as stated below.

Registered Debentures (Series H to J)

Certificate number: _____

Total par value of the Debentures contained in this certificate – NIS _____.
Registered owner of the Debentures contained in this certificate _____.

1.

This certificate witnesses that Blue Square – Israel Ltd. (hereinafter: **“the Company”**) will pay ____% of the par value of the Debentures contained in this certificate on the ____ day of _____ in each of the years ____ to ____ (inclusive), to whomever is the registered holder (as defined in the conditions appearing on the reverse side hereof) of the Debenture on the date specified for such payment, all subject to what is set forth in the conditions appearing on the reverse side hereof and subject to the Deed of Trust dated February 18, 2010 between the Company, of the one part, and Hermetic Trust (1975) Ltd. and/or whoever serves from time to time as trustee for the debenture holders under the Deed of Trust (**“the Trustee”** and **“the Deed of Trust”**, respectively).

The Debentures are convertible into shares of the Company, in accordance with the conditions appearing on the reverse side hereof.
2.

This Debenture bears interest at the annual rate of interest specified above which will be paid at the times as mentioned in the conditions appearing on the reverse side hereof.
3.

This Debenture will be [linked / unlinked] (principal and interest), as more fully particularized in the conditions appearing on the reverse side hereof.
4.

This Debenture is issued as part of Series _ of the Debentures the terms and conditions of which are identical to the terms and conditions of this Debenture (**“the Relevant Series”**), subject to the conditions set forth appearing on the reverse side hereof and in accordance with the Deed of Trust (hereinafter: **“Deed of Trust”**) dated February 18, 2010, which was signed between the Company and Hermetic Trust (1975) Ltd. (hereinafter: **“the Trustee”**), and are not secured by any charge.
5.

It is clarified that the provisions of the Deed of Trust shall constitute an integral part of the provisions of this Debenture and shall be binding on the Company and on the holders of the Debentures included in the abovementioned series. In every case of a conflict between the contents of this certificate and the contents of the Deed of Trust, the provisions of the Deed of Trust shall prevail.

6. Payment of the principal and the last payment of interest shall be made against surrender of the Debenture to the Company at its registered office, as mentioned in the conditions appearing on the reverse side hereof, or at such other place of which the Company shall give notice, not later than five business days before the date of payment.
7. All the Debentures of this series shall rank *pari passu* with one another, without any series having a preferential right over another.
8. The Company is entitled at any time and from time to time (whether by private placement or by an offering to the public) and in its sole discretion, without the necessity for the consent of the debenture holders or of the Trustee or the giving of notice to that effect to any of them, including a related corporation of the Company, to issue debentures of a different class or other series of debentures or other securities of any sort, with or without ancillary rights to purchase shares of the Company, on such conditions as to interest, linkage, collateral security, repayment, and other conditions as the Company shall see fit, whether more favorable than the terms and conditions of the Debentures, or equal or inferior thereto. In addition, the Company reserves the right to enlarge the series from time to time in its sole discretion, in accordance with the provisions of any law and subject to the provisions of Paragraph 2.3 of the conditions appearing on the reverse side hereof, provided that the enlargement of the series shall be made subject to obtaining prior approval of the rating company to the effect that such enlargement of the series will not adversely affect the rating of the Debentures as prevailing for the time being.
9. Any transfer of the Debentures is subject to the restrictions on transfer as set forth in Paragraph 8 of the conditions appearing on the reverse side of the debenture certificate.

Signed by the Company on _____

Blue Square – Israel Ltd.

By –

Authorized signatory: _____

Authorized signatory: _____

I the undersigned _____, Adv., certify that this debenture certificate was duly signed by Blue Square – Israel Ltd. in accordance with its Articles, by _____ and _____ and that their signatures bind the Company for purposes of this Debenture.

_____, Adv.

CONDITIONS APPEARING ON REVERSE SIDE

1. **General**

In this Debenture the following terms and expressions will have the following meanings, unless a different intention is to be inferred from the context:

“The Company” -	Blue Square – Israel Ltd.;
“This Deed” or “the Deed of Trust”	This Deed of Trust including the schedules and appendices attached hereto and forming an integral part hereof;
“The Trustee” -	The Trustee mentioned at the head of this Deed and/or whoever holds office from time to time as trustee for the debenture holders pursuant to this Deed;
“The Shelf Prospectus”	The Company’s Shelf Prospectus which is due to be published in February 2010;
“Offering Report” or “the Shelf Offering Report”	The offer of the Debentures of any of the series in accordance with the Shelf Prospectus, which is made by way of an offering report in accordance with the provisions of Section 23A of the Law, in which all the special details attaching to that offer will be completed, including the composition of the units offered, in accordance with the provisions of any law and in accordance with the regulations and directives of the Stock Exchange, as in force for the time being;
“The Law”	The Securities Law, 5728-1968 and the regulations made pursuant thereto as in force from time to time;
“Register”	Register of debenture holders as stated in Clause 24 of this Deed;
“Stock Exchange”	The Tel Aviv Stock Exchange Ltd.;
“Consumer Price Index” or “the Index” -	The price index known as “the Consumer Price Index” including fruit and vegetables and which is published by the Central Bureau of Statistics and Economic Research, and including such index even if it is published by another official body or institution, and also including any other official index that may come in its stead, whether or not same is structured on the same data on which the existing index is structured. If another index should replace it which is published by such body or institution, and such body or institution has not fixed the ratio between that index and the replaced index, the aforesaid ratio will be determined by the Central Bureau of Statistics, and if such ratio is not fixed as aforesaid, then it will be determined by the Trustee for the relevant series, after consultation with economic experts who will be selected by it;

“The known index” at any date -	The last known index before such date;
“The basic index” in respect of each relevant series -	The index which is known on a particular day, which shall be specified in the first offering of such relevant series;
“The payment index” -	The index which is known on the date fixed for any payment on account of principal and/or interest. The Company shall specify in the first offering report whether protection will apply to the principal and/or the interest of the Debentures, as described below: If in the first offering report of the relevant series it is specified that the principal and/or the interest is linked to the index and that protection will apply to the principal and/or the interest of the Debentures, namely: in the event that the known index on the date fixed for the relevant payment is lower than the basic index, then the payment index will be the basic index. If it is stated in the first offering report of the relevant series that the principal and/or the interest are linked to the index and that no protection as aforesaid will apply to the principal and/or the interest of the Debentures, i.e. – the payment index will be the known index on the date specified for the relevant payment even if that index is lower than the basic index. If the Company has not stated in the first offering report whether or not protection will apply as aforesaid, then no protection will apply;
“Business day” or “banking business day” -	Any day on which most of the banks in Israel are open for the execution of transactions;
“Trading day abroad” -	Any day on which a quotation of base interest is fixed in relation to foreign currency as published on Reuters Information Service or any other source of information that may be specified in the first offering report of the Debentures of the relevant series;
“Principal” -	The par value of the Debentures of the relevant series;
“Special resolution” -	A resolution passed by a general meeting of the debenture holders of the relevant series, at which the holders of at least fifty percent (50%) of the balance of the par value of the Debentures of such series that are in circulation were personally present or represented by proxy, or at an adjourned meeting at which the holders of at least ten percent (10%) of the aforesaid balance were personally present or represented by proxy, and which was passed (whether at the original meeting or at the adjourned meeting) by a majority of at least seventy-five percent (75%) of all the votes participating in the vote, excluding abstentions;

“The nominee company” -	The Bank Hapoalim Nominee Company Ltd.
“Series of Debentures” or “the relevant series” -	Series of Debentures that will be called Series C to G and/or Series H to J of the Company’s Debentures, where each of the series of these Debentures will be to an aggregate par value of up to NIS 1,500,000,000, registered in the name of the holder, the conditions of each of which is in accordance with the debenture certificate of that series and the first offering report of the Debentures of that series, which will be issued from time to time by the Company in its sole discretion.
“Trading day” -	Any day on which transactions are executed on the Tel Aviv Stock Exchange.
“Stock Exchange Clearing House” -	The Tel Aviv Stock Exchange Clearing House Ltd.
“Foreign currency” -	Not more than one foreign currency in respect of each relevant series, as shall be specified in the first offering report of the Debentures of that series.
“Foreign currency rate” -	The representative rate of the foreign currency as published by the Bank of Israel, or any official rate of exchange of the foreign currency against Israeli currency that may replace the aforesaid representative rate and which prevails for the time being with respect to government bonds linked to the aforesaid foreign currency rate, and in the absence of such rate, as shall be determined as between the Company and the Trustee.
“Known rate” on any date -	The last foreign currency rate fixed by the Bank of Israel before such date. However in a period in which the Bank of Israel does not make a practice of fixing a representative rate, the known rate on any date will be the rate last fixed before that date by the Minister of Finance together with the Governor of the Bank of Israel for government bonds linked to the foreign currency rate, and in the absence of such rate, as shall be determined as between the Company and the Trustee;
“Basic rate” with respect to any relevant series -	The known rate on a particular day, which will be specified in the first offering report of that relevant series;
“The payment rate” -	The known rate at the time of actual payment.
“Prime” or “prime interest” -	For a specific day: the average prime interest for that day as published by Bank Hapoalim B.M., Bank Leumi le-Israel B.M. and the Israel Discount Bank Ltd.;

“Bank of Israel interest” -	The rate of interest for unlinked new shekels which the Governor of the Bank of Israel announces from time to time as the declared rate of interest of the Bank of Israel, or any rate of interest that may be fixed by any competent authority instead of the aforesaid rate;
“Telbor interest” -	Tel Aviv Interbank Offered Rate – the rate of interest for Interbank loans in shekels, which is calculated on the basis of interest offers given by a number of banks in Israel, for the period as will be specified in the first offering report of the relevant series, as appears on the sampling day (if it is on Mondays to Thursdays – at 13:00 or thereabouts, and if it is on a Friday, at 12:00 or thereabouts) on the Reuters Information distribution system or on another source of information as will be agreed between the Company and the Trustee and which will be mentioned in the first offering report of the Debentures of the relevant series;
“LIBOR interest” -	London Interbank Offered Rate – the rate of interest offered on the Interbank market in London on US dollar deposits for the period as will be specified in the first offering report of the relevant series (for one week, one month, three months, six months, etc.) as will be quoted on the sampling day, at 11:00 London time or thereabouts, on the LIBOR01 page published by Reuters Information Service or, if that page is replaced by another page, as is quoted on the sampling day, at the aforesaid time or shortly thereafter, on such other page;
“Euribor interest” -	Euro Interbank Offered Rate – the rate of interest offered on the Interbank market for euro deposits for the period as will be specified in the first offering report of the relevant series (for one week, one month, three months, six months, etc.) as will be quoted on the sampling day, at 11:00 central European Time (CET) or thereabouts, on the Euribor01 page which is published by Reuters Information Service (or if that page is replaced by another page, then as quoted at the aforesaid time or shortly thereafter on such other page), or on another information source that will be mentioned in the first offering report of the Debentures of the relevant series;
“Government bond at variable interest” -	A series of government bonds at variable interest which was issued in accordance with the State Loan Regulations (Debentures of Government Bond Type – Variable Interest), 5766-2006, as will be published by the Government Bond Management Unit at the office of the Accountant-General. The relevant series of government bonds and the date of maturity thereof will be mentioned in the first offering report of the Debentures of that series that will be offered;

“The base interest” -	LIBOR interest or Telbor interest or Euribor interest or Bank of Israel interest or prime interest or Makam yield for one year or the interest which government bonds at variable interest bear, as will be specified in the first offering report of the relevant series;
“Makam” -	Bonds issued in series by the State of Israel with the objective of being a short-term loan which the State of Israel borrows in accordance with the provisions of the Short-Term Loan Law, 5744-1984 and/or any law which may come in its stead and/or in addition thereto, which are listed for trading on the Tel Aviv Stock Exchange and which are sold in a tender by the Bank of Israel and do not bear interest and/or linkage differences;
“Makam for one year” -	A Makam series which is in circulation the maturity date of which was fixed for the nearest period to a period of 12 months from the sampling date (as defined below), provided that the maturity date is at least 10 days from the sampling date. In the event that on the sampling date no such Makam exists, the Makam for one year will be other government bonds in shekels which do not bear linkage differences and do not bear variable interest, that are listed for trading on the Tel Aviv Stock Exchange and the maturity date of which is fixed for a period which is closest to 12 months from the sampling date. The relevant Makam series and the maturity date thereof will be specified in the first Shelf Offering Report of the Debentures.
“Sampling date” with respect to any interest period -	With respect to LIBOR interest or Euribor interest – the business day abroad which falls two (2) business days abroad before the first day of any such interest period; with respect to Telbor interest – the banking business day which falls two (2) business days before the first day of any interest period; and with respect to Bank of Israel interest, prime interest, Makam yield and interest on government bonds at variable interest – the first day of any interest period.

The terms and conditions of the Debentures (the conditions appearing on the reverse side) form an integral part of the provisions of the Deed of Trust, and provisions of the Deed of Trust shall be deemed to have been expressly included in these conditions of Debentures. In every case of a conflict between what is stated in the Debenture and what is stated in the Deed of Trust, the provisions of the Deed of Trust shall take precedence and shall prevail.

2. **The Debentures**

- 2.1 The Debentures contained in this certificate are part of a series of up to five (5) series of Debentures (Series C to G) or up to three (3) series of Debentures (Series H to J), where each of these series of Debentures will be to an aggregate par value of up to NIS 1,500,000,000, registered in the name of the holder. The Debentures of each of the aforesaid series will be repayable (principal), will have linkage basis (or without linkage), type of interest (or absence of interest) and interest rate or margin above or below the base interest which the principal of the Debentures of each of the aforesaid series will bear, or without interest which the principal of the Debentures of each of the aforesaid series will bear, as the case may be, are all as described in Paragraphs 3-5 below.

- 2.2 The Debentures of Series H to J will be convertible into ordinary shares of NIS 1 par value each of the Company, on any trading day commencing from the listing of such Debentures for trading on the Stock Exchange and up to a number of days before the end of the period of the Debentures of that series, except a number of days before the effective date for partial redemption in accordance with the Stock Exchange directives as prevailing at the date of the offering report, as defined in Clause 1.5 of the Deed of Trust, and up to the date of effecting of the partial redemption, at a conversion rate which shall not be less than the par value of the ordinary shares at the date of the first offering report of the Debentures of Series H to J (subject to adjustments as mentioned in Paragraphs 6.1 and 6.3 below), in such manner and on such conditions, as shall be particularized in the first offering report while the Debentures of each of the aforesaid series, in accordance with the specification of these details by the Company immediately prior to the initial offering of the Debentures of the relevant series. For further details see also Paragraph 6 below.
- 2.3 Enlargement of the series
- With regard to enlargement of a series, see Clause 3.3 of the Deed of Trust.
- 2.4 Issue of additional securities
- With regard to an issue of additional securities, see Clause 3.4 of the Deed of Trust.
- 2.5 Collateral security
- With regard to collateral security that may be imposed on the Debentures contained in this certificate, see Clause 6 of the Deed of Trust.
3. **The principal**
- 3.1 The principal of the Debentures of Series C to G and of Series H to J which will be offered pursuant to this Shelf Prospectus and the linkage basis of the principal are as follows:
- 3.1.1 The principal of the Debentures of Series C to G will be repaid in one payment or in a number of equal payments which shall not exceed four quarterly payments in a year, as will be prescribed in the first offering report, at the times as will be specified in the first offering report of the aforesaid relevant series and subject to the conditions of linkage as stated below in this paragraph.

- 3.1.2 The principal of the Debentures of Series H to J will be repaid (...) one payment or in a number of equal payments which shall not exceed four quarterly payments in a year, as will be prescribed in the first offering report, at the times as will be specified in the first offering report of the aforesaid relevant series and subject to the conditions of linkage as stated below in this paragraph.
- 3.1.3 The principal and the interest of the Debentures of the relevant series may be linked to one of the linkage bases described below or may be without linkage, as will be specified in the first offering report of that series, coupled with reference to the definitions of the linkage bases described below:

3.1.3.1 Linkage to the index

If it is stated in the conditions of the relevant series that the principal and the interest of the Debentures of that series are linked to the index, then the linkage of the principal and the interest to the index will be done in a manner that if it becomes apparent at any date of payment on account of principal and/or interest in respect of these Debentures that the payment index is higher than the basic index, then the Company will pay such payment of principal and/or interest where same is increased proportionately to the percentage rise in the payment index as against the basic index. The Company will state in the offering report whether, in a case where the payment index is lower than the basic index, protection will apply or will not apply as described below: if in the first offering report of the relevant series it is specified that the principal and/or the interest are linked to the index and that protection will apply to the principal and/or the interest of the Debentures, i.e.: in a situation where the known index on the date fixed for the relevant payment is lower than the basic index, the payment index will be the basic index. If in the first offering report of the relevant series it is specified that the principal and/or interest are linked to the index and that no such protection will apply to the principal and/or interest of the Debentures, i.e.: the payment index will be the known index on the date fixed for the relevant payment even if that index is lower than the basic index. If the Company has not specified in the first offering report whether or not protection will apply as aforesaid, no protection will apply.

The interest that will be paid in respect of the Debentures of that series will be interest at the rate fixed in the manner stated in Paragraph 4.1 below.

3.1.3.2 Linkage to foreign currency

If it is prescribed in the conditions of the relevant series that the principal and the interest of the Debentures of that series are linked to foreign currency, then linkage thereof to foreign currency will be made in a manner whereby if it becomes apparent on any date of payment on account of principal and/or interest in respect of these Debentures that the payment rate is higher than the basic rate, then the Company will pay such payment of principal and/or interest where it is increased proportionately to the percentage rise in the payment rate as compared with the basic rate. In a situation in which the payment rate is lower than the basic rate, the Company will specify in the first offering report of that series whether protection will apply to the principal and/or the interest of the Debentures (that is to say: if the payment rate is lower than the basic rate, the payment rate will be the basic rate) or that no such protection will apply (that is to say: the payment rate will be the known rate at the time of payment even if that rate is lower than the basic rate). If in the first offering report the Company has not specified whether or not protection as aforesaid will apply, then no protection shall apply.

The interest that will be paid in respect of the Debentures of that series will be interest at the rate fixed in the manner stated in Paragraph 4.3 below, or variable interest (LIBOR interest or Euribor interest, as shall be specified in the first offering report of the relevant series, plus or minus a margin that will be stated in the aforesaid offering report or will be fixed in a tender) as described in Paragraph 4.3.2 below.

3.1.3.3 Unlinked Debentures

If it is stipulated in the conditions of the relevant series that there will be no linkage of the principal and the interest of Debentures of that series, the principal will be denominated in new shekels. In such case, the interest in respect of the Debentures of that series will also not be linked to any index or to any currency.

The interest that will be paid in respect of the Debentures of that series will be interest at a rate fixed as stated in Paragraph 4.2 below, or interest at a variable rate (Bank of Israel interest or Telbor interest, or prime interest, or Makam yield for one year, or the interest which government bonds at variable interest bear, as shall be specified in the first offering report of the relevant series, plus or minus a margin that will be stated in the aforesaid offering report or which will be fixed in a tender (as described in Paragraph 4.2.3 below).

3.1.3.4 Notwithstanding the contents of the Stock Exchange regulations and directives, the method of linkage of the principal and/or the interest will not change during the period of the Debentures, and the linkage of each series will relate to not more than one linkage basis, to the extent that the Debentures are linked to any linkage basis.

4. **Interest**

The interest on the Debentures of Series C to G and of Series H to J which will be offered pursuant to the Company’s Shelf Prospectus will be as follows:

The principal of the Debentures of the relevant series will bear interest, or will not bear interest, as shall be specified in the first offering report of that series, and if the principal does bear interest as aforesaid – the mechanisms for calculating the interest will be described in the offering report together with reference to the interest mechanisms described below:

4.1 Interest on principal that is linked to the index

The principal of the Debentures, if the Debentures are linked to the Consumer Price Index, will bear interest linked to the aforesaid index, at a fixed rate which will be specified in the first offering report of that series and/or will be determined in a tender in accordance with the aforesaid offering report.

4.2 Interest on unlinked principal

The principal of the Debentures, if the Debentures are not linked to any index or to any currency, will bear unlinked interest at a fixed rate or at a variable interest rate , as described below:

4.21 Fixed shekel interest – interest at a fixed rate that will be specified in the first offering report of that series and/or will be determined in a tender pursuant to the aforesaid offering report.

4.2.2 Interest at a variable rate on a basis that if the tender is held on the price of the unit, the margin above or below the base interest will be specified in the first offering report of the relevant series, and if the price of the unit is to be set (without a tender) in the first offering report of the relevant series, the margin above or below the base interest will be determined according to the tender, where in both cases the base interest is Bank of Israel interest or Telbor interest or prime interest as will be specified in the aforesaid offering report – the rate of interest in respect of any interest period of the Debentures will be determined according to the aforesaid base rate of interest (at the Bank of Israel interest or Telbor interest or prime interest, which will be specified in the aforesaid report), as will be quoted on the sampling day. The Company shall file an immediate report within four (4) days from the sampling day in regard to the rate of interest that will be determined as aforesaid. It is emphasized that the rate of Bank of Israel interest and/or Telbor interest and/or prime interest as aforesaid are determined on only one particular sampling day in relation to any interest period. The rate of Bank of Israel interest and/or Telbor interest and/or prime interest may vary during the course of an interest period (for example: as a result of inflationary or other changes), but the rate of Bank of Israel interest and/or Telbor interest and/or prime interest that were determined on the sampling day shall not change during that interest period.

- 4.2.3 Interest at a variable rate on a basis that if the tender is held on the price of a unit, the margin above or below the base interest will be specified in the first offering report of the relevant series, and if the unit price is to be set (without a tender) in the first offering report of the relevant series, the margin above or below the base interest will be determined according to the tender, where the base interest is the yield on Makam for one year, as will be specified in the aforesaid offering report –

The rate of interest in respect of each interest period will be determined according to the margin on the fixed rate above or below the yield on Makam for one year that will be determined in the first offering tender by way of a tender on the margin as described in Paragraph 2.4 of the Prospectus or a margin at a fixed rate as shall be stated in the first Shelf Offering Report in an offering by way of a tender on the price as described in Paragraph 2.5 of the Prospectus, where the yield on Makam for one year will be calculated on the sampling day, as the average of the yield on Makam for one year on a number of trading days before the sampling day, as shall be specified in the Shelf Offering Report. The Company shall file an immediate report, within four trading days of the sampling day, giving notice of the rate of interest that will be fixed as aforesaid. It is emphasized that the rate of the yield on Makam for one year as aforesaid is determined only on a particular sampling day in relation to any interest period. The rate of the yield of Makam for one year is likely to vary during the interest period (for example: as a result of inflationary and other changes), but the rate of the yield on Makam for one year which was determined on the sampling day will not change during that interest period.

- 4.2.4 Interest at a variable rate where if the tender is held on the unit price, the margin above or below the base interest will be specified in the first offering report of the relevant series, and if the unit price is to be set (without a tender) in the first offering report of the relevant series, the margin above or below the base interest will be determined according to the tender, where the base interest is the interest which government bonds at variable interest bear:

The rate of interest in respect of any interest period will be determined according to a margin at a fixed percentage above or below the rate of interest which government bonds at variable interest bear, as will be specified in the first offering report in the form of a tender on the percentage margin, as described in Paragraph 2.4 of the Prospectus, or a margin at a fixed percentage as shall be prescribed in the first Shelf Offering Report in an offer by way of a tender on the price, as described in Paragraph 2.5 of the Prospectus. The annual interest for each of the interest periods will be determined according to the rate of interest which the relevant government bond at variable interest bears on the sampling date – relevant variable interest. The Company shall lodge an immediate report, after the date of publication of the variable interest by the Government Bond Management Unit at the Accountant-General, at the latest four trading days from the start of each interest period, giving notice of the rate of interest that was determined as aforesaid (base interest plus margin). It is clarified that the times of payment of the interest that will be set by the Company in the Shelf Offering Report, shall be set for a date which is not later than 14 days after the dates of payment of the interest on the relevant government bond at variable interest, and the length of the interest period, except the first interest period (which is likely to be shorter) shall be the same as the length of the interest periods in respect of the relevant “government bonds – at variable interest”.

4.3 Interest on principal which is linked to foreign currency

The principal of the Debentures, if the Debentures are linked to foreign currency, shall bear interest linked to such foreign currency, where the interest is at a fixed rate or a variable rate, as described below:

- 4.3.1 Fixed interest linked to foreign currency – interest which is linked to foreign currency where the interest is at a fixed percentage that will be specified in the first offering report of that series and/or will be fixed in a tender in accordance with the aforesaid offering report.
- 4.3.2 Interest at a variable rate on a basis that if the tender is held on the unit price, the margin above or below the base interest will be specified in the first offering report of the relevant series, and if the unit price is to be set (without a tender) in the first offering report of the relevant series, the margin above or below the base interest will be determined by way of a tender, and where the base interest is LIBOR or Euribor interest, as specified in the aforesaid offering report – the rate of interest in respect of each interest period of the Debentures will be determined according to the aforesaid base interest rate (LIBOR interest or Euribor interest as stated in the aforesaid offering report), for a period which will be specified in the aforesaid offering report, as quoted on the sampling day. The Company shall within four (4) days from the sampling date lodge an immediate report regarding the rate of interest that will be determined as aforesaid. Such base interest will be interest as prevailing in relation to the currency to which the principal of the Debentures is linked. It is emphasized that the LIBOR interest rate or the Euribor interest rate as aforesaid are fixed on a particular sampling day solely in relation to any interest period. The LIBOR interest rate or the Euribor interest rate are likely to vary during the course of the interest period (for example: as a result of inflationary and other changes), but the LIBOR interest rate or the Euribor interest rate that were fixed on the sampling day shall not change during that interest period.
- 4.4 Notwithstanding the contents of Paragraphs 4.1 – 4.3 above, it will be possible to offer Debentures of any series as aforesaid, in the scope of a non-uniform offer as referred to in Paragraph 2.6 to the Prospectus, and in such case the rate of interest or the margin above the base interest and the unit price will not be determined in a tender, but will be particularized in the Shelf Offering Report.

- 4.5 The rate of interest in respect of the first interest period of Debentures of the relevant series will be stated in the first offering report of that series and/or in a report which the Company will publish regarding the results of the tender in connection with the rate of interest and/or in relation to Debentures bearing variable interest, as the case may be, according to the fixed times on the sampling day as defined above.
- 4.6 It is clarified that in relation to Debentures which bear interest at a variable rate, it is to be expected that the rate of interest payable in respect of each interest period will be a different rate of interest as described above.
- 4.7 The rate of interest that will be set in respect of each relevant series will be an annual rate. If the conditions of the tenders specify that the interest in respect thereof will be paid at more than one time in a year, payment of the interest that will be paid on each interest payment date will be calculated according to the annual rate of interest where same is divided by the number of payments per annum that are specified according to the conditions of the Debentures of the relevant series. In the first offering report or in the report on the results of the issue, as the case may be, the Company will specify the annual rate of interest as well as the rate thereof where it is divided by the number of annual, half-yearly, or quarterly payments, as the case may be, in a case where the interest is payable on more than one date.
- 4.8 The interest in respect of the Debentures of the relevant series will be paid in a number of payments which shall not exceed four quarterly payments in a year and which will be particularized in the first offering report of that series, in respect of the interest period which ended on the date of payment (“**the Interest Period**”). The first Interest Period of the Debentures of the relevant series will start on the date of clearing which will be mentioned in the aforesaid offering report and will end on the first date of payment of the interest. Any additional Interest Period of the Debentures of the relevant series will start on the first day following the end of the immediately preceding Interest Period, and will end on the date of payment which first follows the date of commencement thereof. The interest for the first Interest Period will be calculated according to the number of days in this period on a basis of 365 days in a year.
- 4.9 The last payment of interest on the principal of the Debentures of the relevant series will be paid together with the last payment on account of the principal of the Debentures of that series, which shall be done against surrender to the Company of the certificates of Debentures of that series.
5. **Payments of principal and interest on the Debentures**
- 5.1 The payments on account of the interest and/or the principal of the Debentures of the relevant series which shall be offered pursuant to this Shelf Prospectus will be paid to the persons whose names are registered in the register for that series at the times as specified in the first offering report of that series, in accordance with the provisions of the Stock Exchange Regulations as in force for the time being (“**the Effective Date for the Relevant Series**”), except for the last payment of the principal and the interest which will be made against surrender to the Company of the certificates of debenture of that series, at the Company’s registered office or at such other place of which the Company shall give notice not later than five (5) business days before the date of the last payment.

It is clarified that anyone who is not registered in the register with respect to the relevant series on the Effective Date for the Relevant Series will not be entitled to payment of interest in respect of the Interest Period the commencement of which was before that date.

- 5.2 In every case in which the date for making the payment on account of principal and/or interest falls on a day which is not a business day, the date of payment will be postponed to the first following business day thereafter without an increment in payment, and “the Effective Date” for purposes of determining the entitlement to redemption or to interest will not change by virtue of this.
- 5.3 The Company will be entitled to state in the first Shelf Offering Report in respect of each series of Debentures whether penalty interest will be payable in respect of a default in payment on account of principal and/or interest, and in a situation that such interest will be payable, the Company shall specify in the Shelf Offering Report the time at which the Company will publish an immediate report in which it gives notice of the date of payment of such interest. In a situation in which such interest is payable, the Company shall publish an immediate report in relation to the rate thereof and the times for payment thereof. If the Company has not specified as aforesaid, no penalty interest will be payable in respect of such default in payment.
- 5.4 Payment of the principal and the interest will be made subject to the conditions of linkage as set forth in Paragraphs 3-4 above, if any.
- 5.5 Payment to the entitled persons will be made by check or by bank transfer to the credit of the bank account of the persons whose names are registered in the register with respect to the relevant series, which will be indicated in the details they will furnish in good time in writing to the Company, in accordance with the contents of Clause 25 of the Deed of Trust. If the Company is unable to pay any amount to the persons entitled thereto, for a reason which is not dependent on it, the provisions of Paragraph 7 below will apply.
- 5.6 A holder of Debentures of the relevant series shall notify the Company of the details of the bank account to be credited with payment to such holder in respect of the Debentures of that series as aforesaid, or about a change in the details of the aforesaid account or in his address, as the case may be, by way of written notice to be sent to the Company by registered mail. The Company will be obliged to act in accordance with the holder’s notification regarding such change after the elapse of fifteen (15) business days from the date on which the holder’s notification reached the Company.

- 5.7 If a holder of the Debentures who is entitled to payment as aforesaid has not furnished the Company with details regarding his bank account in good time, every payment on account of the principal and the interest will be made by way of check, which will be sent by registered mail to his last address as recorded in the register for the relevant series. The sending of a check to the entitled person by registered mail as aforesaid shall for all intents and purposes be deemed to be payment of the amount denominated in the check on the date of its posting, provided that the check was met upon due presentation thereof for collection.
- 5.8 Any compulsory payment as required according to law will be deducted from every payment in respect of the Debentures of the relevant series.

6. **Right to convert Debentures of Series H to J into shares (“the Convertible Debentures”)**

This Paragraph 6 will only apply in relation to each of the series of Debentures (Series H to J) separately and independently from any other series.

6.1 **Conversion conditions**

- 6.1.1 On any trading day commencing from the first listing for trading of each of the series of Convertible Debentures on the Stock Exchange and up to a number of days before the end of the period of the Debentures of that series, in accordance with the directives of the Stock Exchange as applicable at the date of the first offering report in respect of that series and as will be particularized in the aforesaid offering report (“**the Conversion Period**”, and each trading day in the Conversion Period as aforesaid will henceforth be referred to as “**the Conversion Date**”, and the last day of the Conversion Period will be referred to below as “**End of the Conversion Period**”), except a number of days before the effective date for partial redemption in accordance with the regulations and directives of the Stock Exchange as in force on the date of the aforesaid offering report, and up to the date partial redemption is made, the balance of the principal of the Convertible Debentures of that series which are in circulation at the time will be convertible into fully paid-up registered ordinary shares of NIS 1 par value each of the Company (“**the Conversion Shares**”), according to a conversion rate that will be specified in the first offering report, which shall not be less than the par value of the Company’s ordinary shares at the date of the aforesaid offering report (“**the Conversion Rate**”), subject to adjustments as described below, and in the manner and on the conditions as will be particularized in the aforesaid offering report.
- 6.1.2 Every holder of the Convertible Debentures of any series wishing to convert the balance of the par value of the principal of the Convertible Debentures of that series held by him into Conversion Shares (“**the Converting Party**”), shall submit a written application to that effect on a form as will be devised by the Company, accompanied by the certificates of the Convertible Debentures to which the application relates, directly to the Company at its registered office (if those Debentures are registered in the name of the Converting Party in the register of that series) or through the Stock Exchange member (in a case in which those Debentures are held by the Converting Party through such Stock Exchange member) on the Conversion Dates, and under all circumstances not later than the end of the Conversion Period with respect to that series (“**the Notice of Conversion**”).

- 6.1.3 It will be possible in one Notice of Conversion to request the conversion of the balance of the par value of the principal of a number of Convertible Debentures of that series that are registered in the name of the same holder, and in such case all the certificates in respect of the Convertible Debentures to which such Notice of Conversion relates shall be attached thereto.
- 6.1.4 In the case of a conversion of the Convertible Debentures into shares in accordance with this paragraph with respect only to part of the amount of the par value of the Convertible Debentures registered in one certificate, it shall be necessary first to split the certificate of Convertible Debentures into a number of debenture certificates as required in the circumstances, in a manner that the sum total of the par value amounts of the Debentures recorded therein is equivalent to the par value amount of the debenture certificate which will be split as aforesaid.
- 6.1.5 The Notice of Conversion forms are obtainable at the registered office of the Company and at such other place of which the Company shall give notice.
- 6.1.6 The Converting Party shall at any time sign any document that is required according to any law and in accordance with the Company's instructions for purposes of the allotment of the Conversion Shares. The day on which the Company receives a Notice of Conversion directly from the Converting Party (in respect of Debentures held directly), or the Stock Exchange Clearing House receives Notice of Conversion of the Convertible Debentures from a Stock Exchange member (in respect of Debentures held through the nominee company), which comply with all the conditions set forth in the Prospectus, as the case may be, will be deemed to be the date of conversion ("**the Conversion Date**").
- 6.1.7 If the Converting Party has not complied with all the conditions for conversion of the Convertible Debentures in full, the Notice of Conversion shall be deemed to be void, and the certificates in respect of the Convertible Debentures that were attached to such Notice of Conversion will be returned to the applicant.
- 6.1.8 A Notice of Conversion that has been lodged with the Company shall be irrevocable and incapable of being altered.

- 6.1.9 The Converting Party will not be entitled to the allotment of a fraction of one Conversion Share, but all fractions of Conversion Shares that come into being at the time of conversion, if any, will be sold on the Stock Exchange by a trustee who will be appointed for this purpose by the Company, within thirty (30) days after such fractions have accumulated into whole shares in a reasonable quantity for sale on the Stock Exchange, taking into account the costs connected therewith. The net proceeds of the sale thereof will be divided amongst the entitled persons respectively within fifteen (15) days from the date of sale. A check in an amount of less than NIS 50 will not be sent to a single entitled person as aforesaid, and it will be possible to obtain such amount at the Company's offices on normal working days and at normal working hours. An entitled person as aforesaid who does not come to the Company's offices to receive this amount as aforesaid within twelve (12) months from the date of sale will lose his right to this amount.
- 6.1.10 Conversion Shares will confer on their holders all rights to participate fully in any dividend and other distribution, the effective date for the right to receive same is the Conversion Date or subsequent thereto, and the Conversion Shares will rank *pari passu* in all respects with the ordinary shares of NIS 1 par value existing in the Company's capital at such time.
- 6.1.11 The Convertible Debentures that have been converted will be taken out of circulation on the date of the conversion thereof and will be absolutely void, retroactively to the Conversion Dates, from the date of allotment of Conversion Shares in respect thereof, and will not confer any right to any interest after the last date for an interest payment the effective date for which fell before the Conversion Date, nor shall they confer any right to linkage differences that have accumulated on the principal amount in accordance with the conditions of linkage as set forth in Paragraph 3 above (and which would have been payable together with the principal of the Debentures had the applicant not exercised his right to convert the Convertible Debentures into shares as aforesaid).
- 6.1.12 Any part of the Convertible Debentures of any series which is not converted up to the end of the Conversion Period with respect to that series, will no longer confer on the holder thereof any right to convert same into Conversion Shares, and the right of conversion in respect thereof will be null and void after that date.

6.2 Timetables for conversion

The bylaws of the Stock Exchange Clearing House which are known at the time of publication of the Shelf Prospectus with regard to the timetable for executing an instruction to convert the Convertible Debentures held through Stock Exchange members prescribe as follows:

- 6.2.1 A customer's notice regarding conversion which is received up to the hour of 12:00 noon at the offices of the Stock Exchange member shall be transferred by that Stock Exchange member to the Clearing House by not later than 12:00 noon on the next trading day.

- 6.2.2 Where the Clearing House has received notice from the Stock Exchange member regarding conversion by not later than 12:00 noon, the Clearing House will debit the Stock Exchange member and will credit the nominee company accordingly, by not later than 12:00 noon on the next trading day.
- 6.2.3 Where the nominee company has received a credit note as referred to in sub-paragraph 6.2.2 above before 12:00 noon, it shall send the Notice of Conversion to the offices of the issuing company not later than 12:00 noon on the next trading day.
- 6.2.4 Any notice amongst those mentioned in sub-paragraphs 6.2.1 to 6.2.3 above which is received after 12:00 noon on a trading day, shall be deemed to have been received before 12:00 noon on the next trading day.
- 6.2.5 Notwithstanding the foregoing, on the last day for conversion prior to final maturity or before the ex date for partial redemption, as the case may be, the Stock Exchange members must transfer the final conversion applications to the Clearing House by not later than 12:00 noon. The conversion will be effected on the same day. A Stock Exchange member who has not lodged an application up to the aforesaid hour, will be deemed not to have exercised his right to convert the Convertible Debentures in his possession.

Where the last date for conversion of the Convertible Debentures of any series falls prior to final maturity, or the last date for conversion prior to partial redemption falls on a day that is not a trading day, the aforesaid date will be postponed to the next trading day.

It is hereby emphasized that the bylaws of the Stock Exchange Clearing House, as same apply at the time of actual conversion, will apply to conversions of the Convertible Debentures.

Within one trading day after the Conversion Date, the Company will issue to every Converting Party certificates in respect of the Conversion Shares that are due to him, and after approval for the listing for trading on the Stock Exchange of the Conversion Shares that will be issued, the Company shall take steps for the listing of the Conversion Shares for trading on the Stock Exchange within three (3) days from the aforesaid date.

6.3 Provisions for protection of holders of the Convertible Debentures in the Conversion Period

6.3.1 Distribution of bonus shares

If the Company should distribute bonus shares after the date of the first offering report of any series of the Convertible Debentures and before the end of the Conversion Period in relation to such series, the rights of the holders of the Convertible Debentures of that series will be safeguarded in the manner described below:

- 6.3.1.1 After the effective date for the entitlement to participate in the aforesaid distribution the number of Conversion Shares to which the holders of the Convertible Debentures of that series will be entitled upon the conversion thereof will increase, by way of adding the number of shares to which the aforesaid holder would have been entitled as bonus shares, had he converted the Convertible Debentures immediately prior to the aforesaid effective date.
- 6.3.1.2 A holder of Convertible Debentures will not be entitled to the allotment of a fraction of a bonus share in accordance with the matters aforesaid, but all fractions of bonus shares that come about at the time of the allotment and which accumulate into whole shares, will be sold on the Stock Exchange by a trustee who will be appointed by the Company for this purpose, within thirty (30) days from the date of the aforesaid allotment, and the net proceeds (after deduction of selling expenses and compulsory payments and levies) will be divided amongst the entitled persons within fifteen (15) days from the date of sale. A check in an amount of less than NIS 50 will not be sent to a single entitled person and it will be possible to obtain such amount at the Company's offices on normal working days and at normal working hours. An entitled person as aforesaid who does not come to the Company's offices to receive this amount as aforesaid within twelve (12) months from the date of sale will lose his right to this amount.
- 6.3.1.3 In accordance with contents of the Stock Exchange regulations and its directives, the method of adjustment cannot be altered.

6.3.2 Rights issue

If the Company should offer its shareholders securities of any class by way of a rights issue subsequent to the date of the first offering report in respect of any series of the Convertible Debentures and up to the end of the Conversion Period in relation to such series, the number of Conversion Shares in respect of a conversion of the Convertible Debentures of that series which have not yet been converted into ordinary shares of the Company, will be adjusted on the effective date for the right to purchase the securities that will be offered in the rights issue, according to the bonus element in the rights, as this is manifested by the ratio between the price of the Company's share on the Stock Exchange on the aforesaid effective date and the base price "ex rights". In accordance with the provisions of the Stock Exchange regulations and its directives, the method of adjustment as described above cannot be altered.

6.3.3 Adjustment in respect of distribution of dividend

Should the Company make a distribution of dividend, as defined in the Companies Law (“**the Distribution**”), the effective date for the entitlement to which (“**the Effective Date for Distribution**”) falls before the End of the Conversion Period, one of the provisions set forth in sub-paragraphs 6.3.3.1-6.3.3.3 below will apply in such manner as shall be specified by the Company in the first offering report of the relevant series. In the aforesaid first offering report the Company shall publish in detailed fashion the manner of adjusting the conversion price as a consequence of a Distribution, if any, in accordance with its choice of one of the following alternatives:

- 6.3.3.1 The conversion price will not be adjusted as a consequence of a distribution by the Company.
- 6.3.3.2 Immediately after the effective date, a deduction will be made from the conversion price in respect of each share of an amount equivalent to the “ex” value as defined in the Stock Exchange trading regulations and in the directives issued pursuant thereto. The Company shall give notice of the adjusted conversion price as aforesaid not later than the day on which the Company’s shares are traded “ex dividend”.
- 6.3.3.3 Should the first trading day on which the Company’s shares are traded fall after the Effective Date for the Distribution (ex dividend), the conversion ratio of the Convertible Debentures that are in circulation will be adjusted by multiplying it by the ratio between the price of the Company’s share on the Stock Exchange, as will be fixed by the Stock Exchange as a price adjusted for the distribution (ex dividend price), and the closing price fixed on the Stock Exchange for the Company’s share on the Effective Date for Distribution. The Company shall give notice by way of an immediate report in regard to the adjusted conversion ratio, as aforesaid, not later than the day on which the Company’s shares are traded “ex dividend”.

If the Company has failed to specify in the first offering report which of the alternatives mentioned above will apply to the conversion price of the Convertible Debentures, as aforesaid, the provisions of Paragraph 6.3.3.1 above will apply.

6.3.4 Additional provisions for protection of holders of the Convertible Debentures in the Conversion Period

On the date of publication of the offering report in relation to any series of Convertible Debentures and until all the Convertible Debentures of that series have been converted, but under no circumstances later than the End of the Conversion Period with respect to that series, the following provisions will apply:

- 6.3.4.1 The Company shall retain a sufficient quantity of ordinary shares of NIS 1 par value in its authorized share capital to guarantee the allotment of all the shares likely to arise from a conversion of all the Convertible Debentures of that series which are in circulation from time to time, and to the extent necessary the Company shall cause an increase of its authorized share capital accordingly.

- 6.3.4.2 If the Company consolidates the ordinary shares of NIS 1 par value in its issued share capital into shares of a larger denomination, or sub-divides the shares into shares of a smaller denomination – the number of Conversion Shares that will be allotted in consequence of a conversion of the Convertible Debentures of that series will be reduced or increased, as the case may be, after such action. In such case the contents of Paragraph 6.1.9 above will apply, *mutatis mutandis*.
- 6.3.4.3 The Company will make a copy of its periodic reports and of the Company's interim financial statements available for perusal and inspection of the holders of the Convertible Debentures of that series, at its registered office during normal working hours. On a request in writing from a registered holder of Convertible Debentures of that series, the Company will send him a copy of the aforesaid reports and statements.
- 6.3.4.4 Within ten (10) days from any adjustment in the conversion price or in the number of Conversion Shares with respect to such series of Convertible Debentures, the Company shall publish a notice in two (2) widely-circulating Hebrew dailies published in Israel, regarding the right of holders of the Convertible Debentures of that series to convert such Debentures into shares, coupled with an indication of the Conversion Period, the conversion price and the number of Conversion Shares to which a holder of the Convertible Debentures will be entitled as a consequence of conversion at that time, all in relation to the aforesaid series.
- 6.3.4.5 In addition to the aforesaid notice, the Company shall, not later than three (3) weeks and not earlier than four (4) weeks before the End of the Conversion Period with respect to that series, publish a notice in two (2) widely-circulating Hebrew dailies published in Israel, and shall send written notice, with a copy to the Stock Exchange and to the trustee for that series, to the holders registered in the register for that series, regarding the last date for conversion of the Convertible Debentures of that series. Such notice shall mention the conversion price, the number of Conversion Shares and the number of bonus shares to which a holder of the Convertible Debentures will be entitled at the time of conversion during that period, all in relation to the aforesaid series.
- 6.3.4.6 The Company shall not distribute and shall not offer to the holders of the ordinary shares of NIS 1 par value a cash dividend or bonus shares or a rights offer for any securities, unless the Effective Date for the right to receive same is at least ten (10) trading days after publication by the Company in regard to the distribution or the rights offer, as the case may be.

- 6.3.4.7 The Company shall refrain from any action, including a distribution of bonus shares, likely to lead to a reduction in the price of a Conversion Share to below its par value.
- 6.3.4.8 In accordance with the Stock Exchange regulations and directives as prevailing at the date of the Deed of Trust, the conditions of the Convertible Debentures cannot be altered with respect to the conversion price, the conversion dates and the method of linkage but the Company will be entitled to alter the Conversion Period and/or the conversion price, provided that this is done in the scope of an arrangement or compromise that has been approved by a court, in accordance with Section 350 of the Companies Law. In addition, pursuant to the aforesaid Stock Exchange regulations and directives, the Company is entitled to alter the conversion price in the scope of a spin-off process of the Company or a merger process of the Company, provided that the change shall include only the adjustments necessitated by such process.

According to the aforesaid Stock Exchange regulations and directives, **“the spin-off process”** for these purposes means – a process in which the Company transfers to its shareholders shares which it holds in another company, or a process in which the Company transfers assets and liabilities to a new company that will be established for purposes of the spin-off, and the shareholders in the new company will also be the shareholders in the Company which transfers the assets and liabilities, all on condition that the spin-off process was carried out under equal conditions for the Company’s shareholders.

According to the aforesaid Stock Exchange regulations and directives, **“a merger process”** for these purposes means – a process in which all the Company’s shares will be transferred into the ownership of a new company, or into the ownership of another registered company whose shares are listed for trading on the Stock Exchange, or a process in which the Company transfers all its assets and liabilities to another company as aforesaid, all on condition that the securities of a company whose shares or assets are transferred as aforesaid, will be delisted from trading on the Stock Exchange and the process shall be carried out under equal conditions for the Company’s shareholders.

6.3.5 Voluntary winding-up

- 6.3.5.1 In the case of the passing of a voluntary winding-up resolution, the Company shall give written notice to all holders of the Convertible Debentures which are in circulation for the time being, who are registered in the register of the relevant series of the Convertible Debentures, and shall publish a notice to that effect in two (2) widely-circulating Hebrew dailies published in Israel. Every holder of the Convertible Debentures will be entitled, as he pleases, to be deemed to have exercised the right of conversion in respect of the Debentures immediately prior to the passing of the resolution, if he gives the Company written notice of his desire for this within three (3) months from the date of the Company's aforesaid notice.
- 6.3.5.2 In such case, a holder of the Convertible Debentures will be entitled to participate in a distribution amongst its shareholders, of the surplus assets of the Company in winding-up (after discharge of all its debts), with this being in an amount he would have received in a winding-up of the Company had he been a shareholder in the Company immediately prior to the passing of the winding-up resolution as a consequence of the conversion of the Convertible Debentures held by him, in respect of which he gave the Company notice as aforesaid, but after deduction of the amounts of interest that were paid in respect of those Convertible Debentures at the date of the resolution or subsequent thereto (except interest the due date for payment of which fell prior to the date of the resolution, even if paid on or after the date of the resolution); and the holder of the Convertible Debentures will not be entitled to any payment in accordance with the Debentures the due date for payment of which fell after the date of the resolution.

7. **Failure to make payment for a reason not dependent on the Company**

- 7.1 Any amount which is due to a debenture holder which was not actually paid on the date specified for the payment thereof, for a reason that is not dependent on the Company, in circumstances where the Company was prepared to make payment thereof, shall cease to bear interest and linkage differences from the date specified for the payment thereof, and the debenture holder will only be entitled to those amounts to which he would have been entitled on the date specified for the making of such payment on account of the principal, the interest and the linkage differences.
- 7.2 Within 15 business days from the date specified for such payment, the Company shall deposit with the Trustee, in a bank account in the name and to the order of the Trustee, the amount of the payment that was not paid on due date, as mentioned in sub-paragraph 7.1 above, and shall give notice in writing as per the addresses in its possession to the debenture holders about such deposit, and the aforesaid deposit shall be deemed to be a discharge of that payment and in the case of discharge and liquidation of everything due in respect of the debenture, also as redemption of the debenture.

- 7.3 The Trustee shall, in the framework of trust accounts in its name and to its order, invest the moneys that will be transferred to it as stated in Paragraph 7.2 above, in investments that are permitted to the Trustee in accordance with the Deed of Trust. Where the Trustee has done so, it will not be liable to the entitled persons in respect of those amounts other than for the proceeds that will be received from realization of the investments, less the reasonable expenses connected with the aforesaid investment and the maintaining of the trust accounts, the reasonable charges and commissions and less compulsory payments that are imposed on the trust account. Out of the aforesaid moneys the Trustee shall transfer amounts to the debenture holders who are entitled thereto, and shall do so as soon as possible after proof and reasonable confirmations are furnished to the Trustee in regard to their right to such amounts, and less the Trustee's reasonable expenses, commissions, compulsory payments and its remuneration as mentioned in Paragraph 7.2 above.
- 7.4 The Trustee shall hold these moneys and shall invest same in the aforesaid manner until the end of one year from the date of final repayment of the Debentures. After that date, the Trustee shall transfer the amounts mentioned in sub-paragraph 7.3 above to the Company, including profits arising from the investment thereof, less its reasonable expenses and other reasonable expenses that were incurred in accordance with the provisions of this Deed (such as remuneration to service providers, etc.), if any such moneys remain in its hands at such time. The Company shall hold these amounts in trust for the debenture holders who are entitled to these amounts, and the provisions of sub-paragraph 7.3 above shall apply, *mutatis mutandis*, with regard to the amounts that will be transferred to it by the Trustee as aforesaid.
- 7.5 The Company shall confirm to the Trustee in writing that it holds the amounts and the fact of having received same in trust for the aforesaid debenture holders.
- 7.6 The Company shall hold these moneys in trust for the debenture holders who are entitled to such amounts for an additional one year from the date of the transfer thereof to it from the Trustee, and shall not make any use thereof and shall invest same in accordance with the provisions of the Deed of Trust. Moneys which are not claimed from the Company by a debenture holder up to the end of two years from the date of final repayment of the Debentures will be transferred to the Company, and it will be entitled to make use of the remaining moneys for any purpose.

8. **Transfer of the Debentures**

- 8.1 The Debentures are transferable in respect of any amount of par value, provided that this is in whole new shekels. Every transfer of Debentures shall be made in accordance with a deed of transfer drawn up in the usual form for the transfer of shares, duly signed by the registered owner or his legal representatives, and by the transferee or his legal representatives, which shall be delivered to the Company at its registered office accompanied by the certificates of the Debentures being transferred pursuant thereto, as well as any other reasonable proof that may be demanded by the Company for proving the transferor's right to transfer same.

Subject to the foregoing, the procedural provisions contained in the Company's Articles in regard to the manner of transfer of shares shall apply, *mutatis mutandis* as the case may be, with respect to the manner of transfer and transmission of the Debentures.

- 8.2 If any compulsory payment is imposed on the deed of transfer of the Debentures, reasonable proof shall be delivered to the Company regarding the payment thereof by the party requesting the transfer.
- 8.3 In the case of the transfer of only portion of the amount of the par value of the Debentures contained in this certificate, the certificate shall first be split in accordance with the provisions of Paragraph 9 below into the number of debenture certificates necessitated by this, in a manner that the aggregate amounts of principal denominated therein will be equal to the amount of the principal denominated in the aforesaid debenture certificate.
- 8.4 After all these conditions have been complied with, the transfer will be registered in the register and all the conditions set forth in the Deed of Trust and in this debenture will apply to the transferee.
- 8.5 All the expenses and commissions connected with the transfer shall be borne by the person requesting the transfer.

9. **Split of debenture certificates**

In regard to a split of a debenture certificate, see Clause 26 of the Deed of Trust.

10. **Early redemption of the Debentures (Series C to G) and the Debentures (Series H to J)**

In a case in which the Debentures are listed for trading and it is decided by the Stock Exchange on the delisting of the Debentures in circulation by virtue of the value of the series of the Debentures (in relation to Series C to G only) and/or by virtue of the value of the public's holdings of the series of Debentures (in relation to Series H to J only) have fallen below the amounts specified in the Stock Exchange directives in regard to the delisting of Debentures, the Company will act as follows:

- 10.1 Within 45 days from the date of the decision by the board of directors of the Stock Exchange in regard to the delisting from trading as aforesaid, the Company shall give notice of the date of early redemption on which the holder of Debentures (Series C to G) and Debentures (Series H to J) will be entitled to redeem same. The Company shall pay the holder the principal plus linkage differences and interest in accordance with the conditions of the Debentures (Series C to G) and the Debentures (Series H to J) which have accrued up to the date of actual redemption.
- 10.2 Notice regarding the date of early redemption shall be published in an immediate report that shall be sent to the Authority and to the Stock Exchange, and in two widely-circulating Hebrew dailies in Israel and shall be delivered in writing to all the registered holders of the Debentures (Series C to G) and the Debentures (Series H to J).

- 10.3 The date of early redemption with respect to the Debentures of Series C to G only shall fall not earlier than 17 days from the date of publication of the notice and not later than 45 days from the aforesaid date, but not in the period between the date specified for payment of interest and the date of actual payment thereof. Notwithstanding the foregoing, in the case of early redemption of Debentures of Series H to J only, the date of early redemption shall fall not earlier than 30 days from the date of publication of the notice and not later than 45 days from the aforesaid date, but not in the period between the date specified for payment of interest and the date of actual payment thereof.
- 10.4 On the date of early redemption the Company will redeem the Debentures (Series C to G) and the Debentures (Series H to J) the holders of which have requested the redemption thereof, on a basis of the balance of the par value thereof together with linkage differences and the interest which have accrued to the principal up to the actual date of redemption (calculation of the interest will be done on a basis of 365 days in a year).
- 10.5 Fixing of a date of early redemption as aforesaid does not prejudice the redemption rights specified in the Debentures of any of the debenture holders who do not redeem same on the date of early redemption as aforesaid, and in the case of Debentures of Series H to J only, it also does not prejudice the conversion rights, but the Debentures (Series C to G) and the Debentures (Series H to J) will be delisted from trading on the Stock Exchange, and the tax implications arising therefrom shall, *inter alia*, apply thereto.
- 10.6 Early redemption of the Debentures (Series C to G) and the Debentures (Series H to J) as aforesaid shall not confer on anyone who held the Debentures and redeemed same as aforesaid the right to payment of interest in respect of the period subsequent to the date of redemption.
- 10.7 **Early redemption on the Company’s initiative**
- With respect to Debentures of Series C to G only – the Company will be entitled to make the Debentures of any such series, which will be offered pursuant to a Shelf Offering Report in accordance with the Shelf Prospectus, available for early redemption on such conditions, at such price (including the formula for calculation in regard to Debentures of Series H to J) and such mechanism in relation to Debentures of Series C to G according to such timetables, at such frequencies of redemption and on the remaining conditions which must be particularized in accordance with the provisions of the Stock Exchange regulations and directives, as in force for the time being, all as shall be prescribed in the first offering report of the Debentures of the relevant series.

11. **Purchase of Debentures by the Company and/or by a related corporation**

In this regard see Clause 4 of the Deed of Trust.

12. **General provisions**
- 12.1 The amount of the principal and the interest are payable and transferable without reference to any rights in equity or any right of set-off or counterclaim which exists or may exist between the Company and a previous holder, including the original holder of the Debentures.

12.2 Any person who becomes entitled to the Debentures as a result of the bankruptcy, or as a result of the liquidation proceedings, of a debenture holder will have the right, after having produced such evidence as the Company may demand from him from time to time, to be registered in the register as a holder of the Debentures, or, subject to the conditions set forth above in this certificate, to transfer same.

12.3 The debenture holders will be entitled to exercise their rights under the Debentures and the Deed of Trust through the Trustee or in accordance with a resolution of a general meeting of the debenture holders in the ways described in the debenture and in the Deed of Trust. Notwithstanding the foregoing, if the Trustee acts in a manner which is not in accordance with the provisions of the Deed of Trust and the debenture, the debenture holders will be entitled to exercise their rights including in accordance with a resolution of the general meeting.

12.4 The provisions of the Deed of Trust, including the right to make the Debentures immediately due and payable, as prescribed in Clause 8 of the Deed of Trust, shall be deemed to be an integral part of this debenture.
13. **Waiver, compromise and/or alterations to the conditions of the Debentures**
- In this regard see Clause 24 of the Deed of Trust.
14. **General meetings of debenture holders**
- The general meetings of the debenture holders shall be convened and conducted in accordance with the contents of the Second Schedule to the Deed of Trust.
15. **Receipts as proof**
- Without derogating from any of the other terms and conditions, a receipt signed by a holder of the Debentures contained in this certificate shall constitute proof of the full discharge of any payment mentioned in the receipt, which was made the Company or by the Trustee, as the case may be, in respect of the Debentures contained in this certificate.
16. **Replacement of debenture certificate**
- In the event that a debenture certificate should become worn, be lost or destroyed, the Company may issue a new certificate of the Debentures in its place, under such conditions with regard to proof, indemnity and cover of the reasonable expenses that will be incurred by the Company for purposes of verifying the right of ownership of the Debentures, as the Company shall deem fit, on condition that in the case of the certificate becoming worn, the defaced debenture certificate shall be returned to the Company before the new certificate is issued. Levies and other expenses connected with the issue of a new certificate, if any, shall be borne by the person requesting such certificate.

17. **Notices**

In this regard see Clause 23 of the Deed of Trust.

SECOND SCHEDULE TO DEED OF TRUST

GENERAL MEETINGS OF DEBENTURE HOLDERS

1. The Trustee or the Company may summon the debenture holders to a meeting of debenture holders. If the Company calls such meeting, it must immediately send written notice to the Trustee about the day and time at which the meeting will take place, as well as the matters that will be brought for consideration before it. If the Trustee calls such meeting, it must send written notice to the Company about the day and time at which the meeting will take place, as well as the matters that will be brought before it for consideration.

The Company will be obliged to call such meeting on a requisition in writing from the Trustee or the holders of at least ten percent (10%) of the par value of the unpaid balance of the principal of the Debentures. The Trustee will be obliged to call such meeting on a requisition in writing of the holders of at least ten percent (10%) of the par value of the unpaid balance of the principal of the Debentures. Where the parties wishing to call the meeting are the debenture holders, the Company and/or the Trustee, as the case may be, shall be entitled to demand indemnity from the parties requesting to call the meeting in respect of the reasonable expenses connected therewith.

2. At the time of holding a meeting of debenture holders, the Trustee shall examine whether, in the circumstances of the matter, there is a conflict of interest amongst the debenture holders, and shall decide – in accordance with the provisions of any law, decided cases, provisions of the Securities Law and the regulations and directives issued pursuant thereto – who amongst the participants has a conflicting interest, in relation to whom the provisions of Paragraph 4 below will apply.
3. The Trustee will be entitled to demand from a debenture holder wishing to attend a meeting of holders to deliver a declaration to the Trustee regarding the existence of conflicting interests. A holder who does not deliver such declaration shall be deemed to have declared and represented that he has no conflicting interest. The Trustee shall rely only on such declaration and will be not obliged to conduct an additional investigation or examination.

In this paragraph “**conflicting interest**” means: any additional material interest of a holder which goes beyond the interest arising from the holding of the certificates of obligation in the series of the meeting of holders which has been convened, including a material personal interest of a family member and of another corporation in which he or a member of his family have an interest.

The votes of: (1) debenture holders who are a related corporation as defined in the Deed of Trust; (2) and any person the Trustee has ruled, according to the provisions of Paragraph 3 above, is someone who has a conflicting interest, and these Debentures will not be counted in the votes at a meeting of holders or at a class meeting, including for purposes of determining a quorum and for purposes of voting.

4. In regard to every meeting of debenture holders prior notice of at least 14 (fourteen) days shall be given to the debenture holders and to the Trustee, or in the event that the purpose of the meeting is to consider a proposal for the passing of the special resolution, prior notice of at least 21 (twenty-one) days. The prior notice shall specify the place, the day and the time of the meeting, and mention shall be made, in general terms, of the matters that will be considered at the meeting. Where the purpose of the meeting is to consider and pass a special resolution, the aforesaid prior notice shall also specify the main points of the proposed resolution. Where the meeting is called by the Trustee, such notice shall also be given to the Company.
- The Trustee will be entitled to shorten the period for the giving of prior notices, if it is of the opinion that a postponement in convening the meeting constitutes or is likely to constitute prejudice to the rights of the debenture holders.
5. No resolution duly passed at a meeting called as aforesaid shall be invalidated, if notice of the meeting was inadvertently not given to the holders of less than ten percent (10%) of the par value of the unpaid balance of the principal of the Debentures, or such notice was not received by such holders.
6. The chairman of the meeting will be a person appointed by the Trustee. If the Trustee does not appoint such chairman or if the person whom the Trustee has appointed as aforesaid is not present at the meeting, the debenture holders present (or represented by proxy) shall elect a chairman from amongst their number.
7. A meeting of debenture holders shall be opened after it has been proved that the necessary quorum is present for the start of the meeting.
- (a) Subject to the necessary quorum for dismissal of a trustee according to any law, at meetings of debenture holders, except as stated in Paragraph 5(e) below [sic], a quorum shall be constituted if at least two debenture holders who jointly hold or represent at least ten percent (10%) of the par value of the unpaid balance of the principal of the Debentures for the time being are personally present or represented by proxy.
- (b) If within half an hour from the time appointed for the start of such meeting no quorum as aforesaid is present, the meeting shall be adjourned to the same day one week later, at the same place and at the same time (without the necessity for further notice) and if that day is not a business day, to the next business day (without the necessity for further notice), or to such other day, place and time as the party calling the meeting shall decide, on condition that the party calling the meeting shall give notice at least seven (7) days in advance with regard to the holding of such adjourned meeting, in the same manner in which notice of the holding of the original meeting was given, and shall indicate that if a quorum as aforesaid is not present at the adjourned meeting, the quorum will be two debenture holders personally present or represented by proxy, without reference to the par value of the Debentures held by them. Such notice may also be given in the notice pursuant to which the meeting that was adjourned was called.

