

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
The Securities Exchange Act of 1934

For the month of October, 2010

ALON HOLDINGS BLUE SQUARE - ISRAEL LTD.
(Translation of registrant's name into English)

2 Amal Street, Rosh Ha'ayin 48092, Israel
(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- N/A

Attached hereto and incorporated by reference are the following documents:

1. Exhibit 99.1: Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months and three months ended June 30, 2010.
2. Exhibit 99.2: The consolidated financial statements of Alon Holdings Blue Square-Israel Ltd. for the six month period ended June 30, 2010, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are in addition to the second quarter 2010 results that were contained in a press release, dated August 19, 2010, and were submitted via Form 6-K.

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

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Alon Holdings Blue Square – Israel Ltd. (hereinafter: "Alon Holdings") is the largest retail group in the state of Israel. It operates in various segments: In its Supermarket segment it is a pioneer of modern food retailing in the region, and through its 100% subsidiary, Mega Retail Ltd., currently operates 206 supermarkets under different formats, each offering a wide range of food products, "Near Food" products and "Non-Food" products at varying levels of service and pricing. Alon Holdings holds 80% of TASE traded Dor Alon, one of the four largest fuel retail companies in Israel based on the number of fuel stations and a leader in the convenience store sector, Dor Alon holds a Chain of 186 fuel stations and 175 convenience stores in various formats throughout Israel. In its "Non-Food" segment, Alon Holdings, through its 85% subsidiary Bee Group Retail Ltd., operates specialist outlets in self operation and franchises and offers a wide range of "Non-Food" products as retailer and wholesaler. In its Real Estate segment, Alon Holdings, through its TASE traded 78.35% subsidiary Blue Square Real Estate Ltd., owns, leases and develops yield generating commercial properties.

This press release contains forward-looking statements within the meaning of safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, plans or projections about our business and our future revenues, expenses and profitability. Forward-looking statements may be, but are not necessarily, identified by the use of forward-looking terminology such as "may," "anticipates," "estimates," "expects," "intends," "plans," "believes," and words and terms of similar substance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual events, results, performance, circumstance and achievements to be materially different from any future events, results, performance, circumstance and achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the following: the effect of the recession in Israel on the sales in our stores and on our profitability; our ability to compete effectively against low-priced supermarkets and other competitors; quarterly fluctuations in our operating results that may cause volatility of our ADS and share price; risks associated with our dependence on a limited number of key suppliers for products that we sell in our stores; the effect of an increase in minimum wage in Israel on our operating results; the effect of any actions taken by the Israeli Antitrust Authority on our ability to execute our business strategy and on our profitability; the effect of increases in oil, raw material and product prices in recent years; the effects of damage to our reputation or to the reputation to our store brands due to reports in the media or otherwise; and other risks, uncertainties and factors disclosed in our filings with the U.S. Securities and Exchange Commission, including, but not limited to, risks, uncertainties and factors identified under the heading "Risk Factors" in our Annual Report on Form 20-F for the year ended December 31, 2009 and under the heading "Risk Factors" in our shelf prospectus filed in Israel, portions of which were submitted to the SEC on Form 6-K on February 18, 2010. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. Except for our ongoing obligations to disclose material information under the applicable securities laws, we undertake no obligation to update the forward-looking information contained in this press release.

SIGNATURES

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

Date: October 14, 2010

ALON HOLDINGS BLUE SQUARE - ISRAEL LTD.

By: _____

Elli Levinson Sela, Adv.
General Counsel & Corporate Secretary

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The information contained in this section should be read in conjunction with (1) our unaudited condensed interim financial statements as of June 30, 2010 and for the six months then ended and related notes included in this Report of Foreign Private Issuer on Form 6-K and (2) our Consolidated Financial Statements and related notes included in our Annual Report on Form 20-F for the year ended December 31, 2009 and the other information contained in that Annual Report, particularly the information under the caption "Item 5. Operating and Financial Review and Prospects". Our condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations as issued by the International Accounting Standards Board ("IASB").