- (c) If no quorum is present at a meeting that has been adjourned as aforesaid, two debenture holders personally or represented by proxy, who hold any quantity of Debentures, shall constitute a quorum.
 - (d) With the consent of the holders of a majority of the par value of the unpaid balance of the principal of the Debentures who are personally present or represented by proxy at a meeting at which a quorum was present, the chairman may, and on a demand by the meeting shall be obliged to, adjourn the meeting from time to time and from place to place, as the meeting shall decide. If the meeting is adjourned for ten days or more, notice of the adjourned meeting shall be given in the same manner as notice is given about the first meeting, provided that in a case in which the continuation of the holding of the meeting is adjourned to a time earlier than fourteen days, notice of the adjourned meeting shall be given by way of the publication of an immediate notice. Save for the foregoing, the debenture holders will not be entitled to receive any notice about an adjourned meeting and/or about the matters that will be considered at the adjourned meeting. No matters shall be considered at the adjourned meeting except the matters it was possible to consider at the meeting at which it was decided on the adjournment.
 - (e) At a meeting convened for the passing of any of the resolutions set forth below (hereinafter: “**Special Resolution**”), a quorum will be constituted if two or more holders who hold at least fifty percent (50%) of the par value of the unpaid balance of the principal of the Debentures are present, or at an adjourned meeting at which two or more holders who hold at least ten percent (10%) of the aforesaid balance are personally present or represented by proxy:
 - (1) Any amendment, alteration or material arrangement of the rights of the debenture holders, whether such rights derive from the Debentures, from the Deed of Trust or otherwise, or any material compromise or waiver in connection with such rights;
 - (2) The making of the Debentures immediately due and payable upon the fulfillment of one or more of the conditions mentioned in Clause 8 of the Deed of Trust;
 - (3) Any resolution on another matter which was specified in the Deed of Trust or in the debenture as being subject to the passing of a special resolution.
8. (a) The debenture holders are entitled to attend and vote at every general meeting either personally or represented by proxy. In every vote of the debenture holders the vote shall be conducted by way of a poll, in such manner that each debenture holder or his proxy will be entitled to one vote in respect of each NIS 1 par value of the total unpaid nominal amount of the principal of the Debentures pursuant to which he is entitled to vote. In the case of joint holders, only the vote of the person whose name stands first amongst them in the register will be accepted, given either personally or by way of proxy.

- (b) The debenture holder or his proxy may vote in respect of some of his votes in favor of a particular proposed resolution, and in respect of portion against it, and in respect of another portion may abstain, all as he sees fit.
 - (c) The Trustee who attends the meeting at the invitation of the Company shall participate without a right to vote.
- 9.
- (a) The majority required for the passing of an ordinary resolution of the general meeting is a simple majority of the number of votes represented in the vote, voting for or against. The majority required for the passing of a special resolution at a meeting as referred to in Paragraph 5(e) above is a majority of not less than 75% of the number of votes represented in such vote.
 - (b) A resolution for the alteration of the Deed of Trust shall be passed by a special resolution and subject to any law.
 - (c) An announcement by the chairman that a resolution has been passed or has been defeated and a note to that effect in the minutes of the meeting shall serve as *prima facie* proof of such fact.
- 10.
- (a) The instrument appointing a proxy and/or attorney shall be in writing and shall be signed by the appointer or by his representative duly empowered in writing. If the appointer is a body corporate, the appointment shall be made by a written authorization duly signed by the corporation accompanied by a certificate from an attorney as to the validity of the signature. A proxy need not himself be a debenture holder.
 - (b) An instrument of appointment and a power of attorney or other certificate pursuant to which the instrument of proxy was signed, or a certified copy of such power of attorney, shall be lodged at the Company's office not less than 48 hours before the time of the meeting in respect of which the power of attorney was given, unless otherwise specified in the notice calling the meeting.
 - (c) A vote given in accordance with the conditions contained in the document appointing a proxy shall be valid even if, prior thereto, the appointer has died or been declared legally incompetent or the instrument of proxy was revoked or the debenture in respect of which the vote was given has been transferred, unless written notice is received at the registered office of the Company prior to the time of the meeting in regard to the death, the incapacity decree, the revocation or the transfer as aforesaid, as the case may be.
- 11.
- The Trustee shall attend to the keeping of minutes of all deliberations and resolutions at every general meeting of the debenture holders, to the recording and preservation thereof in the minute book of meetings of debenture holders. Any minute signed by the chairman of the meeting at which the resolutions were passed and the deliberations took place, or by the chairman of the next meeting, shall serve as proof of the matters recorded therein, and until the contrary is proved, any resolution passed at such meeting shall be deemed to have been duly passed.

12.
- A person or persons appointed by the Trustee, the Company secretary and any other person or persons who have been permitted to do so by the Company and/or the Trustee, will be entitled to be present at meetings of the debenture holders. In a situation in which, in the reasonable discretion of the Trustee and on reasonable grounds, it is necessary that during part of the meeting deliberations should take place without the presence of representatives of the Company, the Company or anyone on its behalf will not participate in that part of the deliberations.
13.
- Every meeting of the debenture holders shall be held at the Company’s registered office or at such other place of which the Company shall give notice. The Trustee shall be entitled to request the Company to hold a meeting of debenture holders at another address, subject to the Company’s agreement.
14.
- Everything stated in this schedule is subject to the provisions of the Deed of Trust.

* * *

CONFIDENTIALITY DOCUMENT¹

Date _____

Blue Square – Israel Ltd.

Dear Sir/Madam,

re: Confidentiality Undertaking

1. In the framework of or in connection with the fulfillment of my duties as trustee for the holders of Debentures (Series C) – (Series G) and Debentures (Series H) – (Series J) of Blue Square – Israel Ltd. (hereinafter: **“the Company”**) pursuant to a Deed of Trust dated February 18, 2010² (hereinafter: **“the Work”**), I will receive or be exposed to information which is not part of the public domain, including, but without limitation, professional, technical, financial, technological, commercial or other data or information connected directly or indirectly with the Company, the Company’s subsidiaries or affiliates (as these terms are defined in the Securities Law, 5728-1968 (hereinafter: **“the Securities Law”**)), or connected with corporations in the Company’s group and/or with interested parties in the Company (hereinafter collectively: **“the Blue Square – Israel Group”**), procedures and/or modes of work and/or activity of the Blue Square – Israel Group as well as commercial and business information of any other sort which is not part of the public domain (hereinafter collectively: **“Confidential Information”**). Notwithstanding the foregoing, the term “Confidential Information” will not include information as aforesaid – (1) which has passed into the public domain (including information published by you or by interested parties in your firm) or which pass into the public domain other than by virtue of a breach of the provisions of this deed of undertaking; or – (2) which was known to us prior to the disclosure thereof by the Company and in respect of which we can provide reasonable proof to that effect; or – (3) which was passed on to us by a third party, provided that at the time of receiving such information we were not aware, after having asked the party who gave it, that disclosure of the information by the third party constitutes a breach of a fiduciary duty which such third party owes to Blue Square – Israel.
2. I am aware that it is prohibited for me to disclose the Confidential Information to any person, and I will not be entitled to make use of the Confidential Information for any purpose, except for purposes of the Work.

¹ For signature by the Trustee and its representatives in accordance with the terms and conditions of the Deed of Trust.

² In the case of an authorized representative of the Trustee – the job description will be amended to the relevant description.

Notwithstanding the foregoing, I will be entitled (a) to pass on conclusions and assessments that are based on the Confidential Information to the holders of Debentures (Series C) – (Series G) and Debentures (Series H) – (Series J) of the Company (including the presentation thereof at meetings of the debenture holders for purposes of passing a resolution that pertains to their rights); (b) to disclose Confidential Information, to the extent that I am obliged to do so according to the requirements of the law or on a demand by a competent authority according to law and/or pursuant to a judicial order, provided that the disclosure will be confined to the minimum scope and extent necessary in order to meet the requirements of the law, and I will, as far as possible and permitted, coordinate with you in advance the content and timing of the disclosure in order to leave you with reasonable time to defend against any such demand.

3. In addition to the permitted passing on of Confidential Information as stated in Paragraph 2 and without derogating from the contents thereof, disclosure of Confidential Information will be made by me only to my employees and/or to authorized representatives on my behalf, including my professional advisors (hereinafter: **“Authorized Recipient”**) on a “need to know basis” only. I am aware that disclosure or use of Confidential Information by an Authorized Recipient other than in accordance with the provisions of this document shall be tantamount to such disclosure or use by me and I will take all the necessary steps to guarantee the preservation of confidentiality of the Confidential Information. This undertaking of mine will not apply with respect to an Authorized Recipient who signs a confidentiality undertaking similar in all substantial respects to the undertaking set forth in this document.
4. I am aware that disclosure of the Confidential Information to any person or body is likely to be contrary to the securities laws in Israel and/or in the USA. I am aware that as a result of my being exposed to the Confidential Information various restrictions are likely to be imposed on me if inside information, within the meaning thereof under the securities laws in Israel and/or the USA, should come into my possession, and I am taking and will take all the reasonable measures to ensure that there will be no prohibited use of inside information in connection with the Confidential Information.
5. All the documents that will be delivered by you to me and which come into my possession as a result of and/or in connection with my having contracted with you and which are connected, directly or indirectly, to the Blue Square – Israel Group and/or its activities (including any copy or processing thereof), (hereinafter collectively: **“the Documents”**) will belong to you at all times and will be deemed to be your property for all intents and purposes and same will be returned by me to you upon your demand immediately upon completion of the Work, save and except the Confidential Information that will be kept by me in accordance with the provisions of the Deed of Trust and any law, including directives of a competent authority, or in accordance with internal procedures, to whatever extent there may be a need for documentation of work processes.

For purposes of the foregoing in this undertaking of mine, the term “documents” shall be construed as including any means of storing information, including, but without derogating from the generality of the foregoing, physical, mechanical, magnetic, electronic, optic and/or electro-optic means.

6.

My obligations under this document will remain valid and effectual even after completion of the Work for any reason and until the earlier of the following (a) the end of five years from receipt of such Confidential Information; (b) the Confidential Information becoming public (not as a result of a breach of the undertaking pursuant to this document, if any). My obligations under this Deed of Confidentiality are irrevocable and cannot be cancelled and they are in addition to, and not in lieu of, any obligation imposed on me according to law and/or any other agreement. My signing this undertaking does not confer on me a right to perform the Work and the terms and conditions of the Work will be regulated between us in separate documents.
7.

My obligations under this document are as against each and every one of the bodies corporate in the Blue Square – Israel Group whose Confidential Information may be passed on to me.
8.

If it is held by a judicial tribunal or any authority that none of the obligations in this document are of validity – the obligation will be reduced to the extent permitted according to law for the time being and such ruling will not prejudice the remaining rights and obligations under this document.
9.

It is clarified that the signing of this Deed of Undertaking shall not in itself preclude the replacement of the Trustee in accordance with the terms and conditions of the Deed of Trust³.

Yours faithfully

Full name	Identity number	Signature

³ This paragraph will not be included in the Deed of Confidentiality to be signed by the Trustee’s authorized representative.

[Unofficial Translation]

PROTOCOL

Made and entered into at Tel Aviv on the 11th day of April 2010

Between:

TEL AVIV WHOLESALE AGRICULTURAL PRODUCE MARKET COMPANY LTD.
Company No. 52-001818-5
of _____ Street, _____
(hereinafter: “the Company”)

And:

TEL AVIV MUNICIPALITY
(hereinafter: “the Municipality”)

(the Company and the Municipality will be referred to below as: “the Sellers”)

And:

1. LEV TEL AVIV TOWERS LTD., PYTE. CO. 514434356
(hereinafter: “the Housing Company”)

2. TEL AVIV CITY MALL LTD., PYTE. CO. 514434349
(hereinafter: “the Mall Company”)

(the Housing Company and the Mall Company will be referred to below as: “the Purchaser”)

The parties have reached an agreed wording of the Sale Agreements (including the appendices thereto) between each of the individual parties who make up the Sellers and the Purchaser in connection with the purchase of rights of leasehold in portion of the land known as Parcel 92, 93, 95, 114 and 242 Block 7104 (hereinafter collectively: “the Agreements”). The final texts of the Agreements are attached to this Protocol, marked with the letter “A”, and constitute an integral part hereof.

In relation to the Agreements, the parties hereby agree as follows:-

1.
- Each of the terms mentioned in this Protocol will have the meaning ascribed thereto in the Agreements.
2.
- The text of the Agreements is acceptable to the parties, without any alteration.
3.
- Each of the individual parties who make up the Purchaser hereby gives notice that apart only from approval by the general meeting of Blue Square Real Estate, their entering into the Agreements according to the terms and conditions thereof does not require and is not subject to any approval and/or consent (including and without derogating from the generality of the foregoing, an approval of the authorized organs of any of the individual parties who make up the Purchaser or of any of their parent companies and/or of any of the Interested Parties). The Purchaser undertakes that the general meeting of Blue Square Real Estate will be convened not later than 49 days from the date of signing of this Protocol. It is agreed that if Blue Square Real Estate is called upon by the Securities Authority to postpone the date of the general meeting (as a result of amendments to the transaction report that will be published by Blue Square Real Estate), then and in that event such postponement will not constitute a breach of the provisions of this Paragraph 3 and the date for holding the meeting will be postponed by a period equivalent to the period by which the meeting was postponed in accordance with a demand by the Securities Authority as aforesaid.

4. The Company hereby gives notice that its entering into the Company’s Lands Agreement is subject to the approval of the authorized organs of the Company, and the Municipality gives notice that its entering into the Municipality Lands Agreement is subject to the approval of the Tel Aviv-Jaffa City Council (this being in addition to and without derogating from the condition precedent to the Municipality Lands Agreement). The Company’s entering into the Company’s Lands Agreement will be brought for consideration and decision of the Company’s authorized organs not later than 49 days from the date of signing of this Protocol.
5. Within 21 days from the date of signing of the Protocol, the Purchaser undertakes to furnish the Sellers with firm commitment letters signed by a financing bank, in a text based on the text that was delivered to the Sellers as a draft, where same is adapted to the provisions of the Agreements and to the transaction between the parties, with it being clarified that it will be possible to furnish one firm commitment letter in relation to the share of the Housing Company and a second firm commitment letter in relation to the Mall Company, provided that the firm commitment letters shall together relate to 100% of the extent of the transaction (hereinafter: “**the Firm Commitment Letters**”). The Firm Commitment Letters shall contain an undertaking from the financing bank to provide finance to the individual parties who make up the Purchaser for the transaction that is the subject of the Agreements, in accordance with the terms and conditions thereof, and to make available to the individual parties who make up the Purchaser the full Basic Consideration less the First Payment, the Additional First Payment and the Later First Payment, at the times specified in Clause 6 of the Agreements.
- It is clarified that the furnishing of the aforesaid Firm Commitment Letters does not derogate from the Purchaser’s obligation to pay the full Consideration at the times specified in Clause 6 of the Agreements, with it being clarified that the Purchaser’s obligation for payment of the full Consideration in accordance with the provisions of the Agreements is absolute and it is not contingent upon receiving finance or on any other condition.
6. Within 2 business days from the date of the approval by the general meeting of Blue Square Real Estate for the individual parties who make up the Purchaser entering into the transaction that is the subject of the Agreements and for Blue Square signing and giving an undertaking as an interested party pursuant to the Agreements (hereinbefore and hereinafter: “**Approval by the General Meeting of Blue Square Real Estate**”), the individual parties who make up the Purchaser undertake to sign the abovementioned Agreements and to cause a situation that at that time the Interested Parties will sign the Deed of Undertaking at the foot of the Agreement.

7. Within 2 business days after the signing of the Agreement and the Deeds of Undertaking at the foot of the Agreements, as stated in Paragraph 6 above, by the individual parties who make up the Purchaser and by the Interested Parties, and subject to signed Firm Commitment Letters being exhibited to the Sellers as stated in Paragraph 5 above, the Municipality and the Company will sign the Agreements (each on the Agreement that is relevant to it), subject to obtaining the approval of the authorized organs of the Company and the approval of the Tel Aviv City Council.
8. Attached to this Protocol (as Appendix A to the Agreements) are the Leasehold Drawings on which areas of “the strip for planning” are marked in a meshed purple color which are bounded by an upper boundary line to a distance of 76.7 sq.m. [sic] from the south eastern boundary of Plot 242 (hereinafter: “**Boundary of Parcel 242**”) and a lower boundary line to a distance of 65.7 sq.m. [sic] from the Boundary of Parcel 242. The parties agree that the Leasehold Drawings will be amended in a manner whereby the south-eastern boundary lines between the Company’s Lands and the Municipality Lands and the Remaining Lands of the Project (hereinafter: “**the Boundary Lines**”) will be marked in such a way that on the upper ground floor and above (Drawing A1) the Boundary Line to a distance of 76.7 sq.m. from the Boundary of Parcel 242 will be located and on the lower ground floor and below (Drawings A2-A7) the Boundary Line to a distance of 67.7 sq.m. from the Boundary of Parcel 242 will be located.

It is hereby agreed that commencing from the date of signing of this Protocol and up to the time of signing of the Agreements, the parties will co-operate (including through their professional consultants) in order to ensure that the Boundary Lines which will be marked on the Leasehold Drawings as stated above, make possible optimum utilization of the full building rights on the Remainder of the Project Lands, on the one hand (including main areas and service areas, above ground and underground areas) and on the other hand the optimum utilization of all the building rights on the Company’s Lands and the Municipality Lands (including main areas and service areas, above ground and underground areas).

If at the time of signing of the Agreements it should transpire that the Boundary Lines which have been fixed as aforesaid do not allow optimum utilization as aforesaid, then the parties will reach agreement about the adjustments required in connection therewith.

If the parties fail to reach agreement – the marking of the Boundary Lines will remain at the location as specified above.

9. If any of the individual parties who make up the Purchaser should breach any of the representations and/or undertakings set forth in Paragraphs 3, 5 and 6 above and/or if any of the Interested Parties should breach any of the representations and/or undertakings specified in the Deed of Undertaking at the foot of this Protocol, then the Sellers will have the right to foreclose on the full amount of the guarantees that have been lodged with the Sellers in the scope of the sale process, as agreed pre-estimated liquidated damages in respect of the non-fulfillment of any of such obligations. Each of the individual parties who make up the Purchaser and each of the Interested Parties hereby waives any allegation and/or demand and/or claim against the Sellers and/or any one on their behalf, in connection with such foreclosure. It is further agreed that if the approval of the general meeting of Blue Square Real Estate is not obtained (as defined above) at the time prescribed in Paragraph 3 above, then and in that event the Purchaser will be given a period of 21 days in order to present to the Company and to the Municipality a substitute who will undertake to step into the shoes of Blue Square Real Estate in the Agreements (in the texts attached hereto). If no such substitute has been presented to the Company and the Municipality and/or if the substitute who was presented by the Purchaser has not been approved by the Company and the Municipality (on a basis that the Company and the Municipality will be entitled to object to the identity of the substitute only on reasonable grounds), then the Sellers will have the right to foreclose on 50% of the amount of the guarantees that have been deposited with the Sellers in the scope of the sale process, as agreed pre-estimated liquidated damages in respect thereof. Each of the individual parties who make up the Purchaser and each of the Interested Parties hereby waives any allegation and/or demand and/or claim against the Sellers and/or anyone on their behalf in respect of such foreclosure.

10. It is agreed that during the period commencing from the date of signing of this Protocol and up to the date of signing of the Agreements, the Purchaser will be entitled to notify the Company and the Municipality of its intention to deposit in trust the amounts of the First Payment pursuant to the Company's Lands Agreement and the First Payment pursuant to the Municipality Land Agreement. Where the Purchaser has given notice of its intention to deposit the amounts as aforesaid, the parties shall agree between them on the wording of a letter of instructions to the Trustee in relation to such amounts, with it being agreed that commencing from the date of actual deposit of the aforesaid amounts in trust, these amounts will not bear indexation differences and interest (as stipulated in Clause 6.2.1 of the Agreements).
11. Each of the individual parties who makes up the Purchaser declares and undertakes that it is entitled and authorized to sign this Protocol and to make the undertakings set forth herein and to perform same, without the necessity for any approval or consent.
12. For the removal of doubt it is clarified that the Agreements shall bind the parties only after same have been signed by them, to the extent that same are signed in accordance with the provisions of this Protocol, while nothing in the foregoing in this paragraph shall derogate from the obligations of the Purchaser and/or the Interested Parties in accordance with this Protocol.

11. Each of the individual parties who makes up the Purchaser declares and undertakes that it is entitled and authorized to sign this Protocol and to make the undertakings set forth herein and to perform same, without the necessity for any approval or consent.

12. For the removal of doubt it is clarified that the Agreements shall bind the parties only after same have been signed by them, to the extent that same are signed in accordance with the provisions of this Protocol, while nothing in the foregoing in this paragraph shall derogate from the obligations of the Purchaser and/or the Interested Parties in accordance with this Protocol.

It is further clarified and agreed, for the removal of doubt, that the individual parties who make up the Purchaser and the Interested Parties and/or any of them will not be entitled to register, and will not register, any caveat on the strength of this Protocol.

In witness whereof the parties have hereunto signed:

/s/

The Housing Company

/s/

**Tel Aviv Wholesale Agricultural Produce Market
Company Ltd.**

/s/

The Mall Company

/s/

Tel Aviv-Jaffa Municipality

DEED OF UNDERTAKING BY THE INTERESTED PARTIES

We the undersigned, Dirot Yukra Ltd. (hereinafter: “**Dirot Yukra**”), Gindi Investments 1 Ltd. (hereinafter: “**Gindi Investments**”) and Blue Square Real Estate Ltd. (hereinafter: “**Blue Square Real Estate**”) hereby declare and undertake as follows:

- 1. In this Protocol, Dirot Yukra and Gindi Investments will be jointly referred to below as: “**Gindi**”; Dirot Yukra, Gindi Investments and Blue Square Real Estate will be collectively referred to below as:(“**the Interested Parties**”).
- 2. Each of the Interested Parties declares and undertakes that it is entitled and authorized to sign this Deed of Undertaking and to make the undertakings set forth in this Deed of Undertaking and to perform and fulfill same, without the necessity for any approval or consent.
- 3. We confirm the full declarations and representations of the Purchaser and the individual parties who make up the Purchaser which are set forth above in this Protocol, in a manner whereby these declarations and representations shall be deemed to have been made directly by us to the Sellers.
- 4. We owe a direct obligation to the Sellers for the fulfillment of all the obligations of the Purchaser and the individual parties who make up the Purchaser in accordance with this Protocol.
- 5. Without derogating from the provisions of Paragraphs 1-3 above, the Interested Parties declare and undertake as follows:
 - 5.1 Dirot Yukra and Gindi Investments hereby give notice that all the approvals required from them have been obtained for purposes of the individual parties who make up the Purchaser entering into the transaction that is the subject matter of the Agreements in accordance with the terms and conditions thereof and for purposes of Dirot Yukra and Gindi Investments signing and giving their undertakings under the Agreements as Interested Parties. Without derogating from the generality of the foregoing, Dirot Yukra and Gindi Investments declare that there is no necessity for the convening and approval of general meetings and/or meetings of debenture holders for purposes of approving the entering into of the Agreements by the individual parties who make up the Purchaser and/or for purposes of Dirot Yukra and Gindi Investments signing and making their undertakings as Interested Parties in accordance with the Agreements.
 - 5.2 Blue Square Real Estate hereby gives notice that approval has been obtained from the audit committee and the board of directors of Blue Square Real Estate for the individual parties who make up the Purchaser entering into the Agreements in accordance with the terms and conditions thereof and for purposes of its signing and making its undertakings as an Interested Party in accordance with the Agreement, and that its signature and the making of its undertakings as an Interested Party in accordance with the Agreements is subject only to the approval of the general meeting of Blue Square Real Estate, and that as far as it is concerned the entering into of the Agreements by the individual parties who make up the Purchaser is subject only to the approval of the general meeting of Blue Square Real Estate. Blue Square Real Estate undertakes to act for convening a general meeting in a manner that such meeting shall be convened not later than 49 days from the date of signing of this Protocol. It is agreed that if Blue Square Real Estate is called upon by the Securities Authority to postpone the date of the general meeting (due to amendments to the transaction report that will be published by Blue Square Real Estate), then and in that event such postponement will not constitute a breach of the provisions of this Paragraph 5.2, and the time for holding the meeting will be postponed for a period identical to the period by which the meeting has been postponed in accordance with the demand of the Securities Authority as aforesaid.

- 5.3 Within 2 business days from the date of approval by the general meeting of Blue Square Real Estate as mentioned in sub-paragraph 5.2 above, the Interested Parties undertake to sign the Deed of Undertaking at the foot of the Agreements.
6. We confirm that our obligations under this Deed of Undertaking are as a principal debtor and directly to the Sellers, and not the obligations of a guarantor. Without derogating from the foregoing and for the sake of caution, the Interested Parties hereby absolutely, unconditionally and irrevocably waive any defense or argument that is available and/or maybe available to them, if any, pursuant to the Guarantee Law.

In witness whereof the parties have hereunto signed:

/s/ Dirot Yukra Ltd.	/s/ Gindi Investments 1 Ltd.	/s/ Dror Moran, Zeev Stein Blue Square Real Estate Ltd.

[Unofficial Translation]

AGREEMENT

made and entered into between the parties at Tel Aviv
on the 3rd day of June 2010

Between: TEL AVIV WHOLESALE AGRICULTURAL PRODUCE MARKET COMPANY LTD.
Company No. 52-001818-5
of _____ Street, _____
(hereinafter: “the Company”)

of the one part;

And: 1. LEV TEL AVIV TOWERS LTD.
Pvte. Co. 514434356
of _____ Street, _____
(hereinafter: “the Housing Company”)

2. TEL AVIV CITY MALL LTD.
Pvte. Co. 514434349
of _____ Street, _____
(hereinafter: “the Mall Company”)

(the Housing Company and the Mall Company will be referred to below as: “the Purchaser”)

of the other part;

WHEREAS Tel Aviv-Jaffa Municipality (hereinafter: “the Municipality”) is the registered owner of land known as Parcels 92, 93, 94, 95, 98, 99, 114 and 242 Block 7104 which is also known as the (former) wholesale market compound, in the triangle formed by Carlebach and Hahashmonaim Streets and Menahem Begin Road in Tel Aviv (hereinafter: “the Project Lands”); and

WHEREAS The Municipality and the Company have, in connection with the Project Lands, entered into: (1) an agreement dated January 29, 2002 (hereinafter: “the 2002 Agreement”), (2) an Addendum to the 2002 Agreement dated June 1, 2008 (hereinafter: “the Addendum to the 2002 Agreement”), (3) an agreement dated April 15, 2010 (hereinafter: “the 2010 Agreement”);
The 2002 Agreement, the Addendum to the 2002 Agreement and the 2010 Agreement are attached to this Agreement as Appendix C; and

WHEREAS On September 29, 2005 Detailed Plan No. TA 3001 (hereinafter: “the TA/3001 Plan”) was published for validation, and in addition an architectural design plan was approved in respect of the Project Lands (hereinafter: “the Architectural Design Plan”);

The TA/3001 and the Architectural Design Plan are attached to this Agreement as **Appendix D**; and

- WHEREAS

As at the date of signing of this Agreement the Company is registered as leasehold lessee of the land known as Parcel 93 Block 7104 for a leasehold period terminating in 2025 (hereinafter: **“the Existing Leasehold”**), while pursuant to the 2002 Agreement and the allocation table attached to TA/3001 Plan, the Company is entitled, in lieu of the existing leasehold, to be registered as the long leasehold lessee of the Company’s lands, as defined below, for a leasehold period terminating on August 31, 2099, together with additional land that constitutes portion of the remainder of the Project Lands, as defined below. A *caveat* is registered in favor of the Company in respect of the 2002 Agreement over Parcel 93 as described in the extract of registration. The extract of registration in respect of Parcel 93 is attached to this Agreement as **Appendix E**; and
- WHEREAS

In accordance with the foregoing, the Company is entitled to be registered as the owner of the full long leasehold rights in certain areas marked in pink on the leasehold drawings which are attached to this Agreement as **A1 – A7** (hereinafter: **“the Leasehold Drawings”**), and as owner of the full long leasehold rights in 13,200/19,000 undivided parts of the areas marked in yellow and by a broken yellow line on the Leasehold Drawings (hereinbefore and hereinafter, collectively: **“the Company’s Lands”**); and
- WHEREAS

The Municipality is the owner of the full rights in the certain areas that are marked in light blue on the Leasehold Drawings (Appendix A) and is the owner of the full rights in 5,800/19,000 undefined parts of the areas that are marked in yellow and in a broken yellow line on the leasehold drawings (hereinafter collectively: **“the Municipality Lands”**); and
- WHEREAS

The Municipality is the owner of the full rights in **“Plot No. 8”** (as defined below) and the Municipality wishes to let under leasehold certain portions within the confines of Plot No. 8 to the Purchaser (over and above the rights of leasehold in the Municipality Land), as marked in light blue on the drawings attached to this Agreement as **Appendices B1-B6** (hereinafter: **“the Additional Real Estate Rights”**); and
- WHEREAS

In addition to the Company’s Lands, the Municipality Lands, and the Additional Real Estate Rights, the Company and the Municipality own the rights in adjacent land which constitutes the remainder of the Project Lands and which are not being sold to the Purchaser within the framework of this Agreement (hereinafter: **“the Remainder of the Project Lands”** or **“the Remainder of the Project”**) and are marked in purple on the Leasehold Drawing; and
- WHEREAS

The structure and the percentage holdings in the Housing Company and in the Mall Company are as described in the chart attached to this Agreement as Appendix G, with the shareholders (directly or residually) in the Housing Company and in the Mall Company being: Blue Square Real Estate Ltd. (50%), Dirot Yukra Ltd. (25%) and Gindi Investments 1 Ltd. (25%);

Blue Square Real Estate Ltd., Dirot Yukra Ltd. and Gindi Investments 1 Ltd. will henceforth be referred to collectively as – **“the Interested Parties”**; and

WHEREAS Simultaneous with the Purchaser signing this Agreement the Interested Parties are signing the Interested Parties’ undertakings as set forth at the foot of this Agreement (hereinafter: **“the Interested Parties’ Undertakings”**); and

WHEREAS The Purchaser (as described in sub-clause 5.2.2 below) wishes to purchase **the Property Sold** (as defined below) in its condition “as is”, after having carried out all the examinations required by it, independently and without relying on any representation or any item of data given to it by the Company and/or the Municipality and/or entities connected with either of them and/or acting on behalf of either of them; and

WHEREAS For purposes of constructing **“the public buildings”** (as defined below), the Purchaser was required in the scope of the sale process to assess the total costs for erecting the public buildings, in circumstances where the Municipality and the Company had two alternatives available to them in this regard: one was to deduct the aforesaid amount from the consideration in respect of the Property Sold (as defined in this Agreement) and the other was that the public buildings be constructed through or by the Purchaser for a consideration that will be paid to it by the Municipality and the Company, and the Municipality and the Company chose the second alternative, as described in this Agreement; and

WHEREAS In accordance therewith and according to the provisions of this Agreement below, the Housing Company is committed to erect the public buildings in the area of Plan TA/3001 and to deliver same to the Municipality as described in the construction contract and the appendices thereto, which is attached to this Agreement as Appendix 4.13 and as Appendix 7.1.1 to the **“Municipality Lands Agreement”** (as defined below) for a consideration that will be paid to it by the Municipality and by the Company, as described below in this Agreement and in the Municipality Lands Agreement; and

WHEREAS The Company, in reliance on the Purchaser’s representatives as set forth in this Agreement, wishes to accept the Purchaser’s offer to purchase the Property Sold; and

WHEREAS Prior to the date of signing of this Agreement, the individual parties who make up the Purchaser delivered firm commitment letters to the Company from Bank Hapoalim B.M. in connection with their commitment for payment of the full **“basic consideration”** (as defined below) in accordance with this Agreement (excluding the first payment, the additional first payment and the later first payment), with this being in the text attached to this Agreement as **Appendix F**.

Now therefore it is stipulated, declared and agreed by the parties as follows:

1. **Definitions:**
- 1.1

“The Agreement” or “this Agreement”

– This Agreement together with all the appendices hereto.
- 1.2

“The sale process”

– A sale process conducted in accordance with the sale procedure as defined below.

- 1.3

“The sale procedure”

–

A sale procedure that was published by the Company and the Municipality and pursuant to which the sale process was conducted.
- 1.4

“The sale process guarantee”

–

Bank guarantees in an aggregate amount of NIS 28,826,784 which were deposited with the Company in the scope of the sale process.
- 1.5

“Business day”

–

A day on which most of the branches of the banks in Israel are open for transactions with the public and in relation to which the clearing of instruments is carried out.
- 1.6

“The Property Sold”

–

(a)

The rights and obligations of the long leasehold in the Company’s Lands for a lease period ending on August 31, 2099, all in accordance with the conditions set forth in this Agreement and in the special conditions of leasehold document which is attached to this Agreement as **Appendix 1.6**. The Company’s Lands have building rights of 53,400 sq.m. (main areas) for residential purposes, 14,200 sq.m. (main areas) for commercial purposes and 10,320 sq.m. (main areas) on Plot No. 6 (as defined below), all for the designated uses specified in Plan TA/3001 and together with service areas in accordance with Plan TA/3001, and the Company and the Municipality agree that the total service areas for housing in the textured building on Plot No. 1 above the determining entrance level as stated in Plan TA/3001 which will be included in the applications for building permits that will be lodged by the Purchaser in the scope of the Purchaser’s Project, will aggregate a total of at least 22,924 sq.m. service areas but not more than the maximum permitted in accordance with Plan TA/3001.

For the removal of doubt it is clarified that the total main areas which are being sold to the Purchaser in accordance with this Agreement are as stated at the beginning of this sub-clause 1.6 (a).

Without derogating from the foregoing in this sub-clause 1.6, it is agreed that if changes in the agreement of the parties on the boundaries of the Company’s Lands should be necessary and be approved as a consequence of detailed planning of the Company’s Lands or of the Remainder of the Project Lands, the Leasehold Drawings will be amended accordingly, without any change applying to the building rights being sold to the Purchaser in the scope of the Property Sold. Under no circumstances, does the Property Sold include and will not include the parking places towers in the Kufsa lands, as defined below.

For the removal of doubt it is clarified that the areas located on the upper ground floor and on the lower ground floor only and which are zoned as open public areas and for a road as marked in green and in gray (respectively) on the Leasehold Drawings, **Appendices A1-A2** are in the sole ownership and possession of the Municipality, and are not being leased under leasehold and will remain in the sole possession and for the sole use of the Municipality, in accordance with the contents of sub-clause 9.6 of Plan TA/3001, and the Purchaser has no rights therein and in the areas zoned for “Suburban Public Institutions” as stated in sub-clause 9.2.1(b) of Plan TA/3001 (hereinafter: **“the Suburban Public Institutions”**).

To the extent that the Company and the Municipality exercise their power pursuant to Paragraph 3.5 of Appendix 4.16 to this Agreement, in a manner whereby the parking places that will serve the residential units that will be built on the Remainder of the Project Lands and will be linked thereto, which will be located in the Kufsa (hereinafter: **“the Towers Parking Places in the Kufsa”**), the land which is the subject of the Towers Parking Places in the Kufsa and which will be located in each of the parking places in the Kufsa, apart from places at which parking places will be erected for the commercial areas in the Kufsa (hereinafter: **“the Towers Parking Places in the Kufsa Lands”**) do not form part of the Property Sold and the Leasehold Drawings will be amended accordingly. For the removal of doubt it is clarified that in this Agreement the Company is not selling or granting any rights to the Purchaser in the Towers Parking Places in the Kufsa Lands except the right of use specified in Paragraph 3.5 of Appendix 4.16 to this Agreement.

It is agreed that exercise of the Company’s right as stated above shall not derogate from the Purchaser’s possibilities of: (1) erecting the maximum number of parking places permitted pursuant to Plan TA/3001 for the building rights on the Company’s Lands and the Municipality Lands, including visitors parking places in connection with the Project Lands and (2) erecting the maximum service areas that are permitted pursuant to Plan TA/3001 in the building rights of the Company’s Lands and the Municipality Lands. It is further agreed that the Municipality and the Company will instruct their professional advisers to make an effort and to cause a situation that the full parking garages that will be designated to serve the residential units in the Remainder of the Project Lands will be planned on the Remainder of the Project Lands without there being a necessity for utilizing the power and authority granted to the Municipality and to the Company in Paragraph 3.1 of Appendix 4.16, without this derogating from the Municipality’s and the Company’s possibility of: (1) erecting the maximum number of parking places in the Remainder of the Project Lands which are permitted pursuant to Plan TA/3001 for the building rights on the Remainder of the Project Lands (without double parking places) and (2) for erecting the maximum service areas that are permitted pursuant to Plan TA/3001 in the building rights on the Remainder of the Project Lands and (3) erecting parking basements on 5 levels only.

(b)“The obligations and the commitments transferred” as defined below.

- 1.7 **“The Obligations and Commitments Transferred”**
- The obligations and commitments transferred which are described below, unless otherwise expressly excluded in this Agreement below:
- (a) Rights and obligations that apply to the Company according to any law in its capacity as the owner of rights in the Company’s Lands including as a long leasehold lessee of the Company’s Lands and/or in its capacity as promoter of Plan TA/3001, as defined below in respect of the Company’s Lands.

(b) All the obligations imposed on an applicant for any permit in accordance with Plan TA/3001 and the Architectural Design Plan, including the appendices thereto, in relation to the Company’s Lands, with it being clarified that nothing in the foregoing shall derogate from the Purchaser’s possibility of requesting an amendment to Plan TA/3001 and/or the Architectural Design Plan, from time to time, in accordance with any law and the terms and conditions of this Agreement, and subject to the conditions of Appendix 4.15 to this Agreement.

(c) The rights and obligations of the Company of whatsoever nature pursuant to the 2002 Agreement in relation to the Company’s Lands, including such rights and obligations which arose, arise or will arise from the 2002 Agreement, with it being clarified that:

1. The Company’s obligations for vacation of the Plot and for vacation of the Municipality’s Parcel (as stated in the Clauses 4A, 6 and 20 of the 2002 Agreement), for effecting the payment in respect of an extension of the leasehold (as stated in Clauses 4C, 7 and 11 of the 2002 Agreement) and for payment of the expenses for preparation of Plan TA/3001 (as mentioned in Clause 5B of the 2002 Agreement) have been performed in full, including in the framework of and in accordance with the Addendum to the 2002 Agreement and the 2010 Agreement.

2. The Company's obligations to erect public buildings and for payment in respect of a change in the purpose of the leasehold (as stated in Clauses 4B and 9 of the 2002 Agreement), for bearing one-half of the costs of the bridge-sinking project (as stated in Clause 16G of the 2002 Agreement) which are mentioned in Paragraph 14(7) of the provisions of Plan TA/3001 and construction of the public buildings on the Company's Plots (as mentioned in Clause 5C(1) of the 2002 Agreement) – will be deemed to have been performed and fulfilled in accordance with the provisions of the Addendum to the 2002 Agreement and the 2010 Agreement, with it being clarified that nothing in the foregoing shall derogate from the provisions of sub-clause 4.13 below and from the undertaking of the Housing Company to erect the public buildings as described in the construction contract which is an appendix to the Municipality Lands Agreement (as defined below).
3. Payment of the Land Acquisition Tax which applies to the Company in respect of the 2002 Agreement has been guaranteed by the Company to the tax authorities, and it will be paid by the Company, at its expense and on its responsibility.
4. The amount of the betterment levy specified in **“the agreed betterment levy assessment”**, as defined below, solely in relation to the Company's Lands, will be paid and defrayed by the Company, at its expense and on its responsibility.
5. It is further clarified for the removal of doubt that the Company is not assigning its rights and obligations under the Addendum to the 2002 Agreement and the 2010 Agreement to the Purchaser, including and without derogating from the foregoing, the Company's rights and obligations for payment of money to the Municipality and the receipt of money from the Municipality in the scope of the accounting referred to in Clause 8.2 of the Addendum to the 2002 Agreement, which, as already mentioned, are not being assigned to the Purchaser.

- (d) Cancelled.
- (e) For the removal of doubt it is clarified that the Obligations and Commitments Transferred include only obligations and commitments in relation to the Company's Lands, as distinct from the Remainder of the Project Lands. If the Obligations and Commitments Transferred as described in sub-clause 1.7 above are in the nature of being obligations or commitments in relation to all the Company's rights and obligations in the Project Lands, then the Purchaser will be entitled to and liable for such obligations and commitments according to its *pro rata* share, which is the ratio between the building rights (main areas) in the Company's Lands and total building rights (main areas) of the Company in the Project Lands. It is further clarified that in relation to obligations forming part of the Obligations and Commitments Transferred with respect to which a time was specified in the relevant agreement for the performance thereof, the assignment of such obligations and commitments will apply only to obligations the time for performance of which is after the date of delivery of the right of use (as defined below), unless otherwise stated in this Agreement.
- (f) Notwithstanding the foregoing it is agreed and clarified that the legal proceedings mentioned in Appendix 3.1(1) to this Agreement are brought to the knowledge of the Purchaser for information only and that the liabilities that are the subject matter of the aforesaid legal proceedings, to the extent that same should apply, are not being transferred and assigned to the Purchaser in the scope of this Agreement and are not included in the Obligations and Commitments Transferred, as defined above.

1.8	“The Municipality Lands Agreement”	–	An agreement between the Purchaser and the Municipality for the acquisition by the Purchaser of the leasehold rights in the Municipality Lands and the Additional Real Estate Rights, which is being signed by the Purchaser and the Municipality simultaneously with the signing of this Agreement.
1.9	“Agreed betterment levy assessment”	–	An agreed assessment dated January 24, 2007, which was drawn up and signed in accordance with the provisions of Clause 8 of the 2002 Agreement.
1.10	“The local committee”	–	The Tel Aviv-Jaffa Local Planning and Building Committee.
1.11	“The Municipality”	–	The Tel Aviv Municipality.

1.12	“Plan TA/3001”	–	Detailed Plan No. TA/3001 which was published for validation on September 29, 2005 in <i>Yalkut Pirsumim</i> (Gazette) No. 5442, together with the appendices thereto.
1.13	“Plot No. 8”	–	Plot No. 8 as defined in Plan TA/3001
1.14	“Plot No. 1”	–	Plot No. 1 as defined in Plan TA/3001
1.15	“Plot No. 6”	–	Plot No. 6 as defined in Plan TA/3001
1.16	“Date of delivery of right of use”	–	As defined in Clause 10 of the Agreement.
1.17	“The consideration”	–	The basic consideration together with the additional consideration as these terms are defined in Clause 6 below.
1.18	“Date of delivery of possession”	–	As defined in Clause 10 below.
1.19	“Related entities”	–	The controlling shareholder in any chain and/or shareholders and/or holders of rights of any sort and/or employees and/or representatives and/or agents and/or attorneys and/or officers and/or professional advisers.
1.20	“Consumer Price Index” or “the Index”	–	Unless otherwise expressly stated in a particular clause of the Agreement, the Consumer Price Index, including fruit and vegetables, published by the Central Bureau of Statistics and Economic Research, including that index even if it is published by another Government body or institution and any official index which may come in its stead, whether or not same is structured on the same data on which the existing index is structured. If the Consumer Price Index is replaced by another index, the ratio between the replaced index and the other index will be determined by the Central Bureau of Statistics.
1.21	“The Basic Index”	–	Unless otherwise expressly stated in a particular clause of this Agreement, the index which is known at the time of signing of this Agreement.
1.22	“Indexation differences”	–	Unless otherwise expressly stated in a particular clause of this Agreement, an increment in payment obtained from multiplying any payment, which accumulates indexation differences according to the provisions of this Agreement, by the percentage rise in the last known index at the time of making such calculation and/or payment, as against the Basic Index. For the removal of doubt, in a case of a fall in the new index as against the Basic Index, there will be no deduction from the payment.
1.23	“The Kufsa”	–	The land marked in red on the drawing attached to this Agreement as Appendix 1.23 (including all the levels thereof).

1.24	“The Project”	–	The project that will be erected on Project Lands and which will contain both the Purchaser’s Project as defined below as well as the project/s that will be constructed on the Remainder of the Project Lands.
1.25	“The Purchaser’s Project”	–	The project which the Purchaser will erect on the Company’s Lands, the Municipality Lands and the Additional Real Estate Rights.
1.26	“The residential section”	–	Residential buildings that will be erected on the Purchaser’s Project (excluding the basement floors) and excluding the commercial areas that will be located in the aforesaid residential buildings.
1.27	“The basement floors”	–	All the basement floors in the Purchaser’s Project up to and including the upper ground floor on which the open public areas (as defined in sub-clause 7.3 below) will be constructed, as well as all the commercial areas in the Purchaser’s Project whether same are located on the basement floors or are located above the basement floors.
1.28	“Buyers of apartments”	–	Buyers of apartments in the residential section.
1.29	“The attorneys”	–	The law office of Advocate S. Biran & Co.
1.30	“The Trustee”	–	Adv. David Amid and/or any other attorney from the law office of S. Biran & Co.
1.31	“Building Inputs Index”	–	The general index of residential building input prices which is published each month by the Central Bureau of Statistics or any other body that may come in its stead, or any other index that may be specifically published in its place (subject to the ratio between them that will be fixed).
1.32	“Agreement of individual parties who make up the Purchaser”	–	Agreements, wherever signed prior to the signing of this Agreement or subsequent hereto, which are signed by the individual parties who make up the Purchaser and/or between the Interested Parties in connection with the transaction that is the subject of this Agreement and/or in connection with the Purchaser’s Project.

2. **Appendices:**

This Agreement contains the following appendices which form an integral part hereof:

<u>Appendices A1-A7</u>	–	Drawings of the Company’s Lands and the Municipality Lands.
<u>Appendices B1-B6</u>	–	Drawings of the Additional Real Estate Rights.

<u>Appendix C</u>	– The 2002 Agreement, the Addendum to the 2002 Agreement and the 2010 Agreement.
<u>Appendix D</u>	– Plan TA/3001 and the Architectural Design Plans (including the appendices thereto).
<u>Appendix E</u>	– Extract of registration of Parcel 93.
<u>Appendix F</u>	– Firm commitment letter.
<u>Appendix G</u>	– Structure and percentage holdings in the Housing Company and in the Mall Company.
<u>Appendix 1.6</u>	– The special conditions of leasehold document.
<u>Appendix 1.23</u>	– Drawing of the Kufsa.
<u>Appendix 3.1(1)</u>	– Legal proceedings in connection with the Property Sold to which the Company is a party.
<u>Appendix 3.1(2)</u>	– List of existing encumbrances in favor of Bank Leumi.
<u>Appendix 3.1(3)</u>	– Updated letter of intent dated March 7, 2010.
<u>Appendix 4.13</u>	– The construction contract.
<u>Appendix 4.15</u>	– Declaration of verifying representations drawn to the date of delivery of the right of use and the right of possession.
<u>Appendix 4.16</u>	– Additional provisions appendix.
<u>Appendix 4.18</u>	– Timetables appendix.
<u>Appendix 6.2.8</u>	– Text of letter of instructions to Trustee.
<u>Appendix 6.10.1</u>	– Main points of the specification, simulations and photographs.
<u>Appendix 9.1.5</u>	– Tax certificates in respect of the 2002 Agreement.
<u>Appendix 9.2</u>	– Text of irrevocable power of attorney to Purchaser for transfer of rights in the Property Sold.
<u>Appendix 9.6</u>	– Text of power of attorney to the Company's attorneys for expunging of <i>caveat</i> .
<u>Appendix 9.6A</u>	– Power of attorney for specifically attributing <i>caveats</i> and for the effecting of registrations by the Company.
<u>Appendix 9.10</u>	– Power of attorney for effecting registrations.
<u>Appendix 10.5.4</u>	– Notarial power of attorney for eviction of the Purchaser.
<u>Appendix 10.6.2</u>	– Text of deed of assignment of the Obligations and Commitments Transferred.

3. **Declarations by the Company**

The Company hereby declares and undertakes as follows:

- 3.1 That it owns the rights in the Company’s Lands as same are described in this Agreement and its aforesaid rights in the Company’s Lands are free and clear of any debt, encumbrance, attachment, mortgage and third party rights, save and except the existing encumbrances in favor of Bank Leumi le-Israel B.M. (hereinafter: **“Bank Leumi”**) as described in **Appendix 3.1 (2)** to this Agreement (hereinafter: **“the Existing Encumbrances”**), which will be removed by the Company in accordance with the provisions of Clause 6 below, and apart from a *caveat* regarding an antiquities site in favor of the State of Israel pursuant to Deed No. 044510 dated December 1, 1995. A letter from Bank Leumi giving details of the balance of the loans as at March 7, 2010 is attached to this Agreement as **Appendix 3.1 (3)**. It is further clarified that the Company is a party to the legal proceedings described in Appendix 3.1 (1) to this Agreement.
- 3.2 That it is entitled and empowered to enter into this Agreement and to perform it, and up to the date of signing of this Agreement it has passed all the resolutions and obtained the approvals required according to the provisions of the law and its documents of incorporation for purposes of its entering into this Agreement.

4. **Declarations by the Purchaser**

The Purchaser hereby declares and undertakes as follows:

- 4.1 That each of the individual parties who make up the Purchaser is duly incorporated and that each of the individual parties who make up the Purchaser is entitled and empowered to enter into this Agreement and to perform it, and that it has passed all the resolutions and obtained the approvals required according to the provisions of the law and its documents of incorporation for purposes of its entering into this Agreement.
- 4.2 That no steps have been taken for an arrangement, stay of proceedings, winding-up, liquidation, expungement, bankruptcy or receivership of any of the individual parties who make up the Purchaser, and that there is no threat against any of the individual parties who make up the Purchaser with regard to such legal proceedings (including the fact that no attachment has been imposed on their assets), which is likely to have an impact on their entering into this Agreement and on the performance and implementation of this Agreement.
- 4.3 That it is bound by the declarations and undertakings that were given on its behalf in the scope of the Sale Process and the Sale Procedure, and that its declarations and undertakings mentioned in this sub-clause above are correct, complete, full and updated, and are binding on it in all respects.
- 4.4 That acquisition of the Property Sold is being effected for the Purchaser alone, and it or any of the individual parties who make up the Purchaser is not acting, and will not act as an agent, representative, trustee and/or partner in this regard, with and/or for another, whether directly or indirectly, including the fact that they have not granted a right or option to another as aforesaid in connection with the Property Sold and/or the rights contained herein, prior to signing of this Agreement.

- 4.5 That it is aware that the Company has agreed to enter into this Agreement with it *inter alia* in reliance on the contents of the Firm Commitment Letter, Appendix F to this Agreement, and that coupled with that the furnishing of the aforesaid commitment letter does not derogate from the Purchaser’s obligation to pay the full consideration at the times specified for the payment thereof in Clause 6 below, with it being clarified that the Purchaser’s obligation for full payment of the consideration in accordance with the provisions of this Agreement is absolute and is not contingent upon receiving finance or on any other condition.
- 4.6 That the Purchaser is buying the Property Sold (including the rights in the Company’s Lands) in the same condition in which the property Sold is at the time of signing of this Agreement (“as is, where is”) and after the Purchaser had examined, inspected and seen:
- (i) The Project Lands (including the Company’s Lands, the Municipality Lands and the Additional Real Estate Rights), the surrounding neighborhood thereof, their physical and legal condition (including the registration in the Land Registry of Parcel 242 Block 7104 as “designated lands” and the existence of leaseholds which have expired and which have not yet been expunged in Parcel 92 Block 7104 as described in the Municipality Lands Agreement) and the planning and zoning situation of the Project Lands (including the Company’s Lands, the Municipality Lands and the Additional Real Estate rights), adjacent land, and the region in which the Project Lands (including the Company’s Lands, the Municipality Lands and the Additional Real Estate Rights) are located;
 - (ii) The Obligations and Commitments Transferred, as defined in sub-clause 1.7 above.
 - (iii) Plans of any sort pursuant to the Planning and Building Law and on the strength of any other statute or law, whether approved or in preparation, at any level and at any planning or other authority or institution, which pertain to the Project Lands (including the Company’s Lands, the Municipality Lands and the Additional Real Estate Rights) and all land in the surrounding area thereof, and included in this they have inspected, examined and seen the provisions of Plan TA/3001 including all the appendices thereto and the Architectural Design Plan and all the appendices thereto, and are familiar therewith;
 - (iv) The ways of access, the possibilities for planning, exploitation, licensing and building of the Project Lands (including the Company’s Lands, the Municipality Lands and the Additional Real Estate Rights) and all land in the surrounding area thereof;
 - (v) The quality and composition of the Property Sold, including with regard to matters connected with the environment, antiquities, marketability, design, quality and so forth, and the suitability of any of the abovementioned matters for the Purchaser’s needs;
 - (vi) Any relevant information of whatsoever nature at all the relevant authorities, including the Land Registry, the Taxes Authority, the various planning and building authorities and the relevant local authorities;

(vii) The provisions of all the statutes, laws, bylaws which relate to the Property Sold and/or to the Purchaser's entering into this Agreement.

The Purchaser hereby confirms, declares and undertakes that it has found all the foregoing to be to its full satisfaction, and that it hereby finally and irrevocably waives any cause of action and/or demand and/or allegation and/or claim of whatsoever nature in connection with the matters aforesaid, including an allegation of non-conformity (patent or latent) and including allegations regarding defects in the contractual arrangement such as the State, as against the Company and/or the Municipality and/or as against the entities connected with any of the individual parties who make it up and/or anyone on its behalf, whether the origin of a cause of action in connection with the foregoing was in a period preceding the Date of Delivery of Possession or subsequent thereto. Included in this the Purchaser waives any right to receive any remedy of cancellation, damages or restitution in respect of allegations or causes of action as aforesaid.

It is clarified that nothing contained in this sub-clause 4.6 shall derogate from the Purchaser's possibility of requesting an amendment of the Architectural Design Plan, in accordance with and subject to the provisions of this Agreement, including the provisions of Appendix 4.15 to this Agreement.

- 4.7 That it has the experience, know-how and ability to assess its entering into this Agreement and the significances thereof, and that having regard thereto, as also having regard to everything stated above and below in this Agreement, it has carried out its aforesaid examinations in consultation with all the experts whom it saw fit, in the course of defining the information it wishes to examine.
- 4.8 That the Purchaser is purchasing the rights in the Property Sold on the strength of its own independent examinations, assessments and forecasts as aforesaid only, and it has not relied for purposes of entering into this Agreement on promises, representations, any undertakings or guarantees from the Company and/or the Municipality and/or from any of the bodies connected with either of them, except those that are expressly mentioned in this Agreement, and without this imposing on the Company and/or the Municipality and/or any of the bodies connected with either of them, any liability of whatsoever nature with regard to the Property Sold or to the value thereof, and without this imposing any obligation for indemnity on the Company and/or the Municipality and/or any of the bodies connected with either of them.

The Purchaser declares that if it has not examined any detail connected with the Property Sold independently, itself and/or through any entity on its behalf, including any of the details mentioned in sub-clause 4.6 above and/or in connection with any other details contained in this Agreement or arising from it, for any reason, including by virtue of the difficulty of accessibility to the information and/or due to restrictions that have been imposed, if and to the extent that same were imposed, for any reason, on any such information or data whatsoever at any particular authority or at any source of information, this factor has been taken into account in the scope of the consideration pursuant to this Agreement, and it waives any allegation or argument in connection therewith.

- 4.9 That acquisition of the Property Sold is in furtherance of a request for proposals and a sale process that was conducted by the Company and the Municipality in accordance with the sale procedure and following the Purchaser’s selection as a preferred bidder. The Purchaser further declares and undertakes that it is aware that the documents and the information that have been placed at its disposal or at the disposal of someone on its behalf, in connection with its entering into this Agreement, including documents and information that were exhibited in the information room, and including answers by the Company, the Municipality or anyone on their behalf to questions, and including information given during tours and at meetings, were provided solely for its convenience and without this imposing any liability on the Company and/or the Municipality and/or any of the bodies connected with either of them, in respect of the correctness or completeness of such information and documents or the absence of any other information or document, and without such information and documents or the absence thereof being deemed to be a representation for purposes of entering into the Agreement.
- 4.10 That without derogating from the provisions of Clause 13 below, the Purchaser hereby irrevocably waives any claim and/or allegation and/or right of set-off and/or right to a reduction in the consideration or a right to cancel the Agreement, as against the Company and/or the Municipality and/or as against the bodies connected with either of them, of any type and based on any cause of action, subject to the condition that the Company shall fulfill its obligations as expressly enunciated in this Agreement.
- 4.11 That it is aware that in the sole and absolute discretion of the Company and/or the holders of rights in the Company, it is possible that at any time after the signing of this Agreement, the Company may be wound up and/or expunged and/or liquidated and/or corporate or other changes of any sort may be made in the Company and/or in any of its shareholders. The Purchaser declares and undertakes that it agrees in advance to the performing of any of the abovementioned actions, including the winding-up of the Company as aforesaid and that it will in no way, whether directly or indirectly, oppose the winding-up and/or expungement and/or dissolution of the Company and/or of any of its shareholders and/or corporate and/or structural changes in the Company and/or in any of its shareholders as aforesaid. It is agreed that the Purchaser’s Agreement as set forth above in this sub-clause shall also be deemed to be express consent to the performing of any of the abovementioned actions, to the extent that such consent is required according to any law, including the Laws of Companies. For the removal of doubt it is clarified that nothing in the foregoing shall derogate from the Company’s obligations pursuant to this Agreement.
- 4.12 The Purchaser declares and confirms that it is aware that the Company will not attend to the transfer of the rights of leasehold in and to the Company’s Lands into the Purchaser’s name at the Land Registry, but that it will deliver the documents specified in Clause 9 below to the Purchaser. For the removal of doubt it is clarified that nothing contained in the provisions of this sub-clause shall derogate from the Company’s obligations pursuant to Clause 9 of this Agreement.

4.13 **Public buildings**

4.13.1 The Housing Company is obliged to construct the public buildings, as defined in the construction contract, in the manner described in the construction contract and the appendices thereto, which is attached to this Agreement as Appendix 4.13 and will be signed contemporaneously with the signing of this Agreement (hereinafter: **“the Construction Contract”** and **“the Public Buildings”**, respectively). The Housing Company undertakes to erect such Public Buildings and to deliver same to the Municipality, in accordance with its above undertakings and the provisions set forth below:

Included in the foregoing, it is agreed that in respect of the timetables for erecting of the sports center and the school (as defined in the Construction Contract (hereinbefore and hereinafter: **“the Sports Center and the School”**), the Housing Company undertakes to act in the manner described below, with it being hereby clarified that in every case of a conflict or non-conformity as between the timetables that are the subject of the Construction Contract (including those mentioned in this Clause 4.13 below), and the timetables that are the subject of this Agreement, the timetables that are the subject of this Agreement shall prevail:

- 4.13.1.1 The applications for the issue of excavation and shoring permits for the areas on which the Sports Center and the School will be built shall be submitted simultaneously with the lodgment of application for the issue of excavation and shoring permits for the areas on which the parking areas and/or commercial space within the confines of the Kufsa.
- 4.13.1.2 The applications for the issue of building permits for the Sports Center and the School shall be lodged simultaneously with the filing of the applications for the issue of the building permits (as distinct from excavation and shoring permits) for the parking areas and/or the commercial space within the confines of the Kufsa.
- 4.13.1.3 The initial occupation of the parking areas and/or the commercial space within the Kufsa shall be made contemporaneously with and subject to the furnishing of a certificate for initial occupation of the Sports Center and the School. It is hereby agreed that if the Purchaser wishes to make use of the parking areas and/or the commercial space within the Kufsa prior to production of a certificate for initial occupation of the Sports Center and the School, the Purchaser will be entitled to address an appropriate application to the Director of the Property Division at the Municipality. The Director of the Property Division at the Municipality will determine whether it is possible to accede to the Purchaser’s application and what the conditions are in the scope of which the Municipality is prepared to allow use of the parking areas and/or the commercial space within the Kufsa prior to production of a certificate for initial occupation of the Sports Center and the School.

- 4.13.2 The Purchaser (including the Mall Company) hereby confirms that it knows and is familiar with the provisions of the Construction Contract, including the timetable specified in the Construction Contract. This includes the fact that the Purchaser (including the Mall Company) confirms and agrees to the contingencies laid down in the Construction Contract and in this Agreement above between the planning, construction, completion and initial occupation of the parking areas and the commercial space within the Kufsa, and the planning, construction, completion and initial occupation of the Sports Center and the School. In addition, the Purchaser (including the Mall Company) agrees that the timetable for constructing the Public Buildings as prescribed in the Construction Contract and/or in this Agreement will be registered as conditions in the building permits in the Kufsa, and that it waives any allegation and/or demand against the Company and/or the Municipality and/or either of them, in connection with the contingency and the conditions in the building permit as aforesaid.
- 4.13.3 It is further agreed, in relation to the Public Buildings, that the Company and the Municipality will bear the expenses for the construction thereof in a manner whereby the Company will pay the Housing Company and will be directly liable to it with respect to 75.84% of **“costs of construction of the Public Buildings”** (as same are defined below) and the Municipality will pay the Housing Company and will be directly liable to it in respect of 24.16% of the costs of erecting the Public Buildings. For the removal of doubt, it is clarified that the obligations of the Municipality and the Company to bear such costs applies only in relation to the Public Buildings as defined above. With respect to this sub-clause 4.12 [sic] **“costs of constructing the Public Buildings”** means – the specific costs (including a percentage of the increment to cost that will be added in respect thereof, to the extent that this is specified in Appendix C1 to the Construction Contract) which are specified in the aforesaid Appendix C1, provided that the amounts of the cost components were approved in writing and in advance by the Company and the Municipality, through the administration as defined in Appendix 4.16 to this Agreement (hereinbefore and hereinafter: **“the Administration”**).