We are including segment information in our financial statements according to IFRS 8 based on our organizational structure, including internal reports in order to evaluate performance and allocate resources reviewed by our chief operating decision maker, the nature of the products and services that we provide, and the distribution channels of our sale. The Company presents three reportable segments: Supermarkets, Non-Food Retail and Wholesale ("Non-Food") and Real Estate.

Our three operating segments consist of the following:

- (1) *Supermarkets – We are the second largest food retailer in the State of Israel. We are engaged, through our fully held subsidiary, Mega Retail Ltd. ("Mega Retail"), in Supermarket activities, offering a wide range of food and beverage products and "Non-Food" items, such as houseware, toys, small electrical appliances, computers and computer accessories, entertainment and leisure products and textile products and "Near-Food" products, such as health and beauty aids, infants products, cosmetics and hygiene products. As of June 30, 2010, we owned and operated 206 supermarkets in this segment. This segment also includes properties owned through our approximately 78% held subsidiary, Blue Square Real Estate ("BSRE"), in connection with the supermarket operation of our stores (including warehouses and offices).*
- (2) *Non-Food Retail and Wholesale - we engaged through our 85% held subsidiary, Bee Group Retail Ltd. ("Bee Group"), in non-food retail and wholesale activities. As of June 30, 2010, Bee Group consisted of 270 non-food Retail outlets, mostly through franchisees, specialties in houseware and home textile, toys leisure and infant.*
- (3) *Real Estate – we engaged through our subsidiary BSRE in the investment, promotion and development of yield generating investment properties: mainly commercial centers, logistics centers and offices and land for the purpose of capital appreciation and deriving long-term yield. In addition, BSRE is a partner in the Tel Aviv Wholesale Market project.*

Key Figures

	Six months ended June 30, 2009	Six months ended June 30, 2010	Changes (*)	Convenience translation ^(a) six months ended June 30, 2010	Three months ended June 30, 2009	Three months ended June 30, 2010	Changes (*)
	NIS in millions			U.S. dollars (unaudited)	NIS in millions		
Revenues	3,608.7	3,599.5	(0.3)%	928.9	1,844.0	1,768.7	(4.1)%
Gross profit	1,004.8	1,026.7	2.2%	265.0	501.7	513.0	2.3%
% Gross profit	27.8%	28.5%	0.7%	N.A.	27.2%	29.0%	1.8%
Operating profit *	120.9	135.1	11.7%	34.9	60.7	62.5	3.0%
% Operating profit *	3.3%	3.8%	0.5%	N.A.	3.3%	3.5%	0.2%
EBITDA	206.2	226.3	9.7%	58.4	103.6	108.6	4.8%
EBITDA margin from revenues	5.7%	6.3%	0.6%	N.A.	5.6%	6.1%	0.5%
Financial expenses	47.2	56.7	20.1%	14.6	35.2	42.3	20.2%
Net income	49.9	58.2	16.7%	15.0	17.5	21.1	20.6%

* before other gains and losses and changes in fair value of investment property

Overview of our Activities during the First Six Months of 2010

Operating Overview

Our operating profit continued to improve as a result of, among other things, the strategic changes we have undertaken in the last year and a half and due to the improvement in the macro-economic conditions in Israel as compared to the previous period.

- The operating profit in the first half of 2010 grew to 3.8% of the revenues as compared to 3.3% of revenues in the first half of 2009.
- The net income for the first half increased by 16.7% as compared to the first half of 2009.

Operating Overview of our Segments

- In the Supermarket segment:
 - o Our operating profits was 4.2% and 3.9% of revenues in the second quarter and in the first half of 2010, respectively.
 - o We plan to continue with the implementation of the main elements of our strategic plan that include
 - The expansion of the "Mega Bool" chain, and.

- The expansion of the private brand "Mega", which constituted over 7.5% of total revenues in the six month period ended June 30 2010.
- In the Non-Food segment:
 - o there were one-off costs of NIS 2.9 million. The one-off costs resulting from the transfer to the new Non-Food segment group logistics center and the consolidation of the Bee Group center and move to single new offices.

Investments

• Investment in IT Systems in the Supermarket Segment

- o We are still in the process of making significant investments in the main IT operating systems. These investments have a long term impact and include installation of new modern cash-registers and upgrading the trading and the chain of delivery management systems.

• New Investments in our Real Estate Segment

- o In June 2010, our subsidiary BSRE, in our Real Estate segment, entered into agreements to purchase, along with Gindi Investments 1 Ltd. and an additional corporation controlled by Moshe and Yigal Gindi ("the purchasers"), building rights for 97,460 square meters for a period ending August 31, 2099 in part of the wholesale market complex in Tel Aviv, from the Tel Aviv Municipality and The Wholesale Company for Agricultural Produce in Tel Aviv Ltd. (the sellers) for a total consideration estimated at NIS 950 million. The Sellers are also entitled, depending on certain sales targets, to additional consideration, calculated by reference to the sale price of apartments that are sold in the apartment buildings complex. The final agreements were subject to the approval of the Minister of the Interior, which was received on July 11, 2010. The development will include construction and marketing of a project that includes an apartment building complex, areas for commercial use and areas for multi-purpose use. After the balance sheet date the purchasers started to market the project.
- o In addition, in July 2010 Gindi won the auction to Build Operate and Transfer ("BOT") a parking lot in Tel Aviv for approximately 1,000 parking places for a period of 23 years. In August 2010, BSRE joined Gindi in this project as a 50% joint venturer. The final agreement is subject to further approvals and conditions which have not been completed as of the date of the signing of these financial statements.
- o During the period, BSRE acquired land in Point Wells, near Seattle (USA) from Alon USA, a related company, for an amount of \$19.5 million (approximately NIS 82 million). BSRE intends to change the zoning of the land from heavy industrial use to urban center zoning. In case BSRE were to sell the land the subsidiary of Alon USA may participate in the consideration net of costs as defined in the agreement. BSRE has granted Alon USA the right to use the land for a period of up to ten years. In return the subsidiary of Alon USA will make a quarterly payment of \$440 thousand (approximately NIS 1.7 million) starting July 1, 2010.

- **New Acquisitions and Dividend Distribution**

On June 28, 2010 the shareholders' general meeting approved the acquisition of Dor Alon Energy Israel (1988) Ltd. ("Dor Alon") from its controlling shareholder Alon Israel Oil Company Ltd. ("Alon"). Dor Alon, whose shares are traded on the Tel Aviv stock exchange, is one of the four largest fuel retail companies in Israel based on number of gas stations and is a leader in the convenience stores sector. Dor-Alon is engaged in the development, construction and operating of gas stations, adjacent commercial centers and independent convenience stores, marketing of fuel products and other products through the gas stations and convenience stores and direct marketing of fuel oil and other petroleum products directly to residential and commercial customers. Dor-Alon operates in three principal operating segments: The fueling and commercial sites segment, the direct marketing segment and the jet-fuel marketing segment.

Through the acquisition, the Company acquired from Alon all its holdings in Dor Alon constituting approximately 80% of Dor Alon's outstanding shares. In exchange for each Dor Alon share held by Alon the Company issued 1.8 ordinary shares in the Company. The Company issued 20,327,710 new ordinary shares in the aggregate significantly increasing the issued and outstanding share capital of the Company. According to the outline of the acquisition, the Company will pay dividend distribution in an amount of NIS 800 million by way of a capital reduction. After the balance sheet date, the Company received approval of the distribution from the district court. The completion of this acquisition was on October 3, 2010, and the dividend distribution will be on October 18, 2010.

Rating of our Debentures

- o On April 26, 2010, Standard & Poors Maalot entered the rating for the debentures of the Company of iIA+ into Credit Watch with negative outlook, due to the Wholesale Market transaction of BSRE.
- o In July 2010, Midroog issued a rating of A1 with negative outlook for series A, B and C of BSRE's listed debentures.
- o In August 2010 the Company received a rating from Midroog of A1 for the debentures up to par value NIS 500 million that the Company will issue as well as an affirmation of the A1 rating of the series A and B debentures previously issued.
- o On September 15, 2010 Midroog affirmed the A1 rating of Series A and B debentures previously issued to private investors by the Company.