With respect to payment of fees and levies as mentioned in Appendix C to the Construction Contract, the Company shall be entitled to elect to make payment thereof directly to the Local Committee and to the Municipality and not through the Housing Company.

The Housing Company undertakes that all the contractual arrangements between it and designers and executing contractors in connection with the design and construction of the Public Buildings will be done on a basis of tenders which the Housing Company will conduct, with full transparency *vis-à-vis* the Administration. The Housing Company further undertakes that construction of the Public Buildings will be managed by it as a separate project independent from the Purchaser's Project, in which a separate bookkeeping and accounting system will be maintained, and it is agreed that the costs of constructing the Public Buildings will include only direct and specific costs of constructing the Public Buildings without a loading of costs connected with other parts of the Purchaser's Project.

It is agreed that in any event the costs of constructing the Public Buildings will not exceed an aggregate amount of NIS 97,706,667 including V.A.T. (hereinafter in this sub-clause: **“the Limit Amount”**). Notwithstanding the foregoing it is agreed that if it transpires that for purposes of meeting the obligation to erect the Public Buildings in accordance with the technical specifications that were attached to the Construction Contract, the “costs of erecting the Public Buildings” (as defined above) are expected to exceed the Limit Amount, then the Housing Company will refer to the Company and to the Municipality, through the Administration, in order for the latter to examine whether a deviation from the Limit Amount is indeed required. If such deviation is approved by the Company and the Municipality through the Administration, then the approved amount of the deviation will be added to the Limit Amount, where in each case it is hereby agreed that the total amount of the costs of construction of the Public Buildings which the Company and the Municipality will bear (each according to its *pro rata* share) will under no circumstances exceed a sum of NIS 102,333,333 plus V.A.T. as prescribed by law (hereinafter: **“the Maximum Limit Amount”**). Where the actual costs of constructing the Public Buildings exceed the Maximum Limit Amount, the Housing Company will at its expense bear any amount which exceeds the Maximum Limit Amount. It is agreed that the Limit Amount as well as the Maximum Limit Amount will be linked to the Building Inputs Index commencing from the date of signing of this Agreement and until the actual effecting of each payment.

It is further agreed that the Administration’s examination as aforesaid will be carried out in a manner and at a time which shall not cause a delay in the planning and execution of the construction of the Public Buildings in relation to the timetable specified in the Construction Contract and in this Agreement.

The Company's share in the costs of constructing the Public Buildings in accordance with the provisions of this sub-clause above shall be paid on a basis of current month + 45 days from the date on which each account for payment is presented to the Company and to the Municipality through the Administration, and subject to the condition that the account was approved for payment by the Administration. V.A.T. as prescribed by law shall be added to each payment against receipt of a valid tax invoice.

In every case of an engineering dispute between the parties in relation to the costs of constructing the Public Buildings, except in relation to (1) approval of a deviation from the Limit Amount as defined above; (2) anything connected with the obligation of the Company and the Municipality to bear the aforementioned costs; and (3) the maximum amounts which will be imposed on the Municipality and the Company and the conditions specified above in regard thereto, the dispute will be referred for the decision of a civil engineer who will be appointed with the consent of the Company, the Municipality and the Housing Company, and in the absence of agreement between them, the engineer will be appointed by the chairman of the Society of Architects and Engineers (hereinafter: **“the Engineering Arbiter”**). The Engineering Arbiter shall act as an expert and not as an arbitrator and his decision shall be final and binding on the parties.

It is clarified that all the provisions of this sub-clause 4.13 are intended to add to the provisions of the Construction Contract, on a basis that under all circumstances the liability of the Municipality and of the Company to pay the costs of construction of the Public Buildings is limited to the Limit Amount or to the Maximum Limit Amount (as defined above) respectively.

For the avoidance of doubt it is hereby clarified that apart from the payment of the Company's share of the costs of the Public Buildings as described above in this sub-clause 4.13.3, the Company will not owe any liability either *vis-à-vis* the Housing Company nor *vis-à-vis* any third party, on any matter connected, directly or indirectly, with the Public Buildings, including the planning, licensing, construction and initial occupation thereof.

- 4.14 Cancelled.
- 4.15 All the Purchaser's representations and declarations pursuant to this Clause 4 will be correct both at the time of signing of this Agreement, and also at the date of delivery of the right of use and at the date of delivery of possession. Declarations verifying the representations are attached to this Agreement as **Appendix 4.15**.
- 4.16 That by virtue of it having been told that the Company and the Municipality are the owners of rights in the Remainder of the Project Lands which are not being sold to the Purchaser in the scope of the transaction that is the subject of this Agreement, it is agreed that in connection therewith the provisions of **Appendix 4.16** to this Agreement, which forms an integral part hereof, shall apply to the parties in addition to the provisions of this Agreement.
- 4.17 That it is aware that the sale is being effected in reliance on the correctness and completeness of all its representations and declarations as set forth in this Agreement.
- 4.18 **Timetables**
- 4.18.1 The Purchaser undertakes to act diligently and uninterruptedly in all aspects connected with the planning, licensing and construction of the Purchaser's Project in order to meet the timetables set forth in Appendix 4.18 to this Agreement (hereinafter: **"the Timetables"**). It is agreed that the Timetables are indicative, but coupled with that is agreed, in the case of any divergence of more than 6 months in any of the milestones included in the Timetables which occurs up to the time of actual payment of the second payment or up to the time of the implementation of the first building permit (as defined in Clause 6.2.4 below), whichever is the later, then without derogating from any remedy available to the Company according to any law and agreement (excluding only the right to agreed damages as stated in Clause 14 below), the Company will be entitled to agreed damages from the Purchaser in respect of such divergence in an amount equivalent to NIS 113,760 for each month of default (and for a *pro rata* portion of such damages in respect of part of a month), plus indexation differences (as defined in this Agreement).
- 4.18.2 Without derogating from the generality of the contents of sub-clause 4.18.1 above, the Purchaser undertakes to take steps for the issue of an excavation and shoring permit at the earliest date it is possible to do so. The Purchaser further undertakes to commence performing the excavation and shoring works within nine weeks from a decision being taken by the local committee / the licensing authority in regard to the issue of an excavation and shoring permit, subject to payment of fees and levies only (hereinafter in this sub-clause: **"the Decision"**) provided that the Decision is taken before September 2010. Where the Decision is taken after September 2010, the Purchaser will commence execution of the excavation and shoring works not later than March 15, 2011. It is agreed that in the case of a divergence of more than six weeks from the Timetables specified in this sub-clause 4.18.2, the Company will be entitled, without derogating from any remedy available to the Company according to any law and agreement (excluding only the right to agreed damages as stated in Clause 14 below), to compensation according to the amounts of damages specified in sub-clause 4.18.1 above.

- 4.18.3 The Purchaser further undertakes that up to the end of 48 months from the date of implementation of the first building permit (as defined in Clause 6.2.4 below), the commercial areas in the Purchaser's Project and the Sports Center and the School will be completed in a manner whereby up to the aforesaid date an application will be lodged by it for receipt of "Form 4" (which constitutes approval for initial occupation) in respect of the commercial areas in the Purchaser's Project, the Sports Center and the School. It is agreed that in the case of a divergence from the Timetables specified in this sub-clause 4.18.3, the Company will be entitled, without derogating from any remedy available to the Company according to any law and agreement (excluding only the right to agreed damages as stated in Clause 14 below), to agreed damages from the Purchaser in respect of such divergence in a sum equivalent to NIS 75,840 for each month of default (or a *pro rata* share of such damages in respect of part of a month) in respect of the first 6 months of default or part thereof, plus a sum of NIS 151,680 for each month of default (and a *pro rata* share of such damages in respect of part of a month) in respect of 6 months default after the first 6 months or any part thereof, and plus a sum of NIS 227,520 for each month of default (or a *pro rata* share of such damages in respect of part of a month) in respect of each month of default thereafter, or any portion thereof.

The amounts of damages specified in this clause above will bear indexation differences (as defined in this Agreement).

- 4.18.4 It is agreed that if there should be an impediment to meeting the Timetables prescribed in sub-clauses 4.18.1-4.18.3 the origin of which is *force majeure* as recognized at law, then subject to the condition that the Purchaser shall invoke all the necessary means in order to remove or eliminate the impediment, the period of the impediment due to *force majeure* as aforesaid will not be counted as part of the times for purposes of this sub-clause 4.18 above.
- 4.18.5 It is agreed that a precondition to the excavating of the basement which will be below that portion of Parcel 93 which is marked in gray on the drawings attached to this Agreement as **Appendices A1-A2** will be in coordination with and with the prior consent of the Administration, including the setting of a timetable for completion of the construction of that basement and road and finding solutions for entry and exit to the Remainder of the Project Lands during the period of construction of these specific basements.

- 4.19 The Purchaser undertakes that within 6 months from the date of signing of this Agreement it will submit an amended Architectural Design Plan to the Local Committee and within 10 months from the date of signing of this Agreement will lodge an application for a building permit in relation to the entire Purchaser's Project, which will be based on the aforesaid amended Architectural Design Plan. It is clarified that in a case in which lodgment of the application for a building permit as referred to in this sub-clause which contains a concession for an addition of 2 extra floors, that is to say: 14 floors as distinct from 12 floors, encounters opposition, prior to lodgment of the application, from the authorized entities at the planning authorities, then the application for a building permit that will be lodged by the Purchaser will be for only 12 floors. It is agreed that the Purchaser will be entitled to include in the application for such building permit, units having an average area as stated in sub-clause 6.3.5 below. Nothing contained in the provisions of this sub-clause shall derogate from the remaining provisions of this Agreement in regard to the planning and design of the Purchaser's Project.
- 4.20 Without derogating from the provisions of Appendix 4.16 of this Agreement, the Purchaser undertakes that the drawing up and signing of the Architectural Design Plan, applications for a building permit and any other planning and/or statutory document that may be submitted by it or by someone on its behalf to the planning authorities, in connection with the Purchaser's Project (as distinct from the Public Buildings), will be performed in relation to the Purchaser's Project as a whole (as distinguished from the Public Buildings) and to all the documents mentioned above, by an architect, constructor and one traffic consultant whose identity shall be approved by the Company and the Municipality.
- 4.21 The Purchaser declares that it is aware that all the actions and/or undertakings and/or representations of the Municipality pursuant to this Agreement and/or in connection herewith are in the Municipality's capacity as owner of the Project Lands, and that none of the aforesaid actions and/or undertakings and/or representations will have the effect of binding the Local Committee or any other statutory or planning body.
- 4.22 That it is aware that the undertakings of the Interested Parties as defined at the foot of this Agreement do not release it from any of its obligations under this Agreement and that the deed of undertaking of the Interested Parties and/or the fulfillment of the obligations of the Interested Parties or any of them pursuant thereto shall not derogate from any of the remedies available to the Company against the Purchaser in accordance with the provisions of this Agreement and the law.

5. The transaction:

- 5.1 The Company hereby sells the Property Sold to the Purchaser, and the Purchaser hereby buys the Property Sold from the Company, for the consideration and on the conditions as set forth in this Agreement.

It is clarified that the rights being sold by the Company in the Company's Lands as defined in this Agreement, are long leasehold rights for a leasehold period ending on August 31, 2099.

It is clarified that in the framework of the Property Sold the Purchaser assumes the Obligations and Commitments Transferred at the dates specified in this Agreement below, coupled with a full, irrevocable and absolute release and exemption for the Company from the Obligations and Commitments Transferred, and in accordance with the deed of assignment attached to this Agreement as Appendix 10.6.2.

5.2 **Liability of individual parties who make up the Purchaser**

- 5.2.1 It is agreed that the liability of the individual parties who make up the Purchaser for the fulfillment of the Purchaser’s obligations under this Agreement are joint and several, except with respect to the following obligations:
 - 5.2.1.1 Payment of the consideration as set forth in sub-clause 5.2.4 below;
 - 5.2.1.2 Construction of the Public Buildings as stated in sub-clause 4.12 above, which will be solely under the responsibility of the Housing Company;
 - 5.2.1.3 Declarations and undertakings of the individual parties who make up the Purchaser which are the subject of sub-clauses 4.1 and 4.2;
- 5.2.2 Without derogating from the foregoing in this sub-clause, it is hereby made known to the Company by the Purchaser that the individual parties who make up the Purchaser are buying the Property Sold according to a division that has been decided upon between them prior to the signing of this Agreement, without this derogating from any obligations of any of them in accordance with the provisions of this Agreement. Solely for the sake of convenience and only for registration purposes, it is agreed that the individual parties who make up the Purchaser will be deemed to be purchasers of the Company’s Lands in relative shares between them (in *musha*) as follows: the Housing Company – 60%, the Mall Company – 40%. For the removal of doubt it is clarified that the proportionate shares mentioned above are made known to the Company solely for purposes of information, that the Company is not bound in any way in relation to such division, and that the aforesaid division does not and will not derogate from any of the Company’s rights *vis-à-vis* the individual parties who make up the Purchaser and/or derogate from any of the Purchaser’s obligations to the Company (both with respect to the joint and several obligations of the individual parties who make up the Purchaser to the Company and also in relation to the obligations of any of the individual parties who make up the Purchaser severally as against the Company, all according to the provisions of this Agreement).
- 5.2.3 Cancelled.
- 5.2.4 With respect to liabilities for payment of “**the consideration**” (as defined below), the following provisions will apply:
 - 5.2.4.1 Liability for payment of **the Basic Consideration** (as defined below) will be divided in such a way that the Housing Company will pay the Company NIS 432,288,000 plus indexation differences, out of the Basic Consideration, and the Mall Company will pay the Company NIS 288,192,000 plus indexation differences, out of the Basic Consideration, all together with V.A.T. as prescribed by law, according to the following division:

- 5.2.4.1.1 **“The First Payment”** (as defined below) will be divided in such a way that the Housing Company will pay the Company NIS 82,362,240 plus indexation differences of the First Payment, and the Mall Company will pay the Company NIS 54,908,160 plus indexation differences, of the First Payment.
- 5.2.4.1.2 **“The Additional First Payment”** (as defined below) will be divided in such a way that the Housing Company will pay the Company NIS 18,201,600 of the Additional First Payment, and the Mall Company will pay the Company NIS 12,134,400 of the Additional First Payment, plus indexation differences.
- 5.2.4.1.3 **“The Later First Payment”** (as defined below) will be divided in such a way that the Housing Company will pay the Company NIS 17,296,070 of the Later First Payment and the Mall Company will pay the Company NIS 11,530,714 of the Later First Payment, plus indexation differences.
- 5.2.4.1.4 **“The Second Payment”** (as defined below) will be divided in such a way that the Housing Company will pay the Company NIS 291,676,090 of the Second Payment, and the Mall Company will pay the Company NIS 209,618,726 of the Second Payment, plus indexation differences.
- 5.2.4.1.5 **“The Third Payment”** (as defined below) will be paid by the Housing Company in full, together with indexation differences.
- 5.2.4.1.6 Each of the individual parties who make up the Purchaser undertakes to pay the Company its share specified above in the Basic Consideration in relation to each of the payments mentioned in Clause 6 below and at the times specified in Clause 6 below.
- 5.2.4.2 The liability for payment of the additional consideration shall be imposed solely on the Housing Company.
- 5.2.4.3 Without derogating from the remaining provisions of this Agreement, it is agreed that until actual settlement of the Second Payment, in a case of: (1) a breach of any of the obligations set forth in sub-clauses 5.2.1.1 to 5.2.1.3 above, including the obligations to make any payment on account of the consideration by any of the individual parties who make up the Purchaser, which was not rectified by it within the time specified in this Agreement for rectification of the breach and (2) the occurrence of one of the events mentioned in sub-clause 18.7 below with respect to any of the individual parties who make up the Purchaser (hereinafter: **“the Defaulting Individual Purchaser”**) the following provisions will apply:

- 5.2.4.3.1 The right will be conferred on the Company and the Municipality to cancel this Agreement and the Municipality Lands Agreement *vis-à-vis* the Defaulting Individual Purchaser, and to hold forfeit from the Defaulting Individual Purchaser **the full** amount of the agreed damages calculated on a basis of the full basic consideration as defined in this Agreement and in the Municipality Lands Agreement (including by way of foreclosing on the sale process guarantee and/or holding forfeit the amounts that were paid to the Company and to the Municipality on account of the consideration by the Defaulting Individual Purchaser up to such time), with this being in addition to the remaining remedies available to the Company and to the Municipality as against the Defaulting Individual Purchaser in accordance with any law and/or agreement.
- 5.2.4.3.2 An individual purchaser who is not the Defaulting Individual Purchaser (hereinafter: **“the Complying Individual Purchaser”**) will be given a period of 45 days from the date of cancellation of the Agreement as against the Defaulting Individual Purchaser (hereinafter in this sub-clause: **“the Date of Cancellation”**), in the course of which the Complying Individual Purchaser will be entitled to present for the approval of the Company and the Municipality the identity of a third party (hereinafter: **“the Substitute on behalf of the Purchaser”**) who: (1) has irrevocably undertaken in writing *vis-à-vis* the Complying Individual Purchaser and *vis-à-vis* the Company and the Municipality to step into the shoes of the Defaulting Individual Purchaser under the terms and conditions of this Agreement and to sign the transfer documents as defined below with the Company and the Municipality; (2) has been approved by the financing bank (if one exists at that stage) as being a party who will step into the shoes of the Defaulting Individual Purchaser in the contractual arrangement with the financing bank and has signed all the documents in connection therewith; and (3) has undertaken to the Company and the Municipality to make the additional First Payment and/or the later First Payment and/or the second payment, as the case may be, within 30 days from the date of its approval as a substitute by the Company and the Municipality (and to the extent that the time for making the additional First Payment and/or the later First Payment and/or the second payment has not yet arrived – to make payment of each of them on the due date thereof). If the Company and the Municipality, in their sole discretion, approve the identity of the substitute on behalf of the Purchaser (after having been satisfied, *inter alia*, that the substitute has equity capital and financial means to pay its share of the consideration without delay and to fulfill the remaining obligations under this Agreement and the Municipality Lands Agreement), then the parties shall, within 14 days from the date of the approval, sign all the documents that will be required by the Company and the Municipality for purposes of arranging the substitute on behalf of the Purchaser’s stepping into the shoes of the Defaulting Individual Purchaser (hereinafter: **“the Transfer Documents”**), and settlement of the additional First Payment and/or settlement of the later First Payment and/or settlement of the second payment, as the case may be, will be made not later than 30 days from the date of approval of the substitute on behalf of the Purchaser, and to the extent that the time for making the additional First Payment and/or the later First Payment and/or the second payment has arrived – to make payment of each of these on the due date thereof.

- 5.2.4.3.3 If a Substitute on behalf of the Purchaser is not presented to the Company and/or if the Substitute on behalf of the Purchaser is not approved by the Company and the Municipality within 45 days from the Date of Cancellation and/or in a case in which the substitute has not signed the Transfer Documents with the Company and the Municipality, then the Company and the Municipality will have a period of 45 days in which to present to the Complying Individual Purchaser a third party who will step into the shoes of the Defaulting Individual Purchaser according to the terms and conditions of this Agreement and the conditions of any additional agreement that may be signed between the individual parties who make up the Purchaser as between themselves at the latest up to the date on which the default by the Defaulting Individual Purchaser occurred (hereinafter: **“the Substitute on behalf of the Company and the Municipality”**).
- 5.2.4.3.4 If the Company and the Municipality do not present a Substitute on behalf of the Company and the Municipality or the Complying Individual Purchaser has not approved the identity of the Substitute on behalf of the Company and the Municipality, or if the conditions for the substitute stepping into the shoes of the Defaulting Individual Purchaser have not been agreed between the Complying Individual Purchaser and the Substitute on behalf of the Company and the Municipality, then the Company and the Municipality will be entitled to cancel this Agreement also *vis-à-vis* the Complying Individual Purchaser, and in a situation in which the identity of the Substitute on behalf of the Company and the Municipality has not been approved by the Complying Individual Purchaser or in a case in which the Complying Individual Purchaser fails to sign the Transfer Documents, then and in that event the Company and the Municipality will be entitled to agreed damages from the Complying Individual Purchaser in a sum equivalent to 10% of the total share of the Complying Individual Purchaser in the Basic Consideration in accordance with this Agreement and pursuant to the Municipality Lands Agreement (including by way of foreclosure on the Sale Process Guarantee and/or the holding forfeit of the amounts which were paid up to such time by the Complying Individual Purchaser to the Company and the Municipality on account of the Consideration).
- 5.2.4.3.5 For the removal of doubt it is clarified that cancellation of the Agreement as against the Defaulting Individual Purchaser in the circumstances as described in sub-clause 5.2.4.3.1 and cancellation of the Agreement as against the Complying Individual Purchaser in the circumstances as described in sub-clause 5.2.4.3.4 will be deemed to be lawful cancellation for all intents and purposes.

- 5.2.4.4 It is further clarified for the avoidance of doubt that in the event of a breach of any of the Purchaser's obligations under this Agreement by two individual parties who make up the Purchaser or upon the occurrence of one of the events mentioned in sub-clause 18.7 below with respect to two individual parties who make up the Purchaser, the Company will have all the remedies according to any law and agreement available to it as against two individual parties who make up the Purchaser (including, and without derogating from the generality of the foregoing, a right of cancellation, a right to receive agreed damages, and so forth), subject to the provisions of sub-clause 18.8 below.
- 5.2.5 The Purchaser undertakes that in the agreement between it and the financing bank (both in relation to financing of the purchase of the Land and also in relation to the construction loan/s) (hereinafter: **"the Construction Loan Agreement"**) the following arrangements and/or provisions will be included:
- 5.2.5.1 The financing bank's undertaking to give the Purchaser and/or any of the individual parties who make up the Purchaser written warning notice prior to a loan being made immediately due and payable in the scope of which notice the Purchaser and/or any of the individual parties who make up the Purchaser will be given an extension of time to cure the breach in respect of which the warning notice was given (hereinafter: **"the Warning Notice"**), except in certain cases as is customary in financing agreements for projects of this sort in which the bank reserves the right not to give notice.
- 5.2.5.2 The financing bank's obligation to send the Company Warning Notices in each of the cases in which the Purchaser will be entitled to receive same, simultaneously with sending a Warning Notice to the Purchaser.
- 5.2.5.3 An arrangement pursuant to which in a situation in which there are grounds for making a loan immediately due and payable as against two individual purchasers in consequence of which a Warning Notice will be given by the financing bank and the time for rectifying the breach that was specified in the Warning Notice has passed and the breach has not been cured, then and in that event a period of exclusivity will be granted by the bank to the Company for a period of 120 days in the course of which the Company and the bank will conduct exclusive negotiations with the objective of reaching an agreement that will allow the continued implementation of the Purchaser's Project by the Company or by someone on its behalf, whether by way of the Company or someone on its behalf stepping into the Purchaser's shoes as a borrower, or by way of the debt being purchased by the Company or someone on its behalf, or by way of the purchase by the Company of the Company's Lands and/or the Municipality Lands and/or the Additional Real Estate Rights from the bank or through the bank by realization of the encumbrance to the financing bank in the court and with its approval, or in any other manner to the satisfaction of the bank and the Company. The Purchaser hereby gives its irrevocable consent to an arrangement that may be formulated with the agreement of the bank and the Company and waives any allegation and/or demand in connection therewith, subject to the condition that the bank acts in accordance with its obligations according to law, including the fact that the arrangement between the bank and the Company shall be made in the course of complying with the bank's obligations to the Purchaser according to law and in accordance with the Construction Loan Agreement.

- 5.2.5.4 An arrangement pursuant to which in a case where there are grounds for making a loan immediately due and payable as against any of the individual parties who make up the Purchaser (hereinafter in this sub-clause: **“the Defaulting Individual Purchaser”**) as a consequence of which a warning notice will be given by the financing bank in respect of such grounds and the time for rectifying the breach as was specified in the warning notice has passed and the breach has not been cured, then and in that event an individual party who makes up the Purchaser who is not the Defaulting Individual Purchaser (hereinafter in this sub-clause: **“the Complying Individual Purchaser”**), or someone on its behalf, whose identity shall be approved in advance by the Company and the Municipality in their sole discretion (hereinafter: **“the Substitute vis-à-vis the Bank”**) will have the right vis-à-vis the financing bank to step into the shoes of the Defaulting Individual Purchaser and with respect to its rights in the Purchaser’s Project, on terms and conditions as shall be decided with the financing bank, and in such case, and subject to compliance by the Substitute vis-à-vis the Bank with the conditions set forth in Clause 5.2.4.3.2 above and the Substitute vis-à-vis the Bank signing the Transfer Documents, the Substitute vis-à-vis the Bank will also be deemed to be a substitute for the Purchaser who has been approved by the Company and the Municipality. If grounds for making a loan immediately due and payable have occurred, and the Complying Individual Purchaser or someone on its behalf has not stepped into the shoes of the Defaulting Individual Purchaser, or in a case in which the identity of the entity on behalf of the Complying Individual Purchaser has not been approved by the Company and the Municipality, then subject to the condition that the Company meets the criteria prevailing at that time at the financing bank for approval of the identity of a borrower in a project such as the Purchaser’s Project, the Company will have the right that “someone on behalf” of the Complying Individual Purchaser shall, vis-à-vis the financing bank, step into the shoes of the Defaulting Individual Purchaser and its rights in the Purchaser’s Project, under such conditions as shall be decided with the financing bank as aforesaid.
- 5.2.5.5 The individual parties who make up the Purchaser undertake that in the agreement of the individual parties who make up the Purchaser and/or another agreement that may be made between them, provisions will be included that conform with the contents of sub-clause 5.2.5 above.

6. The consideration:

- 6.1 In consideration for the Property Sold the Purchaser will pay the Company (in accordance with the provisions of sub-clause 5.2 above) a Basic Consideration in an aggregate amount of NIS 720,480,000 (seven hundred and twenty million four hundred and eighty thousand new shekels), plus indexation differences and together with V.A.T. as prescribed by law (hereinafter: **“the Basic Consideration”**). In addition to the Basic Consideration, the Housing Company will pay the Company the additional consideration as defined in Clause 6.3 below, plus V.A.T. as prescribed by law (the Basic Consideration together with the additional consideration will be referred to below as: **“the Consideration”**).
- 6.2 The Basic Consideration will be paid by the individual parties who make up the Purchaser, according to the division described in Clause 5 above, in the manner and at the times set forth below:
- 6.2.1 A sum of NIS 137,270,400, together with indexation differences based on linkage to the Consumer Price Index and plus interest at an annual rate of 2.5% in respect of the period commencing from April 15, 2010 and up to the date of signing of this Agreement (hereinafter: **“the First Payment”**) shall, on the date of signing of this Agreement, be deposited in a trust account to be opened by the attorneys (hereinafter: **“the Trust Account”** and **“the First Payment Moneys”** respectively). The First Payment shall be paid out of the Purchaser's independent resources and without any encumbrance over any of the Purchaser's rights pursuant to this Agreement and/or the Company's Lands.

Contemporaneous with the deposit of the First Payment Moneys in the Trust Account, the Purchaser shall lodge with the Trustee a check made payable to the Company in the amount of the V.A.T. in respect of the First Payment, the due date for payment of which is blank (hereinafter: **“the Check for V.A.T.”**). The parties hereby instruct the Trustee to fill in the date of the Check for V.A.T. and to send it to the Company not later than the 12th of the month following the month in which the First Payment was deposited with the Trustee (even if the conditions set forth below for release of the First Payment Moneys to the Company have not been fulfilled), unless the Trustee has by the 5th of the aforesaid month received a notice signed by both the parties to the effect that payment of the aforesaid V.A.T. will be deferred until the 15th of the month following the month in which the condition precedent for the Municipality Agreement, as defined below, has been fulfilled (hereinafter: **“Notice by the Parties”** and **“Date of the Deferred Payment”**, respectively). In such case, the parties hereby give the Trustee an instruction to fill in the date of the Check for V.A.T. and to send the Check for V.A.T. to the Company not later than three days before the Date of the Deferred Payment. Against payment of the check to the Company, the Company shall furnish the Purchaser with a valid tax invoice. In a case in which the Company's tax consultants notify the Company in writing that it is possible to postpone payment of the V.A.T. that is the subject of the First Payment to the Date of the Deferred Payment, the Company undertakes to sign the Notice by the Parties and to deliver same to the Trustee not later than the 5th of the month following the month in which the First Payment was deposited with the Trustee.

Within 7 business days from the date on which the condition precedent for the Municipality Agreement, as defined in sub-clause 10.2 below, is fulfilled, the Company will register a *caveat* in favor of the Purchaser over the Existing Leasehold as defined above (where the rights according to the Existing Leasehold are in the same condition as they were at the time of signing of this Agreement). Simultaneous with the registration of a *caveat* over the Existing Leasehold and registration of a *caveat* by the Municipality in favor of the Purchaser over the Municipality's rights in Parcels 92, 93, 95 and 114 Block 7104 (as stipulated in the Municipality Lands Agreement and in accordance with the provisions thereof), the Trustee will transfer the First Payment Moneys together with the fruits, thereof to the Company. If the *caveats* have not been registered due to an impediment which is not connected with the Purchaser, the aforesaid *caveats* will be registered within 2 business days from the date of removal of the impediment and upon the registration thereof the Trustee shall transfer the First Payment Moneys together with the fruits thereof to the Company.

- 6.2.2 A sum of NIS 30,336,000 together with indexation differences (as defined above) in respect thereof (hereinafter: **“the Additional First Payment”**), plus V.A.T. as prescribed by law (which shall be paid in the manner stated in Clause 6.8 below), shall be paid by the Purchaser directly to the Company by way of bank check, within 90 days from the date of transfer of the First Payment Moneys from the Trustee to the Company, as stated in sub-clause 6.2.1 above. The Additional First Payment shall be paid out of the Purchaser's own resources and without any encumbrance on any of the Purchaser's rights pursuant to this Agreement and/or in the Company's Lands.
- 6.2.3 Within 90 days from the date specified for making of the Additional First Payment, a sum of NIS 28,826,784 (together with indexation differences) (as defined above) and plus V.A.T. as prescribed by law (which shall be paid as stated in sub-clause 6.8 below) shall be paid by the Purchaser to the Company by way of bank check (hereinafter: **“the Later First Payment”**), against return to the Purchaser of the sale process guarantee. The Later First Payment shall be paid out of the Purchaser's own resources without any encumbrance on any of the Purchaser's rights pursuant to this Agreement and/or in the Company's Lands. The Purchaser undertakes to cause an extension of the sale process guarantee from time to time in a manner whereby the guarantee will remain in force until actual settlement of the Later First Payment. If the sale process guarantee is not extended as aforesaid at least 21 days before the date of its expiration, the Company will be entitled to foreclose on the sale process guarantee.
- 6.2.4 A sum of NIS 501,294,816 together with indexation differences (as defined above) in respect thereof (hereinafter: **“the Second Payment”**) plus V.A.T. as prescribed by law (which shall be paid as stated in Clause 6.8 below) shall be paid by the Purchaser directly to the Company: (1) 7 business days from the date on which notice is given by the Municipality to the effect that subject to payment of fees and levies only, it will be possible to issue the first building permit (even if such notice relates to a building permit that will be issued in relation to only part of the Company's Lands and/or the Municipality Lands and/or the Additional Real Estate Rights, but excluding an excavation and shoring permit, a permit for a sales office, signboards, fencing and similar other permits that are only ancillary and subordinate to the Project) (hereinafter: **“the First Building Permit”** and **“Notice Regarding the First Building Permit”**, respectively), or (2) after the elapse of 24 months from the date of signing of this Agreement, whichever of (1) or (2) is the later. For the avoidance of doubt it is hereby clarified that such notice in relation to a permit for construction of the basement floors or part thereof (even if it is issued separately from the building permit for the above-ground areas) will be deemed to be Notice Regarding the First Building Permit for purposes of this Clause 6.2.4. The Second Payment shall be made by way of a bank check and subject to fulfillment of the matters set forth in sub-clause 6.2.5 above.

For the removal of doubt it is clarified that under all circumstances, whether or not a building permit is issued, irrespective of the reason for the delay in or failure to issue the building permit, the Second Payment shall be made not later than the end of 24 months from the date of signing of this Agreement and in accordance with the provisions of this sub-clause above and sub-clause 6.2.5 below, without being dependent on the fulfillment or non-fulfillment of any circumstances, including in connection with the issue or non-issue of the First Building Permit, and shall be in the nature of being an absolute obligation for payment at the specified times.

The Purchaser undertakes to notify the Company in writing, in good time, as to the anticipated date for issue of the First Building Permit. If up to such time the loan which is the subject of the existing encumbrances has not yet been liquidated and discharged, the Company shall issue to the Purchaser an updated letter of intent from Bank Leumi, within 14 days from the date of receipt of the Purchaser's aforesaid notice, stating that against payment of the amount specified therein (where such amount does not exceed the amount of the Second Payment less **"the trust moneys"** (as same are defined in Clause 6.2.5.6 below) and less the amount of the betterment levy referred to in sub-clause 11.3.2 below, if it has not yet been paid) (hereinafter: **"Balance of the Loans"**), the existing encumbrances on the Company's Lands as same are defined above shall be liquidated and discharged (hereinafter: **"the Updated Letter of Intent"**). The validity of the Updated Letter of Intent will be extended if necessary, from time to time, in a manner whereby the Updated Letter of Intent will be in force as at the date of effecting of the Second Payment.

The Purchaser undertakes to give the Company written notice about the issue of the First Building Permit immediately upon receipt thereof, and to furnish the Company with a copy thereof.

- 6.2.5 The Second Payment shall be made in a manner whereby at the date specified in sub-clause 6.2.4 above for the making of the Second Payment, the parties will meet at the Land Registry, and will simultaneously perform the following actions:
 - 6.2.5.1 The Company will deliver to the Purchaser the certificates mentioned in sub-clauses 9.1.2-9.1.3 below, if same have not been delivered up to that time.
 - 6.2.5.2 The Purchaser shall, by way of a bank check, pay the Company and/or Bank Leumi and/or the Trustee, as the case may be (and as described below), the Second Payment as follows:

- 6.2.5.2.1 The sum of the balance of the loans as specified in the Updated Letter of Intent (as defined above), if a balance remains at such time in favor of Bank Leumi, will be paid to Bank Leumi by way of a bank check.
- 6.2.5.2.2 If the Company has not furnished the Land Appreciation Tax certificate mentioned in Clause 9.1.1(a) below, the trust moneys, as defined in Clause 6.2.5.6 below, will be paid to the Trustee by way of a bank check.
- 6.2.5.2.3 The balance of the First Payment will be paid to the Company, by way of a bank check.
- 6.2.5.3 The encumbrance in favor of the financing bank as defined in Clause 16.7.3 below, will be registered in accordance with one of the alternatives described in Clause 16.7.3 below. It is agreed that for purposes of registration of the encumbrance with the Registrar of Companies, delivery of a debenture and an encumbrance registration form to the Registrar of Companies, signed by the authorized signatories of the Company and duly authenticated, shall be deemed to be registration of an encumbrance for purposes of this sub-clause.
- 6.2.5.4 The encumbrance over the Company's Lands (as defined in Clause 16.7.3 of the Municipality Lands Agreement) will be registered in favor of the financing bank.
- 6.2.5.5 The Company will deliver possession of the Company's Lands to the Purchaser as described in Clause 10 below. In addition, by virtue of delivery of possession of the Company's Lands, the amount of the V.A.T. which is the subject of the Second Payment and the amount of the V.A.T. which is the subject of the Third Payment will be paid to the Company by the Purchaser at the Date of Delivery of Possession by way of a bank check, against a valid tax invoice.
- 6.2.5.6 Notwithstanding the contents of sub-clause 6.2.5.1 above, if at the date of effecting the Second Payment, the Land Appreciation Tax certificates mentioned in Clause 9.1.1(a) below has not been delivered to the Purchaser, then the Company will furnish the Purchaser with a letter from Adv. Udi Barzilai, the Company's tax consultant, setting forth an assessment by the tax consultant with regard to the amount of the Land Appreciation Tax that will be imposed on the Company in respect of the transaction which is the subject of this Agreement, after the full objection and appeal proceedings according to law have been exhausted, taking into account the full gamut of the relevant circumstances that are known at that time (hereinafter: **"the Tax Consultant's Letter"** and **"the Anticipated Amount of Tax"**, respectively). In such case, a deposit will be made out of the Second Payment moneys to the Trust Account of an amount equal to the Anticipated Amount of Tax as stated in the Tax Consultant's Letter (hereinafter: **"the Trust Moneys"**). The Trustee shall hold the trust moneys in its possession until the Land Appreciation Tax Certificate mentioned in Clause 9.1.1(a) below is delivered to the Purchaser, and in accordance with the provisions of the written instructions to the Trustee, Appendix 6.2.8 to this Agreement.

If Adv. Barzilai is prevented from furnishing the Tax Consultant’s Letter at that time, then the Company will refer to another tax consultant, in its discretion, for purposes of obtaining the Tax Consultant’s Letter, provided that the identity of such tax consultant will be acceptable to the Purchaser (on a basis that the Purchaser will not be entitled to object to the identity of the tax consultant except on reasonable grounds).

If the Tax Consultant’s Letter is not furnished up to the time of making of the Second Payment, for any reason, then the full Second Payment (except for the amount of the balance of the loans) will be deposited in trust with the Trustee, until the Tax Consultant’s Letter is furnished, on a basis that upon the furnishing of the letter, the Trustee shall transfer the amounts that have been deposited with it, less the amount of the anticipated tax (as defined above) to the Company, all in accordance with the provisions of the written instructions to the Trustee, Appendix 6.2.8 to this Agreement.

- 6.2.5.7 It is clarified that the making of the Second Payment in accordance with this Clause 6.2 shall be effected simultaneous with the making of the Second Payment pursuant to Clause 6.2 of the Municipality Lands Agreement and according to the conditions thereof.
- 6.2.5.8 It is hereby agreed that if a registration or procedural problem should arise in creating any of the encumbrances included in the encumbrance to the financing bank, then the parties will in good time discuss between themselves and together with the financing bank the necessity for reaching an appropriate arrangement that will be agreed upon by the parties and by the financing bank in a manner that allows for the effecting of the Second Payment.
- 6.2.6 A sum of NIS 22,752,000 together with indexation differences (as defined above) in respect thereof (hereinafter: **“the Third Payment”**) will be paid by the Housing Company directly to the Company on the date of receipt of “Form 4” with respect to the first commercial areas that will be constructed on the Company’s Lands and/or the Municipality Lands and/or the Additional Real Estate Rights (except if “Form 4” is received solely with respect to the commercial areas that will be located on the first floors of the residential buildings in the residential zone, if there are such) and against delivery of an irrevocable power of attorney as mentioned in Clause 9.2 below and the minutes referred to in Clause 9.2 below, delivery of the deeds of transfer of right of lease mentioned in Clause 9.1.4 below and return of a power of attorney for expungement of a *caveat* mentioned in Clause 9.6 below. The Third Payment shall be made by way of a bank check.

- 6.2.7 It is agreed between the parties that if the Company presents to the Trustee demands for payment from the tax authorities, and the Company presents the Trustee with a certificate from the Company stating that against the making of the payment specified in the demands for payment the certificate referred to in Clause 9.1.1(a) below will be issued by the relevant tax authority, then the Trustee will be empowered, if the Company has so requested from it in writing with a copy to the Purchaser, to make payment out of the trust moneys of the payments that are the subject of the aforesaid demands for payment to the relevant authority, for purposes of obtaining the aforesaid certificate. The parties hereby instruct the Trustee that after the elapse of the time specified in sub-clause 9.1.5 for the furnishing of the certificate mentioned in Clause 9.1.1(a) below, and on a written demand from the Purchaser, the Trustee will make use of the Trust Moneys for purposes of making the payments demanded for the furnishing of the certificate mentioned in Clause 9.1.1 (a) below, including the furnishing of suitable bank guarantees.
- 6.2.8 In relation to any amount that may be deposited in trust with the Trustee in accordance with the provisions of this Clause 6, the Trustee shall act in accordance with the letter of instructions to the Trustee which is attached to this Agreement as **Appendix 6.2.8**, and deposit of such amount in trust with the Trustee, as aforesaid, shall be deemed to be performance of the Purchaser's obligation to pay the aforesaid amount to the Company.
- 6.3 In addition to the Basic Consideration, the Company will be entitled to additional consideration from the Housing Company in relation to the residential areas that will be erected on Plot No. 1 and in relation to the areas of Plot No. 6, in the scope of the Purchaser's Project, as described below (hereinafter: **"the Additional Consideration"**):
- 6.3.1 The terms mentioned in this Clause 6.3 and all the sub-clauses hereof will have the meaning ascribed to them in Clause 6.7.1 below.
- 6.3.2 If the average selling price per sq.m. should exceed NIS 15,517 (excluding V.A.T.) linked to the upside index as stated in Clause 6.3.4 below (hereinafter: **"the Basic Price"**), but be less than NIS 16,379 (excluding V.A.T.) linked to the upside index as stated in sub-clause 6.3.4 below (hereinafter: **"the Intermediate Price"**), the Housing Company will pay the Company an amount equivalent to the full difference between the Intermediate Price and the Basic Price where this is multiplied by the sale areas and the Company's share in the Additional Consideration, plus V.A.T. as prescribed by law against receipt of a valid tax invoice.

For example–

In a case in which there has been no rise in the upside index, the average selling price per sq.m. will be NIS 16,000 (excluding V.A.T.) and the sale areas will stand at 50,000 sq.m., then the Additional Consideration to the Company will be:

$50,000 * 75.84\% * (16000 - 15517) = \text{NIS } 18,315,360 \text{ plus V.A.T. according to law.}$

- 6.3.3 If the average selling price per sq.m. should exceed the Intermediate Price (hereinafter: **“the High Price”**), the Housing Company will pay the Company the following cumulative amounts, together with V.A.T. according to law and against receipt of a valid tax invoice:
- 6.3.3.1 The full difference between the Intermediate Price and the Basic Price where it is multiplied by the sale areas and by the Company’s share in the Additional Consideration.
- 6.3.3.2 50% of the difference between the High Price and the Intermediate Price where this is multiplied by the sale areas and by the Company’s share of the Additional Consideration.

For example –

In a case in which the upside index has not risen, the average selling price per sq.m. will be NIS 18,000 (excluding V.A.T.), the sale areas will stand at 50,000 sq.m., then the Additional Consideration will be the following cumulative amounts:

50,000* 75.84%*(16379-15517) = NIS 32,687,040 plus V.A.T. according to law.

50,000* 50%*75.84%*(18000-16379) = NIS 30,734,160 plus V.A.T. according to law.

And altogether the Additional Consideration to the Company will amount to a sum of NIS 63,421,200 plus V.A.T. according to law.

- 6.3.4 The Basic Price and the Intermediate Price (as will be updated in accordance with the provisions of sub-clause 6.3.5 below to the extent that same are updated) will be linked to the index or to the Building Inputs Index, according to the index to which the proceeds that will be received from buyers of apartments will be linked and as will be mentioned in the sale contract with the buyers of apartments (hereinafter: **“the Upside Index”**) and will bear indexation differences at the percentage rise of the Upside Index which is known at the time of doing the relevant accounting as against the Upside Index that was known at the date of signing of an agreement for the sale of the first apartment in the Purchaser’s Project between the Purchaser and a third party, while a decline in the Upside Index will not lead to a reduction of the Basic Price and the Intermediate Price, as the case may be.
- 6.3.5 If building construction has been approved to the Housing Company pursuant to which the average main area of an apartment will be less than 110 sq.m. but will not be less than 91.7 sq.m. and the Company was held liable in respect thereof for a betterment levy or payment of betterment and/or if a concession was approved to the Housing Company in regard to the adding of two additional floors in the buildings on Plot No. 1 from 12 to 14 floors and in respect thereof the Housing Company was held liable for a betterment levy or payment of betterment (hereinafter jointly: **“the Specific Planning Changes”**), then: (1) the amount of the betterment or the betterment levy that was paid by the Housing Company as was fixed according to law as a consequence of the approval of the specific planning changes only (whichever is the higher) or (2) an amount in a maximum sum of NIS 10,000,000 linked to the Upside Index (excluding V.A.T.) (hereinafter: **“the Betterment Tax Ceiling”**), whichever of (1) or (2) above is the lower (hereinafter: **“the Determining Amount”**), where same is divided by the sale areas, will be added both to the Basic Price and to the Intermediate Price.

For the removal of doubt it is clarified that the aforesaid amount of NIS 10 million is an upper limit, and that the Determining Amount as defined above (which will be divided by the sale areas where the result of the division thereof by the sale areas will be added to the Basic Price and to the Intermediate Price) will under no circumstances exceed the Betterment Levy Ceiling.

For example –

In a case in which the Determining Amount stands at NIS 7,000,000 and the sale areas (of all the apartments) stand at 50,000 sq.m., the following amount will be added both to the Basic Price and to the Intermediate Price:

$7,000,000 / 50,000 = \text{NIS } 140.0$

so that the Basic Price will stand at NIS 15,657 and the Intermediate Price will stand at NIS 16,519.

The Housing Company undertakes to notify the Company, immediately after receiving a demand from the local committee for payment of betterment or a betterment levy in connection with any of the specific planning changes. After receipt of such notice and if the Company so wishes, the Housing Company will allow the Company to defend such demand for payment, including the exhausting of objection and appeal rights according to law, all at the times prescribed by law. The Housing Company declares that it is aware that the Company’s position regarding a reduction of the average main area of the apartments as aforesaid does not constitute grounds for a betterment levy being charged, without this constituting a representation and/or promise on the part of the Company. It is further clarified that nothing contained in the provisions of this sub-clause shall constitute a representation and/or any undertaking by the Company and/or the Municipality and/or anyone on their behalf in relation to the approval of the specific planning changes.

For the removal of doubt it is clarified that in every case in which the Determining Amount as defined in this sub-clause above is lower than (a) the amount of betterment or the betterment levy which was actually paid by the Housing Company or (b) the amount of the Betterment Levy Ceiling, including in a case in which the amount of the betterment or the betterment levy is reduced after the actual payment thereof (such as – as a consequence of objection and appeal proceedings), then the necessary adjustments and accounting will be made as between the parties as a consequence of such reduction.

6.3.6 In addition to the amounts mentioned in Clauses 6.3.2-6.3.3 (inclusive), the Housing Company shall pay the Company, as part of the Additional Consideration, an amount equivalent to one-half of the difference, if any, between the selling price (including V.A.T.) in respect of a sale or letting under leasehold or conferring of a right of use of any sort of a parking place in the Purchaser's Project that will be paid by any buyer of an apartment or any third party (even if he is not a buyer of an apartment) in respect of a parking place in the Purchaser's Project (excluding only a price that will be paid by any buyer of an apartment in respect of a first parking place for an apartment) and a sum of NIS 100,000 (including V.A.T.) for each parking place (for the avoidance of doubt it is clarified that this price is a consideration for all the direct and indirect costs connected with the construction of parking places as aforesaid, including and without derogating from the generality of the foregoing, the envelope of the parking places, sprinklers, fire extinguishing systems, planning and so forth, all until receipt of Form 4 in respect of the aforesaid parking places) (where same is linked to the Upside Index commencing from the date of a sale agreement in respect of the first apartment in the Purchaser's Project between the Housing Company and a third party and up to the time of any actual payment), where this is multiplied by the Company's share in the Additional Consideration.

6.4 The Additional Consideration will be calculated and paid at the following times:

6.4.1 **Interim accounting**

6.4.1.1 On the 5th of the first month of each calendar quarter, commencing from the date of signing of the first agreement for the sale of an apartment between the Housing Company and a buyer of an apartment, an interim accounting will be done in relation to the Additional Consideration in respect of the proceeds of the sales that have been received by the Purchaser in the preceding quarter (hereinafter: **“the Interim Accounting”**). The Interim Accounting will be carried out with respect to each and every apartment the proceeds in respect of which were paid in the preceding quarter in a manner whereby the average selling price per sq.m. for each apartment will be determined on a basis of the total proceeds of the sales which were received in respect thereof in the preceding quarter (hereinafter: **“Proceeds of the Quarter”**) where same is divided by “the partial sale area”.

For purposes of this sub-clause **“the partial sale area”** means: the sale areas (as defined below) which are the subject of each apartment where same are multiplied by the ratio between the Proceeds of the Quarter for the apartment (without indexation differences in respect thereof) and the total proceeds specified for the apartment in the relevant sale contract.

The Company's share in the Additional Consideration in accordance with the Interim Accounting for each quarter will be paid to the Company within 14 days from the date on which such accounting is conducted.

6.4.1.2 The Interim Accounting in each quarter will be carried out on a cumulative basis having regard to the proceeds, the sale areas which are the subject of those proceeds and having regard to the Additional Consideration in respect of the quarters which preceded it. It is hereby agreed that only commencing from the date of payment of the full Basic Consideration, to the extent that it becomes apparent at the time of conducting any Interim Accounting that overpayments of the Additional Consideration, on a cumulative basis, have been paid to the Company, the Company will refund to the Housing Company the amounts that were overpaid to it as aforesaid, where such amounts are linked to the Upside Index commencing from the date of the last accounting and up to the date of the actual refund thereof, plus V.A.T. according to law, against receipt of a valid tax invoice.

6.4.2 **Final accounting**

Not later than 7 days from the date of first occupation of the last residential building, a final calculation will be made of the Additional Consideration in relation to all the apartments in the Purchaser's Project (hereinafter: **"the Final Accounting"**).

In the scope of the Final Accounting, the Additional Consideration that is due to the Company will be calculated in relation to all the apartments in the Purchaser's Project on a basis of all the sale areas and all the proceeds of sales (hereinafter: **"the Final Additional Consideration"**).

If the Final Additional Consideration should exceed the total amounts that are the subject of the Additional Consideration that has been paid to the Company up to such time, the balance will be paid to the Company, together with V.A.T. according to law, within 14 days from the date of calculation of the Final Accounting, where same is linked to the Upside Index from the date of the accounting and up to the date of actual payment thereof to the Company. As against that, if the payments that have been paid by the Housing Company to the Company up to such time exceed the total Final Additional Consideration, the Company will refund to the Housing Company the amounts that were overpaid to it as aforesaid, where same are linked to the Upside Index from the date of the last Interim Accounting and up to the date of the refund thereof to the Housing Company, within 14 days from the date of calculation of the Final Accounting.

6.5 As security for payment to the Company of the Additional Consideration, the Housing Company shall deliver to the financing bank an irrevocable instruction in relation to the account in which the total proceeds that will be received from the buyers of apartments will be deposited (hereinafter: **"the Proceeds Account"**) pursuant to which the Housing Company will instruct the financing bank to act in accordance with the instructions of the arbiter as defined in sub-clause 6.7 below, in connection with the release of money from the Proceeds Account to the Company, in accordance with the results of the Interim Accountings that will be conducted between the parties as stated in sub-clause 6.4.1 above and that it should not allow the Housing Company to withdraw/transfer any money from the Proceeds Account (including a transfer of money from the Proceeds Account to the Housing Company's expenses account), unless at the time of any such withdrawal/transfer an early interim accounting is done, and in accordance with the results thereof money will simultaneously be transferred to the Company out of the Proceeds Account in accordance with the instructions of the aforesaid arbiter. In the event that the financing bank refuses to act in accordance with such irrevocable instructions, other collateral will be decided upon by the parties to secure payments of the Additional Consideration, to the satisfaction of the Company. The Housing Company undertakes that the Mall Company will not be a partner and/or a holder of rights and/or a beneficiary in the Proceeds Account, that the Proceeds Account will be specifically earmarked solely for proceeds that will be received from the buyers of the apartments, that all the proceeds that will be received from buyers of apartments will be deposited solely in the Proceeds Account, and it undertakes to include an appropriate provision in the sale agreements with the buyers of the apartments. The Housing Company further undertakes that the Proceeds Account will be encumbered only to the financing bank (subject to the Company's rights to receive proceeds in accordance with this sub-clause 6.5 and the rights of the Municipality to receive proceeds in accordance with Clause 6.5 of the Municipality Lands Agreement), and that no rights of whatsoever nature therein will be granted to any third party.

- 6.6 Once each month, not later than the 15th of the succeeding calendar month, the Housing Company shall deliver to the Company a detailed report of the sales that were made by the Housing Company in the preceding month and of the proceeds of sales that are the subject of the aforesaid sales. The Company will be entitled to examine the report itself and/or through an accountant on its behalf, and the Housing Company undertakes to furnish the Company and/or the aforesaid accountant with all information and/or any document that may be demanded for purposes of the aforesaid examination.
- 6.7 Differences of opinion between the parties in connection with the calculation of the Additional Consideration will be brought for the decision of Gad Somekh, C.P.A., or if he is prevented from serving as arbiter, another partner in his office, following a request from one of the parties to him (hereinafter in this sub-clause: **“the Arbiter”**). The Arbiter will be entitled for purposes of making a calculation of the areas to be assisted by a real estate appraiser and/or surveyor. The Arbiter will act as an expert and not as an arbitrator, and his decision shall be final and binding on the parties.
- 6.7.1 For purposes of this Clause 6, the following terms and expressions will have the meanings set opposite them:
- 6.7.1.1 **“Sale areas”** – the effective total of the areas of the apartments (which will be measured in relation to each and every apartment according to the definition of the term effective area of an apartment, as elucidated below), plus the following areas (which will also be measured in relation to each apartment separately in accordance with the provisions set forth in Clause 6.7.1.3 below): 33% of the areas of enclosed or open porches that are linked to the apartments, 20% of the areas of the storerooms that are linked to the apartments, 20% of the areas of one parking place which is linked to the apartment (as distinct from additional parking places in excess of one parking place per apartment), 5% of the areas of the gardens that are linked to the apartments, and together with the *pro rata* share of the apartment in the landing of its floor. Under all circumstances it is hereby clarified that for purposes of calculating “the sale areas”, areas will be counted once only.

6.7.1.2 “Effective area of apartment” –

The area contained in the polygon created by the lines that pass over the outer side of the external walls of the apartment.

For these purposes –

- (1) “External wall” – a wall which separates between the apartment and what is outside of it, including between the apartment and a sun porch, between it and a common area on the floor or between it and another apartment or plan;

Where the external wall separates between the apartment and another apartment, the line of the aforesaid polygon will pass through the center of the external wall;

- (2) “The outer sides of an external wall” – the sides of the wall without finishing; in a case of a wall with stone cladding, the sides of the wall will include the cladding.

- (3) In a multi-level apartment the area will be calculated and particularized with respect to each level in the apartment; the area of the apartment will be the total areas of all the levels in the apartment.

The area of each set of stairs in an apartment will be calculated once only according to the horizontal projection of all the sloping and horizontal surfaces; the area will be added to the level which ascends from the flight of stairs.

- (4) In calculating the area only the areas the height of which conforms with what is required under the Planning and Building Regulations (Application for Permit, Conditions thereof and Fees), 5730-1970 (hereinafter: **“the Planning and Building Regulations (Application for Permit)”**) will be included.

6.7.1.3 The areas of the porches, storerooms, parking places and the gardens will be measured and calculated in accordance with the following provisions:

- 6.7.1.3.1 Areas of enclosed or open porches that are linked to apartments – the floor area that falls within the polygon created by the lines that pass through the outer sides of the external walls or the constructed railings of the porches and through the outer sides of the walls of the apartments that border on the porch.

- 6.7.1.3.2 Areas of storerooms linked to apartments – the floor area that falls between the walls of the storeroom plus the area of the wall; where the storeroom wall separates between it and part of another storeroom/area, only the area below one-half of the width of the wall will be included; where the storeroom wall borders on a common area, the area of the wall will be included in its entirety.

- 6.7.1.3.3 Areas of parking places – (area of one parking place which is linked to an apartment) – the floor area of the parking place without walls and/or thoroughfares.
- 6.7.1.3.4 Areas of gardens that are linked to apartments – the garden area includes the area of the walls which support the perimeter thereof.
- 6.7.1.3.5 **“Floor landing”** – the area that falls within the lines that pass between the outer walls of the floor landing (excluding shafts and voids), including one-half only of the area of the stairwells that are located between the relevant floor and the floor below it, which will be calculated according to the horizontal projection of the sloping and horizontal surfaces.
- 6.7.1.4 **“Sale proceeds”** – all the amounts (excluding V.A.T.) that will actually be received from the buyers of the apartments and/or in connection with the sale of the apartments to the buyers of the apartments, including by virtue of sale agreements and addenda to such agreements (including consideration in respect of one parking place per apartment, porches, roofs, storerooms, gardens, basements and so forth), and any additional consideration that may be received from buyers of the apartments including, and without derogating from the generality of the foregoing, penalty interest and indexation differences that will be received from buyers of the apartments in respect of arrears and agreed damages in respect of a cancellation of agreements / contractual arrangements, together with indexation differences to the Upside Index at the percentage rise in the known Upside Index at the time the relevant accounting is done, as against the Upside Index which was known at the time each payment was actually made by the buyers of the apartments, where a fall in the Upside Index will not lead to a reduction in the amount of the sale proceeds.

It is clarified that in calculating the sale proceeds, the following payments will not be taken into account:

- 6.7.1.4.1 Any payment for alterations and additions in excess of the specification for the apartments, as defined in Clause 6.10.1 below, in the event that same are paid directly to the executing contractor, and which are not due to the Housing Company, directly or indirectly.
- 6.7.1.4.2 That portion of the payment in respect of legal expenses and attorneys’ fees which will be collected from the buyers of apartments (hereinafter: **“the Legal Expenses”**) and which will be paid by the Housing Company to the attorneys who represent it in the sale agreements with the buyers of apartments. The balance of the Legal Expenses (which is not transferred by the Housing Company to the aforesaid attorneys) will be included as part of the sale proceeds.

- 6.7.1.4.3 Payment of buyers of apartments for water, electricity and gas meters and other accessories such as that which will be purchased for them by the Housing Company, on a basis that the full payment by the buyers of apartments will be transferred onwards to the aforesaid suppliers of the accessories.
- 6.7.1.4.4 Payments by buyers in respect of refund of fees, costs of preparation of drawings and payment to the Municipality in respect of the signing of the condominium registration documents referred to in sub-clause 9.9.1 below, provided that the total amount per apartment in respect of the components mentioned in this sub-clause shall not exceed NIS 5,000 (excluding V.A.T.), where same is linked to the Upside Index commencing from the date of signing of this Agreement and up to the date of the relevant accounting.
- 6.7.1.4.5 Payments of management fees will be paid directly by the buyers of apartments to the management company (and which are not payable, in whole or in part, to the Housing Company, directly or indirectly).

6.7.1.5 **“Average selling price per sq.m.”** – the total sale proceeds where same are divided by the total sale areas.

6.7.1.6 **“The Company’s share in the Additional Consideration”** – 75.84%.

6.8 **Value Added Tax payments**

Each payment imposed on any of the parties according to this Agreement shall be paid together with V.A.T. according to law, against receipt of a valid tax invoice and against furnishing of a certificate in regard to deduction of tax at source. In the case of amounts which have been specifically stated in this Agreement as including V.A.T., no V.A.T. shall be added in respect thereof.

It is agreed that the V.A.T. payments in respect of each and every payment of the Consideration (both with respect to the Basic Consideration and also in relation to the Additional Consideration) shall be paid by a post-dated check the due date for payment of which is 3 business days before the date on which the recipient party is obliged to transfer the V.A.T. to the tax authorities in respect of the payment. Notwithstanding the foregoing it is agreed as follows: (1) payment of V.A.T. in respect of the First Payment will be paid in accordance with the provisions of sub-clause 6.2.1 above (2) payment of V.A.T. in respect of the Second Payment and the Third Payment shall be made by a bank check at the same time at which the Second Payment is paid.

For the removal of doubt it is clarified that the time of payment of the V.A.T. in respect of payments of the Consideration as specified in this Agreement is the time specified in this sub-clause 6.8.

If an approval is received from the V.A.T. authorities in accordance with Section 20 of the Value Added Tax Law, 5736-1975, the parties undertake (without derogating from any of their rights according to law) to act in accordance with the aforesaid approval with respect to each payment that will be paid as from the date of receipt of the approval. If the signature of the Company on forms / documents is required for purposes of obtaining such approval, the Company will sign such forms / documents subject to the condition that the forms / documents shall not impose any financial obligations on the Company.

6.9 **Plot No. 6**

- 6.9.1 It is agreed between the parties that if any of the built areas on Plot No. 6 should be zoned or designated for use which is not residential, then the Additional Consideration to which the Company will be entitled in respect of the proceeds of any transactions (including sale and/or lease and/or operation and so forth) that may be made in relation to Plot No. 6 will be according to a mechanism that will be agreed between the parties.
- 6.9.2 The Housing Company shall notify the Company and the Municipality shortly after the date on which a decision is taken in connection therewith as to the intended zoning for Plot No. 6 and in accordance therewith the Company, the Municipality and the Housing Company will discuss the laying down of the agreed mechanism for determining the Additional Consideration in Plot No. 6.
- 6.9.3 It is hereby expressly agreed, that notwithstanding anything else contained in this Agreement, as long as no mechanism has been agreed in writing between the Company, the Municipality and the Housing Company for the Additional Consideration in respect of Plot No. 6, the Housing Company will not be entitled to enter into sale and/or lease transactions and/or contractual arrangements and/or other transactions of whatsoever nature in connection with Plot No. 6, whether with respect to the land or with respect to the built areas.
- 6.9.4 For the avoidance of doubt it is hereby clarified that if the actual use that will be planned or will be made of Plot No. 6 is for residential purposes, then the Additional Consideration to which the Company will be entitled in relation to the proceeds from Plot No. 6 will be as stipulated in Clauses 6.3-6.6 above.

6.10 **Provisions regarding the standard of building and technical specifications which will be attached to the sale agreements with buyers of apartments**

- 6.10.1 The building construction in the residential purposes section and the apartments therein shall be built at a standard which shall not be inferior to the standard described in the main features of the specification, the simulations and in the photographs that are attached to this Agreement as **Appendix 6.10.1**, whichever is the higher (hereinafter: **“the Basic Specification”**).

- 6.10.2 The apartments shall be sold to the buyers of apartments according to a technical specification that shall not be inferior to the Basic Specification (hereinafter: **“the Apartments Specification”**).
- 6.10.3 Alterations and additions in relation to the Apartments Specification shall be requisitioned directly by the buyers of apartments from the executing contractor. Any payment for alterations and additions as aforesaid shall belong to the executing contractor and will not be included in the sale proceeds. If and to the extent that the Housing Company should receive any payments that are connected with the aforesaid alterations and/or additions, directly or indirectly, then those payments will be added to the sale proceeds.

The Housing Company undertakes that if a credit should be due in respect of cancellation of works that are included in the Apartments Specification, it will be obtained from the executing contractor.

6.11 **Anticipation of payments**

It is hereby agreed that the Purchaser will have the right to anticipate any of the payments of the Consideration, including the Additional Consideration, with it hereby being agreed as follows: (1) in relation to the bringing forward of any of the payments of the Basic Consideration, such anticipated payment shall be made at a discount rate of 4% per annum; (2) with regard to the bringing forward of any of the payments of the Additional Consideration, such anticipated payment shall be made by way of conducting an interim accounting at the dates earlier than the dates specified in Clause 6 above for the conduct thereof, without such anticipated payment causing any reduction in the extent of the payments of such Additional Consideration that have been brought forward; (3) every anticipated payment shall be made both *vis-à-vis* the Company and also *vis-à-vis* the Municipality, all subject to the giving of written notice to the Company and to the Municipality at least 7 business days in advance.

7. **Development of open public areas and maintenance thereof**

- 7.1 Without derogating from the contents of sub-clause 1.7 above, and in addition thereto, the Housing Company undertakes to develop and erect open public areas (which are marked in green on the Leasehold Drawings and which – as stated in Clause 1.6(a) above – are not part of the Property Sold and will remain in the sole ownership and possession of the Municipality) (hereinbefore and hereinafter: **“the Open Public Areas”**), and shall do so on its account and at its sole expense, in accordance with the provisions of Paragraph 9.6 of Plan TA/3001. The Housing Company further undertakes that the current maintenance of the Open Public Areas will be performed through a management company on its behalf or on behalf of the residents of the buildings that will be erected by the Purchaser or on behalf of the representative committee of the condominiums (hereinafter: **“the Management Company”**), with such maintenance being at its expense or at the expense of the Management Company, at an appropriate standard and according to the customary standard for open public areas of this sort. It is agreed that any transaction or transactions that may be made from time to time, if made, in the Remainder of the Project Lands shall include provisions that shall bind the buyer/s of the Remainder of the Project Lands or any part thereof, to bear their *pro rata* share of the cost and maintenance of the Open Public Areas, which shall be the same ratio as the ratio between the building rights (main areas) of each owner of rights who has acquired rights from the Municipality and the Company as against all the building rights (main areas) in the Project Lands.

It is further agreed that the Company will not be liable (as distinct from the buyers of rights from the Company in the Remainder of the Project Lands who will be liable) for payment of any sort to the Purchaser and/or to the Management Company and/or to the buyers of apartments and/or to the representative committee of the condominiums and/or to any other body in respect of the management and maintenance of the Open Public Areas, including payment of management fees, maintenance fees, operational charges and any other payment. The Purchaser undertakes that it will include such a provision in the sale contract between it and third parties (including the sale agreements with buyers of apartments).

In a case in which maintenance of the Open Public Areas is not performed in the manner described above, the Municipality will be entitled (but not obliged), after the giving of 45 days prior written warning and an opportunity to rectify the breach, to perform the maintenance of the Open Public Areas itself and to charge the Housing Company or the Management Company or the house committee or the representative committee of the condominiums (and if such representative committee has not been established, then the residents) at the tariffs prevailing for the time being in accordance with the actual results of the Municipality’s tenders for the maintenance of open public areas of a similar type to the aforesaid Open Public Areas. It is clarified that nothing in the provisions of this sub-clause 7.1 shall derogate from the provisions of sub-clause 9.9.1 below.

- 7.2
- It is clarified that where the Housing Company has established the Management Company, as defined above, and has held the buyers of apartments (alone or together with the occupants of the commercial areas) liable to bear their *pro rata* share of the cost of maintenance of the Open Public Areas as aforesaid, the Housing Company will no longer be liable to the Municipality in connection with the maintenance of the Open Public Areas. Without derogating from the contents of Clause 16 below, it is agreed that the Housing Company will be entitled to transfer its obligations for erecting the Open Public Areas and for establishing a management committee for purposes of maintenance of the Open Public Areas to a transferee who acquires rights from the Housing Company in the residential section, to the extent that such transfer of rights has been approved in accordance with the provisions of Clause 16 below. Where the Housing Company has transferred its obligations in the manner stated above in this sub-clause 7.2, the provisions of sub-clause 7.1 above shall apply to the transferee.
- 7.3
- If the Housing Company has requested to effect a transfer of its obligations in connection with the Open Public Areas which is not in accordance with the provisions of sub-clause 7.2 above, then such transfer shall require the prior written consent of the Municipality, which shall not unreasonably withhold such consent. It is clarified that the only factor the Municipality shall be entitled to consider for purposes of giving consent as aforesaid and the conditions thereof is the guaranteeing of construction and maintenance of the Open Public Areas and the setting up of a management company as described above.

7.4 It is agreed that the provisions of sub-clauses 7.2-7.3 above shall also apply in relation to any transferee who may acquire any rights in the Project Lands from the Purchaser and/or from the Purchaser’s transferees.

7.5 Nothing contained in sub-clauses 7.2-7.4 above shall derogate from the provisions of Plan TA/3001.

7.6 **Open private area**

Without derogating from the Purchaser’s obligations as set forth in sub-clause 1.7 above, and in addition thereto the Purchaser undertakes, in relation to the Company’s Lands and to the Municipality Lands, to comply with the provisions of Plan TA/3001 in relation to the open private areas as described in sub-paragraph 9.6 of Plan TA/3001 and as shall actually be built in accordance with the Amended Architectural Design Plan referred to in sub-clause 4.19 above, with it being agreed that in the scope of the examination by the Administration of the Amended Architectural Design Plan the division of the open private areas as between the Company’s Lands and the Municipality Lands and the Remainder of the Project Lands shall, *inter alia*, be examined. The Purchaser further undertakes to bear the expenses for maintaining the open private areas that will be erected by it in the Purchaser’s Project.

It is clarified that in a case in which the Purchaser has established the Management Company, as defined above, and has charged the buyers of apartments (alone or together with the occupiers of the commercial areas) to bear the costs of maintenance of the open private areas that will be constructed by it in the Purchaser’s Project, the Purchaser will no longer be liable to the Company in connection with the maintenance of the open private areas.

8. **Traffic solution – Paragraph 14.7 of Plan TA/3001**

It is agreed that in the scope of performing the accounting between the Municipality and the Company, implementing of the traffic solution for purposes of Paragraph 14.7 of Plan TA/3001 has been guaranteed by the Company, in its own name and on behalf of the Purchaser and/or any future applicant for a permit. The Municipality has undertaken (and this has also found expression in the Municipality Lands Agreement, as defined above) that in a case in which the Local Committee does not order the performing of an accounting as aforesaid which ensures performance that complies with the conditions of Paragraph 14.7 of Plan TA/3001, the Municipality will take steps, which will not be on the Purchaser’s account and not on the account of a future applicant for a permit, to comply with the conditions that are demanded by the Local Committee for purposes of fulfilling the contents of sub-paragraph 14.7 of Plan TA/3001, all in a manner that does not delay the issue of the building permit.

The Purchaser and/or any future applicant for a permit shall support a reasonable traffic solution that will be proposed by the Municipality and/or the Local Committee, will not object to such solution and will not have any allegation and/or demand and/or claim, including for compensation, against the Municipality and/or against the Local Committee, in connection with such solution.

9. Registration of leasehold, easement and tax certificates:

- 9.1 The Company undertakes to furnish the Purchaser with the approvals and certificates described below, at the times specified in sub-clause 9.1.5 below:
- 9.1.1 (a) Land Appreciation Tax and Sales Tax certificates (if any), from the Land Taxation authorities for purposes of the registration in the name of the Purchaser in the Land Registry of the leasehold rights in the Company’s Lands, and (b) copies of Land Acquisition Tax certificates, Land Appreciation Tax and Sales Tax certificates from the Land Taxation authorities for purposes of the registration of the leasehold rights in the Company’s Lands in the name of the Company, in the text of the certificates attached to this Agreement as **Appendix 9.1.5**.
- 9.1.2 A certificate from the Property Tax authorities, to the extent that same applies, in regard to the Company owing no debt for Property Tax, for purposes of the registration, in the Land Registry, in the name of the Purchaser, of the leasehold rights in the Company’s Lands.
- 9.1.3 A certificate from the Municipality and the Local Committee (in respect of the period up to the date of delivery of the right of use) for purposes of the registration in the name of the Purchaser, in the Land Registry, of the leasehold rights in the Company’s Lands. It is clarified and agreed that the amount of the betterment levy as stated in the agreed betterment levy assessment as defined in sub-clause 1.9 above, solely in respect of the Company’s Lands, will be paid and defrayed by the Company to the Municipality within 30 days from the date of delivery of the right of use in accordance with the provisions of Clause 10 below. The certificate shall be delivered to the Purchaser at the latest within 12 months from the date of signing of this Agreement or within 30 days from the date on which approval of the Local Committee for the issue of the first Building Permit (as defined in sub-clause 6.2.4 above) on conditions is exhibited to the Company, whichever is the later.

It is clarified and agreed that upon the first delivery of the certificate mentioned in this sub-clause 9.1.3, the Company will have fulfilled all its obligations in connection with the furnishing of the aforesaid certificate. In a case in which an extension or update of such certificate is required after it has already been produced, and/or in a case in which for purposes of obtaining such certificate at a deferred date, the making of payments to the authorities mentioned in this sub-clause is required, the responsibility shall be imposed on the Purchaser and at its expense.

It is further agreed that if for purposes of furnishing the certificates mentioned in this sub-clause, the making of a payment is required where the obligation for payment thereof is imposed on the Purchaser, in accordance with the provisions of Clause 11 below, the Purchaser undertakes to pay such amount immediately so as to facilitate the issue of the certificate. In a case in which the Purchaser does not pay the payment which is under its responsibility as aforesaid, then, subject to the effecting of the payments that are imposed on the Company pursuant to Clause 11 below (to the Purchaser or to the relevant authorities, at the election of the Company), the Company will be exempt from furnishing the aforesaid certificate.

- 9.1.4 Deeds of transfer of a right of lease, duly signed and authenticated by the Company for purposes of registration in the name of the Purchaser, in the Land Registry, of the leasehold rights in the Company's Lands.
- 9.1.5 Land Appreciation Tax and Sales Tax certificates, if any, in connection with the transaction that is the subject of this Agreement, shall be delivered to the Purchaser within 12 months from the date of actual payment of the full Basic Consideration. Copies of Land Acquisition Tax, Land Appreciation Tax and Sales Tax certificates from the Land Taxation authorities for purposes of registration of the leasehold rights in the Company's Lands in the name of the Company, in the text attached to this Agreement as **Appendix 9.1.5**, are being delivered to the Purchaser at the time of signing of this Agreement. A Property Tax certificate referred to in sub-clause 9.1.2 will be furnished to the Purchaser up to the date of making of the Second Payment. The deeds mentioned in Clause 9.1.4 and the Company's minutes referred to in sub-clause 9.2 will be delivered to the Purchaser against payment of the full Basic Consideration to the Company as stated in Clause 6 above.
- 9.2 On the date of payment of the full Basic Consideration, the Company will deliver to the Purchaser an irrevocable power of attorney in the text attached to this Agreement as **Appendix 9.2**, empowering the appointed attorney to register a transfer of the leasehold rights in the Company's Lands in the name of the Purchaser in the Land Registry. On the aforesaid date the Company will also furnish the Purchaser with the Company's minutes confirming and approving the Company's entering into this Agreement and the giving of the power of attorney as mentioned above in this sub-clause 9.2. The aforesaid appointed attorney shall not make use of the power of attorney except only in accordance with the provisions of this Agreement. The power of attorney will be signed at the time of signing of this Agreement and shall be lodged with the Trustee in accordance with the letter of instructions to the Trustee which is attached hereto as Appendix 6.2.8.
- 9.3 Registration of the leasehold rights in the Company's Lands in the name of the Purchaser shall be effected only in accordance with the deeds of transfer of the right of lease that will be delivered to the Purchaser by the Company in accordance with the provisions of Clause 9.1.4 above, and the Purchaser and/or anyone on its behalf through their appointed attorneys, will be entitled to make use of the power of attorney for purposes of executing registration of such leasehold only in accordance with what is stated in such deeds of transfer of the right of lease. The Company undertakes to sign all the additional documents that are normally required (in addition to the aforesaid deeds of transfer of the right of lease) for purposes of registration of the leasehold in the name of the Purchaser, provided that this does not have the effect of imposing any obligations and/or expenses on the Company which go beyond its express obligations under this Agreement.
- 9.4 Upon registration of the parcellation as referred to in sub-clause 9.8 below, registration of the rights of leasehold in the Company's Lands in the name of the Company and the furnishing of the certificates mentioned in sub-clauses 9.1.1-9.1.3 above, the deeds of transfer of the right of lease referred to in Clause 9.1.4 above and the power of attorney and the minutes mentioned in sub-clause 9.2 above, the Company will be deemed to have fulfilled its full obligations in connection with registration of transfer of the leasehold rights in the Company's Lands in the name of the Purchaser. It is clarified that all the expenses in respect of registration of the rights in the name of the Purchaser shall be borne and paid by the Purchaser.

9.5 The Purchaser hereby undertakes to perform registration of the leasehold rights in the Company’s Lands in its name, in the Land Registry, at the earliest possible time that it can do so subject to the provisions of this Agreement, and included in this the Purchaser undertakes to prepare the registration file and the documents required for purposes of executing the registration and to procure all the certificates and approvals that it is responsible for obtaining for purposes of executing the registration, and to prepare the Transfer Documents (deeds, applications and similar other documents) and subject to the contents of sub-clause 9.3 above, until registration of the aforesaid rights has been effected in the name of the Purchaser in the Land Registry. The Purchaser undertakes that it will send the aforesaid registration documents for the Company’s perusal prior to actual execution of registration, at least 7 days before lodging of the registration documents with the Land Registry.

It is agreed that at the time of signing of this Agreement the text of a document of special conditions for the leasehold (Appendix 1.6 to this Agreement) is being signed by the parties for purposes of it being attached as an appendix to this Agreement, on a basis that after full payment of the Basic Consideration to the Company and the Municipality, the Municipality and the Purchaser will sign the Special Conditions Document in relation to the Company’s Lands, as stated in sub-clause 9.2 of the Municipality Lands Agreement.

The Purchaser undertakes to act in a such a manner that registration of the leasehold rights in the Company’s Lands in its name as stated in this sub-clause 9.5 will be completed within a period of three (3) years from the date on which the approvals and certificates mentioned in sub-clauses 9.1.1-9.1.4 above have been received by the Purchaser, provided that up to such time the parcellation has been registered and the leasehold rights in the Company’s Lands have been registered in the Company’s name, or after the elapse of 6 months from the date of registration of the leasehold rights in the Company’s Lands in the name of the Company, whichever is the later. It is agreed that if registration of the rights is not completed within three years as aforesaid for reasons which are not dependent on the Purchaser, then the period for completing registration of such rights will be extended by an additional six months.

9.6 It is hereby clarified that until the time of transfer of the First Payment Moneys from the Trustee to the Company, the Purchaser undertakes not to register and/or to cause registration of a *caveat* in its favor over the Company's Lands or part thereof and/or over the Existing Leasehold. Without derogating from the Purchaser's undertaking as set forth above in this sub-clause, at the time the Purchaser signs this Agreement the Purchaser will sign an irrevocable power of attorney in the text attached to this Agreement as **Appendix 9.6**, empowering the attorneys mentioned therein to expunge any *caveat* that may be registered, if registered, in favor of the Purchaser or anyone on its behalf over the Company's Lands and/or over the Existing Leasehold or part thereof. The appointed attorneys will be entitled to use the power of attorney and to expunge any such *caveat* in each of the cases mentioned below after having given the Purchaser prior written notice of 14 business days: (1) in every case in which such *caveat* is registered in the name of the Purchaser or anyone on its behalf contrary to the provisions of this sub-clause 9.6; and (2) in any event in which this Agreement is lawfully cancelled for any reason, including, and without derogating from the generality of the foregoing, in the case of non-payments of the Consideration, or any part thereof (subject to the provisions of sub-clause 18.8 below) by the Purchaser to the Company at the times specified in Clause 6 above. For the removal of doubt and without derogating from any of the Company's rights according to any law and agreement, the Purchaser declares and confirms that cancellation of the Agreement in the circumstances described in sub-clauses 5.2.4.3.1 and 5.2.4.3.4 above will be deemed to be lawful cancellation of this Agreement. The aforesaid power of attorney will be returned to the Purchaser in accordance with the provisions of Clause 6 above. For the avoidance of doubt it is clarified that registration of a *caveat* in favor of the Purchaser as described in this sub-clause 9.6 shall not have the effect of preventing and/or limiting the Company and the Municipality from registering *caveats* in connection with the Remainder of the Project Lands. In addition, the Purchaser shall, at the time of signing of this Agreement, deliver a power of attorney to the Company to perform all the registrations required in connection with the Project Lands, including, and without derogating from the generality of the foregoing, registration of the parcellation, registration of easements, registration of the Company's rights in the Company's Lands, registration of *caveats* and/or encumbrances and/or rights in the Remainder of the Project Lands, specific attribution of the *caveat/s* that will be registered in favor of the Purchaser over the Company's Lands and similar other registrations, in the text attached to this Agreement as **Appendix 9.6A**. The Company will be entitled to endorse this power of attorney to the buyers of rights in the Remainder of the Project Lands and/or to their appointed attorneys. The Company undertakes to obtain a power of attorney for special attribution of *caveats* from the buyers of rights in the Remainder of the Project Lands in relation to *caveats* that will be registered in their favor over the Remainder of the Project Lands.

It is agreed that before any action being performed on the strength of the power of attorney Appendix 9.6A in relation to the Company's Lands and/or the Municipality Lands and/or to the Additional Real Estate Rights, **except** actions for registration of parcellation, registration of leasehold rights in the name of the Company and special attribution of the *caveats*, prior written notice of 14 days will be given to the Purchaser by the appointed attorney before the such action is performed.

9.7 The Purchaser undertakes that on its account and at its expense it will effect registration of the easements in relation to the Company's Lands, and by way of registering an easement to guarantee right of way for vehicles and right of way for pedestrians from Plot No. 1 to Plot No. 8, all as described in the provisions of Plan TA/3001.

9.8 The Purchaser is aware that a map for purposes of registration and a diagram for sub-division of the Land into a plot and/or plots within the confines of the Project Lands in accordance with Plan TA/3001 have been approved (hereinafter: **"the Parcellation"**). The Company undertakes to complete registration of the Parcellation of the Company's Lands together with the Municipality Lands in accordance with the plan that has been approved as aforesaid, together with the amendments thereto, or according to a new parcellation, and to register the Parcellation of Parcel 92, within a period of 36 months from the date of signing of this Agreement. It is agreed that in a case in which registration of the Parcellation is not completed within the aforesaid period of time for reasons which are not dependent on the Company, the period for completing registration of the Parcellation as aforesaid will be extended by an additional six (6) months. Before or after registration of the Parcellation, the Company will register the leasehold rights in the Company's Lands in its name.

9.9 **Registration of condominium**

- 9.9.1 The Purchaser undertakes that on its account and at its expense it will register the buildings that will be erected by it on the Company’s Lands and the Municipality Lands as a condominium including registration of house regulations, easements, rights of way, linkages and registration of leasehold rights. If it is not possible to register the condominium as a separate unit and the Purchaser is obliged to register it as a complex condominium within the meaning thereof under the Land Law, 5729-1969, the Purchaser will act in accordance with the directives of the Land Registry. All the documents pertaining to registration of the building and/or the buildings as a condominium as aforesaid, including a drawing, cooperative house registration order and house regulations will be presented for the prior written approval of the Municipality before same are lodged with the Land Registry or any other entity. The Purchaser undertakes that as a precondition to the Municipality signing the condominium documents the Purchaser will pay the Municipality a sum of NIS 2,000 multiplied by the number of apartments that will be constructed on the Company’s Lands, where this amount is linked to the Consumer Price Index commencing from the date of signing of this Agreement and up to the date of actual payment, and in addition the Purchaser undertakes to comply with other customary conditions as prevailing for the time being, provided that they do not involve any additional monetary obligation.
- It is clarified that in relation to payment of handling fees in respect of registration of a condominium, the provisions of this sub-clause take precedence over the provisions of Paragraph 11(c) of Appendix 1.6.
- The Purchaser undertakes to include in the house regulations of the condominium a provision regarding the obligation of the residents to establish a management company and for maintenance of the Open Public Areas as described in Clause 7.1 above.
- 9.9.2 Without derogating from the contents of sub-clause 9.9.1 above, the Purchaser in the name of the Municipality, undertakes to register, the lands, of the Suburban Public Institutions as defined in sub-clause 1.6(a) above, including the outside areas that are linked thereto, on its account and at its expense and without consideration from the Municipality, as a separate unit or as separate units in the framework of registering a condominium. The Purchaser undertakes to include in the house regulations of the condominium a provision in connection with the management of the condominium, in accordance with sub-clause 7.1.1.2 of the Municipality Lands Agreement.
- 9.9.3 The Purchaser undertakes that registration of a condominium will be completed at the earliest possible time it is able to do so and not later than twenty-four (24) months from the date of receipt of a Certificate of Completion for the last building that will be constructed on the Project Lands, or within 24 months from the date of registration of the appropriate Parcellation, whichever is the later.
- 9.9.4 The Purchaser undertakes that within the scope of transfer of rights in the Project Lands, from the Purchaser to third parties (including buyers of residential units), the Purchaser will arrange with the relevant transferee or transferees the manner of performing registration of the Project Lands in the Land Registry, including registration of house regulations for the condominium in accordance with the foregoing, including by way of an undertaking by each transferee to perform the necessary actions and to cooperate with all the relevant entities for purposes of registering the areas that have been transferred to him in the Land Registry, and including by way of receiving suitable powers of attorney from such transferees, in order to facilitate registration of the condominium on the Project Lands, at the times specified in this Agreement.

9.9.5 It is agreed that the provisions of sub-clause 9.9.4 above will also apply in relation to any transferee who may acquire any rights in the Project Lands from the Purchaser and/or from the Purchaser’s transferees.

9.10 In the event that the Purchaser does not perform the registrations described in Clauses 9.5, 9.7 and 9.9 above, at the time specified in those clauses, notwithstanding a demand from the Municipality to perform same, the Municipality shall be entitled, but not obliged, to perform the aforesaid acts of registration on the Purchaser’s account, after thirty (30) days from the date of the demand.

The Purchaser undertakes to pay the Municipality, within ten (10) days from the date of the Municipality’s demand, all the Municipality’s expenses in respect of the registration, in accordance with an account that will be presented to it. Expenses which are not paid on due date in accordance with the demand shall bear indexation differences and interest from the date of the demand and up to the date of actual payment. In addition, in such case the Purchaser undertakes to furnish the Municipality with all the certificates and approvals that are required for purposes of performing the aforesaid registrations. For purposes of securing implementation of the matters mentioned in Clauses 9.5, 9.7 and 9.9 above, the Purchaser will grant the Municipality a power of attorney in the text attached to this Agreement as **Appendix 9.10**. The Municipality will be entitled to make use of this power of attorney, for performing the registrations itself, after having given the Purchaser written notice of thirty (30) days.

9.11 Notwithstanding the contents of this Clause 9 above, it is clarified that in a case in which it is not possible to register a condominium on the Company’s Lands together with the Municipality Lands, separately from the Remainder of the Project Lands, the Purchaser will act in cooperation with the owners of rights in the Remainder of the Project Lands as apply at such time, for purposes of registering a complex condominium over all the Project Lands, within the timetable specified in sub-clause 9.9.3 above. The cost of performing such registration shall be borne by the Purchaser and by the owners of rights in the Remainder of the Project Lands according to their *pro rata* share of the Project – that is to say according to the ratio between the building rights (main areas) owned by all owners of rights who acquired rights from the Municipality and the Company and the total building rights (main areas) in that portion of the Project Lands which will be included in the registration of the condominium.

10. Approval of the Minister of the Interior, right of use and delivery of possession

10.1 Cancelled.

- 10.2 The validity of this Agreement is contingent upon and subject to receiving the approval of the Minister of the Interior as stated in Clause 12 of the Municipality Lands Agreement. In a case in which the condition precedent set forth in Clause 12 of the Municipality Lands Agreement is not fulfilled (hereinbefore and hereinafter: **“the Condition Precedent to the Municipality Agreement”**) within 60 days from the date of signing of this Agreement (hereinafter: **“the Effective Date”**), this Agreement will be null and void *ab initio*, the Trustee shall return the First Payment to the Purchaser together with the fruits thereof and less the costs of opening the Trust Account, the costs of the closing thereof and of performing operations therein and none of the parties will have any claim and/or demand and/or allegation against another in this regard, and the Purchaser will have no rights of whatsoever nature in the Company’s Lands.
- It is agreed that each party will be entitled, in its sole and absolute discretion, to extend the Effective Date, for a period of up to 60 additional days by way of written notice to the other party.
- 10.3 Within 2 business days from the date of actual transfer of the First Payment from the Trustee to the Company, the parties will meet and will act in the manner stated in sub-clause 10.4 below (hereinbefore and hereinafter: **“Date of Delivery of the Right of Use”**).
- 10.4 On the Date of Delivery of the Right of Use, the parties will simultaneously perform the following actions:
- 10.4.1 The Company will deliver to the Purchaser a temporary right of use (which is not a proprietary right) in the Company’s Lands in accordance with the provisions of Clause 10.5 below. If the provisions of this Agreement have not been cancelled, such temporary right of use will remain in force up to the date of delivery of possession.
- 10.4.2 The Purchaser shall assume all the obligations which form part of the Obligations and Commitments Transferred. For the removal of doubt it is clarified that the rights which form part of the Obligations and Commitments Transferred will be assigned to the Purchaser only from the date of delivery of possession. In relation to the agreement between the Company and Hatzlacha Parking Garages Ltd., it is agreed that the Company will attend to terminating the agreement and to the evacuation of the Company’s Lands up to the Date of Delivery of the Right of Use.
- 10.4.3 The Purchaser shall deliver to the Municipality confirmation regarding the existence of insurance policies as described in sub-clause 13.3 below.
- 10.4.4 The Purchaser shall deliver to the Company a declaration verifying representations in the text of Appendix 4.15 to this Agreement.
- 10.5 **The right of use**
- 10.5.1 The right of use granted to the Purchaser on the Date of Delivery of the Right of Use is a revocable right, for purposes of performing excavation and shoring works and for that purpose alone. For the avoidance of doubt it is clarified and emphasized that the permission granted to the Purchaser as aforesaid does not constitute the grant of a proprietary right to the Purchaser, possession to the Purchaser or a transfer of any right to the Purchaser, apart from the permission to perform the excavation and shoring works. The Purchaser will be a licensee in respect of that portion of the Company’s Lands which the Purchaser uses for purposes of performing the excavation and shoring works as a licensee only. The Company will be entitled at any time, by way of prior written notice of 14 business days to cancel the right of use, in any event in which the Company believes in its sole and absolute discretion that the Purchaser has breached any of its obligations under this Agreement and has not rectified the breach within 14 business days from the date on which written notice regarding the breach was received by it.

- 10.5.2 The Purchaser will have no right of lien over the Company's Lands or any portion thereof.
- 10.5.3 During the period in which a right of use is granted to the Purchaser, the Purchaser will be entitled to fence-in the Company's Lands or any portion thereof and/or to station a portable and temporary structure on the Company's Lands that will serve as a sales office, subject to obtaining all the permits and approvals required according to law, all without adding rights of way for the Purchaser in its capacity as a licensee and without derogating from the powers and rights of the Company and the Municipality with regard to the right of use period.
- 10.5.4 Where the Company has notified the Purchaser of cancellation of the right of use as aforesaid and the Purchaser has not cured the breach within the time specified in sub-clause 10.5.1 above, the Purchaser undertakes to vacate the Company's Lands of any person and/or article and/or temporary structure, and commencing from the date on which the notice is given, the Company will be entitled to evict the Purchaser and/or anyone on its behalf from the Company's Lands and to evacuate any person and article and/or temporary structure from the Company's Lands, and to use all the materials, equipment and installations the Purchaser and/or anyone on its behalf has left on the Company's Lands. It is further agreed that in a case in which, in addition to cancellation of the right of use, the Company has cancelled this Agreement as a consequence of such breach, all the works that were performed on the Company's Lands up to that time will be the sole property of the Company, without the Purchaser having any allegation and/or claim and/or demand against the Company in respect thereof, and the Purchaser undertakes to include an appropriate clause in the contractual agreement with the executing contractors, as defined below. In addition to all the foregoing and without derogating therefrom, the Purchaser hereby empowers the Company to take all the steps and measures required for purposes of realizing the rights and powers of the Company under this Clause 10.5. For that purpose the Purchaser is lodging an irrevocable notarial power of attorney in the text attached to this Agreement as **Appendix 10.5.4** with the Trustee at the time of signing of this Agreement, which empowers the Company to take all the actions required for purposes of evicting the Purchaser and/or anyone on its behalf from the Company's Lands and for purposes of realizing the Company's rights under this Clause 10.5, including vacating the Company's Lands of any person, article and temporary structure, use of all the materials, equipment and installations which the Purchaser and/or anyone on its behalf has left on the Company's Lands, the giving of instructions and directives to the executing contractors, the transfer into the Company's ownership of all the works that have been performed on the Company's Lands up to that time, the giving of notices and instructions and the signing of any document of whatsoever nature *vis-à-vis* third parties and authorities in connection with the vacating of the Company's Lands and/or the taking of any actions with respect thereto, and so forth. In every case in which the Company notifies the Trustee that the right of use has been cancelled by it, the Trustee shall, after the giving of a warning notice to the Purchaser of 14 business days in advance, transfer the power of attorney to the Company, and the Company will be entitled to make use thereof in its discretion for purposes of realizing its rights as described above.

The Purchaser undertakes that the Company and/or anyone on its behalf will not be responsible in any way for any damage of any sort that may be sustained by the Purchaser, if such damage is sustained, by virtue actions connected with evicting the Purchaser from the Company’s Lands and/or the evacuation of the equipment and the property from the Company’s Lands and the storing thereof.

For the removal of doubt it is emphasized that the Company will bear no responsibility in respect of the property and the equipment which is removed and it will not be deemed to be a bailee and/or a trustee in respect thereof.

- 10.5.5 The Purchaser undertakes that the Company and the Municipality will be a party to any contractual arrangement between the Purchaser and executing contractors who perform work for it on the Company’s Lands during the right of use period (hereinafter: “**the Executing Contractors**”), without this imposing on the Company and/or the Municipality any liability and/or responsibility. In the scope of any such contractual arrangement, an undertaking of the Executing Contractors shall be included, directly as against the Company and the Municipality, to the effect that in any event in which they receive a notice from the Company and the Municipality that the Company and the Municipality have lawfully, in their discretion, cancelled the right of use they have granted to the Purchaser, then as from the date of receipt of the notice onwards, the Executing Contractors will act solely in accordance with the instructions of the Company and the Municipality as will be given at that time. The Company and the Municipality will be entitled to elect whether to complete the works of the Executing Contractors through the Executing Contractors or to evict them from the Company’s Lands without the Company and/or the Municipality owing them any indebtedness of whatsoever nature. The Purchaser undertakes to present for the prior written approval of the Company and the Municipality the identity of the Executing Contractors and the terms and conditions of the contractual arrangement with them (including the text of the contractual agreement).

10.6 **Date of delivery of possession**

- 10.6.1 Simultaneous with and against the making of the second payment, possession of the Company’s Lands will be delivered to the Purchaser (hereinbefore and hereinafter: “**Date of Delivery of Possession**”). With regard to the Open Public Areas (namely: on the upper ground floor only and which are intended for an Open Public Area, as marked in green on the Leasehold Drawings), the provisions of sub-clause 1.6(d) of the Municipality Lands Agreement will apply accordingly.

- 10.6.2 Without derogating from the contents of Clause 10.4.3 above, on the Date of Delivery of Possession, the parties will sign a deed of assignment of Obligations and Commitments Transferred to the Purchaser, in the text attached to this Agreement as **Appendix 10.6.2**. In addition, on the Date of Delivery of Possession, the Purchaser will deliver to the Company a declaration verifying representations in the text of Appendix 4.15 to this Agreement.
- 10.6.3 It is clarified that at the Date of Delivery of Possession the Company’s rights in the Company’s Lands are free and clear of any attachment and/or encumbrance and/or mortgage and/or any third party right, save and except caveats and/or mortgages and/or attachments and/or encumbrances and/or any third party rights which have their origin in the Purchaser’s and excluding caveats over an antiquities site. If attachments and/or caveats and/or mortgages and/or third party rights are imposed on the Company’s rights in the Company’s Lands where the origin for same does not lie with the Purchaser (hereinafter: - “**the Impediment**”), then the Company undertakes to remove such Impediment within 90 days from the date the Company becomes aware of the Impediment.

11. **Taxes**

- 11.1 Land Appreciation Tax and/or income tax and/or capital gains tax and Sales Tax, to the extent that same apply, in respect of the sale of the Property Sold to the Purchaser by the Company shall be borne and paid by the Company, while Land Acquisition Tax in respect of the sale of such rights shall be borne by the Purchaser.
- 11.2 The Company will bear the payments in respect of water and electricity consumption on the Company’s Lands, solely in respect of the period up to the Date of Delivery of the Right of Use. The Purchaser will bear such payments for water and electricity consumption commencing from the Date of Delivery of Right of Use onwards.
- 11.3 All taxes, rates, fees, levies, pursuant to any law, and all compulsory payments of any sort pursuant to any law, as well as any payment which is imposed on the Purchaser as a leasehold lessee in accordance with the special conditions of leasehold (Appendix 1.6 to this Agreement) which applied and/or which apply and existed or which may apply and come into being in connection with the Company’s Lands, the cause of action for which pertains to any period, whether before the date of signing of this Agreement or subsequent thereto, shall be borne and paid by the Purchaser, solely with the exception of the specific payments mentioned in sub-clauses 11.3.1 and 11.3.2 below, and apart from amounts in relation to which it has been specifically stipulated in this Agreement that the obligation for the payment thereof is imposed on the Company.

11.3.1 Payment of property tax in respect of the Company's Lands as well as municipal rates which apply to the Company, the cause of action for which preceded the Date of Delivery of the Right of Use, shall be borne and paid by the Company.

11.3.2 In regard to a betterment levy – the amount of the betterment levy specified in the agreed betterment levy assessment in relation only to the Company's Lands, shall be paid by the Company to the Municipality within 30 days from the Date of Delivery of the Right of Use in accordance with the provisions of Clause 10 above.

In regard to other payments to the Tel Aviv Municipality, including fees, taxes, rates, development levies and other compulsory payments – such payments in respect of the period up to April 15, 2010, shall be borne and paid by the Company.

11.3.3 If the Company and/or the Municipality have paid development levies and/or payments for connection up to electricity in respect of the Company's Lands, and to the extent that a right exists at law for setting off such development levies against fees and levies that will be imposed on the Purchaser in connection with the Purchaser's Project and/or payments for connection up to the Israel Electric Corporation, it is agreed that the Company does not object to the Purchaser setting off a pro rata portion of such development levies and electricity connections against the development levies and/or the connecting up payments to the Electric Corporation which the Purchaser will be charged by the Municipality. "**Pro rata share**" in this sub-clause 11.3.3 means, the ratio between the building rights (main areas) on the Company's Lands and the Company's share in the total building rights (main areas) in the Project Lands. For the removal of doubt it is clarified that nothing in the foregoing in this sub-clause constitutes any form of representation and/or undertaking on the part of the Company in connection with development levies and/or payments for connecting up to electricity and/or in connection with the payment thereof, the amount thereof and/or the right to set-offs in connection therewith.

11.4 Without derogating from the contents of sub-clause 11.3 above, the Purchaser undertakes to pay the Municipality the full betterment in relation only to the Company's Lands, in respect of any change to Plan TA/3001 (including an application for a concession, exceptional use, alteration to the approved Plan TA/3001, and so forth) that may be approved after the date of signing of this Agreement, and will do so in accordance with the provisions of the special conditions of leasehold document. Nothing in the foregoing shall derogate from the provisions of sub-clause 6.3.5 above.

11.5 It is hereby clarified that each of the parties is entitled to embark on objection or appeal proceedings vis-à-vis any relevant authority, in such party's discretion, against the charging of any of the payments imposed on such party in accordance with this Clause 11, provided that this shall not have the effect of delaying the times specified in this Agreement.

11.6 It is agreed that each party will report to taxes authorities by way of all the reports it is obliged to make according to law, and at the time prescribed for this according to law.

12. **Ongoing legal guidance and advice and registration of Condominium**

It is hereby brought to the Purchaser’s notice that the legal services pertaining to the Company’s rights vis-à-vis the Municipality, for the Company’s Lands and the rights therein and to the initiation and approval of Plan TA/3001, including with respect to the Obligations and Commitments Transferred, the entering into of the 2002 Agreement and the implementation thereof, and guidance and advice regarding the agreed betterment tax assessment and the implementation thereof, have been provided up to this date by the law office of Shraga P. Biran & Co. (hereinafter: “**the Advocates**”). Shortly after the Purchaser’s selection as a preferred bidder, the Purchaser and the Advocates will enter into discussions for examining the providing of legal services to the Purchaser by the Advocates and the consideration in respect thereof, with this being in relation to periods subsequent to the Date of Delivery of Possession, i.e., the legal services required for the realization and implementation of Plan TA/3001, including in connection with the performance of the Obligations and Commitments Transferred, the issue of building permits, contractual arrangements with contractors, contractual arrangements with residents, registration of the long and leasehold rights in and to the Company’s Lands in the name of the Purchaser, registration of the Project as a complex condominium, and registration of the rights in the units of the condominium in the name of the owners of rights therein.

If the Purchaser and the Advocates have entered into discussions as aforesaid, and have not reached an arrangement to their mutual satisfaction and according to their independent discretion, the holding of such negotiations will not constitute any undertaking on the part of either of them in connection with the giving or receiving of legal services as aforesaid.

13. **Liability, waiver, indemnity and interest**

13.1 The Purchaser hereby confirms and undertakes that it waives any claim, demand, cause of action or allegation (hereinafter: “**Claim**”) of whatsoever nature under any law and agreement as against the Company and/or the Municipality and/or any of the bodies connected with either of them, in connection with the subject matter of this Agreement and the actions of any of the aforesaid entities in connection with the signing and consummation of this Agreement. The Purchaser’s confirmation as set forth above is also given in connection with what is stated in Clause 4.10 above.

The Purchaser hereby undertakes that if, notwithstanding the foregoing, a claim as aforesaid is raised for which the Purchaser receives indemnification, the Purchaser will be obliged to indemnify the Company and/or the Municipality and/or the entities connected with them to the extent of the amount of the aforesaid compensation which either the Company or the Municipality or the entities connected with them have been ordered to pay. For the removal of doubt it is clarified that nothing contained in this sub-clause 13.1 above shall release the Company from fulfilling its obligations pursuant to this Agreement.

- 13.2 Without derogating from the Purchaser's obligations under this Agreement and/or from its liability as described in this Agreement, any responsibility and/or liability vis-à-vis any person and/or body, including as against the various administrative authorities, in connection with the Company's Lands and/or the Property Sold and/or the quality thereof and/or the use thereof and/or acts and/or omissions therein and/or in connection therewith, the origin and/or the cause of action for which and/or the facts that serve as the basis for same pertain to the period subsequent to the Date of Delivery of the Right of Use, shall be borne by the Purchaser alone, to the exclusion of the Company's liability. Included in this, the Purchaser undertakes to indemnify the Company and/or the Municipality and/or the local committee and/or any of the bodies connected with any of them, in respect of any damage and/or expense of whatsoever nature that may be incurred by any of them, and the responsibility for which is imposed on the Purchaser in accordance with the provisions of this sub-clause 13.2 above. For the removal of doubt it is clarified that the provisions of this sub-clause 13.2 do not derogate from the Purchaser's liability and/or from its obligations in relation to periods which preceded the Date of Delivery of Right of Use as set forth in any of the provisions of this Agreement.
- 13.3 Without derogating from the Purchaser's liability according to law and/or this Agreement, commencing from the Date of Delivery of the Right of Use and throughout the entire period in which any works are performed by the Purchaser and/or on its behalf on the Company's Lands, the Purchaser undertakes to effect and maintain all the insurances at its expense which are necessary and customary in projects of this sort, in appropriate amounts, including and without derogating from the generality of the foregoing, building contracting works insurance, third party liability insurance, employer's liability insurance and similar other insurances (hereinafter: "**the Insurances**"). The Purchaser undertakes to pay the insurance premiums on due date and to comply with all the remaining provisions of the insurance policies in order that the insurances remain in force. The Insurances, including all the chapters thereof, will be extended to include the Company and the buyers of rights in the Remaining Project Lands (as distinguished from the buyers of residential units) as an additional insured, subject to a cross-liability clause pursuant to which the insurance will be deemed to have been effected separately for each of the individual parties who make up the insured. All the insurance policies shall contain a provision stating that the insurer will notify the Company and the Municipality in writing 30 days in advance before it has the intention of cancelling or reducing the policies. In the scope of the contractual arrangements between the Company and buyers of rights in the Remaining Project Lands, the Company will oblige the aforesaid buyers of rights to extend the insurances which will be effected by them and to include the Purchaser as an additional insured subject to a cross-liability clause. Nothing contained in the foregoing shall derogate from the Purchaser's right to include the financing bank as a beneficiary in the insurances and to charge and encumber the insurance compensation that may be due to the Purchaser in favor of the financing bank.

14. **Agreed damages**

- 14.1 It is hereby agreed between the parties that in every case of a material breach of this Agreement by the Purchaser, which is not the cured in accordance with the provisions of sub-clause 18.6 below, including, and without derogating from the generality of the foregoing, in the case of actual non-payment of the consideration to the Company by the Purchaser at the time specified in Clause 6 above, for any reason, or in the case of a registration by the Purchaser of a caveat prior to the times specified in sub-clause 9.6 above which was not expunged within 48 hours from the time the Purchaser was called upon to expunge same, the Company will be entitled, without derogating from any right or remedy available to the Company according to any law and agreement in respect of a breach of this Agreement by the Purchaser, to agreed damages in the sum equivalent to 10% of the amount of the Basic Consideration (hereinafter: “**the Agreed Damages**”), as agreed pre-estimated liquidated damages in respect of such material breach. It is hereby expressly agreed that in such case the Company will have the absolute right to confiscate the Agreed Damages, either by foreclosing on the sale process guarantee or by holding forfeit the amounts which have been paid to it on account of the consideration up to such time, without the necessity for giving a warning notice or notice of any sort to the Purchaser and/or to the Interested Parties.
- 14.2 The Purchaser hereby declares that the aforesaid Agreed Damages have been fixed by the parties after careful and reflective assessment of the damage that will be incurred by the Company as a result of such non-payment of the consideration, and accordingly no argument by the Purchaser to the effect that the compensation is unreasonable will be entertained, and the Purchaser hereby irrevocably, fully and expressly waives any allegation or argument of any sort by it. It is further agreed that the Company will have the absolute right, for purposes of recovering the Agreed Damages, to foreclose on the sale process guarantee without being obliged to give notice to the Purchaser about the effecting of such foreclosure.
- 14.3 It is agreed that the provisions of this Clause 14 above are subject to the provisions of sub-clause 5.2 above.

15. **Name of the Project**

It is hereby agreed and clarified that the Municipality will decide on the name of the public areas precinct, the public buildings and the open public areas, and will be entitled to place suitable signboards at such places, as is the customary practice in the city of Tel Aviv-Jaffa, or as may be customary in the city of Tel Aviv-Jaffa at such time. It is agreed that the Purchaser, the Company and the Municipality will, by agreement, decide on the name/names of the Project as defined in this Agreement, in accordance with professional advice which the Purchaser, the Municipality and the Company will receive in relation thereto (hereinafter – “**the Name of the Project**”). The Housing Company will be entitled to decide on the name of the residential precinct (including the inclusion in this name of the name of “Gindi”) and the Mall Company will be entitled to decide on the name of the commercial areas in the Purchaser’s Project, while the Housing Company and the Mall Company undertake that the names will be given by them as aforesaid will, under all the circumstances, include the name of the Project as will be decided as aforesaid. For example, if it is decided that the name of the Project is: “New Tel Aviv”, then the Housing Company will be entitled to call the residential precinct by the name of: “X” in New Tel Aviv” and the Mall Company will be entitled to call the commercial areas by the name: “Y” in New Tel Aviv”.

Nothing in the foregoing shall derogate from the Municipality’s power and authority and/or its duty as a local authority to decide on the name of the suburb in which the Project will be included, in accordance with Section 235A of the Municipalities Ordinance.

16. **Transfer of rights and encumbrances**

16.1 It is hereby agreed that until completion of the construction of all the built areas that can be erected on the Company’s Lands, the Municipality Lands and the Additional Real Estate Rights (including the public buildings) in accordance with the provisions of Plan TA/3001 and pursuant to the provisions of this Agreement, the Purchaser will not be entitled to transfer any of its rights and obligations in the Property Sold, or any part thereof, to third parties (excluding a sale of residential units to the buyers of apartments as defined above and/or the letting of residential units and/or built commercial areas) (hereinafter for purposes of this sub-clause: “**the Transferee**”) without the prior written consent of the Company and the Municipality.

It is clarified that such consent will not be unreasonably withheld by the Company and the Municipality, including the physical and zoning condition of the land that is the subject matter of the requested transfer at the requested time, the extent of the areas the transfer of which is requested, the identity of the Transferee, his financial strength and stability, the status of completion of construction of the public buildings, the open public areas and the residential and commercial areas, securing of payment of the full consideration to the Company and to the Municipality, the conditions of employment with the Transferee, and so forth. It is further agreed that the Company and the Municipality will be entitled to make their consent subject to conditions, including the making of a payment to the Company and to the Municipality and/or the bringing forward of payment of that part of the consideration that remains unpaid at such time, collateral security and so forth.

16.2 Notwithstanding the contents of Clause 16.1 above and subject to Clause 16.3 below, it is agreed that:

16.2.1 Until the date of payment of the full Basic Consideration, the Mall Company will be entitled to sell portion of its rights and obligations in relation to the commercial areas that are the subject of this Agreement to a third party which is a financial entity and/or an entity whose field of business is the management and operation of yield producing assets (hereinafter for purposes of this sub-clause – “**the Transferee**”), provided that the obligations of the Mall Company and the Transferee vis-à-vis the Company and the Municipality in relation to the commercial areas shall be joint and several, and that the provisions of sub-clause 16.5 below shall be complied with.

- 16.2.2 Commencing from the date of payment of the full Basic Consideration to the Company and to the Municipality, the Mall Company will be entitled to sell the commercial areas or part thereof to any third party, provided that the Transferee assumes the full obligations of the Mall Company in accordance with this Agreement as regards the transferred portion of the commercial areas, and the Mall Company shall remain liable to the Company for the full obligations pursuant to this Agreement in connection with that portion of the commercial areas which remains in its possession after the transfer, if any, and that the provisions of sub-clause 16.5 below are complied with.
- 16.3 If the Mall Company should wish to sell its rights in the commercial areas (in whole or in part) prior to the issue of a certificate for initial occupation (Form 4) in respect of the school, the sports center and the area of the Municipality's parking places, as defined in the Municipality Lands Agreement (hereinafter in this Clause 16: **"the School, the Sports Center and the Municipality's Parking Places Area"**), then such transfer shall be subject to the prior written consent of the Municipality on such conditions as the Municipality may stipulate in accordance with the provisions of this sub-clause below, and subject to fulfillment of the provisions of sub-clause 16.5 below. This consent shall be given if the Municipality has been persuaded that such transfer does not affect the obligations of the Housing Company for erecting the School and the Sports Center, the construction and actual completion thereof, and the obligations of the Mall Company for constructing the Municipality's Parking Places Area, the construction and actual completion thereof. It is clarified that the only factor the Municipality will be entitled to take into account for purposes of giving such consent and the conditions thereof, is the guaranteeing of construction of the School, the Sports Center and the Municipality's Parking Places Area.
- 16.4 It is agreed that in the case of the transfer of rights by the Purchaser in accordance with the provisions of this Clause 16 above, the Company will sign the necessary documents for purposes of transferring the Purchaser's rights to the Transferee (including consent to registration of a caveat, amendment of the deeds of mortgage and so forth), provided that within the framework of such documents the Company's rights pursuant to this Agreement will be secured and the Transferee's stepping into the Purchaser's shoes vis-à-vis the Company in all respects shall be guaranteed, all subject to the condition that the Company's signing as aforesaid shall not derogate from any of the Company's rights under this Agreement and/or have the effect of the imposing any obligations and/or expenses on the Company which are not expressly imposed on it in accordance with this Agreement.

16.5 The Company’s consent to a transfer of rights as aforesaid, to the extent that it is given, will in any event be subject, inter alia, to the expunging of a caveat that has been registered in favor of the individual party who makes up the Purchaser who is the transferor or to an amendment thereof, as the case may be, cancellation of the mortgage that was registered in favor of the financing bank in connection with the individual party who makes up the Purchaser who is the transferor or an amendment thereof, as the case may be, the furnishing of all the powers of attorney required under this Agreement, the Transferee signing the Transfer Documents that are demanded by the Company and the Municipality, and similar other documents.

16.6 It is agreed that the provisions of Clause 16 regarding restrictions on the transfer of rights will also apply to a transfer of shares and/or an allotment of shares and/or the grant of options for shares and/or any disposition or act, directly or indirectly (hereinafter – “**Operations in Shares**”) in the shares of any of the individual parties who make up the Purchaser and/or in the shares of their parent companies (up to and not including Interested Parties) (apart from a public offering of shares of such companies, provided that there shall be no change in control in any of the individual parties who make up the Purchaser or in any of their parent companies), and Operations in Shares as a result of which there will be a change in control (within the meaning of that term in the Securities Law, 5728-1968) in any of the Interested Parties, in a manner whereby any Operation in Shares as referred to above in this sub-clause will require the Company’s consent in accordance with the conditions of Clause 16 above.

It is hereby further agreed that a transfer of rights which is as a result of any of the following events will not require the consent of the Company and the Municipality: (1) Realization by the financing company of the encumbrance to the financing company, as defined below; (2) a dilution in the holdings of one of the shareholders in the Mall Company or in the Housing Company at the expense of an increase in the holdings of the other shareholder in the Mall Company or in the Housing Company by virtue of the dilution clause in the agreement of the individual parties who make up the Purchaser (which does not involve the bringing in of an additional partner into the Housing Company or the Mall Company), all subject to the condition that transfers as referred to above in this paragraph will not have the effect of derogating from any of the obligations under this Agreement of any of the individual parties who make up the Purchaser.

16.7 **The encumbrances**

16.7.1 Up to the date of actual settlement of the Second Payment, the Purchaser will not be entitled to encumber any of its rights pursuant to this Agreement and/or in the Company’s Lands in favor of any third party.

16.7.2 Simultaneous with settlement of the Second Payment, as defined above, the Purchaser will be entitled to encumber its rights in the Company’s Land and/or its rights pursuant to this Agreement, solely in favor of a commercial bank that will provide it with a loan for purposes of financing the transaction that is the subject matter of this Agreement and/or realization of the transaction, but subject to the following cumulative conditions (hereinafter – “**the Financing Bank**”, and “**the Construction Loans**”), respectively):

- 16.7.2.1 The monies of the Second Payment and the monies of the Third Payment shall be paid by the Financing Bank directly to the Company and/or to Bank Leumi and/or to the Trustee, as the case may be, in the manner and at the times set forth in the provisions of sub-clause 6.2.5 above and sub-clause 6.2.6 above.
- 16.7.2.2 In the scope of the banking documents the Financing Bank shall confirm to the Company in writing that it is aware, and it agrees thereto, that the Company will, in its discretion, be entitled to create encumbrances and third party rights of any sort in the Remaining Project Lands, including encumbrances ranking pari passu with the encumbrance in favor of the Financing Bank.
- 16.7.2.3 The credit which is the subject of the Construction Loans shall be given solely in connection with the Purchaser's Project and the encumbrance to the Financing Bank shall secure the obligations to the Financing Bank of the Purchaser and the Interested Parties in connection with the Purchaser's Project only.
- 16.7.2.4 All the expenses, the liability and the obligations in connection with the construction loans, if same are provided to the Purchaser, including commissions and costs in respect of the issue of any guarantees, including Sale Law guarantees to buyers of apartments, shall be borne in their entirety by the Purchaser, in a manner that there shall be no liability on the Company in connection therewith.
- 16.7.2.5 The signature by the Company to the encumbrance documents to the Financing Bank will be subject to the condition that the Company's liability and/or obligation in connection with receiving the Construction Loans will be confined to the creating of an encumbrance in favor of the Financing Bank as stated in Clause 16.7.3 below and to the Financing Bank's ability to realize same, to the extent necessary, without additional obligations being imposed on the Company vis-à-vis the Financing Bank and/or without the Financing Bank being able to have recourse to the Company's other assets (including its rights in the Remaining Project Lands).
- 16.7.2.6 The Financing Bank shall confirm in writing to the Company that realization of the encumbrance in favor of the Financing Bank and its sale of the rights to a third party pursuant to the aforesaid realization of the encumbrance shall be made subject to the condition that such third party shall step into the Purchaser's shoes with respect to all the rights and obligations according to the provisions of this Agreement and subject to the Company's rights pursuant to this Agreement, without this derogating from the provisions of sub-clause 5.2.5 above.

- 16.7.2.7 The Financing Bank shall give consent in writing to registration of the parcellation, registration of the leasehold rights in favor of the Company in the Company's Lands in the name of the Company, as well as registration of any act required in the Remaining Project Lands, provided that its rights pursuant to the encumbrance in its favor shall not be adversely affected.
- 16.7.3 It is agreed that the encumbrances that will be given by the Company in favor of the Financing Bank will include only the encumbrances particularized in one of the alternatives described in the sub-clauses of this Clause 16.7.3, with it being agreed that under all circumstances the encumbrance documents shall conform with the provisions of Clause 16.7.2 above (hereinafter – **“the Encumbrance in favor of the Financing Bank”**):
- 16.7.3.1 Until registration of the leasehold rights in the Company's Lands in the name of the Company in the Land Registry, the Encumbrance in favor of the Financing Bank shall include: (a) registration of a mortgage over a specific part of the Company's Existing Leasehold, as same stands at the date of signing of this Agreement, with this being by way of registration of the mortgage on the basis of a drawing (in which the Existing Leasehold will be marked without the portion of the Remaining Project Lands in Existing Leasehold) and in the alternative, if that is not possible, by the registration of a mortgage over all the Company's rights in the Existing Leasehold, coupled with an exclusion of the Remaining Project Lands from the operation of the mortgage, all in the manner which makes the creation of first ranking encumbrances in favor of third parties over the Remaining Project Lands possible. It is clarified that after registration of the parcellation, the aforesaid mortgage will be specifically attributed to the Company's leasehold rights as same will be upon completion of registration of the parcellation as aforesaid, in a manner whereby the mortgage will not apply to the Remaining Project Lands; (b) an undertaking by the Municipality to register a mortgage in favor of the Financing Bank, in respect of the Company's Lands only, in the usual text used by it in transactions of the sort and registration in the Land Registry of a caveat in respect of such undertaking to register a mortgage, and (c) a charge at the Registrar of Companies over the Company's rights in the Company's Lands in accordance with the 2002 Agreement.
- 16.7.3.2 If the registration of the leasehold rights in the Company's Lands in the Company's name in the Land Registry is executed after registration of the Encumbrance in favor of the Financing Bank in accordance with sub-clause 16.7.3.1 above, then in the scope of registering the leasehold rights as aforesaid, the encumbrance referred to as Clause 16.7.3.1 above, including all the components thereof, will be replaced by a mortgage that will be registered only over the Company's leasehold rights in the Company's Lands in accordance with the Leasehold Drawings.

The Purchaser undertakes to sign and to cause the Financing Bank to sign all the documents required for purposes of performing the matters aforesaid.

16.7.3.3 If the leasehold rights in the Company’s Lands are registered in the Company’s Lands in the Land Registry are registered prior to the date of registration of the Encumbrance in favor of the Financing Bank, then a mortgage will be registered in favor of the Financing Bank only over the Company’s leasehold rights in the Company’s Lands in accordance with the Leasehold Drawings.

16.7.4 The Purchaser undertakes to deliver to the Company the documents that are required by the Bank for purposes of registering the Encumbrance in favor of the Financing Bank (as defined above) not later than 60 days from the date of the local committee’s decision on approving the first building permit on conditions, or at least 60 days before the date specified for making the Second Payment, whichever is the earlier. The Company will be entitled to discuss the wording of the aforesaid documents with the Financing Bank and the conformance of those documents with the provisions of this Agreement. As long as the aforesaid documents do not conform with the provisions of this Agreement, the Company will not sign the said documents.

16.7.5 The documents as shall be agreed between the Company and the Financing Bank and which under all circumstances shall conform with the provisions of this Clause 16.7 will henceforth be referred to as – **“the Encumbrance in favor of the Financing Bank Documents”**. The Encumbrance in favor of the Financing Bank Documents shall be signed by the Company, and shall be delivered by the Company to the Purchaser in accordance with the provisions of Clause 6 above.

16.8 It is hereby agreed that in a case in which each of the individual parties who make up the Purchaser takes a Construction Loan separately from the other, the sole responsibility for arranging the series of encumbrances with the separate Financing Bank of each of the individual parties who make up the Purchaser in a manner whereby the series of encumbrances as aforesaid shall conform with the provisions of this Agreement, is that of the Purchaser or the individual parties who make up the Purchaser, as the case may be, and the Company will sign the encumbrance documents in favor of each of the Financing Banks only in accordance with and subject to the provisions of sub-clause 16.7 above.

16.9 It is agreed that the provisions of Clauses 16.1, to 16.8 above will also apply in relation to any transferee who may acquire any rights in the Project Lands from the Purchaser and/or from the Purchaser’s transferees.

17. **Sale of apartments by the Housing Company**

- 17.1 The Housing Company undertakes that all the sale agreements that will be signed between it and buyers of apartments up to the Date of Delivery of Possession will be contingent upon a condition precedent of settlement of the Additional First Payment, the Later First Payment and the Second Payment on due date. It is further agreed that (1) up to the date of settlement of the Additional First Payment, the Later First Payment and the Second Payment – all the proceeds that will be received by the Housing Company from buyers of apartments will be deposited in a trust account and/or in the account of the Financing Bank, and under no circumstances will same be transferred to the Housing Company; (2) if up to the Date of Delivery of Possession, the Housing Company guarantees the payments that have been paid to it by buyers of apartments by way of a Sale Law guarantee, then the Sale Law guarantee will contain an additional ground for foreclosure pursuant to which a case of cancellation of this Agreement and/or the Municipality Lands Agreement by the Company and the Municipality will constitute grounds for foreclosure on the Sale Law guarantee. If the Housing Company has secured the monies of buyers of apartments in another way, a refund of the money shall be guaranteed accordingly in the case mentioned above.
- 17.2 The Housing Company undertakes that it will include in all the sale agreements with buyers of apartments a provision pursuant to which the buyers of those units declare that the Company and the Municipality do not bear any responsibility or liability to the buyers of apartments.
- 17.3 The Housing Company will not be entitled to register a caveat in favor of the buyers of apartments, until after payment of the full Basic Consideration and after registration of the leasehold rights in the Company’s Lands in the name of the Purchaser.

18. **Miscellaneous**

- 18.1 The Housing Company undertakes that at the time residential apartments on the Land that is the subject of this Agreement are offered by it for sale or rental, every buyer who meets the financial conditions that will be offered by it at that time in the scope of marketing the apartments, will be entitled to acquire rights in the apartments that are offered as aforesaid.
- 18.2 This Agreement embodies everything that has been agreed between the parties up to the date of the signing hereof. There shall be no validity to any representation, statement, exchanges, written or verbal, directly, indirectly or impliedly, and similar other things on the part of the Municipality and/or the Company and/or the local committee and/or the entities connected with any of them, which preceded the signing of this Agreement. However, with the removal of doubt it is clarified that nothing contained at the start of this sub-clause 18.2 shall derogate from the obligations and commitments of the Purchaser and the Interested Parties in accordance with the sale procedure, to the extent that same are not contradicted by the provisions of this Agreement.

- 18.3 No alteration or waiver of the provisions of this Agreement will be of any validity unless a written document to that effect has been drawn up and signed by both the parties.
- 18.4 Any waiver by a party to this Agreement of any of its rights shall be of no force and validity unless drawn up in writing. Where in this Agreement the consent of the party to the contract is required for purposes of any act, such consent will be of no validity unless given in writing.
- Without derogating from the contents of this sub-clause 18.4 above, wherever in this Agreement one of the parties is required to fulfill an obligation up to a date specified in this Agreement, the other party to the Agreement shall have the right to extend the date in its discretion, or to pardon the fulfillment of the condition, provided that this is done in writing.
- 18.5 Where a date has been specified for the obligations of all the parties, they shall have the right to extend that date by way of written consent.
- 18.6 Clauses 3, 4 (excluding sub-clause 4.11), 5, 6, 7, 9 (excluding clause 9.9), 10 (excluding 10.2), 11, 13, 16, 17 constitute basic and fundamental clauses of this Agreement and a breach of a provision contained in any of them which has not been cured within 30 days from the date of receipt by the Purchaser of written notice to that effect will be deemed to be a material breach. It is further agreed that a repeated breach (that is to say, commencing from the third breach onwards) of any of the provisions of the above clauses will immediately be deemed to be a material breach without the necessity for any warning or notice being given by the Company. This provision shall be deemed to have been included at the end of each of the abovementioned clauses.
- 18.7 Without derogating from the contents of Clause 18.6 above, it is hereby agreed that each of the following cases will be deemed to be a material breach on the part of the Purchaser, which will entitle the Company, in its discretion, inter alia to the remedy of the cancellation of this contract by written notice to be delivered to the Purchaser.
- 18.7.1 If an application for a stay of proceedings is filed by any of the individual parties who make up the Purchaser or by any of the Interest in Parties. In a case in which such application is filed by any third party – only if a stay of proceedings order is granted.
- 18.7.2 In the event that a liquidation order or receivership order is granted against any of the individual parties who make up the Purchaser or against any of the Interested Parties, or if a provisional or permanent receiver is appointed for the property of any of them, or if a liquidator or provisional liquidator is appointed for any of the individual parties who make up the Purchaser or for any of the Interested Parties, or if any of the individual parties who make up the Purchaser or any of the Interested Parties files a proposal for making an arrangement with his or its creditors – all in a case in which such appointment or order has not been set aside within 90 days from the date the court order was granted.