Bee Group additional investment

- o On October 11, 2010, the non - controlling interests holders of Bee Group exercised their Put option and sold to the Company the remaining 15% of the shares of Bee Group for a total consideration of approximately NIS 24.5 million.

RESULTS OF ALON HOLDINGS BLUE SQUARE - ISRAEL

Six Months Ended June 30, 2010 Compared To Six Months Ended June 30, 2009

Revenues for the first half of 2010 decreased by 0.3% to NIS 3,599.5 million (U.S.^(A) \$928.9 million), compared to NIS 3,608.7 million in the corresponding period of 2009. The decrease was partially due to a 6.2% decrease in the Non-food segment to NIS 14.9 million in the aggregate, mainly due to a decrease in the houseware sector (to NIS 17.6 million in the aggregate), offset by an increase in the leisure sector. This decrease was partially offset by a 0.2% increase in our Supermarkets segment, mainly due to the net addition of 12 new stores from the beginning of 2009, which contributed NIS 179.3 million to our sales, partially offset by a decrease of approximately 2.1% (NIS 68.2 million) in same store sales (SSS). For more information, please see "Segment Information Analysis" below.

Gross Profit for the first half of 2010 amounted to approximately NIS 1,026.7 million (U.S. \$ 265.0 million) (approximately 28.5% of revenues) compared to gross profit of approximately NIS 1,004.8 million (27.8% of revenues) in the first half of 2009, an increase of NIS 21.9 million (U.S. \$ 5.7 million). The increase in the gross profit margin mainly derived from the Supermarket segment as a result of the increase in the sales of private label goods, which made up more than 7.5% of sales and an improvement in the terms of trade with suppliers and was partially offset by a decrease in the gross profit in the Non-Food segment as a result of the decrease in sales in that segment.

Selling, General, and Administrative Expenses for the first half of 2010 increased by 0.9% to approximately NIS 891.6 million (U.S. \$ 230.1 million) (24.8% of revenues) compared to NIS 884.0 million (24.5% of revenues) in the first half of 2009. The main increase was recorded in the Supermarkets segment due to the net addition of 12 new stores from the start of 2009, which contributed NIS 51.1 million to our expenses. Furthermore, the decrease in same stores selling expenses was NIS 13.1 million approximately 2% and mainly derived from the efficiency measures and the decrease in wage and salary costs. In the Real Estate segment there was an increase in expenses as a result of the start of construction and development projects, mainly the Wholesale Market and Seattle projects.

Operating Income (before income and other expenses and increase in the fair value of real estate) in the first half of 2010 amounted to approximately NIS 135.1 million (U.S. \$ 34.9 million) (3.8% of revenues) compared to operating income of NIS 120.9 million (3.3% of revenues) in the first half of 2009. The increase in the operating income was due to the increase in the gross profit partially offset by an increase in selling, general and administrative expenses.

EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)^(B) in the first half of 2010 was NIS 226.3 million (U.S. \$ 58.4 million) (6.3 % of revenues) compared to NIS 206.2 million (5.7% of revenues) in the corresponding period of 2009.

Increase in the fair value of Investment Property In the first half of 2010, the Company recorded gains from the appreciation of investment property in the amount of NIS 13.2 million (U.S. \$ 3.4 million) compared to NIS 1.7 million in the first half of 2009.

Other Gains and losses, Net: In the first half of 2010 the Company recorded other expenses, net of NIS 7.1 million (U.S. \$ 1.8 million), compared to other expenses, net of NIS 0.6 million in the first half of 2009. In the first half of 2010 the other expenses mainly included expenses relating to the transfer of the companies in the Bee group to the new logistics center in Beer Tuvia and the removal of property and equipment in the Supermarket segment because of the closure of stores and changing to Windows based cash registers.

Operating Income before financial expenses, net in the first half of 2010 was NIS 141.1 million (U.S. \$ 36.4 million) (3.9% of revenues) compared to operating income of NIS 122.0 million (3.4% of revenues) in the first half of 2009.

Financial Expenses, Net for the first half of 2010 were NIS 56.7 million (U.S. \$14.6 million) compared to financial expenses, net of NIS 47.2 million in the first half of 2009, an increase in net financial expenses of NIS 9.5 million (U.S. \$ 2.5 million). The increase in net finance expenses was mainly due to a reduction in finance income of NIS 17.9 million (U.S. \$ 4.6 million) net of a decrease in finance expenses in the amount of NIS 8.4 million (U.S. \$ 2.2 million).

The decrease in finance income was mainly due to a reduction in finance income from hedging transactions on the Israeli CPI of NIS 17.9 million (U.S. \$ 4.6 million), a reduction in the income from revaluation of the conversion component of financial instruments in the amount of NIS 6.1 million (U.S. \$ 1.6 million) net of an increase in income from securities in the amount of NIS 7.0 million (U.S. \$ 1.8 million).

The decrease in finance expenses was mainly due to the revaluation of the conversion component of the Company's debentures and from capitalization of borrowing costs in construction projects.

Taxes on Income for the first half of 2010 were approximately NIS 25.7 million (U.S. \$6.6 million) (30.6% effective tax rate compared to a statutory tax rate of 25%) compared to NIS 24.8 million (effective tax rate of 33.2% compared to a statutory tax rate of 26%) in the first half of 2009. The decrease in the effective tax rate is mainly due to the reduction in finance expenses from the revaluation of the conversion component of the Company's convertible debentures for which the Company does not record deferred taxes. The high effective tax rate compared to the statutory rate is due to the recording of deferred taxes at the tax rate expected to apply when the taxes are utilized, which is lower than the statutory rate and from losses in some of the Group companies for which no deferred tax assets were recorded.

Net Income for the first half of 2010 was NIS 58.2 million (U.S. \$ 15 million) compared to net income of NIS 49.9 million in the first half of 2009. The increase in the net income in the first half of 2010 compared to the first half of 2009 was mainly due to an increase in operating profit and from an increase in the appreciation of investment property value offset by an increase in finance expenses. The net income for the first half of 2010 attributable to the equity holders of the company was NIS 47.7 million (U.S. \$12.3 million), or NIS 1.08 per share (U.S. \$ 0.28), while the portion attributable to the non-controlling interests was NIS 10.5 million (U.S. \$2.7 million).

Results for the Second Quarter of 2010

Revenues for the second quarter of 2010 were NIS 1,768.7 million (U.S. \$456.4 million) compared to revenues of approximately NIS 1,844 million in the comparable quarter last year, a decrease of 4.1 %.

The decrease in the revenues compared to the comparable quarter last year was mainly due to the timing of the Passover holiday, which fell this year on March 29 as compared to April 8 last year. The Passover sales in the Non-food and Supermarket segment were mainly included in the first quarter this year and last year they were mainly included in the second quarter.

The Non-food segment was affected more strongly by the timing of the holiday.

For more information, please see "Segment Information Analysis" below.

Gross Profit for the second quarter of 2010 amounted to approximately NIS 513.0 million (U.S. \$ 132.4 million) (approximately 29.0% of revenues) compared to gross profit of approximately NIS 501.7 million (27.2% of revenues) in the comparable quarter of 2009. The increase in the gross profit mainly derived from the same reasons described in the analysis for the first half year.

Selling, General and Administrative Expenses in the second quarter of 2010 amounted to NIS 450.5 million (U.S. \$ 116.3 million) (25.5% of revenues) compared to approximately NIS 441.1 million (23.9% of revenues) in the comparable quarter of 2009, an increase of approximately 2.1%. The increase was due to the expenses related to the net increase of new stores of approximately NIS 9.4 million or 42% and from an increase in the advertising expenses of approximately NIS 8.8 million or 52%.