- 18.7.3 If an attachment has been imposed on the Purchaser’s rights in the Company’s Lands and/or the rights of any of the individual parties who make up the Purchaser and/or any of the Interested Parties in other assets of any sort which serve as collateral for the banking finance, and the attachment has not been removed within 90 (ninety) days from the date the attachment was imposed.
- 18.7.4 In relation to the cases mentioned in sub-clauses 18.7.1-18.7.3 above, which will be deemed to be material breaches as aforesaid, it is agreed that the occurrence of the aforesaid events will be examined in relation to each of the individual parties who make up the Purchaser separately, where an individual party in respect of whom one of the events mentioned in sub-clauses 18.7.1-18.7.3 above has occurred will be deemed to be a Defaulting Individual Purchaser and an individual party who makes up the Purchaser with respect to whom one of the aforesaid events has not occurred will be deemed to be a Complying Individual Purchaser, as more fully described in the provisions of sub-clause 5.2.4.3 above.
- 18.8 If the Purchaser has fulfilled all its obligations under this Agreement up to and including payment of the full Basic Consideration on due date, and the Third Payment has been paid in the hands of the Company, then, without derogating from the remaining remedies available to the Company according to law and agreement, the Company will no longer have a right to cancel this Agreement.
- 18.9 It is agreed that any payment which applies to any of the parties to this Agreement, which is made after the dates specified for the payment thereof in accordance with this Agreement, will bear penalty interest at an annual rate of 10%, commencing from the first day of default. All this will be without derogating from any other or additional right or remedy to which the other party is entitled according to any law and/or agreement.
- 18.10 This Agreement is being signed simultaneously with the signing of the agreement between the Purchaser and the Municipality for the purchase by the Purchaser of the rights in the Municipality Lands (hereinbefore and hereinafter: “**the Municipality Lands Agreement**”). For the removal of doubt it is clarified and agreed that this Agreement is the separate and independent agreement from the Municipality Lands Agreement, and that the transaction which is the subject of this Agreement is a separate and independent transaction from the transaction that is the subject of the Municipality Lands Agreement. The obligations and rights of the Company, on the one hand, and the Municipality on the other, pursuant to the above-mentioned agreements, do not constitute joint and several obligations and rights vis-à-vis the Purchaser, and the Municipality or the Company are not a guarantor for the fulfillment of the obligations of one another vis-à-vis the Purchaser in accordance with the aforesaid agreements, and the existence of the agreements and of the transactions that are the subject of the Agreements are separate and independent. Nothing contained in this clause above shall derogate from the provisions of sub-clause 10.2 above, sub-clause 6.2.1 above and sub-clause 6.2.5.3 above.

- 18.11

In the case of a conflict between the provisions of the sale procedure and the provisions of this Agreement, the provisions of this Agreement shall prevail.
- 18.12

It is agreed that the provisions of the Contracts Law (Remedies for Breach of Contract), 5731-1970 shall apply to this Agreement.
- 18.13

The Purchaser will not have any right of set-off or lien, for any reason, in respect of any amount it is obliged to pay in accordance with the provisions of this Agreement.
- 18.14

The Company reserves the right, in its sole discretion, to assign, transfer or endorse its rights and/or obligations under this Agreement.
- 18.15

Should this Agreement be cancelled, such cancellation will not derogate from the validity of the provisions contained in Clauses 4.1 to 4.4, 4.7 to 4.10, 4.11, 4.17, 4.21, 4.22, 13.1 and 14 above and from the validity of the undertakings pursuant to the deeds of confidentiality of the Purchaser, the Interested Parties and their representatives which were delivered in the scope of the sale process.
- 18.16

This Agreement shall be governed by the laws of the State of Israel and the court in Tel Aviv will have sole and exclusive jurisdiction to try any matter connected with this Agreement and/or arising herefrom, according to its substantive jurisdiction.
- 18.17

Each party to this Agreement shall bear its own costs and expenses.
- 18.18

It is clarified that if this Agreement is translated into foreign languages, the translation will be solely for purposes of convenience and under all circumstances the binding version will be the version in the Hebrew language.
- 18.19

Any notice that is sent by one party to another shall be deemed to have been received:

18.19.1

After 3 business days from the time of its posting by registered mail at a post office in Israel;

18.19.2

If delivered by hand - at the time of its delivery;

18.19.3

If sent by facsimile – at 12:00 noon on the first business day following the transmission thereof, as confirmed by notice of the facsimile machine from which it was sent.
- 18.20

The parties fix their addresses for purposes of the contract as follows:

The Company –

c/o: _____
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Facsimile: _____

The Individual parties who make up the Purchaser -
c/o: the address mentioned at the head of this Agreement _____.
Facsimile: _____

The Interested Parties –
Dirof Yukra Ltd., Gindi Investments 1 Ltd.
c/o: _____
Facsimile: _____

Blue Square Real Estate Ltd.
c/o: _____
Facsimile: _____

The parties are entitled to give notice of a change in their address by way of notice that shall be delivered in accordance with the provisions of Clause 18.19 above, provided that the addresses of the individual parties who make up the Purchaser and of the Interested Parties shall be in Israel.

In witness whereof the parties have hereunto signed:

/s/
The Housing Company

/s/
The Mall Company

/s/
The Company

Certification by Purchaser’s Attorney

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

Certification of Company’s Attorney

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

Deed of Undertakings by the Interested Parties

We, the undersigned, hereby confirm and undertake as follows:

- 1. That the declarations and undertakings given by us in the scope of the sale process and the sale procedure are correct, complete, full and updated, and are binding on us along with the Purchaser, for all intents and purposes.
- 2. That we are aware that on the strength of our undertakings as set forth below, the Company has agreed to accept the Purchaser's offer to buy the Property Sold and to enter into this Agreement with it.
- 2A. We confirm the correctness of all the declarations and representations of the Purchaser as set forth in the Agreement, in a manner whereby those declarations and representations shall be deemed as if given by us directly to the Company.
- 3. Each of the Interested Parties hereby declares and undertakes to the Company that it is duly incorporated and that it is entitled and authorized to make the undertakings set forth in this Deed of Undertaking and to perform same, and has passed all the resolutions and obtained all the approvals required according to the provisions of the law and its documents of incorporation for purposes of entering into this Deed of Undertaking. Each of the Interested Parties further declares and undertakes that no steps have been taken with respect to it for an arrangement, stay of proceedings, winding-up, liquidation, expungement, bankruptcy or receivership, and that there is no threat against it of such legal proceedings (including the fact of there being no attachment of its assets), that are likely to have an effect on its contracting under this Deed of Undertaking and on the performance of its obligations pursuant hereto.
- 4. We are fully conversant with the provisions of the Agreement and we declare and undertake that we have the ability to abide by all the Purchaser's obligations pursuant to the Agreement, in accordance with the contents of Paragraph 5 below.
- 5. We owe a direct obligation to the Company for the fulfillment of all the Purchaser's obligations pursuant to the Agreement, including payment of the Consideration, in accordance with the following provisions:
 - 5.1 The Interested Parties are responsible and liable directly to the Company for the fulfillment of all the Purchaser's obligations for payment of the Consideration as follows:
 - 5.1.1 Dirot Yukra Ltd. is responsible as a direct debtor to the Company for payment of 50% of the payments of the Consideration imposed on the Housing Company under the Agreement and also for payment of 50% of the payments of the Consideration imposed on the Mall Company under the Agreement.

In addition:

5.1.2 Gindi Investments 1 Ltd. is responsible as a direct debtor to the Company for payment of 25% of the payments of the Consideration imposed on the Housing Company under the Agreement and also for payment of 25% of the payments of the Consideration imposed on the Mall Company under the Agreement.

In addition:

5.1.3 Blue Square Real Estate Ltd. is responsible as a direct debtor to the Company for payment of 50% of the payments of the Consideration imposed on the Housing Company under the Agreement and also for payment of 50% of the payments of the Consideration imposed on the Mall Company under the Agreement.

5.1.4 Without derogating from the Company's remaining rights pursuant to the Agreement and according to this Deed of Undertaking, it is clarified for the removal of doubt that nothing in sub-paragraph 5.1 above has the effect of derogating from any of the remedies available to the Company according to any law and agreement in the event that the Housing Company and/or the Mall Company should default in any of their obligations for payment of the full Consideration (or any part thereof) under the Agreement (even if the Interested Parties or any of them has complied with the fulfillment of its obligations to the Company pursuant to this Paragraph 5.1).

5.2 The Interested Parties are directly responsible and liable to the Company for the fulfillment of all the Purchaser's obligations pursuant to this Agreement (except only the Purchaser's obligations for payment of the full Consideration, in respect of which the provisions of sub-clause 5.1 above will apply) as follows:

5.2.1 Blue Square Real Estate Ltd. and Dirot Yukra Ltd. are liable, jointly and severally, as direct debtors to the Company for 50% of all the Purchaser's obligations under the Agreement.

In addition:

5.2.2 Gindi Investments 1 Ltd. is responsible as a direct debtor to the Company for payment of 50% of all the Purchaser's obligations pursuant to this Agreement.

5.2.3 For the removal of doubt it is clarified that included in this sub-clause 5.2, the Interested Parties in the Housing Company are directly liable and responsible for all the obligations of the Housing Company for the construction of the public buildings, as defined in the Agreement above, with this being in accordance with the provisions of sub-clause 4.13 of the Agreement above and in accordance with the provisions of the Municipality Lands Agreement and the provisions of the Construction Contract between the Housing Company and the Municipality.

- 5.3 Our undertakings above and below are absolute, irrevocable and unconditional and included therein our obligations to the Company are not contingent on prior reference by the Company to any of the individual parties who make up the Purchaser and/or upon the exhausting of any proceedings and/or remedies that are available to the Company according to the Agreement and/or any law.
6. The Interested Parties hereby confirm and undertake that they waive any claim, demand, cause of action or allegation (hereinafter: "**Claim**") of whatsoever nature according to any law and agreement as against the Company and/or the Municipality and/or any of the bodies connected with either of them, in connection with the subject matter of this Agreement and the actions of any of the aforesaid entities in connection with the signing and consummation thereof. The confirmation of the Interested Parties as set forth above is also given in connection with what is stated in Clause 4.10 of this Agreement above.
7. The Interested Parties confirm that their obligations under this Deed of Undertaking are as a principal debtor, directly to the Company, and not as a guarantor. Without derogating from the foregoing and for the sake of caution, the Interested Parties hereby absolutely, unconditionally and irrevocably waive all or any defense or argument that is available and/or may be available to them, if any, pursuant to the Guarantee Law.
8. All the remedies and forms of relief that are available and/or may in the future be available to the Company as against the Purchaser in accordance with any law and agreement shall also be available against us in all respects, including in a manner that none of us will have any argument or defense which is not expressly available to the Purchaser.

In witness whereof the parties have hereunto signed:

/s/ Dror Moran, Zeev Stein
Blue Square Real Estate Ltd.

/s/
Gindi Investments 1 Ltd.

/s/
Dirot Yukra Ltd

Certifications by Attorney

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

(

[Unofficial Translation]

AGREEMENT

made and entered into between the parties at Tel Aviv
on the 3rd day of June 2010

Between: TEL AVIV MUNICIPALITY
of ___ Ibn Gvirol Street, Tel Aviv
(hereinafter: “the Municipality”)

of the one part;

And: 1. LEV TEL AVIV TOWERS LTD.
Pvte. Co. 514434356
of _____ Street, _____
(hereinafter: “the Housing Company”)

2. TEL AVIV CITY MALL LTD.
Pvte. Co. 514434349
of _____ Street, _____
(hereinafter: “the Mall Company”)

of the other part;

(the Housing Company and the Mall Company will be referred to below as: “the Purchaser”)

WHEREAS The Municipality is the registered owner of land known as Parcels 92, 93, 94, 95, 98, 99, 114 and 242 Block 7104 which is also known as the (former) wholesale market compound, in the triangle formed by Carlebach and Hahashmonaim Streets and Menahem Begin Road in Tel Aviv (hereinafter: “the Project Lands”); extracts of registration in respect the Project Lands is attached to this Agreement as Appendix E; and

WHEREAS In connection with the Project Lands, the Municipality and Tel Aviv Wholesale Agricultural Produce Market Company Ltd. (hereinafter: “the Company”) have entered into: (1) an agreement dated January 29, 2002 (hereinafter: “the 2002 Agreement”), (2) an Addendum to the 2002 Agreement dated June 1, 2008 (hereinafter: “the Addendum to the 2002 Agreement”), (3) an agreement dated April 15, 2010 (hereinafter: “the 2010 Agreement”);
The 2002 Agreement, the Addendum to the 2002 Agreement and the 2010 Agreement are attached to this Agreement as Appendix C; and

WHEREAS On September 29, 2005 Detailed Plan No. TA 3001 (hereinafter: “the TA/3001 Plan”) was published for validation, and in addition an architectural design plan was approved in respect of the Project Lands (hereinafter: “the Architectural Design Plan”);
The TA/3001 and the Architectural Design Plan are attached to this Agreement as Appendix D; and

WHEREAS As at the date of signing of this Agreement the Company is registered as leasehold lessee of the land known as Parcel 93 Block 7104 for a leasehold period terminating in 2025 (hereinafter: **“the Existing Leasehold”**), while pursuant to the 2002 Agreement and the allocation table attached to TA/3001 Plan, the Company is entitled, in lieu of the existing leasehold, to be registered as the long leasehold lessee of the **Company’s lands**, as defined below, for a leasehold period terminating on August 31, 2099, together with additional land that constitutes portion of the remainder of the Project Lands, as defined below. A *caveat* is registered in favor of the Company in respect of the 2002 Agreement over Parcel 93 as described in the extract of registration; and

WHEREAS In accordance with the foregoing, the Company is entitled to be registered as the owner of the full long leasehold rights in certain areas marked in pink on the leasehold drawings which are attached to this Agreement as **A1 – A7** (hereinafter: **“the Leasehold Drawings”**), and as owner of the full long leasehold rights in 13,200/19,000 undefined parts of the areas marked in yellow and by a broken yellow line on the Leasehold Drawings (hereinbefore and hereinafter, collectively: **“the Company’s Lands”**); and

WHEREAS The Municipality is the owner of the full rights in the certain areas that are marked in light blue on the Leasehold Drawings (Appendix A) and is the owner of the full rights in 5,800/19,000 undefined parts of the areas that are marked in yellow and in a broken yellow line on the leasehold drawings (hereinafter collectively: **“the Municipality Lands”**); and

WHEREAS The Municipality is the owner of the full rights in Plot No. 8 (as defined below) and the Municipality wishes to let under leasehold certain portions within the confines of Plot No. 8 to the Purchaser (over and above the rights of leasehold in the Municipality Lands), as marked in light blue on the drawings attached to this Agreement as Appendices B1-B6 and which constitute the Additional Real Estate Rights as defined below, all as more fully described below in this Agreement; and

WHEREAS In addition to the Company’s Lands, the Municipality Lands, and the Additional Real Estate Rights, the Company and the Municipality own the rights in adjacent land which constitutes the remainder of the Project Lands and which are not being sold to the Purchaser within the framework of this Agreement (hereinafter: **“the Remainder of the Project Lands”** or **“the Remainder of the Project”**) and are marked in purple on the Leasehold Drawing; and

WHEREAS The structure and the percentage holdings in the Housing Company and in the Mall Company are as described in the chart attached to this Agreement as Appendix G, with the shareholders (directly or residually) in the Housing Company and in the Mall Company being: Blue Square Real Estate Ltd. (50%), Dirot Yukra Ltd. (25%) and Gindi Investments 1 Ltd. (25%);

Blue Square Real Estate Ltd., Dirot Yukra Ltd. and Gindi Investments 1 Ltd. will henceforth be referred to collectively as – **“the Interested Parties”**; and

WHEREAS Simultaneous with the Purchaser signing this Agreement the Interested Parties are signing the Interested Parties’ undertakings as set forth at the foot of this Agreement (hereinafter: **“the Interested Parties’ Undertakings”**); and

WHEREAS The Purchaser (as described in sub-clause 5.2.2 below) wishes to purchase **the Property Sold** (as defined below) from the Municipality in its condition “as is”, after having carried out all the examinations required by it, independently and without relying on any representation or any item of data given to it by the Municipality and/or the Company and/or entities connected with either of them and/or acting on behalf of either of them; and

WHEREAS For purposes of constructing “the public buildings” (as defined below), the Purchaser was required in the scope of the sale process to assess the total costs for erecting the public buildings, in circumstances where the Municipality and the Company had two alternatives available to them in this regard: one was to deduct the aforesaid amount from the consideration in respect of the Property Sold (as defined in this Agreement) and the other was that the public buildings be constructed through or by the Purchaser for a consideration that will be paid to it by the Municipality and the Company, and the Municipality and the Company chose the second alternative, as described in this Agreement; and

WHEREAS In accordance therewith and according to the provisions of this Agreement below, the Housing Company is committed to erect the public buildings (as defined below) and to deliver same to the Municipality as described in the construction contract and the appendices thereto, which is attached to this Agreement as Appendix 7.1.1 and as Appendix 4.13 to the Company’s Lands Agreement” (as defined below) for a consideration that will be paid to it by the Municipality and by the Company, as described below in this Agreement and in the Company’s Lands Agreement; and

WHEREAS The Municipality, in reliance on the Purchaser’s representatives as set forth in this Agreement, wishes to accept the Purchaser’s offer to purchase the Property Sold;

WHEREAS Prior to the date of signing of this Agreement, the individual parties who make up the Purchaser delivered to the Municipality firm commitment letters from Bank Hapoalim B.M. in connection with their commitment for payment of the full “**basic consideration**” (as defined below) in accordance with this Agreement (excluding the first payment, the additional first payment and the later first payment), with this being in the text attached to this Agreement as **Appendix F**.

Now therefore it is stipulated, declared and agreed by the parties as follows:

1. Definitions:

1.1	“The Agreement”	or	“this– Agreement”	This Agreement together with all the appendices hereto.
1.2	“The sale process”	–		A sale process conducted in accordance with the sale procedure as defined below.
1.3	“The sale procedure”	–		A sale procedure that was published by the Company and the Municipality and pursuant to which the sale process was conducted.
1.4	“The sale process guarantee”	–		Bank guarantees in an aggregate amount of NIS 9,183,216 which were deposited with the Municipality in the scope of the sale process.
1.5	“Business day”	–		A day on which most of the branches of the banks in Israel are open for transactions with the public and in relation to which the clearing of instruments is carried out.
1.6	“The Property Sold”	–		(a) The rights and obligations of the long leasehold in the Municipality Lands for a lease period ending on August 31, 2099, all in accordance with the conditions set forth in this Agreement and in the special conditions of leasehold document which is attached to this Agreement as Appendix 1.6 .

The Municipality Lands have building rights of 9,240 sq.m. (main areas) for residential purposes and 5,800 sq.m. (main areas) for commercial purposes for the designated uses specified in Plan TA/3001 and together with service areas in accordance with Plan TA/3001, and the Company and the Municipality agree that the total service areas for housing in the urban-texture building on Plot No. 1 above the determining entrance level as stated in Plan TA/3001 which will be included in the applications for building permits that will be lodged by the Purchaser in the scope of the Purchaser's Project, will aggregate a total of at least 22,924 sq.m. service areas but not more than the maximum permitted in accordance with Plan TA/3001.

For the removal of doubt it is clarified that the total main areas which are being sold to the Purchaser in accordance with this Agreement are as stated at the beginning of this sub-clause 1.6(a).

Without derogating from the foregoing in this sub-clause 1.6, it is agreed that if changes in the agreement of the parties on the boundaries of the Municipality Lands should be necessary and be approved as a consequence of detailed planning of the Municipality Lands or of the Project Lands, the Leasehold Drawings will be amended accordingly, without any change applying to the building rights being sold to the Purchaser in the scope of the Property Sold.

Under no circumstances, does the Property Sold include and will not include the parking places towers in the Kufsa lands, as defined below.

- (b) Rights and obligations of the long leasehold of the lands which form part of Plot No. 8 and which are marked in light blue on the drawings that are attached as Appendix B1 to B6 to this Agreement, excluding the land of 40 parking places that will be delivered to the Municipality as stated in sub-clause 7.2.4 below (hereinafter: **“the Additional Real Estate Rights”**) for a leasehold period ending on August 31, 2099, all in accordance with the terms and conditions set forth in this Agreement and in the special conditions document for the leasehold which is attached to this Agreement as **Appendix 1.6**, where the rights of leasehold in the Additional Real Estate Rights lands make it possible to exploit building rights as follows:
- (1) Building rights for the construction of 4,500 sq.m. main areas (in addition to service areas in accordance with the provisions of Plan TA/3001), for the uses and zonings as described in Paragraph 9.4 of the Plan TA/3001 (hereinafter: **“the Ancillary Commercial Areas”**).
 - (2) Building rights for the construction of 215 specific and permanent built parking places on the fourth basement floor (-4) and building rights for the construction of additional parking floors on the fifth basement floor (-5) as stated in sub-clause 7.2.4 below (hereinafter: **“the Additional Parking Areas”**). The Additional Parking Areas will serve as a public parking garage in accordance with Paragraph 9.4.1 of Plan TA/3001 and subject to the contents of Clause 7.2 below.

- (c) **“The obligations and the commitments transferred”** as defined in Clause 1.7 below.
- (d) For the removal of doubt it is clarified that the remaining areas on Plot No. 8, apart from the Additional Real Estate Rights, and the areas that are located on the upper ground floor and on the lower ground floor only and which are zoned for an open public area and a road as marked in green and in grey (respectively) on the Leasehold Drawings, **Appendices A1-A2**, are in the sole possession and sole ownership of the Municipality, are not leased under leasehold and will remain in the Municipality’s exclusive possession and use, all in accordance with what is described in sub-paragraph 9.6 of Plan TA/3001, and the Purchaser has no rights therein and in the areas intended for “Suburban Public Institutions” as mentioned in sub-clauses 7.1.1.2 and 9.8.2 below.

To the extent that the Municipality and the Company exercise their power pursuant to Paragraph 3.5 of Appendix 4.14 to this Agreement, in a manner whereby the parking places that will serve the residential units that will be built on the Remainder of the Project Lands and will be linked thereto, which will be located in the Kufsa (hereinafter: **“the Towers Parking Places in the Kufsa”**), the land which is the subject of the Towers Parking Places in the Kufsa and which will be located in each of the parking places in the Kufsa, apart from places at which parking places will be erected for the commercial areas in the Kufsa (hereinafter: **“the Towers Parking Places in the Kufsa Lands”**) do not constitute part of the Property Sold and the Leasehold Drawings will be amended accordingly. For the removal of doubt it is clarified that in this Agreement the Municipality is not selling or granting any rights to the Purchaser in the Towers Parking Places in the Kufsa Lands except the right of use specified in Paragraph to this Agreement.

It is agreed that the exercise of its right by the Municipality as aforesaid shall not derogate from the Purchaser’s possibility of: (1) erecting the maximum number of parking places which are permitted pursuant to Plan TA/3001 for the building rights on the Company’s Lands and the Municipality Lands (including parking places for visitors on the Project Lands) and (2) for erecting the maximum service areas that are permitted pursuant to Plan TA/3001 in the building rights on the Company’s Lands and the Municipality Lands. It was further agreed that the Municipality and the Company will direct their professional advisors to endeavor and to see to it that all the parking places will be designated to serve the residential units in the Remainder of Project Lands without the need for exercising the power granted to the Municipality and to the Company pursuant to Paragraph 3.1 of Appendix 4.14, and this without derogating from the Municipality’s and the Company’s possibility of (1) erecting the maximum number of parking places in the Remainder of the Project Lands which are permitted pursuant to Plan TA/3001 for the building rights on the Remainder of the Project Lands (without double parking places) and (2) for erecting the maximum service areas that are permitted pursuant to Plan TA/3001 in the building rights on the Remainder of the Project Lands and (3) erecting parking basements on 5 levels only.

1.7	“The Obligations and Commitments– Transferred”	The obligations and commitments transferred which are described below, unless otherwise expressly excluded in this Agreement below: (a) Rights and obligations that apply to the Municipality according to any law in its capacity as the owner of rights in the Municipality Lands (as distinguished from its status as owner or as a local authority). (b) All the obligations imposed on an applicant for any permit in accordance with Plan TA/3001 and the Architectural Design Plan, including the appendices thereto, in relation to the Municipality Lands and to the Additional Real Estate Rights, with it being clarified that nothing in the foregoing shall derogate from the Purchaser’s possibility of requesting an amendment to Plan TA/3001 and/or the Architectural Design Plan, from time to time, in accordance with any law and the terms and conditions of this Agreement, and subject to the conditions of Appendix 4.14 to this Agreement. (c) The rights and obligations of the Municipality pursuant to the 2002 Agreement in relation to the Municipality Lands and the Additional Real Estate Rights, except rights and obligations of the Municipality arising from its status as leasehold lessor or as a local authority. It is further clarified for the removal of doubt that the Municipality is not assigning its rights and obligations under the Addendum to the 2002 Agreement and under the 2010 Agreement to the Purchaser, including and without derogating from the foregoing, the Municipality’s rights and obligations to receive money from the Company and for the payment of money to the Company in the scope of the accounting referred to in Clause 8.2 of the Addendum to the 2002 Agreement, which, as already mentioned, are not being assigned to the Purchaser.

- (d) For the removal of doubt it is clarified that the Obligations and Commitments Transferred include only obligations and commitments in relation to the Municipality Lands and the Additional Real Estate Rights, as distinct from the Remainder of the Project Lands. If the Obligations and Commitments Transferred as described in sub-clause 1.7 above are in the nature of being obligations or commitments in relation to all the Municipality’s rights and obligations in the Project Lands, then the Purchaser will be entitled to and liable for such obligations and commitments according to its *pro rata* share, which is the ratio between the building rights (main areas) in the Municipality Lands and the Additional Real Estate Rights and total building rights (main areas) of the Municipality in the Project Lands. It is further clarified that in relation to obligations forming part of the Obligations and Commitments Transferred with respect to which a time was specified in the relevant agreement for the performance thereof, the assignment of such obligations and commitments will apply only to obligations the time for performance of which is after the date of delivery of the right of use (as defined below), unless otherwise stated in this Agreement.
- (e) Notwithstanding the foregoing it is agreed and clarified that the legal proceedings mentioned in Appendix 3.1 to this Agreement are brought to the knowledge of the Purchaser for information only and that the liabilities that are the subject matter of the aforesaid legal proceedings, to the extent that same should apply, are not being transferred and assigned to the Purchaser in the scope of this Agreement and are not included in the Obligations and Commitments Transferred, as defined above.

1.8	“The local committee”	–	The Tel Aviv-Jaffa Local Planning and Building Committee.
1.9	“Plan TA/3001”	–	Detailed Plan No. TA/3001 which was published for validation on September 29, 2005 in <i>Yalkut Pirsumim</i> (Gazette) No. 5442, together with the appendices thereto.
1.10	“Plot No. 8”	–	Plot No. 8 as defined in Plan TA/3001
1.11	“Plot No. 1”	–	Plot No. 1 as defined in Plan TA/3001
1.12	“Plot No. 6”	–	Plot No. 6 as defined in Plan TA/3001
1.13	“Date of delivery of right of use”	–	As defined in Clause 10 of the Agreement.
1.14	“The Municipality’s attorney” or “the Trustee”	–	The legal adviser of the Municipality or another attorney who may be appointed by him.
1.15	“The consideration”	–	The basic consideration together with the additional consideration as these terms are defined in Clause 6 below.
1.16	“Date of delivery of possession”	–	As defined in Clause 10 below.
1.17	“Related entities”	–	The controlling shareholder in any chain and/or shareholders and/or holders of rights of any sort and/or employees and/or representatives and/or agents and/or attorneys and/or officers and/or professional advisers.

1.18	“Consumer Price Index” or “the Index”	–	Unless otherwise expressly stated in a particular clause of the Agreement, the Consumer Price Index, including fruit and vegetables, published by the Central Bureau of Statistics and Economic Research, including that index even if it is published by another Government body or institution and any official index which may come in its stead, whether or not same is structured on the same data on which the existing index is structured. If the Consumer Price Index is replaced by another index, the ratio between the replaced index and the other index will be determined by the Central Bureau of Statistics.
1.19	“The Basic Index”	–	Unless otherwise expressly stated in a particular clause of this Agreement, the index which is known at the time of signing of this Agreement.
1.20	“Indexation differences”	–	Unless otherwise expressly stated in a particular clause of this Agreement, an increment in payment obtained from multiplying any payment, which accumulates indexation differences according to the provisions of this Agreement, by the percentage rise in the last known index at the time of making such calculation and/or payment, as against the Basic Index. For the removal of doubt, in a case of a fall in the new index as against the Basic Index, there will be no deduction from the payment.
1.21	“The Kufsa”	–	The land marked in red on the drawing attached to this Agreement as Appendix 1.23 (including all the levels thereof).
1.22	“The Purchaser’s Project”	–	The project which the Purchaser will erect on the Company’s Lands, the Municipality Lands and the Additional Real Estate Rights.
1.23	“The residential section”	–	Residential buildings that will be erected on the Purchaser’s Project (excluding the basement floors) and excluding the commercial areas that will be located in the aforesaid residential buildings.
1.24	“The basement floors”	–	All the basement floors in the Purchaser’s Project up to and including the upper ground floor on which the open public areas (as defined in sub-clause 7.3 below) will be constructed, as well as all the commercial areas in the Purchaser’s Project whether same are located on the basement floors or are located above the basement floors.
1.25	“Buyers of apartments”	–	Buyers of apartments in the residential section.
1.26	“Building Inputs Index”	–	The general index of residential building input prices which is published each month by the Central Bureau of Statistics or any other body that may come in its stead, or any other index that may be specifically published in its place (subject to the ratio between them that will be fixed).
1.27	“The Company’s Lands Agreement”	–	An agreement between the Purchaser and the Company for the acquisition of the leasehold rights in the Company’s Lands, which is being signed by the Purchaser and the Company simultaneously with the signing of this Agreement.

1.28	“The Project”	– The project that will be erected on Project Lands and which will contain both the Purchaser’s Project as defined below as well as the project/s that will be constructed on the Remainder of the Project Lands.
1.29	“Agreement of individual parties who make up the Purchaser”	– Agreements, wherever signed prior to the signing of this Agreement or subsequent hereto, which are signed by the individual parties who make up the Purchaser and/or between the Interested Parties in connection with the transaction that is the subject of this Agreement and/or in connection with the Purchaser’s Project.

2. **Appendices:**

This Agreement contains the following appendices which form an integral part hereof:

<u>Appendices A1-A7</u>	– Drawings of the Company’s Lands and the Municipality Lands.
<u>Appendices B1-B6</u>	– Drawings of the Additional Real Estate Rights.
<u>Appendix C</u>	– The 2002 Agreement, the Addendum to the 2002 Agreement (dated June 1, 2008) and the 2010 Agreement.
<u>Appendix D</u>	– Plan TA/3001 and the Architectural Design Plan (including the appendices thereto).
<u>Appendix E</u>	– Extracts of registration of the Project Lands.
<u>Appendix F</u>	– Firm commitment letter.
<u>Appendix G</u>	– Structure and percentage holdings in the Housing Company and in the Mall Company.
<u>Appendix 1.6</u>	– The special conditions of leasehold document.
<u>Appendix 1.21</u>	– Drawing of the Kufsa.
<u>Appendix 3.1</u>	– Legal proceedings in connection with the Property Sold to which the Municipality is a party.
<u>Appendix 3.2</u>	– Approval of the City Council and the approval of the Minister of the Interior referred to in Clause 3.2 below.
<u>Appendix 4.13</u>	– Declaration of verifying representations drawn to the date of delivery of the right of use and the right of possession.
<u>Appendix 4.14</u>	– Additional provisions appendix.
<u>Appendix 4.16</u>	– Timetables appendix.
<u>Appendix 6.2.7</u>	– Letter of instructions to Trustee.
<u>Appendix 6.9.1</u>	– Main points of the specification, simulations and photographs.
<u>Appendix 7.1.1</u>	– The Construction Contract and all the appendices thereto.
<u>Appendix 9.1.5</u>	– Tax certificates in respect of the 2002 Agreement.
<u>Appendix 9.5</u>	– Text of power of attorney to the Company’s attorneys for expunging of <i>caveat</i> .

<u>Appendix 9.5A</u>	– Power of attorney in favor of the Municipality for specifically attributing a <i>caveat</i> and for the effecting of registrations.
<u>Appendix 9.9</u>	– Power of attorney in favor of the Municipality for effecting registrations.
<u>Appendix 10.3.3</u>	– Notarial power of attorney for eviction of the Purchaser.
<u>Appendix 10.4.2</u>	– Text of deed of assignment of the Obligations and Commitments Transferred.

3. Declarations by the Municipality

The Municipality hereby declares and undertakes as follows:

- 3.1 That it owns the rights in the Municipality Lands and in the Additional Real Estate Rights as same are described in this Agreement and its aforesaid rights in the Municipality Lands and in the Additional Real Estate Rights are free and clear of any debt, encumbrance, attachment, mortgage and third party rights, apart from a *caveat* regarding an antiquities site in favor of the State of Israel which is registered over the Project Lands pursuant to Deed No. 44510 dated December 1, 1995, where in relation to the Municipality’s rights in the Additional Real Estate Rights it is clarified that leaseholds which have expired are registered in the Land Registry over Parcel 92 Block 7104. The said registration situations does not derogate from the rights conferred on the Purchaser under this Agreement, and the Municipality undertakes to act with due diligence, including by way of taking legal proceedings, in order to expunge these leaseholds from registration in the Land Registry. Included in this, the Municipality undertakes to act in order to expunge the leaseholds that have expired in a manner that this will be completed not later than the date of payment of the second payment, with it being clarified that the failure to expunge all the leaseholds that have expired up to the aforesaid time will not be deemed to be a breach of this Agreement, without this derogating from the Municipality’s obligations pursuant to sub-clause 16.6.3.1 below in relation to registration of an encumbrance over Parcel 92 Block 7104. It is further clarified that the Municipality is a party to the legal proceedings described in **Appendix 3.1** to this Agreement.
- 3.2 That it has through its authorized organs approved the format pursuant to which the contractual arrangement with the Purchaser is being made, including the fact that the City Council has approved the sale that is the subject of this Agreement on an exemption from tender, in the scope of the sale process. On February 20, 2008, the Municipality also received approval of the Minister of the Interior for an exemption from the holding of the tender in respect of the sale that is the subject of this Agreement and the approval in principle of the Minister of the Interior to the leasing under leasehold of the Municipality Lands and the Additional Real Estate Rights in the scope of the sale process, in accordance with the Municipalities Ordinance [New Version] (hereinafter: “**the Ordinance**”).

Subject to the fulfilment of the condition precedent as set forth in Clause 12 below, the Municipality is entitled and empowered to enter into this Agreement and to perform this Agreement, in circumstances when its entering into this Agreement and performing of its obligations pursuant hereto do not require further decisions and/or approvals.

The approval of the City Council and the approval of the Minister of the Interior, which were received as aforesaid, are attached to this Agreement as **Appendix 3.2.**

4. **Declarations by the Purchaser**

The Purchaser hereby declares and undertakes as follows:

- 4.1 That each of the individual parties who make up the Purchaser is duly incorporated and that each of the individual parties who make up the Purchaser is entitled and empowered to enter into this Agreement and to perform it, and that it has passed all the resolutions and obtained the approvals required according to the provisions of the law and its documents of incorporation for purposes of its entering into this Agreement.
- 4.2 That no steps have been taken for an arrangement, stay of proceedings, winding-up, liquidation, expungement, bankruptcy or receivership of any of the individual parties who make up the Purchaser, and that there is no threat against any of the individual parties who make up the Purchaser with regard to such legal proceedings (including the fact that no attachment has been imposed on their assets), which is likely to have an impact on their entering into this Agreement and on the performance and implementation of this Agreement.
- 4.3 That it is bound by the declarations, representations and undertakings that were given on its behalf in the scope of the Sale Process and the Sale Procedure, and that its declarations and undertakings mentioned in this sub-clause above are correct, complete, full and updated, and are binding on it in all respects.
- 4.4 That acquisition of the Property Sold is being effected for the Purchaser alone, and it or any of the individual parties who make up the Purchaser is not acting, and will not act as an agent, representative, trustee and/or partner in this regard, with and/or for another, whether directly or indirectly, including the fact that they have not granted a right or option to another as aforesaid in connection with the Property Sold and/or the rights contained herein, prior to signing of this Agreement.
- 4.5 That it is aware that the Municipality has agreed to enter into this Agreement with it *inter alia* in reliance on the contents of the Firm Commitment Letter, Appendix F to this Agreement, and that coupled with that the furnishing of the aforesaid commitment letter does not derogate from the Purchaser’s obligation to pay the full consideration at the times specified for the payment thereof in Clause 6 below, with it being clarified that the Purchaser’s obligation for full payment of the consideration in accordance with the provisions of this Agreement is absolute and is not contingent upon receiving finance or on any other condition.
- 4.6 That the Purchaser is buying the Property Sold in the same condition in which the Property Sold is at the time of signing of this Agreement (“as is, where is”) and after the Purchaser had examined, inspected and seen:
 - (i) The Project Lands (including the Municipality Lands, the Additional Real Estate Rights and the Company’s Lands), and the surrounding neighborhood thereof, their physical and legal condition (including the registration in the Land Registry of Parcel 242 Block 7104 as “designated lands” and the planning and zoning situation of the Project Lands (including the Municipality Lands, the Additional Real Estate Rights and the Company’s Lands), adjacent land, and the region in which the Project Lands (including the Municipality Lands, the Additional Real Estate Rights and the Company’s Lands) are located;

- (ii) The Obligations and Commitments Transferred, as defined in sub-clause 1.7 above.
- (iii) Plans of any sort pursuant to the Planning and Building Law and on the strength of any other statute or law, whether approved or in preparation, at any level and at any planning or other authority or institution, which pertain to the Project Lands (including the Municipality Lands, the Company's Lands and the Additional Real Estate Rights) and all land in the surrounding area thereof, and included in this they have inspected, examined and seen the provisions of Plan TA/3001 including all the appendices thereto and the Architectural Design Plan and all the appendices thereto, and are familiar therewith;
- (iv) The ways of access, the possibilities for planning, exploitation, licensing and building of the Project Lands (including the Municipality Lands, the Additional Real Estate Rights and the Company's Lands) and all land in the surrounding area thereof;
- (v) The quality and composition of the Property Sold, including with regard to matters connected with the environment, antiquities, marketability, design, quality and so forth, and the suitability of any of the abovementioned matters for the Purchaser's needs;
- (vi) Any relevant information of whatsoever nature at all the relevant authorities, including the Land Registry, the Taxes Authority, the various planning and building authorities and the relevant local authorities;
- (vii) The provisions of all the statutes, laws, bylaws which relate to the Property Sold and/or to the Purchaser's entering into this Agreement.

The Purchaser hereby confirms, declares and undertakes that it has found all the foregoing to be to its full satisfaction, and that it hereby finally and irrevocably waives any cause of action and/or demand and/or allegation and/or claim of whatsoever nature in connection with the matters aforesaid, including an allegation of non-conformity (patent or latent) and including allegations regarding defects in the contractual arrangement such as an error, as against the Municipality and/or the Company and/or as against the entities connected with any of the individual parties who make it up and/or anyone on its behalf, whether the origin of a cause of action in connection with the foregoing was in a period preceding the Date of Delivery of Possession or subsequent thereto. Included in this the Purchaser waives any right to receive any remedy of cancellation, damages or restitution in respect of allegations or causes of action as aforesaid.

It is clarified that nothing contained in this sub-clause 4.6 shall derogate from the Purchaser's possibility of requesting an amendment of the Architectural Design Plan, in accordance with and subject to the provisions of this Agreement, including the provisions of Appendix 4.14 to this Agreement.

- 4.7 That it has the experience, know-how and ability to assess its entering into this Agreement and the significances thereof, and that having regard thereto, as also having regard to everything stated above and below in this Agreement, it has carried out its aforesaid examinations in consultation with all the experts whom it saw fit, in the course of defining the information it wishes to examine.

- 4.8 That the Purchaser is purchasing the rights in the Property Sold on the strength of its own independent examinations, assessments and forecasts as aforesaid only, and it has not relied for purposes of entering into this Agreement on any promises, representations, undertakings or guarantees from the Municipality and/or the Company and/or from any of the bodies connected with either of them, except those that are expressly mentioned in this Agreement and in the Company's Lands Agreement, and without this imposing on the Company and/or the Municipality and/or any of the bodies connected with either of them, any liability of whatsoever nature with regard to the Property Sold or to the value thereof, and without this imposing any obligation for indemnity on the Company and/or the Municipality and/or any of the bodies connected with either of them.

The Purchaser declares that if it has not examined any detail connected with the Property Sold independently, itself and/or through any entity on its behalf, including any of the details mentioned in sub-clause 4.6 above and/or in connection with any other details contained in this Agreement or arising from it, for any reason, including by virtue of the difficulty of accessibility to the information and/or due to restrictions that have been imposed, if and to the extent that same were imposed, for any reason, on any such information or data whatsoever at any particular authority or at any source of information, this factor has been taken into account in the scope of the consideration pursuant to this Agreement, and it waives any allegation or argument in connection therewith.

- 4.9 That acquisition of the Property Sold is in furtherance of a request for proposals and a sale process that was conducted by the Municipality and the Company in accordance with the sale procedure and following the Purchaser's selection as a preferred bidder. The Purchaser further declares that it is aware that the documents and the information that have been placed at its disposal or at the disposal of someone on its behalf, in connection with its entering into this Agreement, including documents and information that were exhibited in the information room, and including answers by the Municipality, the Company or anyone on their behalf to questions, and including information given during tours and at meetings, were provided solely for its convenience and without this imposing any liability on the Municipality and/or the Company and/or any of the bodies connected with either of them, in respect of the correctness or completeness of such information and documents or the absence of any other information or document, and without such information and documents or the absence thereof being deemed to be a representation for purposes of entering into the Agreement.
- 4.10 That without derogating from the provisions of Clause 13 below, the Purchaser hereby irrevocably waives any claim and/or allegation and/or right of set-off and/or right to a reduction in the consideration or a right to cancel the Agreement, as against the Municipality and/or the Company and/or as against the bodies connected with either of them, of any type and based on any cause of action, subject to the condition that the Company shall fulfill its obligations as expressly enunciated in this Agreement.

- 4.11 The Purchaser declares and confirms that it is aware that the Municipality will not attend to registration of the rights of leasehold in and to the Municipality Lands into the Purchaser's name at the Land Registry, but it will, at the Purchaser's request, sign all in the applications, the forms, declarations, deeds of leasehold and the remaining documents that will be required for preparing files for registration of the leasehold rights in the Municipality Lands in the Purchaser's name in the Land Registry. For the removal of doubt it is clarified that nothing contained in the provisions of this sub-clause shall derogate from the Municipality's obligations pursuant to Clause 9 of this Agreement.
- 4.12 Cancelled.
- 4.13 That all the Purchaser's representations and declarations pursuant to this Clause 4 will be correct both at the time of signing of this Agreement, and also at the date of delivery of the right of use and at the date of delivery of possession. Declarations verifying the representations are attached to this Agreement as **Appendix 4.13**.
- 4.14 That by virtue of it having been told that the Company and the Municipality are the owners of rights in the Remainder of the Project Lands which are not being sold to the Purchaser in the scope of the transaction that is the subject of this Agreement, it is agreed that in connection therewith the provisions of **Appendix 4.14** to this Agreement, which forms an integral part hereof, shall apply to the parties in addition to the provisions of this Agreement.
- 4.15 That it is aware that the sale is being effected in reliance on the correctness and completeness of all its representations and declarations as set forth in this Agreement.
- 4.16 **Timetables**
- 4.16.1 The Purchaser undertakes to act diligently and uninterruptedly in all aspects connected with the planning, licensing and construction of the Purchaser's Project in order to meet the timetables set forth in Appendix 4.16 to this Agreement (hereinafter: **"the Timetables"**). It is agreed that the Timetables are indicative, but coupled with that is agreed, in the case of any divergence of more than 6 months in any of the milestones included in the Timetables which occurs up to the time of actual payment of the second payment or up to the time of the implementation of the first building permit (as defined in Clause 6.2.4 below), whichever is the later, then without derogating from any remedy available to the Municipality according to any law and agreement (excluding only the right to agreed damages as stated in Clause 14 below), the Company will be entitled to agreed damages from the Purchaser in respect of such divergence in an amount equivalent to NIS 36,240 for each month of default (and for a *pro rata* portion of such damages in respect of part of a month), plus indexation differences (as defined in this Agreement).
- 4.16.2 Without derogating from the generality of the contents of sub-clause 4.16.1 above, the Purchaser undertakes to take steps for the issue of an excavation and shoring permit at the earliest date it is possible to do so. The Purchaser further undertakes to commence performing the excavation and shoring works within nine weeks from a decision being taken by the local committee / the licensing authority in regard to the issue of an excavation and shoring permit, subject to payment of fees and levies only (hereinafter in this sub-clause: **"the Decision"**) provided that the Decision is taken before September 2010. Where the Decision is taken after September 2010, the Purchaser will commence execution of the excavation and shoring works not later than March 15, 2011. It is agreed that in the case of a divergence of more than six weeks from the Timetables specified in this sub-clause 4.16.2, the Company will be entitled, without derogating from any remedy available to the Company according to any law and agreement (excluding only the right to agreed damages as stated in Clause 14 below), to compensation according to the amounts of damages specified in sub-clause 4.16.1 above.

4.16.3 The Purchaser further undertakes that up to the end of 48 months from the date of implementation of the first building permit (as defined in Clause 6.2.4 below), the commercial areas in the Purchaser's Project and the Sports Center and the School will be completed in a manner whereby up to the aforesaid date an application will be lodged by it for receipt of "Form 4" (which constitutes approval for initial occupation) in respect of the commercial areas in the Purchaser's Project, the Sports Center and the School. It is agreed that in the case of a divergence from the Timetables specified in this sub-clause 4.16.3, the Company will be entitled, without derogating from any remedy available to the Municipality according to any law and agreement (excluding only the right to agreed damages as stated in Clause 14 below), to agreed damages from the Purchaser in respect of such divergence in a sum equivalent to NIS 24,160 for each month of default (or a *pro rata* share of such damages in respect of part of a month) in respect of the first 6 months of default or part thereof, plus a sum of NIS 48,320 for each month of default (and a *pro rata* share of such damages in respect of part of a month) in respect of 6 months default after the first 6 months or any part thereof, and plus a sum of NIS 72,480 for each month of default (or a *pro rata* share of such damages in respect of part of a month) in respect of each month of default thereafter, or any portion thereof.

The amounts of damages specified in this clause above will bear indexation differences (as defined in this Agreement).

4.16.4 It is agreed that if there should be an impediment to meeting the Timetables prescribed in sub-clauses 4.16.1-4.16.3 the origin of which is *force majeure* as recognized at law, then subject to the condition that the Purchaser shall invoke all the necessary means in order to remove or eliminate the impediment, the period of the impediment due to *force majeure* as aforesaid will not be counted as part of the times for purposes of this sub-clause 4.16 above.

4.16.5 It is agreed that a precondition to the excavating of the basements which will be below that portion of Parcel 93 which is marked in gray on the drawings attached to this Agreement as **Appendices A1-A2** will be in coordination with and with the prior consent of the Administration, including the setting of a timetable for completion of the construction of the basements and road above it and finding solutions for entry and exit to the Remainder of the Project Lands during the period of construction of these specific basements.

4.17 The Purchaser undertakes that within 6 months from the date of signing of this Agreement it will submit an amended Architectural Design Plan to the Local Committee and within 10 months from the date of signing of this Agreement will lodge an application for a building permit in relation to the entire Purchaser's Project, which will be based on the aforesaid amended Architectural Design Plan. It is clarified that in a case in which lodgment of the application for a building permit as referred to in this sub-clause encounters opposition, prior to lodgment of the application, from the authorized entities at the planning authorities, then the application for a building permit that will be lodged by the Purchaser will be for only 12 floors. It is agreed that the Purchaser will be entitled to include in the application for such building permit, units having an average area as stated in sub-clause 6.3.5 below. Nothing contained in the provisions of this sub-clause shall derogate from the remaining provisions of this Agreement in regard to the planning and design of the Purchaser's Project.

- 4.18 Without derogating from the provisions of Appendix 4.14 of this Agreement, the Purchaser undertakes that the drawing up and signing of the Architectural Design Plan, applications for a building permit and any other planning and/or statutory document that may be submitted by it or by someone on its behalf to the planning authorities, in connection with the Purchaser’s Project (as distinct from the Public Buildings), will be performed in relation to the Purchaser’s Project as a whole (as distinguished from the Public Buildings) and to all the documents mentioned above, by an architect, constructor and one traffic consultant whose identity shall be approved by the Company and the Municipality.
- 4.19 The Purchaser declares that it is aware that all the actions and/or undertakings and/or representations of the Municipality pursuant to this Agreement and/or in connection herewith are in the Municipality’s capacity as owner of the Project Lands, and that none of the aforesaid actions and/or undertakings and/or representations will have the effect of binding the Local Committee or any other statutory or planning body.
- 4.20 That it is aware that the undertakings of the Interested Parties as defined at the foot of this Agreement do not release it from any of its obligations under this Agreement and that the deed of undertaking of the Interested Parties and/or the fulfillment of the obligations of the Interested Parties or any of them pursuant thereto shall not derogate from any of the remedies available to the Municipality against the Purchaser in accordance with the provisions of this Agreement and the law.

5. **The transaction:**

- 5.1 The Municipality hereby sells the Property Sold to the Purchaser, and the Purchaser hereby buys the Property Sold from the Municipality, for the consideration and on the conditions as set forth in this Agreement.

It is clarified that the rights being sold by the Municipality in the Municipality Lands and in the Additional Real Estate Rights as defined in this Agreement, are long leasehold rights for a leasehold period ending on August 31, 2099.

It is clarified that in the framework of the Property Sold the Purchaser assumes the Obligations and Commitments Transferred at the dates specified in this Agreement below, coupled with a full, irrevocable and absolute release and exemption for the Company from the Obligations and Commitments Transferred, and in accordance with the deed of assignment attached to this Agreement as Appendix 10.4.2.

- 5.2 **Liability of individual parties who make up the Purchaser**

- 5.2.1 It is agreed that the liability of the individual parties who make up the Purchaser for the fulfillment of the Purchaser’s obligations under this Agreement are joint and several, except with respect to the following obligations:

- 5.2.1.1 Payment of the consideration as set forth in sub-clause 5.2.4 below;
- 5.2.1.2 Construction of the Public Buildings as stated in Clause 7 below, which will be solely under the responsibility of the Housing Company;
- 5.2.1.3 Declarations and undertakings of the individual parties who make up the Purchaser which are the subject of sub-clauses 4.1 and 4.2;
- 5.2.2 Without derogating from the foregoing in this sub-clause, it is hereby made known to the Municipality by the Purchaser that the individual parties who make up the Purchaser are buying the Property Sold according to a division that has been decided upon between them prior to the signing of this Agreement, without this derogating from any obligations of any of them in accordance with the provisions of this Agreement. Solely for the sake of convenience and only for registration purposes, it is agreed that the individual parties who make up the Purchaser will be deemed to be purchasers of the Municipality Lands and the Additional Real Estate Rights in relative shares between them (in *musha*) as follows: the Housing Company – 60%, the Mall Company – 40%. For the removal of doubt it is clarified that the proportionate shares mentioned above are made known to the Municipality solely for purposes of information, that the Municipality is not bound in any way in relation to such division, and that the aforesaid division does not and will not derogate from any of the Municipality's rights *vis-à-vis* the individual parties who make up the Purchaser and/or derogate from any of the Purchaser's obligations to the Municipality (both with respect to the joint and several obligations of the individual parties who make up the Purchaser to the Municipality and also in relation to the obligations of any of the individual parties who make up the Purchaser severally as against the Municipality, all according to the provisions of this Agreement).
- 5.2.3 Cancelled.
- 5.2.4 With respect to liabilities for payment of “**the consideration**” (as defined below), the following provisions will apply:
- 5.2.4.1 Liability for payment of **the Basic Consideration** will be divided in such a way that the Housing Company will pay the Municipality NIS 137,712,000 plus indexation differences, out of the Basic Consideration, and the Mall Company will pay the Company NIS 91,808,000 plus indexation differences, out of the Basic Consideration, all together with V.A.T. as prescribed by law, according to the following division:
- 5.2.4.1.1 “**The First Payment**” (as defined below) will be divided in such a way that the Housing Company will pay the Municipality NIS 26,237,760 of the First Payment, and the Mall Company will pay the Municipality NIS 17,491,840, of the First Payment, all plus indexation differences.

- 5.2.4.1.2 **“The Additional First Payment”** (as defined below) will be divided in such a way that the Housing Company will pay the Municipality NIS 5,798,400 of the Additional First Payment, and the Mall Company will pay the Municipality NIS 3,865,600 of the Additional First Payment, plus indexation differences.
- 5.2.4.1.3 **“The Later First Payment”** (as defined below) will be divided in such a way that the Housing Company will pay the Company NIS 5,509,930 of the Later First Payment and the Mall Company will pay the Company NIS 3,673,286 of the Later First Payment, plus indexation differences.
- 5.2.4.1.4 **“The Second Payment”** (as defined below) will be divided in such a way that the Housing Company will pay the Municipality NIS 92,917,910 of the Second Payment, and the Mall Company will pay the Municipality NIS 66,777,274 of the Second Payment, plus indexation differences.
- 5.2.4.1.5 **“The Third Payment”** (as defined below) will be paid by the Housing Company in full, together with indexation differences.
- 5.2.4.1.6 Each of the individual parties who make up the Purchaser undertakes to pay the Municipality its share specified above in the Basic Consideration in relation to each of the payments mentioned in Clause 6 below and at the times specified therein.
- 5.2.4.2 The liability for payment of **“the additional consideration”** (as defined below) shall be imposed solely on the Housing Company.
- 5.2.4.3 Without derogating from the remaining provisions of this Agreement, it is agreed that until actual settlement of the Second Payment, in a case of: (1) a breach of any of the obligations set forth in sub-clauses 5.2.1.1 to 5.2.1.3 above, including the obligations to make any payment on account of the consideration by any of the individual parties who make up the Purchaser, which was not rectified by it within the time specified in this Agreement for rectification of the breach and (2) the occurrence of one of the events mentioned in sub-clause 18.7 below with respect to any of the individual parties who make up the Purchaser (hereinafter: **“the Defaulting Individual Purchaser”**) the following provisions will apply:
- 5.2.4.3.1 The right will be conferred on the Company and the Municipality to cancel this Agreement and the Municipality Lands Agreement *vis-à-vis* the Defaulting Individual Purchaser, and to hold forfeit from the Defaulting Individual Purchaser **the full** amount of the agreed damages (as defined below) calculated on a basis of the full Basic Consideration as defined in this Agreement and in the Municipality Lands Agreement (including by way of foreclosing on the sale process guarantee and/or holding forfeit the amounts that were paid to the Company and to the Municipality on account of the consideration by the Defaulting Individual Purchaser up to such time), with this being in addition to the remaining remedies available to the Company and to the Municipality as against the Defaulting Individual Purchaser in accordance with any law and/or agreement.

5.2.4.3.2 An individual purchaser who is not the Defaulting Individual Purchaser (hereinafter: **“the Complying Individual Purchaser”**) will be given a period of 45 days from the date of cancellation of the Agreement as against the Defaulting Individual Purchaser (hereinafter in this sub-clause: **“the Date of Cancellation”**), in the course of which the Complying Individual Purchaser will be entitled to present for the approval of the Company and the Municipality the identity of a third party (hereinafter: **“the Substitute on behalf of the Purchaser”**) who: (1) has irrevocably undertaken in writing *vis-à-vis* the Complying Individual Purchaser and *vis-à-vis* the Company and the Municipality to step into the shoes of the Defaulting Individual Purchaser under the terms and conditions of this Agreement and to sign the transfer documents as defined below with the Company and the Municipality; (2) has been approved by the financing bank (if one exists at that stage) as being a party who will step into the shoes of the Defaulting Individual Purchaser in the contractual arrangement with the financing bank and has signed all the documents in connection therewith; and (3) has undertaken to the Company and the Municipality to make the additional First Payment and/or the later First Payment and/or the second payment, as the case may be, within 30 days from the date of its approval as a substitute by the Company and the Municipality (and to the extent that the time for making the additional First Payment and/or the later First Payment and/or the second payment has not yet arrived – to make payment of each of them on the due date thereof). If the Company and the Municipality, in their sole discretion, approve the identity of the substitute on behalf of the Purchaser (after having been satisfied, *inter alia*, that the substitute has equity capital and financial means to pay its share of the consideration without delay and to fulfill the remaining obligations under this Agreement and the Municipality Lands Agreement), then the parties shall, within 14 days from the date of the approval, sign all the documents that will be required by the Company and the Municipality for purposes of arranging the substitute on behalf of the Purchaser’s stepping into the shoes of the Defaulting Individual Purchaser (hereinafter: **“the Transfer Documents”**), and settlement of the additional First Payment and/or settlement of the later First Payment and/or settlement of the second payment, as the case may be, will be made not later than 30 days from the date of approval of the substitute on behalf of the Purchaser, and to the extent that the time for making the additional First Payment and/or the later First Payment and/or the second payment has arrived – to make payment of each of these on the due date thereof.

- 5.2.4.3.3 If a Substitute on behalf of the Purchaser is not presented to the Company and the Municipality and/or if the Substitute on behalf of the Purchaser is not approved by the Company and the Municipality within 45 days from the Date of Cancellation and/or in a case in which the substitute has not signed the Transfer Documents with the Company and the Municipality, then the Company and the Municipality will have a period of 45 days in which to present to the Complying Individual Purchaser a third party who will step into the shoes of the Defaulting Individual Purchaser according to the terms and conditions of this Agreement and the conditions of any additional agreement that may be signed between the individual parties who make up the Purchaser as between themselves at the latest up to the date on which the default by the Defaulting Individual Purchaser occurred (hereinafter: **“the Substitute on behalf of the Company and the Municipality”**).
- 5.2.4.3.4 If the Company and the Municipality do not present a Substitute on behalf of the Company and the Municipality or the Complying Individual Purchaser has not approved the identity of the Substitute on behalf of the Company and the Municipality, or if the conditions for the substitute stepping into the shoes of the Defaulting Individual Purchaser have not been agreed between the Complying Individual Purchaser and the Substitute on behalf of the Company and the Municipality, then the Company and the Municipality will be entitled to cancel this Agreement also *vis-à-vis* the Complying Individual Purchaser, and in a situation in which the identity of the Substitute on behalf of the Company and the Municipality has not been approved by the Complying Individual Purchaser or in a case in which the Complying Individual Purchaser fails to sign the Transfer Documents, then and in that event the Company and the Municipality will be entitled to agreed damages from the Complying Individual Purchaser in a sum equivalent to 10% of the total share of the Complying Individual Purchaser in the Basic Consideration in accordance with this Agreement and pursuant to the Company’s Lands Agreement (including by way of foreclosure on the Sale Process Guarantee and/or the holding forfeit of the amounts which were paid up to such time by the Complying Individual Purchaser to the Company and the Municipality on account of the Consideration).
- 5.2.4.3.5 For the removal of doubt it is clarified that cancellation of the Agreement as against the Defaulting Individual Purchaser in the circumstances as described in sub-clause 5.2.4.3.1 and cancellation of the Agreement as against the Complying Individual Purchaser in the circumstances as described in sub-clause 5.2.4.3.4 will be deemed to be lawful cancellation for all intents and purposes.
- 5.2.4.4 It is further clarified for the avoidance of doubt that in the event of a breach of any of the Purchaser’s obligations under this Agreement by two individual parties who make up the Purchaser or upon the occurrence of one of the events mentioned in sub-clause 18.7 below with respect to two individual parties who make up the Purchaser, the Municipality will have all the remedies according to any law and agreement available to it as against two individual parties who make up the Purchaser (including, and without derogating from the generality of the foregoing, a right of cancellation, a right to receive agreed damages, and so forth), subject to the provisions of sub-clause 18.8 below.

- 5.2.5 The Purchaser undertakes that in the agreement between it and the financing bank (as defined below) both in relation to financing of the purchase of the Land and also in relation to the construction loan/s the following arrangements and/or provisions will be included:
- 5.2.5.1 The financing bank's undertaking to give the Purchaser and/or any of the individual parties who make up the Purchaser written warning notice prior to a loan being made immediately due and payable in the scope of which notice the Purchaser and/or any of the individual parties who make up the Purchaser will be given an extension of time to cure the breach in respect of which the warning notice was given (hereinafter: **"the Warning Notice"**), except in certain cases as is customary in financing agreements for projects of this sort in which the bank reserves the right not to give notice.
 - 5.2.5.2 The financing bank's obligation to send the Municipality Warning Notices in each of the cases in which the Purchaser will be entitled to receive same, simultaneously with sending a Warning Notice to the Purchaser.
 - 5.2.5.3 An arrangement pursuant to which in a situation in which there are grounds for making a loan immediately due and payable as against two individual purchasers in consequence of which a Warning Notice will be given by the financing bank and the time for rectifying the breach that was specified in the Warning Notice has passed and the breach has not been cured, then and in that event a period of exclusivity will be granted by the bank to the Company for a period of 120 days in the course of which the Company and the bank will conduct exclusive negotiations with the objective of reaching an agreement that will allow the continued implementation of the Purchaser's Project by the Company or by someone on its behalf, whether by way of the Company or someone on its behalf stepping into the Purchaser's shoes as a borrower, or by way of the debt being purchased by the Company or someone on its behalf, or by way of the purchase by the Company or by someone on its behalf of the Company's Lands and/or the Municipality Lands and/or the Additional Real Estate Rights from the bank or through the bank by realization of the encumbrance to the financing bank in the court and with its approval, or in any other manner to the satisfaction of the bank and the Company. The Purchaser hereby gives its irrevocable consent to an arrangement that may be formulated with the agreement of the bank and the Company and waives any allegation and/or demand in connection therewith, subject to the condition that the bank acts in accordance with its obligations according to law, including the fact that the arrangement between the bank and the Company shall be made in the course of complying with the bank's obligations to the Purchaser according to law and in accordance with the Construction Loan Agreement.

- 5.2.5.4 An arrangement pursuant to which in a case where there are grounds for making a loan immediately due and payable as against any of the individual parties who make up the Purchaser (hereinafter in this sub-clause: **“the Defaulting Individual Purchaser”**) as a consequence of which a warning notice will be given by the financing bank in respect of such grounds and the time for rectifying the breach as was specified in the warning notice has passed and the breach has not been cured, then and in that event an individual party who makes up the Purchaser who is not the Defaulting Individual Purchaser (hereinafter in this sub-clause: **“the Complying Individual Purchaser”**), or someone on its behalf, whose identity shall be approved in advance by the Company and the Municipality in their sole discretion (hereinafter: **“the Substitute vis-à-vis the Bank”**) will have the right vis-à-vis the financing bank to step into the shoes of the Defaulting Individual Purchaser and with respect to its rights in the Purchaser’s Project, on terms and conditions as shall be decided with the financing bank, and in such case, and subject to compliance by the Substitute vis-à-vis the Bank with the conditions set forth in Clause 5.2.2.3.2 above and the Substitute vis-à-vis the Bank signing the Transfer Documents, the Substitute vis-à-vis the Bank will also be deemed to be a substitute for the Purchaser who has been approved by the Company and the Municipality. If grounds for making a loan immediately due and payable have occurred, and the Complying Individual Purchaser or someone on its behalf has not stepped into the shoes of the Defaulting Individual Purchaser, or in a case in which the identity of the entity on behalf of the Complying Individual Purchaser has not been approved by the Company and the Municipality, then subject to the condition that the Company meets the criteria prevailing at that time at the financing bank for approval of the identity of a borrower in a project such as the Purchaser’s Project, the Company will have the right that “someone on behalf” of the Complying Individual Purchaser shall, vis-à-vis the financing bank, step into the shoes of the Defaulting Individual Purchaser and its rights in the Purchaser’s Project, under such conditions as shall be decided with the financing bank as aforesaid. **[The deletion constitutes adjustment to the existing text of the Company’s Agreement].**
- 5.2.5.5 The individual parties who make up the Purchaser undertake that in the agreement of the individual parties who make up the Purchaser and/or another agreement that may be made between them, provisions will be included that conform with the contents of sub-clause 5.2.5 above.

6. The consideration:

- 6.1 In consideration for the Property Sold the Purchaser will pay the Municipality (in accordance with the provisions of sub-clause 5.2 above) a Basic Consideration in an aggregate amount of NIS 229,520,000 (two hundred and twenty nine million five hundred and twenty thousand new shekels), plus indexation differences and together with V.A.T. as prescribed by law against receipt of a casual transaction form (hereinafter: **“the Basic Consideration”**). In addition to the Basic Consideration, the Housing Company will pay the Municipality the additional consideration as defined in Clause 6.3 below, plus V.A.T. as prescribed by law against receipt of a casual transaction form (the Basic Consideration together with the additional consideration will be referred to below as: **“the Consideration”**).

It is clarified that for purposes of this Clause 6 including all the sub-clauses hereof, the term “against receipt of a casual transaction form” will have the meaning ascribed thereto in sub-clause 6.10. below.

6.2 The Basic Consideration will be paid by the Purchaser in the manner and at the times set forth below:

6.2.1 A sum of NIS 43,729,600, together with indexation differences based on linkage to the Consumer Price Index and plus interest at an annual rate of 2.5% in respect of the period commencing from April 15, 2010 and up to the date of signing of this Agreement (hereinafter: **“the First Payment”**) shall, on the date of signing of this Agreement, be deposited in a trust account to be opened by the Trustee (hereinafter: **“the Trust Account”**). The First Payment shall be paid out of the Purchaser's independent resources and without any encumbrance over any of the Purchaser's rights pursuant to this Agreement and/or the Municipality Lands, the Additional Real Estate Rights.

Contemporaneous with the deposit of the First Payment moneys in the Trust Account, the Purchaser shall lodge with the Trustee a check made payable to the Municipality in the amount of the V.A.T. in respect of the First Payment, the due date for payment of which is blank (hereinafter: **“the Check for V.A.T.”**). The parties hereby instruct the Trustee to act in relation to the aforesaid V.A.T. payment as follows:

- (a) In a case in which the Trustee receives notice from the tax consultant on behalf of the Municipality stating that the lawful date for making payment of the V.A.T. which is the subject of the First Payment is the 15th of the month following the date on which the First Payment was deposited in trust, the parties hereby instruct the Trustee to fill in the date of the check in respect of the V.A.T. and to send it to the Municipality up to the 5th of such month (even if the conditions stipulated below for release of the First Payment moneys to the Municipality have not been fulfilled);
- (b) Should the Trustee receive a notice from the tax consultant on behalf of the Municipality to the effect that the lawful date for payment of the V.A.T. in respect of the First Payment is the 15th of the month following the month in which the condition precedent was fulfilled and transfer of the First Payment moneys from the Trust Account in the Municipality (hereinafter – **“the Deferred Date of Payment”**), then and in that event the parties hereby give the Trustee an instruction to fill in the date of the check in respect of the V.A.T. for the 5th of the month following the Deferred Date of Payment and to send it to the Municipality by the 5th of that month.

3 business days after the 15th of the month in which the check in respect of the V.A.T. was cashed by the Municipality, the Municipality shall send the Purchaser a casual transaction form.

Within 7 business days from the date on which the condition precedent to this Agreement, as defined in Clause 12 below, is fulfilled, the Municipality will register a *caveat* in favor of the Purchaser over the Municipality's rights in Parcels 92, 93, 95 and 114 Block 7104 (where the Municipality's rights are in the same condition as they are at the time of signing of this Agreement, and inter alia it is hereby agreed that at the time the caveat over Parcel 92 was registered the leaseholds which have expired and have not yet been expunged, as stated in Clause 3.1 above, will be registered, and the aforesaid caveat will be registered accordingly). Simultaneously registration of such *caveat* and registration of a *caveat* in favor of the Purchaser over the Company's Existing Leasehold as stipulated in the Company's Lands Agreement, the Trustee will transfer the First Payment monies together with the fruits thereof to the Municipality. If *caveats* have not been registered as aforesaid due to an impediment which is not connected with the Purchaser, the aforesaid *caveats* will be registered within 2 business days from the date of removal of the impediment, and upon registration thereof the Trustee shall transfer the First Payment monies, together with the fruits thereof, to the Municipality.

- 6.2.2 A sum of NIS 9,664,000 together with indexation differences (as defined above) in respect thereof (hereinafter: **“the Additional First Payment”**), plus V.A.T. as prescribed by law (which shall be paid in the manner stated in Clause 6.10 below), shall be paid by the Purchaser directly to the Municipality by way of bank check, within 90 days from the date of transfer of the First Payment Moneys from the Trustee to the Municipality, as stated in sub-clause 6.2.1 above. The Additional First Payment shall be paid out of the Purchaser's own resources and without any encumbrance on any of the Purchaser's rights pursuant to this Agreement and/or in the Municipality Lands and/or the Additional Real Estate Rights.
- 6.2.3 Within 90 days from the date specified for making of the Additional First Payment, a sum of NIS 9,183,216 together with indexation differences (as defined above) and plus V.A.T. as prescribed by law (which shall be paid as stated in sub-clause 6.10 below) shall be paid by the Purchaser to the Municipality by way of bank check (hereinafter: **“the Later First Payment”**), against return to the Purchaser of the sale process guarantee. The Later First Payment shall be paid out of the Purchaser's own resources without any encumbrance on any of the Purchaser's rights pursuant to this Agreement and/or in the Municipality Lands and/or the Additional Real Estate Rights. The Purchaser undertakes to cause an extension of the sale process guarantee from time to time in a manner whereby the guarantee will remain in force until actual settlement of the Later First Payment. If the sale process guarantee is not extended as aforesaid at least 21 days before the date of its expiration, the Company will be entitled to foreclose on the sale process guarantee.
- 6.2.4 A sum of NIS 159,695,184 together with indexation differences (as defined above) in respect thereof (hereinafter: **“the Second Payment”**) plus V.A.T. as prescribed by law (which shall be paid as stated in Clause 6.10 below) shall be paid by the Purchaser directly to the Municipality: (1) 7 business days from the date on which notice is given by the Municipality to the effect that subject to payment of fees and levies only, it will be possible to issue the first building permit (even if such notice relates to a building permit that will be issued in relation to only part of the Company's Lands and/or the Municipality Lands and/or the Additional Real Estate Rights, but excluding an excavation and shoring permit, a permit for a sales office, signboards, fencing and similar other permits that are only ancillary and subordinate to the Project) (hereinafter: **“the First Building Permit”** and **“Notice Regarding the First Building Permit”**, respectively), or (2) after the elapse of 24 months from the date of signing of this Agreement, whichever of (1) or (2) is the later. For the avoidance of doubt it is hereby clarified that such notice in relation to a permit for construction of the basement floors or part thereof (even if it is issued separately from the building permit for the above-ground areas) will be deemed to be Notice Regarding the First Building Permit for purposes of this Clause 6.2.4. The Second Payment shall be made by way of a bank check and subject to fulfillment of the matters set forth in sub-clause 6.2.5 above.

For the removal of doubt it is clarified that under all circumstances, whether or not a building permit is issued, irrespective of the reason for the delay in or failure to issue the building permit, the Second Payment shall be made not later than the end of 24 months from the date of signing of this Agreement and in accordance with the provisions of this sub-clause above, without being dependent on the fulfillment or non-fulfillment of any circumstances, including in connection with the issue or non-issue of the First Building Permit, and shall be in the nature of being an absolute obligation for payment at the specified time.

The Purchaser undertakes to notify the Municipality in writing, in good time, as to the anticipated date for issue of the First Building Permit.

The Purchaser undertakes to give the Municipality written notice about the issue of the First Building Permit immediately upon receipt thereof, and to furnish the Municipality with a copy thereof.

6.2.5 The Second Payment shall be made in a manner whereby at the date specified in sub-clause 6.2.4 above for the making of the Second Payment, the parties will meet at the Land Registry, and will simultaneously perform the following actions:

6.2.5.1 The Purchaser shall pay the Second Payment to the Municipality by way of bank check.

6.2.5.2 The encumbrance in favor of the financing bank as defined in Clause 16.6.3 below and as described in that clause.

6.2.5.3 The encumbrance in favor of the financing bank (as defined in Clause 16.7.3 of the Company's Lands Agreement) in accordance with one of the alternatives listed in the abovementioned clause of the Company's Lands Agreement.

6.2.5.4 The Municipality will deliver possession of the Municipality Lands and the Additional Real Estate Rights to the Purchaser as described in Clause 10 below. In addition, by virtue of delivery of possession of the Municipality Lands, the amount of the V.A.T. which is the subject of the Second Payment and the amount of the V.A.T. which is the subject of the Third Payment will be paid to the Municipality by the Purchaser at the Date of Delivery of Possession by way of a bank check.

6.2.5.5 The Municipality shall deliver the certificates mentioned in sub-clauses 9.1 and 9.2 below to the Purchaser, if same have not been delivered up to that date.

- 6.2.5.6 It is clarified that the making of the Second Payment in accordance with this Clause 6.2 shall be effected simultaneously with the making of the Second Payment pursuant to Clause 6.2 of the Municipality Lands Agreement and according to the conditions thereof.
- 6.2.5.7 It is hereby agreed that if a registration or procedural problem should arise in creating any of the encumbrances included in the encumbrance to the financing bank, then the parties will in good time discuss between themselves and together with the financing bank the necessity for reaching an appropriate arrangement that will be agreed upon by the parties and by the financing bank in a manner that allows for the effecting of the Second Payment.
- 6.2.6 A sum of NIS 7,248,000 together with indexation differences (as defined above) in respect thereof and plus V.A.T. as prescribed by law (which shall be paid in accordance with the provisions of sub-clause 6.10 (hereinafter: **“the Third Payment”**) will be paid by the Housing Company directly to the Municipality on the date of receipt of “Form 4” with respect to the first commercial areas that will be constructed on the Company’s Lands and/or the Municipality Lands and/or the Additional Real Estate Rights (except if “Form 4” is received solely with respect to the commercial areas that will be located on the first floors of the residential buildings in the residential zone, if there are such) and against return of an irrevocable power of attorney for expungement of a *caveat* mentioned in Clause 9.5 below. The Third Payment shall be made by way of a bank check.
- 6.2.7 In relation to any amount that may be deposited in trust with the Trustee in accordance with the provisions of this Clause 6, the Trustee shall act in accordance with the letter of instructions to the Trustee which is attached to this Agreement as **Appendix 6.2.7**, and deposit of such amount in trust with the Trustee, as aforesaid, shall be deemed to be performance of the Purchaser’s obligation to pay the aforesaid amount to the Company.
- 6.3 In addition to the Basic Consideration, the Municipality will be entitled to additional consideration from the Housing Company in relation to the residential areas that will be erected on Plot No. 1 and in relation to the areas of Plot No. 6, in the scope of the Purchaser’s Project, as described below (hereinafter: **“the Additional Consideration”**):
- 6.3.1 The terms mentioned in this Clause 6.3 and all the sub-clauses hereof will have the meaning ascribed to them in Clause 6.7.1 below.
- 6.3.2 If the average selling price per sq.m. should exceed NIS 15,517 (excluding V.A.T.) linked to the upside index as stated in Clause 6.3.4 below (hereinafter: **“the Basic Price”**), but be less than NIS 16,379 (excluding V.A.T.) linked to the upside index as stated in sub-clause 6.3.4 below (hereinafter: **“the Intermediate Price”**), the Housing Company will pay the Company an amount equivalent to the full difference between the Intermediate Price and the Basic Price where this is multiplied by the sale areas and the Municipality’s share in the Additional Consideration, plus V.A.T. as prescribed by law against receipt of a casual transaction form.

For example –

In a case in which there has been no rise in the upside index, the average selling price per sq.m. will be NIS 16,000 (excluding V.A.T.) and the sale areas will stand at 50,000 sq.m., then the Additional Consideration to the Company will be:

$50,000 * 24.16\% * (16000 - 15517) = \text{NIS } 5,834,640 \text{ plus V.A.T. according to law.}$

- 6.3.3 If the average selling price per sq.m. should exceed the Intermediate Price (hereinafter: **“the High Price”**), the Housing Company will pay the Municipality the following cumulative amounts, together with V.A.T. according to law and against receipt of a casual transaction form:
 - 6.3.3.1 The full difference between the Intermediate Price and the Basic Price where it is multiplied by the sale areas and by the Company’s share in the Additional Consideration.
 - 6.3.3.2 50% of the difference between the High Price and the Intermediate Price where this is multiplied by the sale areas and by the Company’s share of the Additional Consideration.

For example –

In a case in which the upside index has not risen, the average selling price per sq.m. will be NIS 18,000 (excluding V.A.T.), the sale areas will stand at 50,000 sq.m., then the Additional Consideration to the Municipality will be the following cumulative amounts:

$50,000 * 24.16\% * (16379 - 15517) = \text{NIS } 10,412,960 \text{ plus V.A.T. according to law.}$

$50,000 * 50\% * 24.16\% * (18000 - 16379) = \text{NIS } 9,790,840 \text{ plus V.A.T. according to law.}$

And altogether the Additional Consideration to the Municipality will amount to a sum of NIS 20,203,800 plus V.A.T. according to law.

- 6.3.4 The Basic Price and the Intermediate Price (as will be updated in accordance with the provisions of sub-clause 6.3.5 below to the extent that same are updated) will be linked to the index or to the Building Inputs Index, according to the index to which the proceeds that will be received from buyers of apartments will be linked and as will be mentioned in the sale contract with the buyers of apartments (hereinafter: **“the Upside Index”**) and will bear indexation differences at the percentage rise of the Upside Index which is known at the time of doing the relevant accounting as against the Upside Index that was known at the date of signing of an agreement for the sale of the first apartment in the Purchaser’s Project between the Purchaser and a third party, while a decline in the Upside Index will not lead to a reduction of the Basic Price and the Intermediate Price, as the case may be.

6.3.5 If building construction has been approved to the Housing Company pursuant to which the average main area of an apartment will be less than 110 sq.m. but will not be less than 91.7 sq.m. and the Company was held liable in respect thereof for a betterment levy or payment of betterment and/or if a concession was approved to the Housing Company in regard to the adding of two additional floors in the buildings on Plot No. 1 from 12 to 14 floors and in respect thereof the Purchaser was held liable for a betterment levy or payment of betterment (hereinafter jointly: **“the Specific Planning Changes”**), then: (1) the amount of the betterment or the betterment levy that was paid by the Housing Company as was fixed according to law as a consequence of the approval of the specific planning changes only (whichever is the higher) or (2) an amount in a maximum sum of NIS 10,000,000 linked to the Upside Index (excluding V.A.T.) (hereinafter: **“the Betterment Tax Ceiling”**), whichever of (1) or (2) above is the lower (hereinafter: **“the Determining Amount”**), where same is divided by the sale areas, will be added both to the Basic Price and to the Intermediate Price.
For the removal of doubt it is clarified that the aforesaid amount of NIS 10 million is an upper limit, and that the Determining Amount as defined above (which will be divided by the sale areas where the result of the division thereof by the sale areas will be added to the Basic Price and to the Intermediate Price) will under no circumstances exceed the Betterment Levy Ceiling.

For example –

In a case in which the Determining Amount stands at NIS 7,000,000 and the sale areas (of all the apartments) stand at 50,000 sq.m., the following amount will be added both to the Basic Price and to the Intermediate Price:

$7,000,000 / 50,000 = \text{NIS } 140.0$

so that the Basic Price will stand at NIS 15,657 and the Intermediate Price will stand at NIS 16,519.

The Housing Company undertakes to notify the Municipality, immediately after receiving a demand from the local committee for payment of betterment or a betterment levy in connection with any of the specific planning changes. After receipt of such notice and if the Municipality so wishes, the Housing Company will allow the Municipality to defend such demand for payment, including the exhausting of objection and appeal rights according to law, all at the times prescribed by law. It is clarified that nothing contained in the provisions of this sub-clause shall constitute a representation and/or any undertaking by the Company and/or the Municipality and/or anyone on their behalf in relation to the approval of the Specific Planning Changes.

For the removal of doubt it is clarified that in every case in which the Determining Amount as defined in this sub-clause above is lower than (a) the amount of betterment or the betterment levy which was actually paid by the Housing Company or (b) the amount of the Betterment Levy Ceiling, including in a case in which the amount of the betterment or the betterment levy is reduced after the actual payment thereof (such as – as a consequence of objection and appeal proceedings), then the necessary adjustments and accounting will be made as between the parties as a consequence of such reduction.

6.3.6 In addition to the amounts mentioned in Clauses 6.3.2-6.3.3 (inclusive), the Housing Company shall pay the Municipality, as part of the Additional Consideration, an amount equivalent to one-half of the difference, if any, between the selling price (including V.A.T.) in respect of a sale or letting under leasehold or conferring of a right of use of any sort of a parking place in the Purchaser's Project that will be paid by any buyer of an apartment or any third party (even if he is not a buyer of an apartment) in respect of a parking place in the Purchaser's Project (excluding only a price that will be paid by any buyer of an apartment in respect of a first parking place for an apartment) and a sum of NIS 100,000 (including V.A.T.) for each parking place (for the avoidance of doubt it is clarified that this price is a consideration for all the direct and indirect costs connected with the construction of parking places as aforesaid, including and without derogating from the generality of the foregoing, planning and construction of the parking places including the envelope in respect thereof, the marking thereof, installation of sprinklers within the confines thereof, installation of fire extinguishing system, design and similar other costs) (where same is linked to the Upside Index commencing from the date of signing of a sale agreement in respect of the first apartment in the Purchaser's Project between the Housing Company and a third party and up to the time of any actual payment), where this is multiplied by the Municipality's share in the Additional Consideration.

6.4 The Additional Consideration will be calculated and paid at the following times:

6.4.1 **Interim accounting**

6.4.1.1 On the 5th of the first month of each calendar quarter, commencing from the date of signing of the first agreement for the sale of an apartment between the Housing Company and a buyer of an apartment, an interim accounting will be done in relation to the Additional Consideration in respect of the proceeds of the sales that have been received by the Purchaser in the preceding quarter (hereinafter: **“the Interim Accounting”**). The Interim Accounting will be carried out with respect to each and every apartment the proceeds in respect of which were paid in the preceding quarter in a manner whereby the average selling price per sq.m. for each apartment will be determined on a basis of the total proceeds of the sales which were received in respect thereof in the preceding quarter (hereinafter: **“Proceeds of the Quarter”**) where same is divided by “the partial sale area”.

For purposes of this sub-clause **“the partial sale area”** means: the sale areas (as defined below) which are the subject of each apartment where same are multiplied by the ratio between the Proceeds of the Quarter for the apartment (without indexation differences in respect thereof) and the total proceeds specified for the apartment in the relevant sale contract.

The Municipality's share in the Additional Consideration in accordance with the Interim Accounting for each quarter will be paid to the Municipality, plus VAT according to law, within 14 days from the date on which such accounting is conducted.

6.4.1.2 The Interim Accounting in each quarter will be carried out on a cumulative basis having regard to the proceeds, the sale areas which are the subject of those proceeds and having regard to the Additional Consideration in respect of the quarters which preceded it. It is hereby agreed that only commencing from the date of payment of the full Basic Consideration, to the extent that it becomes apparent at the time of conducting any Interim Accounting that overpayments of the Additional Consideration, on a cumulative basis, have been paid to the Municipality, the Municipality will refund to the Housing Company the amounts that were overpaid to it as aforesaid, where such amounts are linked to the Upside Index commencing from the date of the last accounting and up to the date of the actual refund thereof, plus V.A.T. according to law, against receipt of a valid tax invoice.

6.4.2 **Final accounting**

Not later than 7 days from the date of first occupation of the last residential building, a final calculation will be made of the Additional Consideration in relation to all the apartments in the Purchaser's Project (hereinafter: **"the Final Accounting"**).

In the scope of the Final Accounting, the Additional Consideration that is due to the Municipality will be calculated in relation to all the apartments in the Purchaser's Project on a basis of all the sale areas and all the proceeds of sales (hereinafter: **"the Final Additional Consideration"**).

If the Final Additional Consideration should exceed the total amounts that are the subject of the Additional Consideration that has been paid to the Municipality up to such time, the balance will be paid to the Municipality, together with V.A.T. according to law, within 14 days from the date of calculation of the Final Accounting, where same is linked to the Upside Index from the date of the accounting and up to the date of actual payment thereof to the Municipality. As against that, if the payments that have been paid by the Housing Company to the Municipality up to such time exceed the total Final Additional Consideration, the Municipality will refund to the Housing Company the amounts that were overpaid to it as aforesaid, where same are linked to the Upside Index from the date of the last Accounting and up to the date of the refund thereof to the Purchaser, together with V.A.T as prescribed by law and against receipt of a tax invoice as prescribed by law within 14 days from the date of calculation of the Final Accounting.

- 6.5 As security for payment to the Municipality of the Additional Consideration, the Housing Company shall deliver to the financing bank an irrevocable instruction in relation to the account in which the total proceeds that will be received from the buyers of apartments will be deposited (hereinafter: **“the Proceeds Account”**) pursuant to which the Housing Company will instruct the financing bank to act in accordance with the instructions of the arbiter as defined in sub-clause 6.7 below, in connection with the release of money from the Proceeds Account to the Municipality, in accordance with the results of the Interim Accountings that will be conducted between the parties as stated in sub-clause 6.4.1 above and that it should not allow the Housing Company to withdraw/transfer any money from the Proceeds Account (including a transfer of money from the Proceeds Account to the Housing Company’s expenses account), unless at the time of any such withdrawal/transfer an early interim accounting is done, and in accordance with the results thereof money will simultaneously be transferred to the Company out of the Proceeds Account in accordance with the instructions of the aforesaid arbiter. In the event that the financing bank refuses to act in accordance with such irrevocable instructions, other collateral will be decided upon by the parties to secure payments of the Additional Consideration, to the satisfaction of the Municipality. The Housing Company undertakes that the Mall Company will not be a partner and/or a holder of rights and/or a beneficiary in the Proceeds Account, that the Proceeds Account will be specifically earmarked solely for proceeds that will be received from the buyers of the apartments, that all the proceeds that will be received from buyers of apartments will be deposited solely in the Proceeds Account, and it undertakes to include an appropriate provision in the sale agreements with the buyers of the apartments. The Housing Company further undertakes that the Proceeds Account will be encumbered only to the financing bank (subject to the Municipality’s rights to receive proceeds in accordance with this sub-clause 6.5 and the rights of the Company to receive proceeds in accordance with Clause 6.5 of the Municipality Lands Agreement), and that no rights of whatsoever nature therein will be granted to any third party.
- 6.6 Once each month, not later than the 15th of the succeeding calendar month, the Housing Company shall deliver to the Municipality a detailed report of the sales that were made by the Housing Company in the preceding month and of the proceeds of sales that are the subject of the aforesaid sales. The Municipality will be entitled to examine the report itself and/or through an accountant on its behalf, and the Housing Company undertakes to furnish the Municipality and/or the aforesaid accountant with all information and/or any document that may be demanded for purposes of the aforesaid examination.
- 6.7 Differences of opinion between the parties in connection with the calculation of the Additional Consideration will be brought for the decision of Gad Somekh, C.P.A., or if he is prevented from serving as arbiter, another partner in his office, following a request from one of the parties to him (hereinafter in this sub-clause: **“the Arbiter”**). The Arbiter will be entitled for purposes of making a calculation of the areas to be assisted by a real estate appraiser and/or surveyor. The Arbiter will act as an expert and not as an arbitrator, and his decision shall be final and binding on the parties.
- 6.7.1 For purposes of this Clause 6, the following terms and expressions will have the meanings set opposite them:
- 6.7.1.1 **“Sale areas”** – the effective total of the areas of the apartments (which will be measured in relation to each and every apartment according to the definition of the term effective area of an apartment, as elucidated below), plus the following areas (which will also be measured in relation to each apartment separately in accordance with the provisions set forth in Clause 6.7.1.3 below): 33% of the areas of enclosed or open porches that are linked to the apartments, 20% of the areas of the storerooms that are linked to the apartments, 20% of the areas of one parking place which is linked to the apartment (as distinct from additional parking places in excess of one parking place per apartment), 5% of the areas of the gardens that are linked to the apartments, and together with the *pro rata* share of the apartment in the landing of its floor. Under all circumstances it is hereby clarified that for purposes of calculating “the sale areas”, areas will be counted once only.

6.7.1.2 “Effective area of apartment” –

The area contained in the polygon created by the lines that pass over the outer side of the external walls of the apartment.

For these purposes –

- (1) “External wall” – a wall which separates between the apartment and what is outside of it, including between the apartment and a sun porch, between it and a common area on the floor or between it and another apartment or plan;

Where the external wall separates between the apartment and another apartment, the line of the aforesaid polygon will pass through the center of the external wall;

- (2) “The outer sides of an external wall” – the sides of the wall without finishing; in a case of a wall with stone cladding, the sides of the wall will include the cladding.
- (3) In a multi-level apartment the area will be calculated and particularized with respect to each level in the apartment; the area of the apartment will be the total areas of all the levels in the apartment.

The area of each set of stairs in an apartment will be calculated once only according to the horizontal projection of all the sloping and horizontal surfaces; the area will be added to the level which ascends from the flight of stairs.

- (4) In calculating the area only the areas the height of which conforms with what is required under the Planning and Building Regulations (Application for Permit, Conditions thereof and Fees), 5730-1970 (hereinafter: “**the Planning and Building Regulations (Application for Permit)**”) will be included.

6.7.1.3 The areas of the porches, storerooms, parking places and the gardens will be measured and calculated in accordance with the following provisions:

- 6.7.1.3.1 Areas of enclosed or open porches that are linked to apartments – the floor area that falls within the polygon created by the lines that pass through the outer sides of the external walls or the constructed railings of the porches and through the outer sides of the walls of the apartments that border on the porch.
- 6.7.1.3.2 Areas of storerooms linked to apartments – the floor area that falls between the walls of the storeroom plus the area of the wall; where the storeroom wall separates between it and part of another storeroom/area, only the area below one-half of the width of the wall will be included; where the storeroom wall borders on a common area, the area of the wall will be included in its entirety.

6.7.1.3.3 Areas of parking places – (area of one parking place which is linked to an apartment) – the floor area of the parking place without walls and/or thoroughfares.

6.7.1.3.4 Areas of gardens that are linked to apartments – the garden area includes the area of the walls which support the perimeter thereof.

6.7.1.3.5 **“Floor landing”** – the area that falls within the lines that pass between the outer walls of the floor landing (excluding shafts and voids), including one-half only of the area of the stairwells that are located between the relevant floor and the floor below it, which will be calculated according to the horizontal projection of the sloping and horizontal surfaces.

6.7.1.4 **“Sale proceeds”** – all the amounts (excluding V.A.T.) that will actually be received from the buyers of the apartments and/or in connection with the sale of the apartments to the buyers of the apartments, including by virtue of sale agreements and addenda to such agreements (including consideration in respect of one parking place per apartment, porches, roofs, storerooms, gardens, basements and so forth), and any additional consideration that may be received from buyers of the apartments including, and without derogating from the generality of the foregoing, penalty interest and indexation differences that will be received from buyers of the apartments in respect of arrears and agreed damages in respect of a cancellation of agreements / contractual arrangements, together with indexation differences to the Upside Index at the percentage rise in the known Upside Index at the time the relevant accounting is done, as against the Upside Index which was known at the time each payment was actually made by the buyers of the apartments, where a fall in the Upside Index will not lead to a reduction in the amount of the sale proceeds.

It is clarified that in calculating the sale proceeds, the following payments will not be taken into account:

6.7.1.4.1 Any payment for alterations and additions in excess of the specification for the apartments, as defined in Clause 6.9.1 below, in the event that same are paid directly to the executing contractor, and which are not due to the Housing Company, directly or indirectly.

6.7.1.4.2 That portion of the payment in respect of legal expenses and attorneys’ fees which will be collected from the buyers of apartments (hereinafter: **“the Legal Expenses”**) and which will be paid by the Housing Company to the attorneys who represent it in the sale agreements with the buyers of apartments. The balance of the Legal Expenses (which is not transferred by the Housing Company to the aforesaid attorneys) will be included as part of the sale proceeds.

6.7.1.4.3 Payment of buyers of apartments for water, electricity and gas meters and other accessories such as that which will be purchased for them by the Housing Company, on a basis that the full payment by the buyers of apartments will be transferred onwards to the aforesaid suppliers of the accessories.

6.7.1.4.4 Payments by buyers in respect of refund of fees, costs of preparation of drawings and payment to the Municipality in respect of the signing of the condominium registration documents referred to in sub-clause 9.8.1 below, provided that the total amount per apartment in respect of the components mentioned in this sub-clause shall not exceed NIS 5,000 (excluding V.A.T.), where same is linked to the Upside Index commencing from the date of signing of this Agreement and up to the date of the relevant accounting.

6.7.1.4.5 Payments of management fees will be paid directly by the buyers of apartments to the management company (and which are not payable, in whole or in part, to the Housing Company, directly or indirectly).

6.7.1.5 **“Average selling price per sq.m.”** – the total sale proceeds where same are divided by the total sale areas.

6.7.1.6 **“The Municipality’s share in the Additional Consideration”** – 24.16%.

6.8 **Plot No. 6**

6.8.1 It is agreed between the parties that if any of the built areas on Plot No. 6 should be zoned or designated for use which is not residential, then the Additional Consideration to which the Municipality will be entitled in respect of the proceeds of any transactions (including sale and/or lease and/or operation and so forth) that may be made in relation to Plot No. 6 will be according to a mechanism that will be agreed between the Company, the Municipality and the Purchaser.

6.8.2 The Housing Company shall notify the Municipality and the Company shortly after the date on which a decision is taken in connection therewith as to the intended zoning for Plot No. 6 and in accordance therewith the Company, the Municipality and the Housing Company will discuss the laying down of the agreed mechanism for determining the Additional Consideration in Plot No. 6.

6.8.3 It is hereby expressly agreed, that notwithstanding anything else contained in this Agreement, as long as no mechanism has been agreed in writing between the Company, the Municipality and the Housing Company for the Additional Consideration in respect of Plot No. 6, the Housing Company will not be entitled to enter into sale and/or lease transactions and/or contractual arrangements and/or other transactions of whatsoever nature in connection with Plot No. 6, whether with respect to the land or with respect to the built areas.

6.8.4 For the avoidance of doubt it is hereby clarified that if the actual use that will be planned or will be made of Plot No. 6 is for residential purposes, then the Additional Consideration to which the Municipality will be entitled in relation to the proceeds from Plot No. 6 will be as stipulated in Clauses 6.3-6.7 above.

6.9 **Provisions regarding the standard of building and technical specifications which will be attached to the sale agreements with buyers of apartments**

6.9.1 The building construction in the residential zone and the apartments therein shall be built at a standard which shall not be inferior to the standard described in the main features of the specification, the simulations and in the photographs that are attached to this Agreement as **Appendix 6.9.1, whichever is the higher** (hereinafter: “**the Basic Specification**”).

6.9.2 The apartments shall be sold to the buyers of apartments according to a technical specification that shall not be inferior to the Basic Specification (hereinafter: “**the Apartments Specification**”).

6.9.3 Alterations and additions in relation to the Apartments Specification shall be requisitioned directly by the buyers of apartments from the executing contractor. Any payment for alterations and additions as aforesaid shall belong to the executing contractor and will not be included in the sale proceeds. If and to the extent that the Housing Company should receive any payments that are connected with the aforesaid alterations and/or additions, directly or indirectly, then those payments will be added to the sale proceeds.

The Housing Company undertakes that if a credit should be due in respect of cancellation of works that are included in the Apartments Specification, it will be obtained from the executing contractor.

6.10 **Value Added Tax**

6.10.1 Each payment imposed on any of the parties according to this Agreement shall be paid together with V.A.T. according to law. In the case of amounts which have been specifically stated in this Agreement as including V.A.T., no V.A.T. shall be added in respect thereof.

6.10.2 For the removal of doubt it is clarified that in order to enable the Purchaser to set off V.A.T. (to the extent that it is entitled to setoffs), in respect of any V.A.T. payment imposed on the Purchaser, the Municipality will issue the Purchaser a casual transaction form, with it being clarified that for purposes of this Clause 6 and the sub-clauses thereof, the term “**against receipt of a casual transaction form**”) shall have the following meaning: the furnishing of a casual transaction form to the Purchaser within three business days after the 15th of the month after the month in which each of the payments of the Consideration mentioned in this Clause 6 was paid to the Municipality. In addition the Municipality shall deliver to the Purchaser a certificate regarding exemption from deduction of tax at source. It is further clarified that every payment of V.A.T. that may be imposed on the Purchaser shall be paid by it, and it will not be entitled to impose any payment of V.A.T. on the Municipality.

- 6.10.3 It is agreed that the V.A.T. payments in respect of each and every payment of the Consideration (both with respect to the Basic Consideration and also in relation to the Additional Consideration) shall be paid by a post-dated check the due date for payment of which is 5th of the month following the month in which the payment was actually made, except with respect to the first payment in relation to which the provisions of sub-clause 6.2.1 above will apply and in respect of the Second Payment and the Third Payment (in relation to which the V.A.T. will be paid by a bank check on the same date on which the Second Payment is paid). For the removal of doubt it is clarified that the time of payment of the V.A.T. in respect of payments of the Consideration as specified in this Agreement is the time specified in this sub-clause 6.10.
- 6.10.4 If an approval is received from the V.A.T. authorities in accordance with Section 20 of the Value Added Tax Law, 5736-1975, the parties undertake (without derogating from any of their rights according to law) to act in accordance with the aforesaid approval with respect to each payment that will be paid as from the date of receipt of the approval. If the signature of the Municipality on forms / documents is required for purposes of obtaining such approval, the Municipality will sign such forms / documents subject to the condition that the forms / documents shall not impose any financial obligations on the Municipality.

6.11 **Anticipation of payments**

It is hereby agreed that the Purchaser will have the right to anticipate any of the payments of the Consideration, including the Additional Consideration, with it hereby being agreed as follows: (1) in relation to the bringing forward of any of the payments of the Basic Consideration, such anticipated payment shall be made at a discount rate of 4% per annum; (2) with regard to the bringing forward of any of the payments of the Additional Consideration, such anticipated payment shall be made by way of conducting an interim accounting at the dates earlier than the dates specified in Clause 6 above for the conduct thereof, without such anticipated payment causing any reduction in the extent of the payments of such Additional Consideration that have been brought forward; (3) every anticipated payment shall be made both *vis-à-vis* the Municipality and also *vis-à-vis* the Company, all subject to the giving of written notice to the Municipality and to the Company at least 7 business days in advance.

7. **Public buildings, area of the Municipality’s parking places, development of the open public areas, and maintenance of the open public areas and the open private areas**

7.1 **Public buildings**

7.1.1 The Housing Company is obliged to build and erect the public buildings as defined and described in the Construction Contract (including the appendices thereto) which is attached to this Agreement as **Appendix 7.1.1** and which will be signed simultaneous with the signing of this Agreement (hereinafter: “**the Public Buildings**” and “**the Construction Contract**”, respectively) and to deliver same to the Municipality in accordance with its abovementioned obligations and the provisions set-forth below:

7.1.1.1 Construction of a country club-sports center and a school building on Plot No. 8, to an overall aggregate extent of approximately 10,000 sq.m. gross (that is to say, including service areas) which contain a country club-sports center building in an area of about 7,500 sq.m. gross (hereinafter: “**the Sports Center**”), and a school building in an area of approximately 2,500 sq.m. gross (hereinafter: “**the School**”). It is clarified that the planning of the Public Buildings, to an overall extent of approximately 10,000 sq.m. gross as aforesaid, will in the future make it possible to take full advantage of the building rights on Plot No. 8 for purposes of erecting a cultural building as described in sub-clause 7.1.4. below.

It is agreed that the Municipality will be responsible for the maintenance and management of the Sports Center and the School, and accordingly the Municipality will not be liable for any payment to the Purchaser and/or to any other entity in respect of the management and maintenance of the Sports Center and the School, including payment of management fees, maintenance charges, operating charges and any other payment including payments of any sort in respect of the use of the areas and the facilities which are common to the Public Buildings and the Purchaser’s Project and all in respect of use of the Purchaser’s Lands for purposes of thoroughfare and/or access to the area of the Public Buildings.

7.1.1.2 Construction of the built areas on Plot No. 1 (as defined in Plan TA/3001) to an overall extent of approximately 2,430 sq.m. gross (that is to say, including service areas), as described in sub-paragraph 9.2.2 of Plan TA/3001, for purposes of kindergartens, day-care centers and additional public institutions at the suburban level as described in sub-paragraph 9.2.1 of Plan TA/3001) (hereinafter: “**the Suburban Public Institutions**”).

The Housing Company undertakes to erect the Suburban Public Institutions in a manner that will ensure the independent and separate functioning of these public institutions, including the systems and infrastructures that are connected therewith, and will do so to whatever extent is possible and also taking into account economic factors and as shall be agreed with the Company and the Municipality in the scope of the detailed planning.

It is agreed that the Municipality will be responsible for the maintenance and management of the Suburban Public Institutions, and accordingly the Municipality will not be liable for any payment of whatsoever nature to the Purchaser and/or to the Management Company and/or to buyers of apartments and/or to the representative committee of the condominium and/or to any other entity in respect of the management and maintenance of these public institutions, including payment of management fees, maintenance charges, operating charges and any other payment, including payments of any sort in respect of the use of the areas and facilities that are common to the Suburban Public Institutions and the Purchaser’s Project and/or in respect of use of the Purchaser’s Lands for purposes of thoroughfare and/or access to the Suburban Public Institutions. The Purchaser undertakes to include a provision to that effect in the sale contracts between it and third parties (including the sale agreements with buyers of apartments).

It is further agreed that the Suburban Public Institutions will be built and completed in relation to and in the framework of the progress in the construction and completion of the buildings which will house these public institutions.

As security for construction of the Suburban Public Institutions as described in this clause, the Housing Company, or someone on its behalf, will lodge a guarantee in an amount, at the time and on the conditions stipulated in Clause 25 of the Construction Contract.

- 7.1.2 With regard to the erecting and constructing of the Public Buildings as stated in sub-clause 7.1.1 above, including the Housing Company’s obligations in connection therewith, the provisions of the Construction Contract (as defined above) will apply as between the parties.
- 7.1.3 Without derogating from the contents of Clause 7.1.2 above, it is agreed that in relation to the timetables for constructing the Sports Center and the School, the Housing Company will act in the manner described below, with it being clarified that in every case of a conflict and/or non-conformity as between the timetables that are the subject of the Construction Contract (including those set forth in sub-clause 7.1.3 below), and the timetables that are the subject of this Agreement, the timetables that are the subject of this Agreement shall take precedence and shall prevail:
 - 7.1.3.1 The applications for the issue of excavation and shoring permits for the areas on which the Sports Center and the School will be constructed shall be lodged contemporaneously with the lodgment of the applications for the issue of excavation and shoring permits for the areas on which the parking and/or commercial areas in the confines of “the Kufsa”, as defined above, will be built.
 - 7.1.3.2 The applications for the issue of the building permits for the Sports Center and the School shall be lodged contemporaneously with the lodgment of the applications for the issue of building permits (as distinct from excavation and shoring permits) for the parking and/or commercial areas in the confines of the Kufsa.
 - 7.1.3.3 Initial occupation of the parking and commercial areas in the confines of the Kufsa shall be effected simultaneously and subject to the furnishing of certificates of initial occupation for the Sports Center and the School. It is hereby agreed that if the Purchaser requests to make use of the parking and/or commercial areas in the confines of the Kufsa before a certificate for initial occupation of the Sports Center and the School has been furnished, the Purchaser will be entitled to address an appropriate application to the Director of the Property Division as the Municipality. The Director of the Property Division of the Municipality will decide whether it is possible to accede to the Purchaser’s request and under what conditions the Municipality is prepared to allow use of the parking and/or commercial areas in the Kufsa prior to production of the certificate for initial occupation of the Sports Center and the School.

- 7.1.3.4 As security for construction of the Sports Center and the School as described in this clause, the Housing Company or someone on its behalf shall lodge a guarantee in such amount, at such time and on such conditions as are specified in Clause 25 of the Construction Contract.
- 7.1.3.5 The Municipality for its part will perform all the necessary actions (including its relating to and examining the plans and documents that will be submitted to it by the Purchaser) and will sign all the necessary documents in connection with the applications for the building permits for the Public Buildings, in a manner that will not delay the issue of the building permits for the commercial and parking areas in the Kufsa by virtue of delays that are dependent on the Municipality, and subject to the condition that the Purchaser has fulfilled all the lawful requirements laid down by the competent planning authorities, the provisions of the law and the provisions of the Construction Contract.
- 7.1.3.6 The Purchaser (including the Mall Company) hereby confirms that it is aware of the provisions of the Construction Contract and same are known to it, including the timetables specified in the Construction Contract. Included in this the Purchaser (including the Mall Company) confirms and agrees to the contingent connection that has been stipulated in the Construction Contract and in this Agreement above between the planning, construction, completion and initial occupation of the commercial and parking areas in the Kufsa, on the one hand, and the planning, construction, completion and initial occupation of the School and the Sports Center, on the other. In addition the Purchaser (including the Mall Company) agrees that the timetable for constructing the Public Buildings as described in the Construction Contract and/or in this Agreement shall be recorded as conditions in the building permits for the parking and/or commercial areas in the Kufsa, and that it waives any allegation and/or demand as against the Municipality and/or the Company and/or anyone on their behalf, in regard to the contingent connection and the conditions in the building permit as aforesaid.
- 7.1.4 It is agreed that the remainder of the areas for public purposes on Plot No. 8, to an extent of about 6,000 sq.m. (in addition to the areas specified in sub-clause 7.1.1 above) will be zoned for and will serve as a high quality and significant cultural building. It shall be the Municipality which shall erect the aforesaid cultural building out of its own resources. Timetables for planning and construction of the aforesaid cultural building will bear a direct relationship to the development and the actual construction of the “Kufsa”, with it being agreed that works for erecting the aforesaid cultural building shall not interfere with the works for the erecting by the Purchaser of the Public Buildings.

7.1.5 It is further agreed in relation to the Public Buildings that the Company and the Municipality shall bear the costs of constructing same in a manner whereby the Company will pay the Housing Company and will be directly liable to it for 75.84% of “**the costs of erecting the Public Buildings**” (as defined below), and the Municipality will pay the Housing Company and will be directly liable to it for 24.16% of “**the costs of erecting the Public Building**” (as defined below). For the avoidance of doubt it is clarified that the obligations of the Municipality and the Company to bear the aforesaid costs applies only in relation to the Public Buildings as defined above.

For purposes of this sub-clause 7.1.5 “**costs of erecting the Public Building**” means – the specific costs (including the increment to the costs that will be added in respect thereof, if so specified in **Appendix C1 of the Construction Contract**) as specified in the aforesaid Appendix C1, provided that the amounts of the components of the costs have been approved in advance and in writing by the Company and the Municipality, through the Administration as defined in Appendix 4.1.4 to this Agreement (hereinbefore and hereinafter: “**the Administration**”).

In relation to payment of fees and levies as particularized in Appendix C to the Construction Contract, the Municipality may elect to make payment thereof directly to the local committee and to the Municipality and not through the Housing Company.

The Housing Company undertakes that all the contractual arrangements between it and the designers and executing contractors in connection with the planning and construction of the Public Buildings will be done on a basis of tenders which the Housing Company will conduct, in full transparency vis-à-vis the Administration. The Housing Company further undertakes that construction of the Public Buildings will be managed by it as a separate and independent project from the Purchaser’s Project, and a separate bookkeeping and accounting system will be maintained in respect thereof, and it is agreed that the costs of erecting the Public Buildings will include only direct and specific costs of erecting the Public Buildings without a loading of costs connected with other parts of the Purchaser’s Project.

It is agreed that under no circumstances shall the costs of erecting the Public Buildings exceed an aggregate sum of NIS 97,706,667 including V.A.T. (hereinafter in this sub-clause: “**the Limit Amount**”). Notwithstanding the foregoing it is agreed that if it should transpire that for purposes of meeting the obligation to erect the Public Buildings in accordance with the technical specifications that were attached to the Construction Contract, the “Costs of erecting the Public Buildings” (as defined below) are expected to exceed the Limit Amount, then the Housing Company will refer to the Company and to the Municipality, through the Administration, in order for it to examine whether a deviation from the Limit Amount is indeed necessary. If such deviation has been approved by the Company and the Municipality through the Administration, then the amount of the approved deviation will be added to the Limit Amount, with it being hereby agreed that, in any event, the overall amount of the Costs of erecting the Public Buildings which the Company and the Municipality will bear (each according to its *pro rata* share) will under no circumstances exceed a sum of NIS 102,333,333 plus V.A.T. as prescribed by law (hereinafter: “**the Maximum Limit Amount**”). If the Costs of erecting the Public Buildings should in practice be more than the Maximum Limit Amount, the Housing Company will on its account, bear any amount which exceeds the Maximum Limit Amount. It is agreed that the Limit Amount as well as the Maximum Limit Amount will be linked to the Building Inputs Index commencing from the date of signing of this Agreement and up to the time each payment is actually made.

It is further agreed that the Administration’s examination as aforesaid shall be performed in a manner and at a time that does not cause a delay in the planning and execution of the construction of the Public Buildings in relation to the timetables stipulated in the Construction Contract and in this Agreement.

The Municipality’s share in the Costs of erecting the Public Buildings in accordance with the provisions of this sub-clause above shall be paid on the basis of current month + 45 days from the date on which each account for payment as delivered to the Company and to the Municipality through the Administration, and subject to the condition that the account has been approved for payment by the Administration. V.A.T. as prescribed by law shall be added to each payment against a valid tax invoice.

In every case of an engineering dispute between the parties in relation to the Costs of erecting the Public Buildings, except in regard to (1) approval of a deviation from the Limit Amount as defined above; (2) in regard to the obligations of the Company and the Municipality to bear the aforesaid costs; and (3) the maximum amounts that will apply to the Municipality and the Company and the conditions specified above in connection therewith – the dispute shall be referred for the decision of a civil engineer who shall be appointed with the consent of the Company, the Municipality and the Housing Company, and in the event of there being no agreement between them, the engineer will be appointed by the chairman of the Society of Architects and Engineers (hereinafter – “**the Engineering Arbiter**”). The Engineering Arbiter shall act as an expert and not as an arbitrator and his decision shall be final and binding on the parties. It is clarified that all the provisions of this sub-clause 7.1.5 are intended to add to the provisions of the Construction Contract, where in any event the liability of the Municipality and of the Company for payment of the Costs of erecting of the Public Buildings shall be restricted to the Limit Amount and to the Maximum Limit Amount (as defined above), respectively.

7.1.6 It is further agreed that in the framework of the planning and construction on Plot No. 8, the construction of the ancillary commercial areas and the additional parking areas, as defined in sub-clause 1.6 (b) above, shall be planned in a manner that will allow for proper access to the public functions on Plot No. 8. In addition the Mall Company undertakes to operate the additional parking areas as part of the public parking garage that supports the commercial and the public areas that will be constructed on the Project Lands, and without same being linked to a unit or to units that will be erected on the Project Lands.

For the removal of doubt it is clarified that the Mall Company is the party that will be exclusively entitled to all the proceeds of any sort arising from the operation of the additional parking areas, and it is the party that shall bear all the expenses connected with the operation and/or maintenance thereof (without this derogating from the contents of sub-clause 7.2.2 below).

With respect to the remainder of the commercial areas on Plot No. 8 which are not included in the framework of the Additional Real Estate Rights, the Municipality undertakes that in a case in which, in its sole and absolute discretion, it is considering the leasing under leasehold and/or the letting to third parties of such remainder of the commercial areas, then subject to the laws that apply to the Municipality and to approval from the competent Municipality institutions and from the Minister of the Interior, the Mall Company will be the party that is invited first for negotiations regarding a sale as aforesaid. It is further agreed that the businesses that will be conducted in the aforesaid areas will be ancillary to the activities of the Public Buildings as stated in Plan TA3001. In addition, it is agreed that in any event it will not be possible to locate these areas in the framework of the commercial areas that will be constructed on Parcel 93 or any other parcel that may be created in its place as a result of registration of the parcellation, but shall be located in the framework of the Public Buildings themselves.

7.2 Areas of Municipality’s parking places:

- 7.2.1 The Mall Company shall construct 300 parking places in the confines of Plot No. 8, containing 215 parking places under leasehold to it as stated in sub-clause 1.6(b)(2) above and 85 parking places for the Municipality, as described in sub-clause 7.2.2 below.
- 7.2.2 The Mall Company undertakes to build and erect 85 specific and permanent built parking places on Plot No. 8, in the area of the Municipality’s parking places (as defined below), and to deliver same for the sole use of the Municipality, without consideration of any sort, including entrance fees, management fees, maintenance charges, operating charges and any other payment, including payments of any sort in respect of the use of areas and facilities that are common to the area of the Municipality’s parking places and the Project parking places and/or in respect of the use of the Purchaser’s Lands for purposes of access to the area of the Municipality’s parking places, with it being agreed that the Municipality will attend to and concern itself with the maintenance and management of these parking places.
- 7.2.3 The Mall Company is aware and agrees thereto that the basic positioning of 85 parking places as referred to in sub-clause 7.2.2 above will be according to the location marked in brown on the diagram attached to this Agreement as Appendix B (hereinbefore and hereinafter: “**Area of the Municipality Parking Places**”), and the final positioning of these parking places will be determined as far as possible in continuity with and adjacent to the entrance to the Sports Center that will be erected by the Purchaser as stated in sub-clause 7.1.1.1 above, taking into account the overall planning of Plot No. 8.

- 7.2.4 In addition to the contents of sub-clauses 7.2.1-7.2.3 above, it is agreed that the Mall Company will construct additional parking places in excess of the contents of this sub-clause 7.2 above on the fifth basement level (-5) on Plot No. 8, in the maximum quantity permitted pursuant to Plan TA/3001, and provided that against the exercise of the Purchaser's right to these additional parking places (if they are approved by the competent planning authorities), the Mall Company will make over 40 parking places for the exclusive use of the Municipality (over and above the 85 parking places mentioned in sub-clause 7.2.2 above) free of any consideration, including entrance fees, management fees, maintenance charges, operating fees and any other payments, including payments of any sort in respect of the use of the areas and facilities that are common to the Area of the Municipality Parking Places and the Project Parking Places and/or in respect of the use of the Purchaser's Lands for purposes of access to the Area of the Municipality Parking Places or the area of such parking places, with it being agreed that the Municipality shall attend to the maintenance and management of these parking places. The location of the 40 parking places that will be made over to the Municipality as aforesaid will be fixed as far as possible adjacent to and as a continuation of the entrance to the Sports Center that will be erected by the Purchaser as stated in sub-clause 7.1.1.1 above, all having regard to the overall planning of Plot No. 8, with it being agreed that the lands of these parking places will not be leased under leasehold to the Purchaser and will not form part of the Additional Real Estate Rights as defined in this Agreement, and will be deemed to be an integral part of the Area of the Municipality Parking Places as defined above.
- 7.2.5 It is agreed and clarified that if the number of parking places that will actually be constructed by the Purchaser in the confines of Plot No. 8 on the first basement floors (-1) up to and including the fourth basement floor (-4), should exceed 300 parking places as mentioned in sub-clause 7.2.1 above, then the additional parking places in excess of the aforesaid 300 parking places, will be the sole property of the Municipality, and an accounting shall be done between the Municipality and the Purchaser in connection with these additional parking places.
- 7.2.6 The Mall Company undertakes that persons who will come to the Sports Center, that will be erected by the Housing Company as described in Clause 7.1.1.1 above, will be given a discount of fifty per cent (50%) of the parking charges, with it being agreed that under no circumstances will the aforesaid discount be given in relation to the remaining two hundred and fifteen (215) parking places simultaneously.

7.3 Development of open public areas and maintenance thereof

- 7.3.1 Without derogating from the contents of sub-clause 1.7 above, and in addition thereto, the Housing Company undertakes to develop and erect open public areas (which are marked in green on the Leasehold Drawings and which – as stated in Clause 1.6(d) above – are not part of the Property Sold and will remain in the sole ownership and possession of the Municipality) (hereinbefore and hereinafter: **“the Open Public Areas”**), and shall do so on its account and at its sole expense, in accordance with the provisions of Paragraph 9.6 of Plan TA/3001. The Housing Company further undertakes that the current maintenance of the Open Public Areas will be performed through a management company on its behalf or on behalf of the residents of the buildings that will be erected by the Purchaser or on behalf of the representative committee of the condominiums (hereinafter: **“the Management Company”**), with such maintenance being at its expense or at the expense of the Management Company, at an appropriate standard and according to the customary standard for open public areas of this sort. It is agreed that any transaction or transactions that may be made from time to time, if made, in the Remainder of the Project Lands shall include provisions that shall bind the buyer/s of the Remainder of the Project Lands or any part thereof, to bear their *pro rata* share of the cost and maintenance of the Open Public Areas, which shall be the same ratio as the ratio between the building rights (main areas) of each owner of rights who has acquired rights from the Municipality and the Company as against all the building rights (main areas) in the Project Lands.

It is further agreed that the Municipality will not be liable (as distinct from the buyers of rights from the Municipality in the Remainder of the Project Lands who will be liable) for payment of any sort to the Purchaser and/or to the Management Company and/or to the buyers of apartments and/or to the representative committee of the condominiums and/or to any other body in respect of the management and maintenance of the Open Public Areas, including payment of management fees, maintenance fees, operational charges and any other payment. The Purchaser undertakes that it will include such a provision in the sale contract between it and third parties (including the sale agreements with buyers of apartments).

In a case in which maintenance of the Open Public Areas is not performed in the manner described above, the Municipality will be entitled (but not obliged), after the giving of 45 days prior written warning and an opportunity to rectify the breach, to perform the maintenance of the Open Public Areas itself and to charge the Housing Company or the Management Company or the house committee or the representative committee of the condominiums (and if such representative committee has not been established, then the residents) at the tariffs prevailing for the time being in accordance with the actual results of the Municipality's tenders for the maintenance of open public areas of a similar type to the aforesaid Open Public Areas. It is clarified that nothing in the provisions of this sub-clause 7.3.1 shall derogate from the provisions of sub-clause 9.8.1 below.

It is clarified that where the Housing Company has established the Management Company, as defined above, and has held the buyers of apartments (alone or together with the occupants of the commercial areas) liable to bear their *pro rata* share of the cost of maintenance of the Open Public Areas as aforesaid, the Housing Company will no longer be liable to the Municipality in connection with the maintenance of the Open Public Areas.

- 7.3.2 Without derogating from the contents of Clause 16 below, it is agreed that the Housing Company will be entitled to transfer its obligations for erecting the Open Public Areas and for establishing a management company for purposes of maintenance of the Open Public Areas to a transferee who acquires rights from the Housing Company in the residential section, to the extent that such transfer of rights has been approved in accordance with the provisions of Clause 16 below.

Where the Housing Company has transferred its obligations in the manner stated above in this sub-clause 7.3.2, the provisions of sub-clause 7.3.1 above shall apply to the transferee.

- 7.3.3 If the Housing Company has requested to effect a transfer of its obligations in connection with the Open Public Areas which is not in accordance with the provisions of sub-clause 7.3.2 above, then such transfer shall require the prior written consent of the Municipality, which shall not unreasonably withhold such consent. It is clarified that the only factor the Municipality shall be entitled to consider for purposes of giving consent as aforesaid and the conditions thereof is the guaranteeing of construction and maintenance of the Open Public Areas and the setting up of a management company as described above.

7.3.4 It is agreed that the provisions of sub-clauses 7.3.2-7.3.3 above shall also apply in relation to any transferee who may acquire any rights in the Project Lands from the Purchaser and/or from the Purchaser’s transferees.

7.3.5 Nothing contained in sub-clauses 7.3.2-7.3.4 above shall derogate from the provisions of Plan TA/3001.

7.4 **Open private area**

Without derogating from the Purchaser’s obligations as set forth in sub-clause 1.7 above, and in addition thereto the Purchaser undertakes, in relation to the Company’s Lands and to the Municipality Lands, to comply with the provisions of Plan TA/3001 in relation to the open private areas as described in sub-paragraph 9.6 of Plan TA/3001 and as shall actually be built in accordance with the Amended Architectural Design Plan referred to in sub-clause 4.17 above, with it being agreed that in the scope of the examination by the Administration of the Amended Architectural Design Plan the division of the open private areas as between the Company’s Lands and the Municipality Lands and the Remainder of the Project Lands shall, *inter alia*, be examined. The Purchaser further undertakes to bear the expenses for maintaining the open private areas that will be erected by it in the Purchaser’s Project. It is clarified that in a case in which the Purchaser has established the Management Company, as defined above, and has charged the buyers of apartments (alone or together with the occupiers of the commercial areas) to bear the costs of maintenance of the open private areas that will be constructed by it in the Purchaser’s Project, the Purchaser will no longer be liable to the Municipality in connection with the maintenance of the open private areas.

8. **Traffic solution – Paragraph 14.7 of Plan TA/3001**

It is agreed that in the scope of performing the accounting between the Municipality and the Company, implementing of the traffic solution for purposes of Paragraph 14.7 of Plan TA/3001 has been guaranteed by the Company, in its own name and on behalf of the Purchaser and/or any future applicant for a permit. The Municipality has undertaken that in a case in which the local committee does not consider the performing of an accounting as aforesaid a performance guarantee that complies with the conditions of Paragraph 14.7 of Plan TA/3001, the Municipality will take steps, which will not be on the Purchaser’s account and not on the account of a future applicant for a permit, to comply with the conditions that are demanded by the Local Committee for purposes of fulfilling the contents of sub-paragraph 14.7 of Plan TA/3001, all in a manner that does not delay the issue of the building permit.

The Purchaser and/or any future applicant for a permit shall support a reasonable traffic solution that will be proposed by the Municipality and/or the Local Planning and Building Committee, will not object to such solution, and will not have any allegation and/or demand and/or claim, including for compensation, against the Municipality and/or against the Local Planning and Building Committee, in connection with such solution.

9. **Registration of leasehold, easements and tax certificates:**

9.1 Copies of Land Appreciation Tax and Sales Tax certificates from the Land Registry for purposes of registering the leasehold rights in the Company’s Lands in the name of the Company are attached to this Agreement as **Appendix 9.1**. Subject to and against payment of the second payment of the consideration as mentioned in Clause 6 above, the Municipality undertakes to furnish the Purchaser with the following certificates: (1) an approval from the Municipality and the local committee (in respect of the period up to the date of delivery of the right of use) for purposes of registration in the name of the Purchaser in the Land Registry of the leasehold rights from the Municipality in respect of the Municipality Lands and in respect of the Additional Real Estate Rights (hereinafter: “**the Municipality Approval**”), with it being clarified and agreed that upon the first delivery of the Municipality approval at the date of actual settlement of the Second Payment, the Municipality will have complied with its full obligations in connection with the furnishing of the approval. In the event that an extension or update is required of the Municipality Approval, and/or in a case in which, for purposes of obtaining the Municipality Approval at a deferred date, the making of payments to the authorities mentioned in this sub-clause is required, the responsibility will be imposed on the Purchaser and at its expense.

It is further agreed that if for purposes of furnishing the Municipality Approval, it is necessary that a payment for which the Purchaser is liable, in accordance with the provisions of Clause 11 below, be made, then the Purchaser undertakes to pay this amount forthwith in such a way as to facilitate the issue of the approval. If the Purchaser does not pay the payment for which it is responsible as aforesaid in order for such Municipality Approval to be issued, then subject to the making of the payments that are imposed on the Municipality according to Clause 11 below (to the Purchaser or to the relevant authorities, at the election of the Municipality), the Municipality will be exempt from furnishing the aforesaid Municipality Approval; (2) a Land Appreciation Tax and a Sales Tax certificate (if any) from the Land Taxation Authorities in connection with the transaction that is the subject of this Agreement.

In addition, the Municipality shall, up to the date on which the Second Payment is made, furnish the Purchaser with a certificate from the Property Tax authorities, if property tax applies, regarding the fact that the Municipality has no debt for property tax, for purposes of the registration in the name of the Purchaser, in the Land Registry, of the leasehold rights in the Municipality Lands and in the Additional Real Estate Rights.

9.2 At the Purchaser’s request, and after payment of the full Basic Consideration, the Municipality will sign applications, forms, declarations, deeds of leasehold, and the remaining documents that may be required for purposes of preparing registration files in respect of the right of leasehold, in respect of the Municipality Lands and in respect of the Additional Real Estate Rights in the name of the Purchaser, in the Land Registry. The parties to this Agreement undertake to appear at the office of the competent Registrar of Lands and before the Registrar of Cooperative Houses and before an attorney who authenticates transactions, and to execute registration in the name of the Purchaser of the leasehold over the Municipality Lands and over the Additional Real Estate Rights, and to the extent necessary the Municipality will sign the documents required for purposes of registering the right of leasehold as aforesaid, provided that the Purchaser has fulfilled its obligations under this Agreement. It is further agreed that at the time of signing of this Agreement, the text of a document of the special conditions for the leasehold (Appendix 1.6 to this Agreement) is being signed by the parties for purposes of it being attached as an appendix to this Agreement, on a basis that after payment of the full Basic Consideration to the Municipality and the Company, the Municipality and the Purchaser will sign the special conditions document, both in relation to the Municipality Lands and to the Additional Real Estate Rights, and also in relation to the Company’s Lands as stated in sub-clause 9.5 of the Company’s Lands Agreement.

- 9.3 Upon delivery by the Municipality of the certificates described in sub-clause 9.1 above, and upon the Municipality signing the documents at the Purchaser's request in the framework specified in sub-clause 9.2 above, the Municipality will be deemed to have fulfilled its full obligations in connection with registration of the leasehold rights in respect of the Municipality Lands and in respect of the Additional Real Estate Rights in the name of the Purchaser. It is clarified that all the expenses in respect of registration of such rights shall be borne and paid by the Purchaser.
- 9.4 The Purchaser hereby undertakes to perform registration of the leasehold rights in the Municipality Lands and in the Additional Real Estate Rights in its name, in the Land Registry, at the earliest possible time, and included in this the Purchaser undertakes to prepare the registration file and the documents required for purposes of executing the registration and to procure all the certificates and approvals that it is responsible for obtaining for purposes of executing the registration, and to prepare the Transfer Documents (deeds, applications and similar other documents) until registration of the aforesaid rights has been effected in the name of the Purchaser in the Land Registry.

The Purchaser undertakes to act in a such a manner that registration of the leasehold rights in the Municipality Lands and in the Additional Real Estate Rights in its name as stated in this sub-clause 9.4 will be completed within a period of three (3) years from the date on which the Municipality Approvals mentioned in sub-clauses 9.1 above have been received by the Purchaser, provided that up to such time the parcellation has been registered. It is agreed that if registration of the rights is not completed within three years as aforesaid for reasons which are not dependent on the Purchaser, then the period for completing registration of such rights will be extended by an additional six (6) months.

- 9.5 It is hereby clarified that until the time of transfer of the First Payment Moneys from the Trustee to the Municipality, the Purchaser undertakes not to register and/or to cause registration of a *caveat* in its favor over the Municipality Lands and the Additional Real Estate Rights or part thereof. Without derogating from the Purchaser's undertaking as set forth above in this sub-clause, at the time the Purchaser signs this Agreement the Purchaser will sign an irrevocable power of attorney in the text attached to this Agreement as Appendix 9.5, empowering Advocates Uzi Salman and/or Gabi Priel and/or Orna Aharak-Perlok and/or Noam Liuvlin and/or any attorney of the legal services department at the Municipality, to expunge any *caveat* that may be registered, if registered, in favor of the Purchaser over the Municipality Lands and the Additional Real Estate Rights and/or part thereof. The appointed attorneys will be entitled to use the power of attorney and to expunge any such *caveat* in each of the cases mentioned below after having given the Purchaser prior written notice of 14 business days: (1) in every case in which such *caveat* is registered in the name of the Purchaser or anyone on its behalf contrary to the provisions of this sub-clause 9.5; (2) in any event in which this Agreement is lawfully cancelled for any reason, including, and without derogating from the generality of the foregoing, in the case of non-payments of the Consideration, or any part thereof (subject to the provisions of sub-clause 18.8 below) by the Purchaser to the Municipality at the times specified in Clause 6 above. For the removal of doubt and without derogating from any of the Municipality's rights according to any law and agreement, the Purchaser declares and confirms that cancellation of the Agreement in the circumstances described in sub-clauses 5.2.4.3.1 and 5.2.4.3.4 above will be deemed to be lawful cancellation of this Agreement. The aforesaid power of attorney will be returned to the Purchaser in accordance with the provisions of Clause 6 above. For the avoidance of doubt it is clarified that registration of a *caveat* in favor of the Purchaser as described in this sub-clause 9.5 shall not have the effect of preventing and/or limiting the Municipality from registering *caveats* in connection with the Remainder of the Project Lands.

In addition, the Purchaser shall, at the time of signing of this Agreement, deliver a power of attorney to the Municipality to perform all the registrations required in connection with the Project Lands, including, and without derogating from the generality of the foregoing, registration of the parcellation, registration of easements, registration of *caveats* and/or encumbrances and/or rights in the Remainder of the Project Lands, specific attribution of the *caveat/s* that will be registered in favor of the Purchaser over the Municipality Lands and in the Additional Real Estate Rights and similar other registrations, in the text attached to this Agreement as **Appendix 9.5A**. The Municipality will be entitled to endorse this power of attorney to the buyers of rights in the Remainder of the Project Lands and/or to their appointed attorneys. The Municipality undertakes to obtain a power of attorney for special attribution of *caveats* from the buyers of rights in the Remainder of the Project Lands in relation to *caveats* that will be registered in their favor over the Remainder of the Project Lands.

It is agreed that before any action being performed on the strength of the power of attorney Appendix 9.5A in relation to the Company’s Lands and/or the Municipality Lands and/or to the Additional Real Estate Rights, **except** actions for registration of parcellation, registration of leasehold rights in the name of the Company and special attribution of the *caveats*, prior written notice of 14 days will be given to the Purchaser by the appointed attorney before the such action is performed.

- 9.6 The Purchaser undertakes that on its account and at its expense it will effect registration of the easements in relation to the Municipality Lands and/or to the Additional Real Estate Rights, and by way of registering easements to guarantee right of way for vehicles and right of way for pedestrians from Plot No. 1 to Plot No. 8, all as described in the provisions of Plan TA/3001, and the Municipality for it part undertakes that it will sign the aforesaid deeds of easement.
- 9.7 The Purchaser is aware that a map for purposes of registration and a diagram for sub-division of the Land into a plot and/or plots within the confines of the Project Lands in accordance with Plan TA/3001 have been approved (hereinafter: **“the Parcellation”**), and that the Company has undertaken in the Company’s Lands Agreement to complete registration of the Parcellation of the Company’s Lands together with the Municipality Lands in accordance with the plan that has been approved as aforesaid, together with the amendments thereto, or according to a new parcellation, and to register the Parcellation of Parcel 92, all as described in the Company’s Lands Agreement.

9.8 **Registration of condominium**

9.8.1 The Purchaser undertakes that on its account and at its expense it will register the buildings that will be erected by it on the Company’s Lands and the Municipality Lands as a condominium including registration of house regulations, easements, rights of way, linkages and registration of leasehold rights. If it is not possible to register the condominium as a separate unit and the Purchaser is obliged to register it as a complex condominium within the meaning thereof under the Land Law, 5729-1969, the Purchaser will act in accordance with the directives of the Land Registry. All the documents pertaining to registration of the building and/or the buildings as a condominium as aforesaid, including a drawing, cooperative house registration order and house regulations will be presented for the prior written approval of the Municipality before same are lodged with the Land Registry or any other entity. The Purchaser undertakes that as a precondition to the Municipality signing the condominium documents the Purchaser will pay the Municipality a sum of NIS 2,000 multiplied by the number of apartments that will be constructed on the Municipality Lands, where this amount is linked to the Consumer Price Index commencing from the date of signing of this Agreement and up to the date of actual payment. In addition the Purchaser undertakes to comply with other customary conditions as prevailing for the time being, provided that they do not involve any additional monetary obligation.

It is clarified that in relation to payment of handling fees in respect of registration of a condominium, the provisions of this sub-clause take precedence over the provisions of Paragraph 11(c) of Appendix 1.6.

The Purchaser undertakes to include in the house regulations of the condominium a provision regarding the obligation of the residents to establish a management 6company and for maintenance of the Open Public Areas as described in Clause 7.3.1 above, and in regard to exempting the Municipality from any payments as referred to in sub-clause 7.1.1.2.

9.8.2 Without derogating from the contents of sub-clause 9.8.1 above, the Purchaser in the name of the Municipality, undertakes to register, the lands of the Suburban Public Institutions as defined in Clause 7.1.1.2, including the outside areas that are linked thereto and the Open Public Areas, on its account and at its expense and without consideration from the Municipality, as a separate unit or as separate units in the framework of registering a condominium. The contents of Clause 7.1.1.2 above which pertain to management of the condominium will be included as a provision in the house regulations of the condominium.

9.8.3 The Purchaser undertakes that registration of a condominium will be completed at the earliest possible time it is able to do so and not later than twenty-four (24) months from the date of receipt of a Certificate of Completion for the last building that will be constructed on the Project Lands, or within 24 months from the date of registration of the appropriate Parcellation, whichever is the later.

9.8.4 The Purchaser undertakes that within the scope of transfer of rights in the Project Lands, from the Purchaser to third parties (including buyers of residential units), the Purchaser will arrange with the relevant transferee or transferees in the contracts for the transfer of rights the manner of performing registration of the Project Lands in the Land Registry, including registration of house regulations for the condominium in accordance with the foregoing, including by way of an undertaking by each transferee to perform the necessary actions and to cooperate with all the relevant entities for purposes of registering the areas that have been transferred to him in the Land Registry, and including by way of receiving suitable powers of attorney from such transferees, in order to facilitate registration of the condominium on the Project Lands, at the times specified in this Agreement.

9.8.5 It is agreed that the provisions of sub-clause 9.8.4 above will also apply in relation to any transferee who may acquire any rights in the Project Lands from the Purchaser and/or from the Purchaser’s transferees.

9.9 In the event that the Purchaser does not perform the registrations described in Clauses 9.4, 9.6 and 9.8 above, at the time specified in those clauses, notwithstanding a demand from the Municipality to perform same, the Municipality shall be entitled, but not obliged, to perform the aforesaid acts of registration on the Purchaser’s account, after thirty (30) days from the date of the demand.

The Purchaser undertakes to pay the Municipality, within ten (10) days from the date of the Municipality’s demand, all the Municipality’s expenses in respect of the registration, in accordance with an account that will be presented to it. Expenses which are not paid on due date in accordance with the demand shall bear indexation differences and interest from the date of the demand and up to the date of actual payment. In addition, in such case the Purchaser undertakes to furnish the Municipality with all the certificates and approvals that are required for purposes of performing the aforesaid registrations. For purposes of securing implementation of the matters mentioned in Clauses 9.4, 9.6 and 9.8 above, the Purchaser will grant the Municipality a power of attorney in the text attached to this Agreement as **Appendix 9.9**. The Municipality will be entitled to make use of this power of attorney, for performing the registrations itself, after having given the Purchaser written notice of thirty (30) days.

9.10 Notwithstanding the contents of this Clause 9 above, it is clarified that in a case in which it is not possible to register a condominium on the Company’s Lands together with the Municipality Lands, separately from the Remainder of the Project Lands, the Purchaser will act in cooperation with the owners of rights in the Remainder of the Project Lands as apply at such time, for purposes of registering a complex condominium over all the Project Lands, within the timetable specified in sub-clause 9.8.3 above. The cost of performing such registration shall be borne by the Purchaser and by the owners of rights in the Remainder of the Project Lands according to their *pro rata* share of the Project – that is to say according to the ratio between the building rights (main areas) owned by all owners of rights who acquired rights from the Municipality and the Company and the total building rights (main areas) in that portion of the Project Lands which will be included in the registration of the condominium.

10. Right of use and delivery of possession

10.1 Within 2 business days from the date of actual transfer of the First Payment from the Trustee to the Municipality, the parties will meet and will act in the manner stated in sub-clause 10.2 below (hereinbefore and hereinafter: **“Date of Delivery of the Right of Use”**).

10.2 On the Date of Delivery of the Right of Use, the parties will simultaneously perform the following actions:

- 10.2.1 The Municipality will deliver to the Purchaser a temporary right of use (which is not a proprietary right) in the Municipality Lands in accordance with the provisions of Clause 10.3 below and a temporary right of use (which is not a proprietary right) in the area of the Open Public Areas. It is further agreed that the Municipality will deliver to the Purchaser a right of use in the Additional Real Estate Rights within thirty days from the date the Director of the Property Division at the Municipality is notified in writing that the Purchaser and/or any one on its behalf intends to start excavation and shoring works on Plot No. 8. If according to the provisions of this Agreement it has not been cancelled, such temporary right of use will remain in force up to the date of delivery of possession.
- 10.2.2 The Purchaser shall assume all the obligations which form part of the Obligations and Commitments Transferred. For the removal of doubt it is clarified that the rights which form part of the Obligations and Commitments Transferred will be assigned to the Purchaser only from the date of delivery of possession.
- 10.2.3 The Purchaser shall deliver to the Municipality confirmation regarding the existence of insurance policies as described in sub-clause 13.3 below.
- 10.2.4 The Purchaser shall deliver to the Municipality a declaration verifying representations in the text of Appendix 4.13 to this Agreement.

10.3 **The right of use**

- 10.3.1 The right of use granted to the Purchaser on the Date of Delivery of the Right of Use is a revocable right, for purposes of performing excavation and shoring works and for that purpose alone. For the avoidance of doubt it is clarified and emphasized that the permission granted to the Purchaser as aforesaid does not constitute the grant of a proprietary right to the Purchaser, possession to the Purchaser or a transfer of any right to the Purchaser, apart from the permission to perform the excavation and shoring works. The Purchaser will be a licensee in respect of that portion of the Municipality Lands and/or the Additional Real Estate Rights which the Purchaser uses for purposes of performing the excavation and shoring works as a licensee only. The Municipality will be entitled at any time, by way of prior written notice of 14 business days to cancel the right of use, in any event in which the Municipality believes in its sole and absolute discretion that the Purchaser has breached any of its obligations under this Agreement and has not rectified the breach within 14 business days from the date on which written notice regarding the breach was received by it.
- 10.3.2 The Purchaser will have no right of lien over the Municipality Lands and/or the Additional Real Estate Rights or any portion thereof.
- 10.3.3 During the period in which a right of use is granted to the Purchaser, the Purchaser will be entitled to fence-in the Municipality Lands or any portion thereof and/or to station a portable and temporary structure on the Municipality Lands that will serve as a sales office, subject to obtaining all the permits and approvals required according to law, all without adding rights of way for the Purchaser in its capacity as a licensee and without derogating from the powers and rights of the Municipality and the Company with regard to the right of use period.

10.3.4 Where the Municipality has notified the Purchaser of cancellation of the right of use as aforesaid and the Purchaser has not cured the breach within the time specified in sub-clause 10.3.1 above, the Purchaser undertakes to vacate the Municipality Lands and the Additional Real Estate Rights of any person and/or article and/or temporary structure, and commencing from the date on which the notice is given, the Municipality will be entitled to evict the Purchaser and/or anyone on its behalf from the Municipality Lands and the Additional Real Estate Rights and to evacuate any person and article and/or temporary structure from the Municipality Lands and the Additional Real Estate Rights, and to use all the materials, equipment and installations the Purchaser and/or anyone on its behalf has left on the Municipality Lands and/or the Additional Real Estate Rights. It is further agreed that in a case in which, in addition to cancellation of the right of use, the Municipality has cancelled this Agreement as a consequence of such breach, all the works that were performed on the Municipality Lands and the Additional Real Estate Rights up to that time will be the sole property of the Municipality, without the Purchaser having any allegation and/or claim and/or demand against the Municipality in respect thereof, and the Purchaser undertakes to include an appropriate clause in the contractual agreement with the executing contractors, as defined below. In addition to all the foregoing and without derogating therefrom, the Purchaser hereby empowers the Municipality to take all the steps and measures required for purposes of realizing the rights and powers of the Municipality under this Clause 10.3.3. For that purpose the Purchaser is lodging an irrevocable notarial power of attorney in the text attached to this Agreement as Appendix 10.3.4 with the Trustee at the time of signing of this Agreement, which empowers the Municipality to take all the actions required for purposes of evicting the Purchaser and/or anyone on its behalf from the Municipality Lands and the Additional Real Estate Rights and for purposes of realizing the Municipality's rights under this Clause 10.3, including vacating the Municipality Lands and the Additional Real Estate Rights of any person, article and temporary structure, use of all the materials, equipment and installations which the Purchaser and/or anyone on its behalf has left on the Municipality Lands and the Additional Real Estate Rights, the giving of instructions and directives to the executing contractors, the transfer into the Municipality's ownership of all the works that have been performed on the Municipality Lands and the Additional Real Estate Rights up to that time, the giving of notices and instructions and the signing of any document of whatsoever nature *vis-à-vis* third parties and authorities in connection with the vacating of the Municipality Lands and the Additional Real Estate Rights and/or the taking of any actions with respect thereto, and so forth. In every case in which the Municipality notifies the Trustee that the right of use has been cancelled by it, the Trustee shall, after the giving of a warning notice to the Purchaser of 14 business days in advance, transfer the power of attorney to the Municipality, and the Municipality will be entitled to make use thereof in its discretion for purposes of realizing its rights as described above.

The Purchaser undertakes that the Municipality and/or anyone on its behalf will not be responsible in any way for any damage of any sort that may be sustained by the Purchaser, if such damage is sustained, by virtue actions connected with evicting the Purchaser from the Municipality Lands and the Additional Real Estate Rights and/or the evacuation of the equipment and the property from the Municipality Lands and the Additional Real Estate Rights and the storing thereof.

For the removal of doubt it is emphasized that the Municipality will bear no responsibility in respect of the property and the equipment which is removed and it will not be deemed to be a bailee and/or a trustee in respect thereof.

10.3.5 The Purchaser undertakes that the Municipality and the Company will be a party to any contractual arrangement between the Purchaser and executing contractors who perform work for it on the Municipality Lands and/or the Additional Real Estate Rights during the right of use period (hereinafter: **“the Executing Contractors”**), without this imposing on the Municipality and/or the Company any liability and/or responsibility. In the scope of any such contractual arrangement, an undertaking of the Executing Contractors shall be included, directly as against the Municipality and the Company, to the effect that in any event in which they receive a notice from the Company and the Municipality and that the Company and the Municipality have lawfully, in their discretion, cancelled the right of use they have granted to the Purchaser, then as from the date of receipt of the notice onwards, the Executing Contractors will act solely in accordance with the instructions of the Municipality and the Company as will be given at that time. The Municipality and the Company will be entitled to elect whether to complete the works of the Executing Contractors through the Executing Contractors or to evict them from the Municipality Lands and the Additional Real Estate Rights without the Municipality and/or the Company owing them any indebtedness of whatsoever nature. The Purchaser undertakes to present for the prior written approval of the Company and the Municipality the identity of the Executing Contractors and the terms and conditions of the contractual arrangement with them (including the text of the contractual agreement).

10.4 **Date of delivery of possession**

10.4.1 Simultaneous with and against the making of the second payment, possession of the Municipality Lands and the Additional Real Estate Rights will be delivered to the Purchaser (hereinbefore and hereinafter: **“Date of Delivery of Possession”**). With regard to the Open Public Areas (namely: on the upper ground floor only and which are intended for an Open Public Area, as marked in green on the Leasehold Drawings), the provisions of sub-clause 1.6(d) above will apply accordingly.

10.4.2 Without derogating from the contents of Clause 10.2.2 above, on the Date of Delivery of Possession, the parties will sign a deed of assignment of Obligations and Commitments Transferred to the Purchaser, in the text attached to this Agreement as **Appendix 10.4.2**. In addition, the Purchaser will deliver to the Municipality a declaration verifying representations in the text of Appendix 4.13 to this Agreement.

10.4.3 It is clarified that at the Date of Delivery of Possession the Municipality’s rights in the Municipality Lands are free and clear of any attachment and/or encumbrance and/or mortgage and/or any third party right, save and except caveats and/or mortgages and/or attachments and/or encumbrances and/or any third party rights which have their origin in the Purchaser and excluding caveats over an antiquities site, and in accordance with leaseholds that have expired which are registered over Parcel 92 Block 7104 and which have not been expunged by the Municipality up to the Date of Delivery of Possession. If attachments and/or mortgages and/or third party rights and/or caveats are imposed on the Municipality’s rights in the Municipality Lands where the origin for same does not lie with the Purchaser (hereinafter: - **“the Impediment”**), then the Municipality undertakes to remove such Impediment within 90 days from the date the Municipality becomes aware of the Impediment.

11. **Taxes**

- 11.1 Land Appreciation Tax and Sales Tax, if same apply, in respect of the sale by the Municipality of the Property Sold to the Purchaser shall be borne by the Municipality. It is hereby clarified that the Municipality is entitled to embark on objection or appeal proceedings before any relevant authority, in its discretion, against its being held liable for any of the payments imposed on it according to this sub-clause 11.1.
- 11.2 Land Acquisition Tax in respect of the purchase of the rights of leasehold in respect of Municipality Lands and in respect of the Additional Real Estate Rights shall be borne and paid by the Purchaser.
- 11.3 All taxes, rates, fees, levies, pursuant to any law, and all compulsory payments of any sort pursuant to any law, as well as any payment which is imposed on the Purchaser as a leasehold lessee in accordance with the special conditions of leasehold (Appendix 1.6 to this Agreement) which applied and/or which apply and existed or which may apply and come into being in connection with the Municipality Lands and the Additional Real Estate Rights, the cause of action for which pertains to any period, whether before the date of signing of this Agreement or subsequent thereto, shall be borne and paid by the Purchaser, except as stated in sub-clause 11.5 below and unless otherwise expressly stipulated in this Agreement. Notwithstanding the foregoing, payment of property tax in respect of the Municipality Lands and the Additional Real Estate Rights the grounds for which arose before the Date of Delivery of the Right of Use and payments of the consumption of water and electricity in respect of the Municipality Lands and the Additional Real Estate Rights, the grounds for which preceded the Date of Delivery of the Right of Use, will not apply to the Purchaser.
- 11.4 Without derogating from the contents of sub-clauses 11.3 above, the Purchaser undertakes to pay the Municipality the full betterment, in respect of any change in the Plan TA/3001 (including an application for relief, exceptional use, alteration of the approved plan and so forth) that may be approved in relation to the Municipality Lands and/or the Additional Real Estate Rights after the date of signing of this Agreement, with this being in accordance with the provisions of the special conditions document for the leasehold. Nothing in the foregoing shall derogate from the provisions of sub-clause 6.3.5 above.
- 11.5 With respect to a betterment levy – it is agreed that any liability for a betterment levy in respect of the Municipality Lands and the Additional Real Estate Rights, in relation to the full rights and the uses that are approved and the full building capacity in accordance with the statutory situation that is in force (up to and including Plan TA/3001), shall be imposed on the Municipality and shall be arranged by it, and no liability and/or responsibility in connection therewith will apply to the Purchaser.

In regard to other payments to the Tel Aviv Municipality, including fees, taxes, rates, development levies and other compulsory payments – such payments in respect of the period up to April 15, 2010, shall be borne and paid by the Municipality.

- 11.6 It is agreed that each party will render to the tax authorities all the reports it is obliged to render according to law and the time prescribed for this by law.
- 11.7 If the Municipality has paid development levies and/or payments for connection up to electricity in respect of the Municipality Lands, and to the extent that a right exists at law for setting off such development levies against fees and levies that will be imposed on the Purchaser in connection with the Purchaser’s Project and/or payments for connection up to the Israel Electric Corporation, it is agreed that the Municipality (in its capacity as a seller) does not object to the Purchaser setting off a pro rata portion of such development levies and electricity connections against the development levies and/or the connecting up payments to the Electric Corporation which the Purchaser will be charged by the Municipality. **“Pro rata share”** in this sub-clause 11.7 means, the ratio between the building rights (main areas) on the Municipality Lands and the Municipality’s share in the total building rights (main areas) in the Project Lands (save and except Plot No. 8). For the removal of doubt it is clarified that nothing in the foregoing in this sub-clause constitutes any form of representation and/or undertaking on the part of the Company in connection with development levies and/or payments for connecting up to electricity and/or in connection with the payment thereof, the amount thereof and/or the right to set-offs in connection therewith.
- 11.8 It is hereby clarified that each of the parties is entitled to embark on objection or appeal proceedings vis-à-vis any relevant authority, in such party’s discretion, against the charging of any of the payments imposed on such party in accordance with this Clause 11, provided that this shall not have the effect of delaying the times specified in this Agreement.

12. **Condition precedent**

The validity of this Agreement is contingent upon and conditional on receiving the approval of the City Council (in furtherance of the approval given as stated in sub-clause 3.2 above), for purposes of complying with the procedure under Section 188 of the Ordinance, and the receipt of the final approval of the Minister of the Interior in accordance with Section 188 of the Ordinance (in furtherance of the approval in principle that was received as stated in sub-clause 3.2 above). Shortly after the signing of this Agreement, the Municipality shall take steps to obtain the approval of the City Council and the approval of the Minister of the Interior, as mentioned in this Clause 12 above, in a manner that the aforesaid approvals will be received within 60 days from the date of signing of this Agreement.

It is clarified that if the condition precedent is not fulfilled within 60 days from the date of signing of this Agreement, this Agreement and the Construction Contract will be void, and the Trustee shall return the First Payment to the Purchaser together with the fruits thereof, less the costs of opening the Trust Account, the closing thereof and the performing of operations therein, and none of the parties will have any claim and/or demand and/or allegation against another in this regard, and the Purchaser will have no rights of any sort in the Municipality Lands and/or in the Additional Real Estate Rights. It is agreed that each party may, in its sole and absolute discretion, extend the time for fulfillment of the condition precedent as mentioned in this Clause 12, for a period of up to an additional 60 days, by way of written notice to the other party.

13. **Liability, waiver, and indemnity**

13.1 The Purchaser hereby confirms and undertakes that it waives any claim, demand, cause of action or allegation (hereinafter: “**Claim**”) of whatsoever nature under any law and agreement as against the Municipality and/or the Company and/or any of the bodies connected with either of them, in connection with the subject matter of this Agreement and the actions of any of the aforesaid entities in connection with the signing and consummation of this Agreement.

The Purchaser hereby undertakes that if, notwithstanding the foregoing, a claim as aforesaid is raised for which the Purchaser receives indemnification, the Purchaser will be obliged to indemnify the Company and/or the Municipality and/or the entities connected with them to the extent of the amount of the aforesaid compensation which either the Municipality or the Company or the entities connected with them have been ordered to pay. For the removal of doubt it is clarified that nothing contained in this sub-clause 13.1 above shall release the Municipality from fulfilling its obligations pursuant to this Agreement.

13.2 Without derogating from the Purchaser’s obligations under this Agreement and/or from its liability as described in this Agreement, any responsibility and/or liability vis-à-vis any person and/or body, including as against the various administrative authorities, in connection with the Municipality Lands and/or in the Additional Real Estate Rights and/or the Property Sold and/or the quality thereof and/or the use thereof and/or acts and/or omissions therein and/or in connection therewith, the origin and/or the cause of action for which and/or the facts that serve as the basis for same pertain to the period subsequent to the Date of Delivery of the Right of Use, shall be borne by the Purchaser alone, to the exclusion of the Municipality’s liability. Included in this, the Purchaser undertakes to indemnify the Municipality and/or the local committee and/or the Company and/or any of the bodies connected with any of them, in respect of any damage and/or expense of whatsoever nature that may be incurred by any of them, and the responsibility for which is imposed on the Purchaser in accordance with the provisions of this sub-clause 13.2 above. For the removal of doubt it is clarified that the provisions of this sub-clause 13.2 do not derogate from the Purchaser’s liability and/or from its obligations in relation to periods which preceded the Date of Delivery of Right of Use as set forth in any of the provisions of this Agreement.

13.3 Without derogating from the Purchaser’s liability according to law and/or this Agreement, commencing from the Date of Delivery of the Right of Use and throughout the entire period in which any works are performed by the Purchaser and/or on its behalf on the Municipality Lands and/or on the Additional Real Estate Rights, the Purchaser undertakes to effect and maintain all the insurances at its expense which are necessary and customary in projects of this sort, in appropriate amounts, including and without derogating from the generality of the foregoing, building contracting works insurance, third party liability insurance, employer’s liability insurance and similar other insurances (hereinafter: “**the Insurances**”). The Purchaser undertakes to pay the insurance premiums on due date and to comply with all the remaining provisions of the insurance policies in order that the insurances remain in force. The Insurances, including all the chapters thereof, will be extended to include the Municipality and the buyers of rights in the Remaining Project Lands (as distinguished from the buyers of residential units) as an additional insured, subject to a cross-liability clause pursuant to which the insurance will be deemed to have been effected separately for each of the individual parties who make up the insured. All the insurance policies shall contain a provision stating that the insurer will notify the Municipality in writing 30 days in advance before it has the intention of cancelling or reducing the policies. In the scope of the contractual arrangements between the Municipality and buyers of rights in the Remaining Project Lands, the Municipality will oblige the aforesaid buyers of rights to extend the insurances which will be effected by them and to include the Purchaser as an additional insured subject to a cross-liability clause. It is agreed that receipt by the Municipality of confirmation that the Insurances have been effected to the satisfaction of the Municipality shall constitute a pre-condition to delivery of the right of use and delivery of possession of the Municipality Lands and the Additional Real Estate Rights to the Purchaser. Nothing contained in the foregoing shall derogate from the Purchaser’s right to include the financing bank as a beneficiary in the insurances and to charge and encumber the insurance compensation that may be due to the Purchaser in favor of the financing bank.

14. **Agreed damages**

- 14.1 It is hereby agreed between the parties that in every case of a material breach of this Agreement by the Purchaser, which is not the cured in accordance with the provisions of sub-clause 18.6 below, including, and without derogating from the generality of the foregoing, in the case of actual non-payment of the consideration to the Municipality by the Purchaser at the times specified in Clause 6 above, for any reason, or in the case of a registration by the Purchaser of a caveat prior to the time specified in sub-clause 9.5 above which was not expunged within 48 hours from the time the Purchaser was called upon to expunge same, the Municipality will be entitled, without derogating from any right or remedy available to the Municipality according to any law and agreement in respect of a breach of this Agreement by the Purchaser, to agreed damages in the sum equivalent to 10% of the amount of the Basic Consideration (hereinafter: “**the Agreed Damages**”), as agreed pre-estimated liquidated damages in respect of such material breach. It is hereby expressly agreed that in such case the Municipality will have the absolute right to confiscate the Agreed Damages, either by foreclosing on the sale process guarantee or by holding forfeit the amounts which have been paid to it on account of the consideration up to such time, without the necessity for giving a warning notice or notice of any sort to the Purchaser and/or to the Interested Parties.
- 14.2 The Purchaser hereby declares that the aforesaid Agreed Damages as referred to in sub-clause 14.1 above have been fixed by the parties after careful and reflective assessment of the damage that will be incurred by the Municipality as a result of such material breach, and accordingly no argument by the Purchaser to the effect that the compensation is unreasonable will be entertained, and the Purchaser hereby irrevocably, fully and expressly waives any allegation or argument of any sort by it. It is further agreed that the Municipality will have the absolute right, for purposes of collecting the Agreed Damages, to foreclose on the sale process guarantee or to hold forfeit the amounts that have been paid to it on account of the Consideration up to such time without being obliged to give notice to the Purchaser about the effecting of such foreclosure.
- 14.3 It is agreed that the provisions of this Clause 14 above are subject to the provisions of sub-clause 5.2 above.

15. **Name of the Project**

It is hereby agreed and clarified that the Municipality will decide on the name of the public areas precinct, the public buildings and the open public areas, and will be entitled to place suitable signboards at such places, as is the customary practice in the city of Tel Aviv-Jaffa, or as may be customary in the city of Tel Aviv-Jaffa at such time.

It is agreed that the Purchaser, the Municipality and the Company will, by agreement, decide on the name/names of the Purchaser’s Project, in accordance with professional advice which the Purchaser, the Municipality and the Company will receive in relation thereto (hereinafter – **“the Name of the Project”**). The Housing Company will be entitled to decide on the name of the residential precinct (including the inclusion in this name of the name of “Gindi”) and the Mall Company will be entitled to decide on the name of the commercial areas in the Purchaser’s Project, while the Housing Company and the Mall Company undertake that the names will be given by them as aforesaid will, under all the circumstances, include the name of the Project as will be decided as aforesaid. For example, if it is decided that the name of the Project is: “New Tel Aviv”, then the Housing Company will be entitled to call the residential precinct by the name of: “X” in New Tel Aviv” and the Mall Company will be entitled to call the commercial areas by the name: “Y” in New Tel Aviv”.

Nothing in the foregoing shall derogate from the Municipality’s power and authority and/or its duty as a local authority to decide on the name of the suburb in which the Project will be included, in accordance with Section 235A of the Municipalities Ordinance.

16. **Transfer of rights and encumbrances**

16.1 It is hereby agreed that until completion of the construction of all the built areas that can be erected on the Municipality Lands, the Company’s Lands and the Additional Real Estate Rights (including the Public Buildings) in accordance with the provisions of Plan TA/3001 and pursuant to the provisions of this Agreement, the Purchaser will not be entitled to transfer any of its rights and obligations in the Property Sold, or any part thereof, to third parties (excluding a sale of residential units to the buyers of apartments as defined above and/or the letting of residential units and/or built commercial areas) (hereinafter for purposes of this sub-clause: **“the Transferee”**) without the prior written consent of the Company and the Municipality.

It is clarified that such consent will not be unreasonably withheld by the Municipality and the Company, including the physical and zoning condition of the land that is the subject matter of the requested transfer at the requested time, the extent of the areas the transfer of which is requested, the identity of the Transferee, his financial strength and stability, the status of completion of construction of the public buildings, the open public areas and the residential and commercial areas, securing of payment of the full consideration to the Municipality and the Company, the conditions of employment with the Transferee, and so forth. It is further agreed that the Municipality and the Company will be entitled to make their consent subject to conditions, including the making of a payment to the Municipality and the Company and/or the bringing forward of payment of that part of the consideration that remains unpaid at such time, collateral security and so forth.

16.2 Notwithstanding the contents of Clause 16.1 above and subject to what is stated in Clause 16.3 below, it is agreed that:

- 16.2.1 Until the date of payment of the full Basic Consideration, the Mall Company will be entitled to sell portion of its rights and obligations in relation to the commercial areas that are the subject of this Agreement to a third party which is a financial entity and/or an entity whose field of business is the management and operation of yield producing assets (hereinafter for purposes of this sub-clause – **“the Transferee”**), provided that the obligations of the Mall Company and the Transferee vis-à-vis the Municipality and the Company in relation to the commercial areas shall be joint and several, and that the provisions of sub-clause 16.5 below shall be complied with.
- 16.2.2 Commencing from the date of payment of the full Basic Consideration to the Municipality and the Company, the Mall Company will be entitled to sell the commercial areas or part thereof to any third party, provided that the Transferee assumes the full obligations of the Mall Company in accordance with this Agreement as regards the transferred portion of the commercial areas, and the Mall Company shall remain liable to the Company for the full obligations pursuant to this Agreement in connection with that portion of the commercial areas which remains in its possession after the transfer, if any, and that the provisions of sub-clause 16.5 below are complied with.
- 16.3 If the Mall Company should wish to sell its rights in the commercial areas (in whole or in part) prior to the issue of a certificate for initial occupation (Form 4) in respect of the School, the Sports Center and the area of the Municipality’s parking places (hereinafter in this Clause 16: **“the School, the Sports Center and the Municipality’s Parking Places Area”**), then such transfer shall be subject to the prior written consent of the Municipality on such conditions as the Municipality may stipulate in accordance with the provisions of this sub-clause below, and subject to fulfillment of the provisions of sub-clause 16.5 below. This consent shall be given if the Municipality has been persuaded that such transfer does not affect the obligations of the Housing Company for erecting the School and the Sports Center, the construction and actual completion thereof, and the obligations of the Mall Company for constructing the Municipality’s Parking Places Area, the construction and actual completion thereof. It is clarified that the only factor the Municipality will be entitled to take into account for purposes of giving such consent and the conditions thereof, is the guaranteeing of construction of the School, the Sports Center and the Municipality’s Parking Places Area.
- 16.4 It is agreed that in the case of the transfer of rights by the Purchaser in accordance with the provisions of this Clause 16 above, the Municipality will sign the necessary documents for purposes of transferring the Purchaser’s rights to the Transferee (including consent to registration of a caveat, amendment of the deeds of mortgage and so forth), provided that within the framework of such documents the Municipality’s rights pursuant to this Agreement will be secured and the Transferee’s stepping into the Purchaser’s shoes vis-à-vis the Municipality in all respects shall be guaranteed, all subject to the condition that the Municipality’s signing as aforesaid shall not derogate from any of the Municipality’s rights under this Agreement and/or have the effect of the imposing any obligations and/or expenses on the Company which are not expressly imposed on it in accordance with this Agreement. The Municipality’s consent to a transfer of rights as aforesaid, to the extent that it is given, will in any event be subject, inter alia, to the expunging of a caveat that has been registered in favor of the individual party who makes up the Purchaser who is the transferor or to an amendment thereof, as the case may be, cancellation of the mortgage that was registered in favor of the financing bank in connection with the individual party who makes up the Purchaser who is the transferor or an amendment thereof, as the case may be, the furnishing of all the powers of attorney required under this Agreement, the Transferee signing the Transfer Documents that are demanded by the Company and the Municipality, and similar other documents.

16.5 It is agreed that the provisions of this Clause 16 above (including all the sub-clauses hereof) regarding restrictions on the transfer of rights will also apply to a transfer of shares and/or an allotment of shares and/or the grant of options for shares and/or any disposition or act, directly or indirectly (hereinafter – “**Operations in Shares**”) in the shares of any of the individual parties who make up the Purchaser and/or in the shares of their parent companies (up to and not including Interested Parties) (apart from a public offering of shares of such companies, provided that there shall be no change in control in any of the individual parties who make up the Purchaser or in any of their parent companies), and Operations in Shares as a result of which there will be a change in control (within the meaning of that term in the Securities Law, 5728-1968) in any of the Interested Parties, in a manner whereby any Operation in Shares as referred to above in this sub-clause will require the Company’s consent in accordance with the conditions of Clause 16 above.

It is hereby further agreed that a transfer of rights which is as a result of any of the following events will not require the consent of the Municipality and the Company: (1) realization by the financing company of the encumbrance to the financing company, as defined below; (2) a dilution in the holdings of one of the shareholders in the Housing Company or in the Mall Company at the expense of an increase in the holdings of the other shareholder in the Housing Company or in the Mall Company by virtue of the dilution clause in the agreement of the individual parties who make up the Purchaser (which does not involve the bringing in of an additional partner into the Housing Company or the Mall Company), all subject to the condition that transfers as referred to above in this paragraph will not have the effect of derogating from any of the obligations under this Agreement of any of the individual parties who make up the Purchaser.

16.6 **The encumbrances**

16.6.1 Up to the date of actual settlement of the Second Payment, the Purchaser will not be entitled to encumber any of its rights pursuant to this Agreement and/or in the Municipality Lands and the Additional Real Estate Rights in favor of any third party.

16.6.2 Simultaneous with settlement of the Second Payment, as defined above, the Purchaser will be entitled to encumber its rights in the Municipality Lands and the Additional Real Estate Rights and/or its rights pursuant to this Agreement, solely in favor of a commercial bank that will provide it with a loan for purposes of financing the transaction that is the subject matter of this Agreement and/or realization of the transaction, but subject to the following cumulative conditions (hereinafter – “**the Financing Bank**”, and “**the Construction Loans**”), respectively):

16.6.2.1 The monies of the Second Payment and the monies of the Third Payment shall be paid by the Financing Bank directly to the Municipality in the manner and at the times set forth in the provisions of sub-clause 6.2.5 above and sub-clause 6.2.6 above.

16.6.2.2 In the scope of the banking documents the Financing Bank shall confirm to the Municipality in writing that it is aware, and it agrees thereto, that the Municipality will, in its discretion, be entitled to create encumbrances and third party rights of any sort in the Remaining Project Lands, including encumbrances ranking *pari passu* with the encumbrance in favor of the Financing Bank.

- 16.6.2.3 The credit which is the subject of the Construction Loans shall be given solely in connection with the Purchaser's Project and the encumbrance to the Financing Bank shall secure the obligations to the Financing Bank of the Purchaser and the Interested Parties in connection with the Purchaser's Project only.
- 16.6.2.4 All the expenses, the liability and the obligations in connection with the construction loans, if same are provided to the Purchaser, including commissions and costs in respect of the issue of any guarantees, including Sale Law guarantees to buyers of apartments, shall be borne in their entirety by the Purchaser, in a manner that there shall be no liability on the Municipality in connection therewith.
- 16.6.2.5 The signature by the Municipality to the encumbrance documents to the Financing Bank will be subject to the condition that the Municipality's liability and/or obligation in connection with receiving the Construction Loans will be confined to the creating of an encumbrance in favor of the Financing Bank as stated in Clause 16.6.3 below and to the Financing Bank's ability to realize same, to the extent necessary, without additional obligations being imposed on the Municipality vis-à-vis the Financing Bank and/or without the Financing Bank being able to have recourse to the Municipality's other assets (including its rights in the Remaining Project Lands and/or in the land of Plot No. 8).
- 16.6.2.6 The Financing Bank shall confirm in writing to the Municipality that realization of the encumbrance in favor of the Financing Bank and its sale of the rights to a third party pursuant to the aforesaid realization of the encumbrance shall be made subject to the condition that such third party shall step into the Purchaser's shoes with respect to all the rights and obligations according to the provisions of this Agreement and subject to the Municipality's rights pursuant to this Agreement, without this derogating from the provisions of sub-clause 5.2.5 above.
- 16.6.2.7 The Financing Bank shall give consent in writing to registration of the parcellation, registration of a leasehold in favor of the Municipality over the Municipality Lands and the Additional Real Estate Rights, to the extent that the Municipality so desires, as well as registration of any act required in the Remaining Project Lands and in the land of Plot No. 8, provided that its rights pursuant to the encumbrance in its favor shall not be adversely affected.
- 16.6.3 It is agreed that the encumbrances that will be given by the Municipality in favor of the Financing Bank will include only the encumbrances mentioned below, with it being agreed that under all circumstances the encumbrance documents shall conform with the provisions of Clause 16.6.2 above (hereinafter – **“the Encumbrance in favor of the Financing Bank”**):

16.6.3.1 Registration of a mortgage over the Municipality’s rights of title in Parcel 92 (in respect of which the provisions set forth at the end of this sub-clause 16.6.3.1 will apply), 93, 95 and 114 Block 7104, as same stand at the date of signing of this Agreement (and if registration of the encumbrance in favor of the bank is executed after registration of the parcellation, the registration shall be carried out in relation to the Municipality’s rights as same will be after registration of the parcellation), on a basis that registration of the mortgage will, in any event, be effected in relation only to the Municipality Lands, by way of registration of a mortgage according to a diagram and in the alternative, if this is not possible, by way of registering a mortgage over the above-mentioned parcels coupled with the exclusion of: (1) the Company’s Lands and (2) the Remainder of the Project Lands, from the applicability of the mortgage in a manner which makes it possible to create first-ranking encumbrances in favor of third parties over the Remainder of the Project Lands, all subject to the provisions of Clause 16.6.3.3 below. Notwithstanding the foregoing, if at the time of registration of the Encumbrance in favor of the Financing Bank all the leaseholds which have expired have not been expunged, then in relation to Parcel 92 only (or in relation to the new parcel that will be created following the registration of the parcellation and the origin for which is in Parcel 92) a deed of undertaking to register a mortgage shall be given by the Municipality, pursuant to which a *caveat* will be registered in favor of the Financing Bank over Parcel 92 or over the new parcel that is created following registration of parcellation as aforesaid, with it being agreed that in such case no mortgage in favor of the Financing Bank will be registered. Upon completion of the expungement of the leaseholds which have expired, a mortgage will be registered in favor of the bank over Parcel 92 in the format described above.

16.6.3.2 After registration of a leasehold in favor of the Municipality in connection with the Municipality Lands, to the extent that same is registered, the Encumbrance in favor of the Financing Bank will be registered by way of registration of a mortgage over the Municipality’s rights of leasehold in the Municipality Land. After registration of a leasehold in favor of the Municipality in connection with the Additional Real Estate Rights, if same is registered, and after completion of the expungement of the leaseholds that have expired as stated in sub-clause 16.6.3.1 above, the Encumbrance in favor of the Financing Bank will be registered by way of registering a mortgage over the Municipality’s rights of leasehold in the Additional Real Estate Rights.

The Purchaser undertakes to sign and to cause the Financing Bank to sign all the documents required for purposes of performing the matters aforesaid.

16.6.3.3 It is hereby clarified and agreed that under all circumstances, the Encumbrance in favor of the Financing Bank will be subject to the Company’s rights in the Project Lands (both in the Company’s Lands as well as in the Company’s share of the Remainder of the Project Lands).

16.6.3.4 The Purchaser undertakes to deliver to the Municipality the documents that are required by the Bank for purposes of registering the Encumbrance in favor of the Financing Bank (as defined above) not later than 60 days from the date of the local committee's decision on approving the first building permit on conditions, or at least 60 days before the date specified for making the Second Payment, whichever is the earlier. The Municipality will be entitled to discuss the wording of the aforesaid documents with the Financing Bank and the conformance of those documents with the provisions of this Agreement. As long as the aforesaid documents do not conform with the provisions of this Agreement, the Company will not sign the said documents.

16.6.3.5 The documents as shall be agreed between the Municipality and the bank and which under all circumstances shall conform with the provisions of this Clause 16.6 will henceforth be referred to as – **“the Encumbrance Documents in favor of the Financing Bank”**. The Encumbrance Documents in favor of the Financing Bank shall be signed by the Municipality, and shall be delivered by the Municipality to the Purchaser in accordance with the provisions of Clause 6.2.5 above. Contemporaneous with the Municipality signing the Encumbrance Documents in favor the Financing Bank, the Municipality shall furnish the Financing Bank with an undertaking to register a mortgage over the Company's rights of leasehold in the Company's Lands, in accordance with the provisions of sub-clause 16.7.3.1 (b) of the Company's Lands Agreement.

16.7 It is hereby agreed that in a case in which each of the individual parties who make up the Purchaser takes a Construction Loan separately from the other, the sole responsibility for arranging the series of encumbrances with the separate Financing Bank of each of the individual parties who make up the Purchaser in a manner whereby the series of encumbrances as aforesaid shall conform with the provisions of this Agreement, is that of the Purchaser or the individual parties who make up the Purchaser, as the case may be, and the Municipality will sign the Encumbrance Documents in favor of each of the Financing Banks only in accordance with and subject to the provisions of sub-clause 16.6 above.

16.8 It is agreed that the provisions of Clauses 16.1 to 16.7 above will also apply in relation to any transferee who may acquire any rights in the Project Lands from the Purchaser and/or from the Purchaser's transferees.

17. **Sale of apartments by the Housing Company**

17.1 The Housing Company undertakes that all the sale agreements that will be signed between it and buyers of apartments up to the Date of Delivery of Possession will be contingent upon a condition precedent of settlement of the Additional First Payment, the Later First Payment and the Second Payment on the due date of each of them. It is further agreed that (1) up to the date of settlement of the Additional First Payment, the Later First Payment and the Second Payment – all the proceeds that will be received by the Housing Company from buyers of apartments will be deposited in a trust account and/or in the account of the Financing Bank, and under no circumstances will same be transferred to the Housing Company; (2) if up to the Date of Delivery of Possession, the Housing Company guarantees the payments that have been paid to it by buyers of apartments by way of a Sale Law guarantee, then the Sale Law guarantee will contain an additional ground for foreclosure pursuant to which cancellation of this Agreement and/or the Company's Lands Agreement by the Company and the Municipality will constitute grounds for foreclosure on the Sale Law guarantee. If the Housing Company has secured the monies of buyers of apartments in another way, a refund of the money shall be guaranteed accordingly in the case mentioned above.

- 17.2 The Housing Company undertakes that it will include in all the sale agreements with buyers of apartments a provision pursuant to which the buyers of those units declare that the Company and the Municipality do not bear any responsibility or liability to the buyers of apartments.
- 17.3 The Housing Company will not be entitled to register a caveat in favor of the buyers of apartments, until after payment of the full Basic Consideration and after registration of the leasehold rights in the Municipality Lands in the name of the Purchaser.

18. **Miscellaneous**

- 18.1 The Housing Company undertakes that at the time residential apartments on the Land that is the subject of this Agreement are offered by it for sale or rental, every buyer who meets the financial conditions that will be offered by it at that time in the scope of marketing the apartments, will be entitled to acquire rights in the apartments that are offered as aforesaid.
- 18.2 This Agreement embodies everything that has been agreed between the parties up to the date of the signing hereof. There shall be no validity to any representation, statement, exchanges, written or verbal, directly, indirectly or impliedly, and similar other things on the part of the Municipality and/or the Company and/or the local committee and/or the entities connected with any of them, which preceded the signing of this Agreement. However, with the removal of doubt it is clarified that nothing contained at the start of this sub-clause 18.2 shall derogate from the obligations and commitments of the Purchaser and the Interested Parties in accordance with the sale procedure, to the extent that same are not contradicted by the provisions of this Agreement.
- 18.3 No alteration or waiver of the provisions of this Agreement will be of any validity unless a written document to that effect has been drawn up and signed by both the parties.
- 18.4 Any waiver by a party to this Agreement of any of its rights shall be of no force and validity unless drawn up in writing. Where in this Agreement the consent of the party to the contract is required for purposes of any act, such consent will be of no validity unless given in writing.

Without derogating from the contents of this sub-clause above, wherever in this Agreement one of the parties is required to fulfill an obligation up to a date specified in this Agreement, the other party to the Agreement shall have the right to extend the date in its discretion, or to pardon the fulfillment of the condition, provided that this is done in writing.

- 18.5 Where a date has been specified for the obligations of all the parties, they shall have the right to extend that date by way of written consent.

- 18.6 Clauses 3, 4 (excluding sub-clause 4.11), 5, 6, 7, 9 (excluding clause 9.9), 10 (excluding 10.2), 11, 13, 16, 17 constitute basic and fundamental clauses of this Agreement and a breach of a provision contained in any of them which has not been cured within 30 days from the date of receipt by the Purchaser of written notice to that effect will be deemed to be a material breach. It is further agreed that a repeated breach (that is to say, commencing from the third breach onwards) of any of the provisions of the above clauses will immediately be deemed to be a material breach without the necessity for any warning or notice being given by the Municipality. This provision shall be deemed to have been included at the end of each of the abovementioned clauses.
- 18.7 Without derogating from the contents of Clause 18.6 above, it is hereby agreed that each of the following cases will be deemed to be a material breach on the part of the Purchaser, which will entitle the Municipality, in its discretion, inter alia to the remedy of the cancellation of this contract by written notice to be delivered to the Purchaser:
- 18.7.1 If an application for a stay of proceedings is filed by any of the individual parties who make up the Purchaser or by any of the Interested Parties. In a case in which such application is filed by any third party – only if a stay of proceedings order is granted.
- 18.7.2 In the event that a liquidation order or receivership order is granted against any of the individual parties who make up the Purchaser or against any of the Interested Parties, or if a provisional or permanent receiver is appointed for the property of any of them, or if a liquidator or provisional liquidator is appointed for any of the individual parties who make up the Purchaser or for any of the Interested Parties, or if any of the individual parties who make up the Purchaser or any of the Interested Parties files a proposal for making an arrangement with his or its creditors – all in a case in which such appointment or order has not been set aside within 90 days from the date the court order was granted.
- 18.7.3 If an attachment has been imposed on the Purchaser's rights in the Municipality Lands and/or the rights of any of the individual parties who make up the Purchaser and/or any of the Interested Parties in other assets of any sort which serve as collateral for the banking finance, and the attachment has not been removed within 90 (ninety) days from the date the attachment was imposed.
- 18.7.4 In relation to the cases mentioned in sub-clauses 18.7.1-18.7.3 above, which will be deemed to be material breaches as aforesaid, it is agreed that the occurrence of the aforesaid events will be examined in relation to each of the individual parties who make up the Purchaser separately, where an individual party in respect of whom one of the events mentioned in sub-clauses 18.7.1-18.7.3 above has occurred will be deemed to be a Defaulting Individual Purchaser and an individual party who makes up the Purchaser with respect to whom one of the aforesaid events has not occurred will be deemed to be a Complying Individual Purchaser, as more fully described in the provisions of sub-clause 5.2.4.3 above.
- 18.8 If the Purchaser has fulfilled all its obligations under this Agreement up to and including payment of the full Basic Consideration on due date, and the Third Payment has been paid in the hands of the Municipality, then, without derogating from the remaining remedies available to the Municipality according to law and agreement, the Municipality will no longer have a right to cancel this Agreement.

- 18.9 It is agreed that any payment which applies to any of the parties to this Agreement, which is made after the date specified for the payment thereof in accordance with this Agreement, will bear penalty interest at an annual rate of 10%, commencing from the first day of default. All this will be without derogating from any other or additional right or remedy to which the other party is entitled according to any law and/or agreement.
- 18.10 This Agreement is being signed simultaneously with the signing of the agreement between the Purchaser and the Company for the purchase by the Purchaser of the rights in the Company's Lands (hereinbefore and hereinafter: **"the Company's Lands Agreement"**). For the removal of doubt it is clarified and agreed that this Agreement is the separate and independent agreement from the Company's Lands Agreement, and that the transaction which is the subject of this Agreement is a separate and independent transaction from the transaction that is the subject of the Company's Lands Agreement. The obligations and rights of the Municipality, on the one hand, and the Company on the other, pursuant to the above-mentioned agreements, do not constitute joint and several obligations and rights vis-à-vis the Purchaser, and the Municipality or the Company are not a guarantor for the fulfillment of the obligations of one another vis-à-vis the Purchaser in accordance with the aforesaid agreements, and the existence of the agreements and of the transactions that are the subject of the Agreements are separate and independent. Nothing contained in this clause above shall derogate from the provisions of sub-clause 6.2.5.5 above.
- 18.11 In the case of a conflict between the provisions of the sale procedure and the provisions of this Agreement, the provisions of this Agreement shall prevail.
- 18.12 It is agreed that the provisions of the Contracts Law (Remedies for Breach of Contract), 5731-1970 shall apply to this Agreement.
- 18.13 The Purchaser will not have any right of set-off or lien, for any reason, in respect of any amount it is obliged to pay in accordance with the provisions of this Agreement.
- 18.14 The Municipality reserves the right, in its sole discretion, to assign, transfer or endorse its rights and/or obligations under this Agreement.
- 18.15 Should this Agreement be cancelled, such cancellation will not derogate from the validity of the provisions contained in Clauses 4.1 to 4.4, 4.7 to 4.10, 4.11, 4.17, 4.21, 4.22, 13.1 and 14 above and from the validity of the undertaking pursuant to the deeds of confidentiality of the Purchaser, the Interested Parties and their representatives which were delivered in the scope of the sale process.
- 18.16 This Agreement shall be governed by the laws of the State of Israel and the court in Tel Aviv will have sole and exclusive jurisdiction to try any matter connected with this Agreement and/or arising herefrom, according to its substantive jurisdiction.
- 18.17 Each party to this Agreement shall bear its own costs and expenses.
- 18.18 It is clarified that if this Agreement is translated into foreign languages, the translation will be solely for purposes of convenience and under all circumstances the binding version will be the version in the Hebrew language.
- 18.19 Any notice that is sent by one party to another shall be deemed to have been received:
- 18.19.1 After 3 business days from the time of its posting by registered mail at a post office in Israel;

18.19.2 If delivered by hand - at the time of its delivery;

18.19.3 If sent by facsimile – at 12:00 noon on the first business day following the transmission thereof, as confirmed by notice of the facsimile machine from which it was sent.

18.20 The parties fix their addresses for purposes of the contract as follows:

The Municipality –
c/o: _____
Facsimile: _____

The Individual parties who make up the Purchaser -
c/o: the address mentioned at the head of this Agreement _____.
Facsimile: _____

The Interested Parties –
Dirof Yukra Ltd., Gindi Investments 1 Ltd.
c/o: _____
Facsimile: _____

Blue Square Real Estate Ltd.
c/o: _____
Facsimile: _____

The parties are entitled to give notice of a change in their address by way of notice that shall be delivered in accordance with the provisions of Clause 18.19 above, provided that the addresses of the individual parties who make up the Purchaser and of the Interested Parties shall be in Israel.

In witness whereof the parties have hereunto signed:

/s/
The Housing Company

/s/
The Mall Company

/s/
The Municipality

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

Deed of Undertaking by the Interested Parties

We, the undersigned, hereby confirm and undertake as follows:

1. That the declarations and undertakings given by us in the scope of the sale process and the sale procedure are correct, complete, full and updated, and are binding on us along with the Purchaser, for all intents and purposes.
2. That we are aware that on the strength of our undertakings as set forth below, the Municipality has agreed to accept the Purchaser's offer to buy the Property Sold and to enter into this Agreement with it.
3. We confirm the correctness of all the declarations and representations of the Purchaser as set forth in the Agreement, in a manner whereby those declarations and representations shall be deemed as if given by us directly to the Municipality.
- 3A. Each of the Interested Parties hereby declares and undertakes to the Municipality that it is duly incorporated and that it is entitled and authorized to make the undertakings set forth in this Deed of Undertaking and to perform same, and has passed all the resolutions and obtained all the approvals required according to the provisions of the law and its documents of incorporation for purposes of entering into this Deed of Undertaking. Each of the Interested Parties further declares and undertakes that no steps have been taken with respect to it for an arrangement, stay of proceedings, winding-up, liquidation, expungement, bankruptcy or receivership, and that there is no threat against it of such legal proceedings (including the fact of there being no attachment of its assets), that are likely to have an effect on its contracting under this Deed of Undertaking and on the performance of its obligations pursuant hereto.
4. We are fully conversant with the provisions of the Agreement and we declare and undertake that we have the ability to abide by all the Purchaser's obligations pursuant to the Agreement, in accordance with the contents of Paragraph 5 below.
5. We owe a direct obligation to the Municipality for the fulfillment of all the Purchaser's obligations pursuant to the Agreement, including payment of the Consideration, in accordance with the following provisions:
 - 5.1 The Interested Parties are responsible and liable directly to the Municipality for the fulfillment of all the Purchaser's obligations for payment of the Consideration as follows:
 - 5.1.1 Dirot Yukra Ltd. is responsible as a direct debtor to the Municipality for payment of 50% of the payments of the Consideration imposed on the Housing Company under the Agreement and also for payment of 50% of the payments of the Consideration imposed on the Mall Company under the Agreement.
 - In addition:
 - 5.1.2 Gindi Investments 1 Ltd. is responsible as a direct debtor to the Municipality for payment of 25% of the payments of the Consideration imposed on the Housing Company under the Agreement and also for payment of 25% of the payments of the Consideration imposed on the Mall Company under the Agreement.

In addition:

- 5.1.3 Blue Square Real Estate Ltd. is responsible as a direct debtor to the Municipality for payment of 50% of the payments of the Consideration imposed on the Housing Company under the Agreement and also for payment of 50% of the payments of the Consideration imposed on the Mall Company under the Agreement.
- 5.1.4 Without derogating from the Municipality’s remaining rights pursuant to the Agreement and according to this Deed of Undertaking, it is clarified for the removal of doubt that nothing in sub-paragraph 5.1 above has the effect of derogating from any of the remedies available to the Municipality according to any law and agreement in the event that the Housing Company and/or the Mall Company should default in any of their obligations for payment of the full Consideration (or any part thereof) under the Agreement (even if the Interested Parties or any of them has complied with the fulfillment of its obligations to the Municipality pursuant to this Paragraph 5.1).
- 5.2 The Interested Parties are directly responsible and liable to the Municipality for the fulfillment of all the Purchaser’s obligations pursuant to this Agreement (except only the Purchaser’s obligations for payment of the full Consideration, in respect of which the provisions of sub-clause 5.1 above will apply) as follows:
 - 5.2.1 Blue Square Real Estate Ltd. and Dirot Yukra Ltd. are liable, jointly and severally, as direct debtors to the Municipality for all the Purchaser’s obligations under the Agreement.

In addition:

- 5.2.2 Gindi Investments 1 Ltd. is responsible as a direct debtor to the Municipality for payment of 50% of all the Purchaser’s obligations pursuant to this Agreement.
- 5.2.3 For the removal of doubt it is clarified that included in this sub-clause 5.2, the Interested Parties in the Housing Company are directly liable and responsible for all the obligations of the Housing Company for the construction of the public buildings, as defined in the Agreement above, with this being in accordance with the provisions of Clause 7 of the Agreement above and the provisions of the Construction Contract between the Housing Company and the Municipality.
- 5.3 Our undertakings above and below are absolute, irrevocable and unconditional and included therein our obligations to the Municipality are not contingent on prior reference by the Municipality to any of the individual parties who make up the Purchaser and/or upon the exhausting of any proceedings and/or remedies that are available to the Municipality according to the Agreement and/or any law.

- 6. The Interested Parties hereby confirm and undertake that they waive any claim, demand, cause of action or allegation (hereinafter: **"Claim"**) of whatsoever nature according to any law and agreement as against the Company and/or the Municipality and/or any of the bodies connected with either of them, in connection with the subject matter of this Agreement and the actions of any of the aforesaid entities in connection with the signing and consummation thereof. The confirmation of the Interested Parties as set forth above is also given in connection with what is stated in Clause 4.10 of this Agreement above.
- 7. The Interested Parties confirm that their obligations under this Deed of Undertaking are as a principal debtor, directly to the Municipality, and not as a guarantor. Without derogating from the foregoing and for the sake of caution, the Interested Parties hereby absolutely, unconditionally and irrevocably waive all or any defense or argument that is available and/or may be available to them, if any, pursuant to the Guarantee Law.

8. All the remedies and forms of relief that are available and/or may in the future be available to the Municipality as against the Purchaser in accordance with any law and agreement shall also be available against us in all respects, including in a manner that none of us will have any argument or defense which is not expressly available to the Purchaser.

In witness whereof the parties have hereunto signed:

/s/ Dror Moran, Zeev Stein
Blue Square Real Estate Ltd.

/s/
Dirot Yukra Ltd

/s/
Gindi Investments 1 Ltd.

Certifications by Attorney

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

I the undersigned, _____ Adv., hereby certify that _____ and _____ who identified themselves by way of I.D. No. _____ / who are personally known to me, signed this Agreement and that they are authorized to sign in the name of _____ and that their signature binds _____.

DOCUMENT OF PRINCIPLES DATED APRIL 15, 2010

Between:

- 1. BLUE SQUARE REAL ESTATE TEL AVIV MARKET COMMERCIAL LTD.
Pvte. Co. 514433986.
 - 2. BLUE SQUARE REAL ESTATE TEL AVIV MARKET HOUSING LTD.
Pvte. Co. 514434000.
- (hereinafter – “Blue Square”).

of the one part;

And:

- 1. GINDI COMMERCIAL TEL AVIV LTD.
Pvte. Co. 514434372
 - 2. GINDI HOUSING TEL AVIV LTD.
Pvte. Co. 514434380
- (hereinafter – “Gindi”)

of the other part;

- 1. The parties agree to purchase the “Property Sold” from the “Sellers” (as these terms are defined in the “Sale Agreements”, as defined below), in equal shares between them (50% - 50% of the rights and obligations), all in the manner, in the ways of incorporation and subject to what is set forth below in this Document of Principles.
 - 2. For purposes of purchasing the Property Sold, the “Housing Company” and “the Mall Company”, as defined below, will contract with the Sellers under the Sale Agreements, the Construction of Public Buildings Contract, including the appendices thereto, in the text and on the conditions as shall be agreed with the Sellers on the basis of the drafts attached hereto as Appendix A (the Construction Contract and the Sale Agreements will henceforth be referred to as – “the Sale Agreements”).
 - 3. Up to the time of signing of the Sale Agreements the parties will establish two companies: the one, which will purchase the “Residential Section” (hereinafter – “the Housing Company”) and the other which will purchase the “Commercial Rights” (which will also be referred to below as “the Commercial Precinct” or “the Commercial Section” or “the Mall”) (hereinafter – “the Mall Company”). Each of the parties will have one half (50%) of the rights and obligations in each such company. In addition, the provisions of this Document of Principles will apply respectively and as the case may be to the relationship between the parties in each of the companies in a manner whereby everything stated in relation to the joint company, in the absence of an express provision to the contrary, means that it applies both in relation to the Housing Company and also in relation to the Mall Company (each of the Housing Company and the Mall Company will henceforth be referred to as – “the Company” or “the Joint Company”). The parties will act in such a manner that the articles of each of the companies will be adapted to the provisions of this Document of Principles. In the case of a conflict between the provisions of this Document of Principles and the articles of the companies, the provisions of this Document of Principles shall prevail.
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4. **The Joint Company:**

The name of the Housing Company will be Lev Tel Aviv Towers Ltd. and the name of the Mall Company will be City of Tel Aviv Mall Ltd.

- 4.1 The object of the Joint Company will be: acquisition of the Property Sold (the Mall Company with respect to the commercial rights and the Housing Company with respect to the residential rights), the planning, development, branding, construction, marketing and management thereof. For purposes of this clause marketing means – with respect to the residential section, sale, and for purposes of the Commercial Precinct, leasing only.
- 4.2 50% of the shares and rights in the Housing Company and in the Mall Company will be allotted to Blue Square and the same to Gindi.
- 4.3 Unless otherwise stipulated in this document, decisions in the Joint Company shall be passed by a majority vote of the directors.
- 4.4 The board of directors of the Company shall formulate its policy. The board of directors shall be comprised of 4 members, one half of whom will be appointed by Blue Square and the other half by Gindi, and the same will apply to the replacement of such members and the appointment of others in their stead.

5. **Unanimous resolutions**

The parties hereby stipulate that there shall be no validity to any resolution of the board of directors and/or any resolution of the general meeting and/or of any of its committees on any of the matters described below, unless such resolution is passed unanimously, provided that the holdings of each of the parties at the time the resolution is passed shall not be less than 25% of the issued and paid-up share capital of the relevant company. The following are the subjects:

- 5.1 A resolution on the basic planning layouts – basic design concept of the Project (which will serve as a basis for detailed planning) and a general business and commercial plan including the indicative price lists, both with respect to residential areas and also in relation to the Mall. In this connection it is clarified that under all circumstances a closed mall will be designed.
 - 5.2 Approval of a budget for the Housing Project or for the Commercial Project or for the Public Buildings, whether annual or multi-annual, and whether the amendment, increase or decrease of the budget, will be divided into two subjects: one, direct building construction items (“**the Construction Items**”) and the other the remaining subjects (“**Other Items**”). On each of the abovementioned subjects unforeseen expenses will be fixed of 5% of the total costs on that subject. It is clarified that Gindi will be entitled to take decisions on its own (without requiring the consent of Blue Square) in each of the following cases: (a) in the case of a deviation of up to 2% from the total construction costs item (including unforeseen expenses) and 5% of the total costs of the Other Items (including unforeseen expenses); notwithstanding the foregoing, under no circumstances shall a budget item exceed what was fixed with the consent of the parties by more than double; (b) to reduce the revenues budget by a percentage of up to 5%, provided that under no circumstances will residential units be sold at less than 90% of the price lists, except with unanimous consent. It is clarified that for purposes of this clause “costs” do not include the costs of acquiring the land and Land Acquisition Tax. It is further agreed that the advertising and the marketing budget may be up to 6% of the total anticipated revenues of the Project.
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- 5.3 Contractual arrangements with a bank/s, credit institutions, under a finance and construction loan agreement.
 - 5.4 Entering into encumbrance agreements of all types.
 - 5.5 A resolution regarding the raising of money from the shareholders and/or from any third parties.
 - 5.6 Rights of signature – the rights of signature in each company will be in accordance with the rights of signature protocol which is attached hereto as **Appendix B**. The rights of signature shall not be altered except by way of a unanimous decision of the parties. Gindi's representatives in the Company will have a right to sign any contractual arrangement (excluding checks) of the Company, the extent or implications of which do not exceed NIS 5 million and which is in accordance with the budget referred to in Clause 5.2 above, and it will not require a signature by Blue Square.
 - 5.7 Transactions with interested parties or transactions with a third party in which either of the parties has a personal interest, including transactions between the Mall Company and the Housing Company and/or between the management company, and except as stated in this Document.
 - 5.8 Appointment / replacement / dismissal of: senior officers in the Company to the extent that there is a necessity for their appointment and of a management and supervision company for the Project and fixing of their remuneration. It is clarified that the contents of this clause do not apply to the appointment or replacement of directors of the Company, in relation to whom the contents of Clause 4.4 above will apply.
 - 5.9 Any financial contractual arrangement of the Company the extent or implications of which exceeds NIS 5 million.
 - 5.10 The making of an offer and/or participation in the acquisition of rights in “**the Remainder of the Project Lands**”, as defined in the Sale Agreements. A party to this Document of Understanding shall not give and shall not participate in, directly or indirectly, an offer and/or in initiating the purchase of the remaining market rights in the Project Lands or any part thereof, without the offer being brought for deliberation by the board of directors of the Joint Company prior thereto and only if the Joint Company should decide that it is not interested in purchasing those rights that have been offered, will the party interested in doing so be entitled to enter into a transaction in connection therewith.
 - 5.11 Contractual arrangements with companies for the management of the areas of the Mall, the parking garages and the maintenance of the public areas.
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- 5.12 Deciding on the trade name for the commercial areas. As opposed to that the trade name of the residential project, including the name of the Project on Plot No. 6 shall be decided by Gindi.
- 5.13 Any alteration and/or amendment to the Sale Agreements and/or any other document that has been signed and/or may be signed with the Sellers and/or with the bank and/or with a third party where the original contractual arrangement with such party requires the consent of both third parties.
- 5.14 Conversion of the obligation for payment of “the additional consideration”, as defined in the Sale Agreements (upside) and/or receiving an option for such conversion.
- 5.15 The bringing in of an additional shareholder into the Company and/or any transaction which in essence constitutes a merger or sale or allotment of shares in the Company.
- 5.16 A decision with regard to the giving of discounts to buyers of apartments in the residential section and/or an increase of selling prices of the apartments of more than 10% of the prices specified in the “zero report” that will be prepared for the Project and subject to the approval of the bank, to the extent that it is required. If at the time of marketing the apartments there are no “zero report” that has been approved by the bank, then the price lists that will be agreed by the parties prior to the commencement of marketing will come in its stead.
6. The parties agree that the Commercial Section of the Project will be operated as a yield producing property and that there is no intention to sell individual shops forming part thereof.
7. **Management Services**
- 7.1 The Company hereby appoints Gindi to provide the Company with “**the management services**” as defined below. The period for the providing of management services will be: in relation to the residential section until delivery of the last building in the residential section or up to 5 years from the date of signing of the Sale Agreements, whichever is the later, and in relation to the Commercial Precinct – up to one year from the date of initial operation of the Mall (hereinafter – “**the Management Period**”). Gindi will have the right to extend the period of overriding management of the Mall for an additional two years, without any consideration.
- 7.2 In the framework of the management services and subject to the provisions of this Agreement, Gindi will be responsible for and will have the full power and authority on all aspects of the current, daily, basic and detailed management of the Project, including, without limitation, design of the Project (selecting professional consultants, managing the planning, detailed planning, design, licensing etc.), marketing and sales of the Project (including the selecting of the entities who will market and sell the Project, managing them, laying down and implementing the marketing, sales and advertising policy, etc.), structuring and managing the Project budget, carrying out and constructing the Project, including in connection with managing the construction of the Public Buildings in accordance with the provisions of the Construction Contract (including choosing executing contractors, issuing tenders and managing same, managing implementation, etc.). (Everything stated in this clause will be referred to above and below as “**the Management Services**”).
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It is hereby agreed that prior to any contractual arrangement in connection with the construction of the Project, including, without limitation, entrusting of contracting works, procuring of services of any sort and/or procuring of goods, at least 2 quotations shall be obtained (to the extent that it is possible to obtain two quotations). The foregoing will not apply to contractual arrangements the overall scope and extent of which is less than a sum of NIS 200,000.

7.3 It is hereby agreed that for purposes of constructing the Project, the Joint Company and/or someone on its behalf will contract with the following consultants:

7.3.1 Architect for the Housing Project: Yashar Architects.

Commercial: Yasky or Zur

7.3.2 Management and supervision: Margolin Brothers or Waxman Govrin.

7.3.3 Traffic Consultants: Dagesh

7.4 Gindi undertakes to provide the Management Services during the management period through at least one of the following persons Manor Gindi and/or Uri Levi, all for the period, on the conditions and for the consideration as specified in this Document of Principles (hereinafter – **“the Managers”** / **“the Manager”**). Without derogating from Gindi’s commitment as aforesaid, in any event that at least one of the Managers does not provide the Management Services to the Company and/or in any event in which control in Gindi is transferred to any third party, the Company will be entitled to terminate the contractual agreement with Gindi in connection with the providing of Management Services to the Company, and in such case the management fees will be adjusted to the period in which the Management Services were actually provided. The formula for adjustment will be decided upon in the scope of the detailed agreement. The Managers are not and will not be deemed to be employees of the Company and their remuneration, as well as their social conditions, will be given to them by Gindi and on its responsibility. The Company will not bear any expense and/or social benefits in respect of the Managers. Provisions which guarantee this will be stipulated in the framework of the detailed agreement.

The appointment of the Managers as aforesaid is a personal appointment and cannot be assigned and/or endorsed either fully or partially.

8. **Finance**

- 8.1 The parties will finance the Project, including the purchase, out of their own independent resources and by way of external banking / financial construction loans. The parties will take steps to maximize the external financing element in the transaction to the greatest extent possible. In the absence of written agreement to the contrary, each party will be responsible for and obliged to provide only its pro rata share.
 - 8.2 Notwithstanding the fact that the holdings of the parties in the Joint Company are equal shares, Blue Square will provide the Joint Company for purposes of making “First Payment”, “the Additional First Payment” and “the Later First Payment”, as these terms are defined in the Sale Agreements (which will be referred to below in this Document of Principles as – **“the First Payment”**) with 60% of any such payment and Gindi will provide 40% of the amount of each such payment.
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- 8.3 The parties will act together and in unison to obtain a line of frame, on a guarantee by the owners in equal shares between them, for purposes of financing the investments and expenses of the Joint Company, prior to the giving of the banking construction loans, including payments to consultants, real estate agents and other service providers that may be required during the period from the date of making of the First Payment and up to the time the banking construction loans are provided (hereinafter: “**the Additional Expenses**”). The parties’ working assumption is that they will not be required to pay Land Acquisition Tax before the Second Payment and that this does not form part of the Additional Expenses. However, if the Company is obliged to make payments of Land Acquisition Tax prior to the date of the Second Payment, notwithstanding what is stated above, then this amount will also be taken into account in the scope of the Additional Expenses and the situation regarding the excess amount that will be provided by Blue Square as aforesaid, will be deemed to be the same as the early payment and in a manner that this will bear costs, interest and indexation differences from the date on which it is provided.
- 8.4 If the Joint Company does not succeed in obtaining a line of credit as aforesaid, for cover of the Additional Expenses or any part thereof, then Blue Square will provide 60% of the Additional Expenses or of that part in respect of which a line of credit as aforesaid was not obtained, and Gindi 40% of the amounts that have been paid / will be paid in excess of the amount that was paid by Gindi, i.e.: 20% of the amount of the First Payment and of the Additional Expenses as defined below by Blue Square instead of Gindi as stated in Clauses 8.2 and 8.3 above, (hereinafter referred to – “**the Anticipated Payment**”).
- 8.5 It is agreed that the Anticipated Payment will be deemed to be a loan by Blue Square in a manner that Gindi and Dirot Yukra will be guarantors for reimbursement of one half of the amount that was anticipated (together with linkage and interest, as specified in this Document of Principles), if this is not repaid within 8 years from the date of this document.
- 8.6 The Anticipated Payment shall, during the period from the date of the purchase agreement and up to the time of making of the Second Payment, will bear indexation differences and interest at the minimum rate required in accordance with the Income Tax Regulations (linkage and the interest on the Anticipated Payment will be referred to below as – “**the Amount of the Costs in the First Period**”) and in respect of the period subsequent to making of the Second Payment, will be linked to the Consumer Price Index and will bear interest and costs as follows: if the source of financing of the Anticipated Payment is from a loan which Blue Square has taken for such purpose – then Blue Square will be entitled to receive its costs, including interest at an identical rate to that it will be required to pay the bank (back to back) and in a case in which Blue Square provides the Additional Payment not by way of such loan, then the interest will be fixed according to the cost of raising of a similar amount (debentures) and on similar conditions (such as duration) which prevails for the time being in a company having a similar rating to Blue Square.
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- 8.7 Any payment that may be required commencing from and including “the Second Payment”, as defined in the Sale Agreements, including, but without limitation, the expenses necessary for purposes of erecting and completing the Project, including all the parts thereof, if same was not provided within the scope of the construction loans, will be provided by the parties themselves, in equal shares.
- 8.8 Any withdrawal of equity capital will be repaid according to the proportions of the parties’ investments, including the interest and the indexation differences that have accrued in respect of the equity capital, including in respect of the Anticipated Amount as aforesaid, at the time of such repayment of equity capital (if for example up to the date of withdrawal of the equity capital, Blue Square invests 55% and Gindi 45%, then and at that time Blue Square will receive 55% of such repayment of equity capital and Gindi 45%).
- 8.9 Each party declares that it has the ability to meet its obligations in accordance with this Document of Principles and the Sale Agreements.

Management fees to Gindi

- 9.1 In consideration for Gindi’s Management Services, Gindi will be entitled to receive Management Fees from the Housing Company at a rate equal to 16% of “**Profits of the Housing Project**”, as defined below and Management Fees from the Mall Company at a rate equivalent to 16% of “**the calculated profit of the Company from the Commercial Precinct**”, as defined below.
- 9.2 For purposes of calculation and payment of the Management Fees to Gindi, the terms and expressions set forth below will have the meanings set opposite them:

Cost of construction: All expenses of whatsoever nature connected with constructing the Project (the residential or the commercial areas, as the case may be), until the full completion thereof, without exception, where such expenses do not include V.A.T., including, without limitation, the costs of purchase of the Property Sold (including “the Extra Consideration”, as defined in the Sale Agreements), Land Acquisition Tax, building fees and levies, investments in the leased premises, betterment levies and similar other public impositions, management expenses (excluding the Management Fees to Gindi) planning and coordinating supervision, financial expenses, building construction, materials, marketing, real estate agency commission, attorneys, registration and payment to the Municipality in respect of registration and any other expense that is connected or demanded for purposes of the Project, all as will be recorded in the books of the Joint Company and subject to the provisions of this document.

Costs of construction of the residential areas means the cost of construction within the meaning thereof above and in relation to the Housing Project only. This will include the costs of constructing the open public areas, and in the absence of a directive to the contrary from the Company’s auditors stating that these expenses must be attributed to the cost of construction of the commercial section, also the cost of construction of the Public Buildings.

Costs of construction of the Commercial Section: means the cost of construction within the meaning thereof above in relation to the commercial project only.

Profits of the Housing Project: the amount of proceeds (excluding V.A.T.) received from the sale of residential units and the areas ancillary thereto (storerooms, parking places and so forth), including any other amount that may be received in the Housing Project (including legal expenses and/or registration expenses), and in the absence of a directive to the contrary from the Company’s auditors to the effect that these receipts must be attributed to the calculated profit from the Commercial Precinct, also all the revenues in respect of works for erecting the Public Buildings, less the cost of construction of the residential areas.

The Company's calculated profit from the Commercial Precinct: The NOI that will be calculated at the beginning of the fourth year from the opening of the Mall in respect of the operation of the Mall in the third year after the opening of the Mall multiplied by 10, less the costs of construction of the Commercial Section.

- 9.3 The Management Fees that are due to Gindi from the Mall Company in accordance with the provisions of Clauses 9.1 and 9.2 above are derived from the Company's calculated profit from the Commercial Precinct (hereinafter – **"the Mall Management Fees"**) shall be paid together with V.A.T. as prescribed by law against a tax invoice, in the eight equal and successive annual payments on a basis that Gindi will be entitled to the first payment at the time of opening of the Mall and in the manner described below. Subject to the approval of the lending bank, Gindi will be entitled to receive an advance payment on account of the Mall Management Fees, at the time of opening of the Mall and likewise at the end of one year and at the end of two years from the time of opening of the Mall, where the NOI for purposes of calculating such advance, shall be done according to the revenues expected by the Mall Company, in the first year of lease from the date of opening of the Mall and as arising from the lease agreements and an assessment of the anticipated expenses in respect of the first year of lease. Amounts of the advance payment (both the aforesaid advance payment as well as the advance payment mentioned in Clause 9.9 below) which will pay to Gindi up to such time shall be deducted from the Mall Management Fees, where such advance payments are linked to the index from the date of payment thereof to Gindi and up to the date of the set-off as aforesaid (hereinafter – **"the Balance of the Management Fees"**). The Balance of the Management Fees will be paid together with linkage differences to the Consumer Price Index where the basic index is the index that was known at the time of fixing the amount of the Mall Management Expenses, and this shall be done in five equal annual payments from the date of calculation of the Management Fees. In the event of a sale of the Commercial Section or in the case of refinancing of the Commercial Project, then upon receipt of the consideration in respect of the sale or receipt of refinance and release of the equity capital (including the Anticipated Payment) to the shareholders in the Mall Company, the Balance of the Mall Management Fees which have not yet been paid shall be paid to Gindi at such time by the Mall Company.
- 9.4 Calculation and total of the amounts mentioned in this Clause 9 above, both with respect to its expenses and also in regard to proceeds, as well as with respect to construction costs and in regard to a definition of the relevant profit, shall be done in values linked to the Consumer Price Index, from the known index at the time of the charge, expense, payment, receipt of proceeds, as the case may be, and as against the known index at the time of the accounting.
- 9.5 For purposes of calculating the amount of the construction costs or any calculation deriving from the costs of construction, of both of the Commercial Project and also of the Housing Project:
- a. No depreciation of any sort and at any percentage will be taken into account, whether or not actually recorded.
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- b. Expenses that are considered and recorded from the aspect of the tax laws and as revenue expenses, and not as capital expenses, will also be taken into account.
- 9.6 The Company will record in its books direct expenses as the case may be, i.e. – those which belong to the residential areas will be recorded to the Housing Project and those which belong to the Commercial Project will be recorded to the Commercial Project. With respect to mixed expenses the parties will act in accordance with the directives of whomever the parties may appoint for this purpose.
- 9.7 Payment of the Management Fees deriving from the profit on the residential areas, will be paid to Gindi immediately after and subject to fulfillment of the following cumulative conditions:
- 9.7.1 The Anticipated Payment as referred to in Clause 8.4 above will be repaid in full to Blue Square together with all the interest that has accrued up to such time.
 - 9.7.2 Repayment of the full equity capital that was furnished by the parties together with financial costs and simultaneous with the distribution of the balance of the profits due to the shareholders.
 - 9.7.3 Approval of the lending banks is given to the payment of such Management Fees.
- 9.8 Calculation of the calculated profit from the Commercial Precinct and the profits of the Housing Project and Gindi's Management Fees in respect thereof, shall be made only in accordance with the contents of Clause 9 and all the sub-clauses hereof, notwithstanding any other existing or future accounting instruction and/or standard.
- 9.9 Gindi will be entitled to receive from the Company, once each year commencing from the date of signing of the Sale Agreements, an advance payment on account of the Management Fees in an amount of NIS 3 million per annum plus V.A.T. as prescribed by law, where such amount is linked to the index commencing from the known index at the time of signing of the Sale Agreements, during a period of 5 years only, and with regard to the Commercial Section during a period of 5 years or until the opening of the Mall whichever is the earlier, at which time payment of the advance payments shall cease. That is to say, altogether – not more than NIS 15 million plus V.A.T. as prescribed by law. Out of the aforesaid amount, NIS 7.5 million plus V.A.T. as prescribed by law, where same is linked to the index as aforesaid, will be deemed to be an advance payment on account of the Management Fees from the Housing Company, and NIS 7.5 million plus V.A.T. as prescribed by law where same is linked to the index as aforesaid, will be deemed to be an advance payment on account of the Mall Management Fees. The parties will take steps to obtain approval for this payment by the lending bank in the scope of the construction loan agreement. Only upon the lending bank's approval will cumulative amounts of the advance payments to which Gindi is entitled in respect of the period commencing from the date of signing of the Sale Agreements and up to the date of actual payment be paid and from that date onwards the amounts of the advance payments will be paid until the full payment of the amount of the advance payment, all in accordance with the bank's approval. It is hereby expressly clarified that if eventually the Housing Project and/or the Commercial Project does not have profits, then Gindi will not be entitled to any Management Fees in respect of such Project (the Housing or the Commercial Project as aforesaid), but the amount of the advance payment in respect of such Project will not be refunded.
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- 9.10 It is further clarified that commencing from the date of Gindi's entitlement to payment of the advance payment stipulated in Clause 9.3 above, only one advance payment will be paid to Gindi in respect of the commercial areas, being either the advance payments specified in Clause 9.3 above or that which is specified in this clause, whichever is the higher.
- 9.11 Gindi will be entitled to a bonus in an amount which is equivalent to "the total costs in the first period", as defined in Clause 8.6 above, less an amount equivalent to the indexation differences in respect of the Anticipated Payment, all in relation to the period from the date of the purchase agreement and up to the making of a Second Payment. The amounts that will be due to Gindi as aforesaid will be paid at the time at which the amount of costs in the first period, as defined above, are paid to Blue Square.
- 9.12 In the event of a dispute regarding calculation of the Management Fees, the matter will be decided by Ronen Barel C.P.A. or another senior partner of the Kost office who will be appointed by him, all in accordance with the provisions of this Document of Principles (hereinafter – "**the Arbitr Accountant**"). His status will be that of an expert arbiter and not the status of an arbitrator and his decision shall be final and it shall be made on the basis of the provisions of this document only. The Management Fees shall be paid out of the company's resources – in other words, during the construction stage in the scope of the construction loans and later on out of profits.
- 9.13 A tax invoice according to law shall be delivered against payment of the Management Fees.
- 9.14 If the execution of the Management Services necessitates the engaging of office bearers, then such persons will be appointed by Gindi and will be employed by the Company and at its expense. If what are involved are senior office bearers, their appointment and the terms of their employment will be according to consensus agreement of both the parties. However, use of a base (platform) comprising, inter alia, employees and the equipment of Gindi and/or of Blue Square, as the case may be, will not impose on the Company and will not entitle the provider to any participation in the costs of such relevant base or platform.
- 9.15 For the removal of doubt it is hereby clarified that the Housing Company and the Mall Company will, with the consent of both the parties, appoint management and maintenance companies whose function will be to attend to the current and ongoing care of the commercial areas and the residential areas, as the case may be, and that the Management Services do not include these services, but they do include overriding management of the suppliers of such services, and this will apply until the end of the relevant management period of Gindi's Management Services.
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10. **Management of monies and bookkeeping and accounting**

- 10.1 The Company's ongoing accounting, including, without limitation, maintaining of bank accounts, suppliers' accounts, issue of checks, issue of invoices, issue of accounts, issue of receipts, V.A.T. reports, social payments and various reports, work with the banking system (apart from current and ongoing work vis-à-vis the bank for purposes of implementing the construction loan agreement, which will be under Gindi's responsibility, nothing in the foregoing shall derogate from the provisions of Clause 5 and the sub-clauses thereof), current monthly reports to real estate appraisers and quarterly reports will be under the responsibility and the authority of Blue Square. For purposes of performing this task the Company shall employ employees (comptroller, bookkeeper and so forth) as necessary, who will be appointed by Blue Square and will be under its supervision and responsibility. The remuneration of such employees shall be paid by the Company.
- 10.2 The Company's accountants will be Kesselman and Kesselman or any other firm that may be recommended by Blue Square.
- 10.3 The Company's financial statements shall be drawn in accordance with the Securities Regulations and in the format necessitated by the fact of the Company being a subsidiary of public companies and according to the accepted standards practiced by the parties.
- 10.4 It is clarified that the Company will be obliged to deliver its statements to the parties for purposes of being attached to the financial statements of the parties and for the publication thereof as required by the law enforcement authorities.
- 10.5 The board of directors of the Company shall convene to consider and approve the Company's financial statements in the following manner: the annual statements – 45 days before the last date required for approving of financial statements by public companies whose shares are traded on the Tel Aviv Stock Exchange Ltd., and quarterly reports – 30 days before the last date is required for approving of quarterly reports by public companies whose shares are traded on the Tel Aviv Stock Exchange Ltd.

11. **Advertising**

- 11.1 Gindi shall report regularly to Blue Square about advertisements it intends to publish by various forms of media in connection with the Project. If any obligation should arise according to law for Blue Square to report on such advertising, the advertising will be coordinated in advance between the parties.
- 11.2 In every advertisement of the Project and in any media, including, without limitation, adverts in the press, billboards, advertising in newspapers, television, Internet and so forth, to the extent that this is dependent on Gindi or on Blue Square, the names of the parties as the promoters of the Project shall be exhibited equally.

12. **Dilution**

- 12.1 Subject to the contents of this Document of Principles, including and in particular Clause 8.2 above, each party shall provide its share of investments in the equity capital, in guarantees and in collateral for purposes of planning, development, construction and marketing of the Project. The providing of the share of each party shall be done in accordance with decisions that will be taken from time to time and/or as necessitated by the budget and/or as called for under the Sale Agreements and the obligations of the Company to a third party.
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12.2 If either of the parties (hereinafter – “**the Defaulting Party**”) does not furnish the Joint Company with the finance required up to the date required for the purpose (hereinafter – “**the Date of Payment**”), then the other party which has furnished the financing required to the extent of its share (hereinafter – “**the Complying Party**”) will have the possibility, in its sole discretion, also to provide the share in the necessary financing of the Defaulting Party (hereinafter – “**the Additional Financing**”) on its own, subject to giving the Defaulting Party prior written notice of at least 15 days from the Date of the Payment. If during the aforesaid period the Defaulting Party also fails to provide its share of the necessary financing, on its own, the Complying Party will be entitled to give the Defaulting Party written notice that it has decided to provide the Additional Financing for the Defaulting Party as a loan. This amount, to the extent that it is actually provided as aforesaid and together with interest linked to the Consumer Price Index at an annual rate (or pro rata portion) of 12% plus V.A.T. in respect of the interest and the indexation differences, if any (hereinafter – “**the Additional Financing Loan**”) shall be repaid as a first repayment on account of the shareholders’ loans, before any payment and/or distribution of profits and before the Management Fees to Gindi, and subject to the obligations to the lending bank. The calculation and charging of the interest shall be on a quarterly basis.

12.3 The Defaulting Party will have the right to rectify the breach during 60 days from the date on which the Additional Financing Loan was provided by the Complying Party. After the elapse of 60 days from the date on which the Additional Financing Loan was provided, without having been repaid in full by the Defaulting Party, the Complying Party will be entitled, without derogating from any other remedy according to law, to dilute the share of the Defaulting Party in the relevant company, in accordance with the provisions set forth below:

The percentage holdings of the Complying Party after the dilution in the Housing Company or in the Mall Company, as the case may be, will be determined as follows: a multiplication by 150% of the amount of the investment made by the Complying Party in lieu of the Defaulting Party, where this amount is divided by the total investments of the parties in that company. For example: at the time of the initial investment each party invested NIS 500 in the relevant company. The parties were called upon to provide an additional NIS 100 to the Mall Company (each party NIS 50). The Complying Party paid its share and the Defaulting Party did not. The Complying Party wishes to provide the Defaulting Party’s share, against dilution of the Defaulting Party’s share. Calculation of the percentage dilution is:

$$50/1100 \times 150\% = 6.8\%$$

Shares to an extent of 6.8% will be allotted to the Complying Shareholder against the furnishing of the aforesaid amount instead of the Defaulting Shareholder.

12.4 Calculation of the dilution according to the above principles will be done by the Arbiter Accountant in accordance with the above principle. His determination will be made in writing, shall be delivered to the parties and shall be deemed to be a decision of an expert arbiter and his decision will be final and absolute (hereinbefore and hereinafter – “**the Percentage Dilution**”). Determining of the Percentage Dilution shall be binding on the attorneys as stated in Clause 14.7 [12.6] below.

- 12.5 The validity of the dilution shall be commencing from the date on which the Complying Party notified the Defaulting Party about the dilution in accordance with this Document of Principles and after determination of the percentage dilution has been delivered to the parties. Once such dilution has been made, the Defaulting Party will no longer be treated as a debtor in respect of the amount of the Additional Financing Loan, but this amount shall be recorded in the Company's books as a shareholder's loan to the Company from the Complying Party.
- 12.6 It is hereby agreed that at the time of signing of this Document of Principles, or at the latest within 7 days from the date of signing of this Document of Principles, the parties will lodge with the attorneys of the law office of M. Firon & Co. and the attorneys of the law office of Goldfarb, Levy, Eran, Meiri, Tsafirir & Co. (hereinafter – "**the Attorneys**") the following documents as security for implementation of such dilution: minutes authenticated by an attorney and an irrevocable power of attorney in the text attached to this Document of Principles as **Appendix C**, duly and properly signed, empowering the Attorneys to perform any act in the name and on behalf of the parties and/or to sign any document that may be required for purposes of performing dilution operations as described in this clause. The signature of the parties to this Document of Principles shall be tantamount to an authorization to the Attorneys to complete whatever is required in the Documents (for example, the Percentage Dilution, in accordance with the determination of the Arbiter Accountant).
- 12.7 Without derogating from the foregoing if either parties should object by act and/or omission, directly and/or indirectly, itself and/or through someone on its behalf, to a dilution of its share, notwithstanding that such dilution was made in accordance with the provisions of this Document of Principles, it will be deemed to have committed a material breach of this Document of Principles and in that case that portion of its shares in the Joint Company and in "the Management Company", as defined below, which are equivalent to the Percentage Dilution, will – upon a demand by the other parties – be deemed to be someone whose rights in respect thereof have been absolutely and fully deferred, and same will be without any rights including, but without limitation, the right to receive notice of a general meeting of any class and the right to receive a pro rata share in a winding-up of the Joint Company.
- 12.8 On the demand of the party demanding dilution, the Attorneys shall be obliged to act to implement the dilution in accordance with the provisions of this clause above. The signature by the parties to this Document of Principles is tantamount to the giving of an irrevocable instruction to the Attorneys to act as aforesaid. The Attorneys shall confirm to the parties in writing immediately after the signing of this Document of Principles that they will act accordingly.
- 12.9 Until such time as it is otherwise agreed between the parties, monies that will be provided by either of the parties to the Company shall be recorded as shareholders loans. The loans will bear interest from the date on which they were given to the Company and up to the date of actual repayment thereof at a rate which is 1% higher per annum than the rate of interest prevailing for the time being in respect of a deposit of an identical amount and for an identical period at the lending bank.
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13. **Restrictions on transfer rights**

Right of first refusal

- 13.1 A party wishing to transfer and/or sell any of its rights and obligations in the Joint Company, including an assignment and/or grant of any other right to a third party, including, without limitation, by way of an allotment and/or by way of realizing an encumbrance [except to the lending bank] whether for consideration or otherwise (hereinafter – “**the Offered Object for Sale**”) (hereinafter – “**the Seller**” and/or “**the Offeror**”), will be obliged first to offer the entire Object offered for sale to the other party at the price and on the conditions (including with regard to collateral security, terms of payment and so forth) which are being offered to him in binding fashion in writing by third party (hereinafter: “**the Offeree**, “**the Offer**”, as the case may be), in the following manner.
- 13.2 The Offer shall be made by giving written notice of sale, containing details regarding Object Offered for Sale, the price thereof, the terms of payment, the identity of the third party, including – if the third party is a legal entity – the identity of any controlling shareholder therein up to the private ultimate controlling shareholders therein, all as are known to it, or if the third party wishes to purchase the Object Offered for Sale as a trustee for another person or body in any manner, the identity of the beneficiary and the private ultimate controlling shareholder therein, all to the extent known to it, and the remaining terms and conditions of the sale (hereinafter – “**the Notice of Sale**”). A binding offer by the third party shall be attached to the Notice of Sale. The Offeree shall keep confidential the matters stated in the Notice of Sale, except to the extent required to realize its rights in accordance with this Document of Principles. In addition a comfort letter from one of the five largest banks in Israel shall be attached to the Notice of Sale stating that the third party has the ability to raise the monies and the collateral security for financing the purchase of the Joint Company or the relevant share.
- 13.3 The Offeree will be entitled to notify the Offeror in writing, within thirty (30) days from the date of the Notice of Sale (hereinafter – “**the Notice of the Acceptance Period**”) that it accepts the Offer and wishes to purchase the rights which are offered at the price stated in the Notice of Sale, on the conditions of the Notice of Sale and subject to obtaining any approval required at law for purposes of the sale transaction coming into force, if and to the extent that same is required (hereinafter – “**Notice of the Acceptance**”).
- 13.4 Where Notice of Acceptance has been given by the Offeree, the Offeree shall purchase the Object Offered for Sale from the Offeror within fourteen (14) business days from the date of the Notice of the Acceptance (hereinafter – “**the Period for Realization of the Notice of Acceptance**”), subject to obtaining any approval required at law for purposes of the sale transaction coming into force, if required, in consideration for payment of the price specified in the Notice of Sale, and on the conditions set forth in the Notice of Sale.
- 13.5 If no Notice of Acceptance is given within the Notice of the Acceptance Period, or if a notice is given to the effect that the Offeree does not accept the Notice of Sale, or accepts on conditions that differ from the Notice of the Acceptance, or if the Offeree fails to sign the sale agreement and to make payment in accordance therewith within the Period of Realization of the Notice of Acceptance, the Offeror will be entitled to sell the Object Offered for Sale to a third party at a price and on conditions that are not less favorable than those specified in the third party’s offer as was attached to the Notice of Sale, provided that the sale agreement between the Offeror and the third party shall be signed within sixty (60) days from the date of termination of the Notice of the Acceptance Period or from the end of the Period for Realization of the Notice of the Acceptance, if there is such – and subject to the condition that the third party shall, prior to the effecting of the transfer and as a pre-condition for the execution thereof and for its validity, sign an undertaking pursuant to which it unconditionally assumes, with the approval of the lending bank, all the Offeror’s obligations and rights pursuant to this Document of Principles, and will agree to become a party to this Document of Principles for all intents and purposes, as if it had from the outset signed this Document in place of and/or together with the Offeror, as the case may be. If the Offeree so demands from the Offeror, the Offeror shall disclose to the Offeree and to an accountant who will be appointed for this purpose by the Offeree, the full set of agreements between it and the third party in connection with the sale of the Object Offered for Sale.
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- 13.6 Without derogating from the foregoing, a sale and/or transfer and/or allotment and/or realization of shares in the Joint Company in accordance with this Clause 13 above will be of no validity, unless approved in accordance with the provisions of the Sale Agreements and the party who acquires the rights as aforesaid shall, with the approval of the lending bank, step into the shoes of the selling party (back to back) in all respects, including vis-à-vis the Sellers, third parties and in accordance with this Document of Principles and the co-ownership agreements, and shall produce an approval thereto from the lending bank and shall cause the release of all (or a pro rata portion, as the case may be) of the collateral security the selling party has furnished to the lending bank and/or to the Sellers, all of which shall be at the time of payment of the consideration and against transfer of substitute collateral security to whatever extent may be required.
- 13.7 If an agreement is not signed for the sale of the Object Offered for Sale to a third party within 60 days from the end of the Notice of the Acceptance Period or from the end of the Period for Realization of the Notice of Acceptance, if there was such, the Offeror will not be entitled to sell the Object Offered for Sale to the third party until after having given a fresh right of first refusal as described above, including the giving of a new notice of sale.
- 13.8 It is clarified that there shall be no validity to any sale, unless the lending bank has delivered written approval to the effect that this is being done with its acquiescence and with its knowledge and that the buyer has furnished all the necessary collateral security and undertakings in place of the Seller.

14. **Tag-Along right**

- 14.1 In the event that either of the parties should wish to sell and/or to transfer and/or to allot, directly or indirectly, any of its shares in the Company to third parties and the right of first refusal described in Clause 13 above has not been exercised in connection with such sale, the aforesaid sale – transfer – allotment shall be subject to the right of the other party to join in the sale to a third party in accordance with the provisions set forth below.
- 14.2 The party wishing to transfer (hereinafter – “**the Offeree Seller**”) its shares in the Company (hereinafter – “**the Shares being Sold**”) to any third party (hereinafter – “**the Offeror Buyer**”) shall be obliged, prior to such sale, to send in writing the offer of the Offeror Buyer to purchase the Shares being Sold to the other party in writing (hereinafter – “**the Other Party**”), which shall include the identity of the third party, including, in the event that the third party is a legal entity, the identity of all the controlling shareholders therein up to and including the ultimate private controlling shareholders therein, as are known to it, or if the third party wishes to buy the shares as a trustee for another person or body in any way, the identity of the beneficiary and the ultimate private controlling shareholders therein, as far as are known to it, as well as the consideration offered to it by a third party for the purchase of the Shares being Sold and the terms of payment thereof, and the remaining terms and conditions of the proposed transaction for the sale of all the Shares being Sold.
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- 14.3 The Other Party will be entitled, within 30 (thirty) days from the date on which details of the Offeror Buyer's offer are received by it, to give notice in writing to the Offeree Seller of its desire to participate in a sale to the Offeror Buyer of the Shares being Sold under the conditions set forth in the details of the Offeror Buyer's offer which has been received by him as aforesaid (hereinafter – "**Tag-Along Notice**" and "**Tag-Along Notice Period**", respectively). Where such Tag-Along Notices have been given and an agreement has been signed for the sale of the Shares being Sold between the Offeror Seller, the Other Party who served a Tag-Along Notice in time and the Offeror Buyer, within fourteen (14) business days from the end of the Tag-Along Notice Period (hereinafter – "**the Period for Exercise of the Tag-Along Notice**"), the sale of the Shares being Sold will be divided between the Offeree Seller and the Other Party according to the proportion of the holdings of each of the foregoing in the share capital of the Joint Company, but under no circumstances not more than one share against each share sold.
- 14.4 If no Tag-Along Notices as aforesaid are given within the Tag-Along Notice Period, or if a Tag-Along Notice is given stating that the party giving the notice confirms its participation on conditions that differ from those set forth in the offer of the Offeror Buyer, or the party who delivers the Tag-Along Notice fails to sign the agreement for sale of the Shares being Sold within the period of exercise of the Tag-Along Notice, the Offeree Seller will be entitled to sell all the Shares being Sold to the Offeror Buyer in accordance with the details of the offer as was sent to the Other Party, provided that an agreement for the sale of the Shares being Sold to the third party shall be signed between them within 60 days from the end of the Tag-Along Notice Period or from the end of the period for exercise of the Tag-Along Notice, if there was such.
- 14.5 Subject to the foregoing, the shareholders shall cooperate and shall sign any document that is required in order to implement a sale of the Shares being Sold and the shares of the Other Party which are offered for sale to a third party in good time.
- 14.6 In addition to the foregoing, it is hereby expressly agreed that a sale of the shares been sold and/or the shares of the Other Party that are offered for sale, to any third party, is conditional upon the third party assuming all the rights and obligations of the Offeree Seller (and of the Other Party who delivered a Tag-Along Notice as aforesaid, if there was such) in accordance with this Document of Principles and the Sale Agreements, and it shall agree to become a party to those Agreements in all respects, as if it had signed same from the outset instead of and/or together with the Offeree Seller and/or the parties to whom a Tag-Along offer was made, as the case may be.
- 14.7 It is clarified that no sale and/or transfer and/or allotment will be of any validity, unless the lending bank has given written approval pursuant to which this is being done with its knowledge and consent and that the Buyer has furnished all the necessary collateral and undertakings instead of the Seller.
15. **Prohibition on transfer of rights**
- 15.1 Notwithstanding any other provision in this Agreement, it is agreed that none of the parties will be entitled to transfer or sell or to confer means of control, directly or indirectly, which are cumulatively greater than 20% of that party's portion of the issued share capital, including by way of an allotment of any of the companies until completion of the Project (in other words the obtaining of Form 4 for the residential buildings and the commercial areas).
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16. **General**

- 16.1 Without derogating from the contents of Clause 15.1 above, it is hereby clarified that in every case of the party who transfers its rights, in whole or in part, to another/others in accordance with the mechanisms that are the subject of this Document of Principles, the transferor party undertakes, as a pre-condition to the validity of the transfer of rights, as follows:
- 16.2 To cause a situation that the buyer/s or the transferee/s take upon himself/themselves as against the remaining party the obligations pursuant to this Document of Principles, in accordance with the Sale Agreements, and in accordance with any contractual arrangements of the parties with third parties, including the lending bank, prior to the date of transfer of the Object Offered for Sale to such buyer/s or transferee/s and shall sign this Document of Principles with the remaining party, and the lending bank shall approve such transfer (such approval is a pre-condition to the validity of the transfer) as also releasing the selling party from its obligations to the lending bank, in whole or in part, as the case may be.
- 16.3 To pay all its debts to the Joint Company and to the remaining party up to the date of transfer of the rights, if there are such.
- 16.4 To remove any encumbrance that is registered over its portion of the Joint Company and to release the other party from such encumbrance and to give the other party a written declaration stating that it has reported the fact of the sale and/or transfer to any entity required according to any law.
- 16.5 The provisions of Clauses 13 and 14 above shall apply, mutatis mutandis, also in a case in which any of the parties wishes to sell and/or transfer and/or allot and/or to realize an encumbrance (“Transfer of Rights”) any of its shares in the Company which are held directly or indirectly, in the Mall Company and/or in the Housing Company, except in companies the securities of which are traded on the Stock Exchange, but same will not apply to a Transfer of Rights of any of the parties to a corporation under the direct and/or indirect control of the transferor party or of the controlling shareholders in the transferor and/or the controlling shareholders in the controlling shareholder (hereinafter – “**Controlled Corporation**”), or to a corporation under the control of the controlling shareholders in the transferor (hereinafter – “**a Sister Corporation**”), or to a corporation which directly or indirectly controls the transferor (hereinafter – “**Controlling Corporation**”), provided that the Controlled Corporation or the Sister Corporation or the Controlling Corporation, as the case may be, is under the full control (100%) of the controlling shareholder therein and that the Controlling Corporation shall confirm in writing that it is stepping into the shoes of the transferor in all respects connected with this Document of Principles, and shall sign this Document of Principles and shall undertake to abide by the provisions hereof and of the Sale Agreements, the co-ownership agreement and any existing agreement with a third party.
- 16.6 If the shares in the Management Company are registered directly in the names of the parties, then wherever in this Document of Principles a transfer and/or sale and/or allotment of shares in the Joint Company is referred to this shall also mean the Management Company, all in the same ratio.
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17. **Handling of legal matters**

- 17.1 It is agreed that handling of the legal aspects connected with “the residential precinct” shall be entrusted to the law office of Goldfarb, Levy, Eran, Meiri, Tsafir & Co., in accordance with the fees agreement attached to this Document of Principles as **Appendix C** and the handling of the legal aspects connected with the Commercial Precinct will be entrusted to the attorneys who will be decided by Blue Square in accordance with a fees agreement that was attached to this Document of Principles and **Appendix D**.

18. **Liability and indemnity**

- 18.1 Each party will be liable on its own for the fulfillment of all its obligations under this Document of Principles, in full and punctually on due date.
- 18.2 Each party (in this clause below – “**the Indemnifying Party**”) shall indemnify the other party and/or the Joint Company, as the case may be (hereinafter in this clause – “**the Indemnified Party**”), in respect of any damage and/or loss and/or expense that may be incurred by the Indemnified Party in respect of a claim and/or demand the Indemnified Party has been ordered to pay and which arises from an act and/or omission of the Indemnifying Party, which constitutes a material breach by that party of this Document of Principles and/or of the Sale Agreement and/or of the Co-ownership Agreement, which has not been cured, provided that the Indemnified Party delivered written notice to the Indemnifying Party with regard to the claim and/or the demand as aforesaid, immediately same was received by it, and gave the Indemnifying Party a fair opportunity of defending it, and did not compromise without the written consent of the Indemnifying Party, or a judgment was granted which ordered such payment in favor of such third party, the execution of which has not been stayed. Without derogating from the foregoing, if an attachment is imposed over the assets and/or rights of the Indemnified Party, the Indemnifying Party shall attend to the immediate removal of the attachment, including by way of furnishing collateral security and guarantees to the third party who requests the attachment, upon the fulfillment of conditions which oblige the Indemnifying Party to indemnify the Indemnified Party in accordance with the foregoing.

19. **Reimbursement of expenses for payment to consultants**

- 19.1 The Company shall bear the full expenses that are incurred by the parties, plus V.A.T. as prescribed by law, which were disbursed up to and prior to the date of signing of this Document of Principles, all against vouchers and receipts, and shall do so not later than 20 business days from the date of signing of this Document of Principles. The foregoing shall include the Company bearing the full expenses mentioned in **Appendix E** to this Document of Principles.

20. **Letting of areas**

April 15, 2010

It is agreed between the parties that if the general meeting of Blue Square Real Estate Ltd. does not approve the transaction and if as a result thereof or in connection therewith the Sellers or any of them should foreclose on the guarantee that is lodged with them, then and in that event Blue Square will be released from participation in the amount that has been foreclosed upon and such amount shall be borne by Gindi.

- 20.1 The Mall Company will let to Blue Square or to any member of the Blue Square Group, an area of 400 sq.m., whether as one unbroken area on floor minus one or on the commercial level of the fabric building (for residential purposes) or in two sections on the above-mentioned levels, all at the election of Blue Square, for purposes of a supermarket / convenience stores / organic products store, against rentals per gross sq.m. that will be equivalent to the average rentals per gross sq.m. of five (5) AM-PM branches whose rentals per sq.m. are the highest of the branches of the aforesaid chain in Tel Aviv. The lease period will be for a long term and will be renewed from time to time at Blue Square's request, but not for more than 24 years and eleven months, and in each period which renews as aforesaid the rentals will be fixed afresh according to the format specified above. Blue Square's aforesaid right will remain in force so long as the shops have not been let to third parties. The parties agree that no supermarket or convenience store of a similar type to the stores of the type operated by the Blue Square Group shall be operated in the Commercial Precinct, except those of the Blue Square group.
- 20.2 It is further agreed that if Blue Square or any one on its behalf should request to hire areas that exceed the abovementioned areas but under no circumstances more than 1,500 sq.m. gross (which include the areas mentioned in Clause 20.1 above), then and in that event Gindi will have a corresponding right to hire areas (up to 1100 sq.m.) in the same area, and location and on identical conditions. This right will be available to Blue Square subject to the condition that areas remain both for Blue Square as well as for Gindi. In such case Gindi will have the right to let such areas to any third party who may wish to hire same and all the revenues in respect of such areas shall belong to Gindi alone.
- 20.3 It is agreed that the supply of gas to units in the Residential Precinct and in the Commercial Precinct shall be performed by Dorgas at competitive prices that shall be agreed upon with it.
21. **Guarantees**
- 21.1 Blue Square shall cause a situation that Blue Square Real Estate Ltd. (Blue Square Real Estate) shall, subject to the fulfillment of the conditions precedent, sign a guarantee for the performance of the obligations of Blue Square pursuant to this Document of Principles. In addition, Blue Square shall sign the guarantees that are required from it in the scope of the Purchase Agreements and in the scope of the contractual arrangement with the Lending Bank.
- 21.2 Gindi shall cause a situation that Gindi Investments 1 Ltd., and Dirot Yukra Ltd., shall, subject to the fulfillment of the conditions precedent, sign a guarantee for the performance of the obligations of Gindi pursuant to this Document of Principles in a manner whereby Gindi Investment 1 Ltd., shall guarantee one half (50%) of the obligations of Gindi, and Dirot Yukra will guarantee the full (100%) of the obligations of Gindi. In addition Gindi Investments 1 Ltd. and Dirot Yukra shall sign the guarantees that are required from them in the scope of the Purchase Agreements and in the scope of the contractual arrangement with the Lending Bank, according to the aforesaid division.
- 21.3 If guarantees that have been given by Blue Square Real Estate or by Dirot Yukra and Gindi Investments 1, or by any one on their behalf, as the case may be, be realized, then the guarantor whose guarantee has been realized shall be indemnified by the other in an amount equivalent to one half of the amount of realization plus expenses incurred in the matter and together with interest at a rate of prime plus 6% per annum in respect of the realized amount from the date of the realization and up to the date of actual payment. It is hereby agreed that the failure of either of the parties to abide by the provisions of this clause shall be deemed to be a material breach and in such case the provisions of Clause 14 (dilution) shall apply, mutatis mutandis.
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22. **Conditions precedent**

Conditions precedent for this Document of Principles coming into force are cumulatively as follows:

- 22.1 The signing of the Sale Agreements with the Sellers and the fulfillment of the conditions precedent. If this condition precedent is not fulfilled, then the provisions of this Document of Principles the time for fulfillment of which is not contingent upon the Sale Agreements coming into force will apply, such as: each party bearing one half of the expenses which have been incurred and/or which may be incurred by the parties.
- 22.2 Approval by the authorized organs of Blue Square to entering into this Document of Principles.
- 22.3 Approval by the authorized organs of Gindi to entering into this Document of Principles.

23. **Full extent of obligations**

- 23.1 This document fully reflects, on an updated basis, everything that has been agreed between the parties and cancels any prior document. All the documents made between the parties or anyone on their behalf prior to this document are null and void as if never made and in particular the document dated January 20, 2010.
- 23.2 This document shall not be deemed to be an agreement in favor of a third party.

24. **Resolution of disputes**

In the event of a dispute between the parties regarding implementation of the provisions of this Document of Principles and/or the interpretation hereof, the parties shall, within 3 days from the date on which one party applied to the other, refer the dispute between them to mediation before the attorneys of the parties Adv. Shlomo Shafir and Adv. Levy Amitai (hereinafter – “**the Mediators**”). If the Mediators do not reach overall agreement between them within seven (7) days from the date the subject of the dispute was referred to them, the decision will be referred to arbitration before “**the Arbitrator**”, as defined below. The Arbitrator shall be a retired District Court Judge who shall be appointed with the consent of the parties and in the absence of agreement between them, he will be appointed by the Tel Aviv District Court, on an application to the court by either of the parties. The court shall not appoint as Arbitrator anyone who does not agree to take upon himself to give his award within the times specified below in this clause (hereinafter – “**the Arbitrator**”). The Arbitrator shall not be bound by the rules of civil procedure but will be obliged to give written reasons for his award. The Arbitrator’s award shall be final and binding and shall not be appealable. The Arbitrator’s decision shall be given with the urgency necessitated by the subject that is the issue in dispute, but under all circumstances not later than 30 days from the date of his appointment.

25. The parties will be prohibited from encumbering their rights, directly or indirectly, pursuant to the Sale Agreements and/or this Agreement and/or their rights in the Property Sold, except in favor of the Lending Bank only and subject to the provisions of this Document of Principle. Notwithstanding the foregoing it is agreed that in a situation in which either of the parties to this Agreement requests to provide the companies with loans together with the Lending Bank, then and in that event, subject to obtaining the consent of the Lending Bank, the parties will be entitled to encumber their rights as aforesaid in favor of such party, under an encumbrance ranking pari passu with the Lending Bank, or by a second ranking encumbrance which ranks behind the Lending Bank, provided that the encumbrance shall conform, mutatis mutandis, with the construction loan documents that will be signed with the Lending Bank.
26. The parties shall act in such a way that within 60 days a detailed agreement will be signed between them which regulates the relationship between the parties on the basis of the principles set forth in this Document of Principles and until such time as the aforesaid detailed agreement is signed, the provisions of this Document of Principles shall apply to and be binding on the parties.

27. **Interpretation**

This document shall be interpreted and construed solely according to what is stated herein. Drafts and/or documents that were made and/or exchanged between the parties prior to this document shall be deemed never to have been made and it shall not be possible to make use thereof for purposes of interpretation of this document.

In witness whereof the parties have hereunto signed:

/s/ Dror Moran, Zeev Stein
Blue Square

/s/
Gindi

Guarantee of Interested Parties (Gindi)

We, the undersigned, Dirot Yukra Ltd., hereby confirm and undertake to Blue Square Real Estate Ltd. (hereinafter – “**Blue Square**”) as follows:

1. That the declarations and the undertakings that have been given by Gindi Trade Tel Aviv Ltd. and Gindi Housing Tel Aviv Ltd. (hereinafter – “**Gindi**”) in the scope of this Document of Principles are true and correct and are up to date.
2. We are fully conversant with the provisions of this Document of Principles and we declare and undertake that we have the capability of complying with all the obligations of Gindi under this Document of Principles, in accordance with the contents of Paragraph 3 below.
3. We are guarantors to Blue Square for the fulfillment of all Gindi’s obligations under this Document of Principles, including payment of all the payments which Gindi is obliged to pay in accordance therewith.
4. Our abovementioned obligations are absolute, irrevocable and unconditional, and included in this nothing in our undertakings to Blue Square is contingent upon a prior reference by Blue Square to Gindi and/or the exhausting of any proceedings and/or remedies that are available to Blue Square pursuant to the Document of Principles and/or according to any law.

5. The parties waive their rights under Sections 5, 6 and 7 of the Guarantee Law and the necessity for prior reference to them as aforesaid.

/s/
Dirot Yukra Ltd

Certification by Attorney

I the undersigned Yitzhak Cobos, Adv., hereby certify that Mr. Kfir Gindi, who is personally known to me, signed this Document of Principles and that he is authorized to sign in the name and on behalf of Dirot Yukra Ltd. and that his signature binds Dirot Yukra Ltd.

/s/ Yitzhak Cobos
Yitzhak Cobos, Adv.

Guarantee of Interested Parties (Gindi)

We, the undersigned, Gindi Investments 1 Ltd., hereby confirm and undertake to Blue Square Real Estate Ltd. (hereinafter – “**Blue Square**”) as follows:

1. That the declarations and the undertakings that have been given by Gindi Trade Tel Aviv Ltd. and Gindi Housing Tel Aviv Ltd. (hereinafter – “**Gindi**”) in the scope of this Document of Principles are true and correct and are up to date.
 2. We are fully conversant with the provisions of this Document of Principles and we declare and undertake that we have the capability of complying with all the obligations of Gindi under this Document of Principles, in accordance with the contents of Paragraph 3 below.
 3. We are guarantors to Blue Square for the fulfillment of all Gindi’s obligations under this Document of Principles, including payment of all the payments which Gindi is obliged to pay in accordance therewith.
 4. Our abovementioned obligations are absolute, irrevocable and unconditional, and included in this nothing in our undertakings to Blue Square is contingent upon a prior reference by Blue Square to Gindi and/or the exhausting of any proceedings and/or remedies that are available to Blue Square pursuant to the Document of Principles and/or according to any law.
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5. The parties waive their rights under Sections 5, 6 and 7 of the Guarantee Law and the necessity for prior reference to them as aforesaid.

/s/

Gindi Investments 1 Ltd.

Certification by Attorney

I the undersigned Yitzhak Cobos, Adv., hereby certify that Mr. Manor Gindi, Mr. Uri Levy and Mr. Eliahu Friedman who are personally known to me, signed this Document of Principles and that they are authorized to sign in the name and on behalf of Gindi Investments 1 Ltd. and that their signature binds Gindi Investments 1 Ltd.

/s/ Yitzhak Cobos

Yitzhak Cobos, Adv.

Guarantee of Interested Parties (Blue Square Real Estate)

We, the undersigned, Blue Square Real Estate Ltd., hereby confirm and undertake to Dirot Yukra Ltd. and Gindi Investments 1 Ltd (hereinafter – “**Gindi**”) as follows:

1. That the Declarations and Undertakings that were given by Blue Square Real Estate Tel Aviv Market Residential Ltd. and Blue Square Real Estate Tel Aviv Market Housing Ltd. (hereinafter – “**Blue Square**”) in the scope of this Document of Principles are true and correct and are up to date.
2. We are fully conversant with the provisions of this Document of Principles and we declare and undertake that we have the capability of complying with all the obligations of Gindi under this Document of Principles, in accordance with the contents of Paragraph 3 below.
3. We are guarantors to Blue Square for the fulfillment of all Gindi’s obligations under this Document of Principles, including payment of all the payments which Gindi is obliged to pay in accordance therewith.
4. Our abovementioned obligations are absolute, irrevocable and unconditional, and included in this nothing in our undertakings to Blue Square is contingent upon a prior reference by Blue Square to Gindi and/or the exhausting of any proceedings and/or remedies that are available to Blue Square pursuant to the Document of Principles and/or according to any law.
5. The parties waive their rights under Sections 5, 6 and 7 of the Guarantee Law and the necessity for prior reference to them as aforesaid.

/s/ Dror Moran, Zeev Stein

Blue Square Real Estate Ltd.

Certification by Attorney

I the undersigned Yael Avner, Adv., hereby certify that Mr. Dror Moran and Mr. Zeev Stein who are personally known to me, signed this Document of Principles and that they are authorized to sign in the name and on behalf of Blue Square Real Estate Ltd. and that their signature binds Blue Square Real Estate Ltd.

/s/ Yael Avner

Yael Avner, Adv.

List of Subsidiaries*

- Mega Retail Ltd. (Formerly known as The Blue Square Chain Investments & Properties Ltd.)
 - The Blue Square Chain (Hyper Hyper) Ltd.
 - Blue Square Real Estate Ltd.
 - Eden Briut Teva Market Ltd.
 - Bee Group Retail Ltd. (Formerly known as Hamachsán Hamerkazi Kfar Hasha’ashuim Ltd.).
 - Vardinon Textile Ltd.
 - Naaman Porcelain Ltd.
 - Diners Club Israel Ltd.
 - Radio Non Stop Ltd.
 - Bee Square Real Estate Logistic Center Ltd.
 - Square Real Estate Residence Ltd.
 - Square Real Estate Tel Aviv Market Ltd.
- *All of our subsidiaries are incorporated in Israel



CERTIFICATION

I, Zeev Vurembrand, certify that:

1. I have reviewed this Annual Report on Form 20-F of Blue Square-Israel Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

By /s/ Zeev Vurembrand

Zeev Vurembrand

Chief Executive Officer

Date: June 23, 2010

CERTIFICATION

I, Dror Moran, certify that:

1. I have reviewed this Annual Report on Form 20-F of Blue Square-Israel Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

By /s/ Dror Moran
Dror Moran
Chief Financial Officer

Date: June 23, 2010

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Blue Square-Israel Ltd. (the “Company”) on Form 20-F for the period ending December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certify that to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Zeev Vurembrand
Zeev Vurembrand
Chief Executive Officer

By: /s/ Dror Moran
Dror Moran
Chief Financial Officer

Date: June 23, 2010

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-149175) of Blue Square-Israel Ltd. (the "Company"), of our report dated June 23, 2010, relating to the financial statements of the Company and the effectiveness of internal control over financial reporting, which appears in this Annual Report.

Haifa, Israel
June 23, 2010

/s/ Kesselman & Kesselman
Kesselman & Kesselman
Certified Public Accountants (Isr.)

CONSENT

I hereby consent to the inclusion of the summary of my actuarial calculations of Blue Square's various employee benefits as described under the caption “Summary of Significant Accounting Policies” (note 2s) in the consolidated financial statements of Blue Square-Israel Ltd. contained in the Annual Report on Form 20-F of Blue Square-Israel Ltd., filed with the Securities and Exchange Commission, and to the incorporation by reference of such summary in the previously filed Registration Statement on Form S-8 (No. 333-149175) of Blue Square-Israel Ltd.

Tel Aviv, Israel
June 21, 2010

/s/ Ernst & Young (Israel)
Ernst & Young (Israel)

CONSENT

I hereby consent to the inclusion of the summary of my appraisal of Blue Square's investment property under the captions “Summary of Significant Accounting Policies” (note 2f) and “Investment Property” (note 7) in the consolidated financial statements of Blue Square-Israel Ltd. contained in the Annual Report (31.12.2009) on Form 20-F of Blue Square-Israel Ltd., filed with the Securities and Exchange Commission, and to the incorporation by reference of such summary in the previously filed Registration Statement on Form S-8 (No. 333-149175) of Blue Square-Israel Ltd.

Tel Aviv, Israel
June 21, 2010

/s/ Oded Haushner
O. Haushner Civil Eng. and
Real Estate Appraisal Ltd.

CONSENT

I hereby consent to the inclusion of the summary of my appraisal of Blue Square's investment property under the captions “Summary of Significant Accounting Policies” (note 2f) and “Investment Property” (note 7) in the consolidated financial statements of Blue Square-Israel Ltd. contained in the Annual Report on Form 20-F of Blue Square-Israel Ltd. for the year ended December 31, 2009, filed with the Securities and Exchange Commission, and to the incorporation by reference of such summary in the previously filed Registration Statement on Form S-8 (No. 333-149175) of Blue Square-Israel Ltd.

Tel Aviv, Israel
June 21, 2010

/s/ Barak, Friedman Cohen & Co.

Barak, Friedman Cohen & Co.
Economic & Real Estate Appraisal