Operating Profit (before other gains and losses and increases in the fair value of investment property) in the second quarter of 2010 amounted to NIS 62.5 million (U.S. \$ 16.1 million) (3.5% of revenues) compared to NIS 60.7 million (3.3% of revenues) in the second quarter of 2009, an increase of 3%.

EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization): In the second quarter of 2010, EBITDA was NIS 108.6 million (U.S. \$ 28.0 million) (6.1 % of revenues) compared to NIS 103.6 million (5.6% of revenues) in the corresponding period of last year.

Increase in the Fair Value of Investment Property In the second quarter of 2010, the Company recorded gains from appreciation of investment property in the amount of NIS 10.9 million (U.S. \$ 2.8 million) compared to NIS 1.7 million in the comparable quarter last year.

Other Gains and Losses, Net In the second quarter of 2010, the Company recorded other expenses, net of NIS 5.9 million (U.S. \$ 1.5 million), compared to net expenses of NIS 2.8 million in the comparable quarter. The expenses this quarter included costs of certain companies in the Bee Group related to the transfer of the Bee Group companies to the new logistic center in Beer Tuvia, which is expected to serve the Non Food segment and the removal of property and equipment as described above in the analysis for the first half of the year.

Operating Profit before financing expenses, net amounted to approximately NIS 67.5 million (U.S. \$ 17.4 million) (3.8% of revenues) compared to operating profit of NIS 59.6 million (3.2% of revenues) in the second quarter of 2009.

Financial Expenses, net, for the second quarter of 2010 were NIS 42.3 million (U.S. \$10.9 million) compared to financial expenses, net of NIS 35.2 million in the comparable quarter last year. The increase in financial expenses, net in this quarter compared to the same quarter last year was mainly due to changes in the value of hedging contracts of the Israeli CPI, which contributed a gain of NIS 2.6 million (U.S. \$0.7 million) in this quarter compared to a gain of NIS 12.7 million in the comparable quarter last year.

The increase in financial expenses, net was offset mainly by an increase in financial income from securities which contributed NIS 5.5 million (U.S. \$1.4 million) this quarter compared to income of NIS 2.2 million in the comparable period last year.

Taxes on Income for the second quarter of 2010 amounted to NIS 4.1 million (U.S. \$1.1 million) (effective tax rate of 16.3% compared to a statutory tax rate of 25%) compared to tax expenses of NIS 6.9 million (effective tax rate of 28.2% compared to a statutory tax rate of 26%) in the corresponding quarter. The low effective tax rate as compared to the statutory rate was due to the provision of deferred tax liabilities during the quarter at the rate of tax that is expected to apply on realization, which is lower than the statutory rate.

Net Income for the second quarter of 2010 amounted to NIS 21.1 million (U.S. \$ 5.4 million) compared to a net income of NIS 17.5 million in the second quarter of 2009. The increase in the net income in this quarter compared to the corresponding quarter last year resulted from the increase in operating income and decrease in tax expense as discussed above. The net income for the second quarter of 2010 attributable to equity holders of the Company, was NIS 19.0 million (U.S. \$4.9 million), or NIS 0.42 per share (U.S. \$ 0.11), while the portion attributable to the non-controlling interests was NIS 2.1 million (U.S. \$0.6 million).

Segment Information Analysis

Segment Information Analysis for the first six months of 2010

Supermarkets Segment

	For the six months ended June 30			Convenience translation ^(a) for the six months ended June 30
	2010		Change %	
	NIS in thousands	2009	U.S. dollars	
Segment Revenues	3,364,527	3,358,964	0.2%	868,265
Segment profit	126,333	101,546	24.4%	32,602
Segment profit as a percentage of segment revenues	3.8%	3.0%	0.8%	3.8%

	For the six months ended June 30		Convenience translation ^(a) for the six months ended June 30
	2010 NIS	2009 NIS	2010 U.S.\$
	(Unaudited)		
Decrease in same store sales*	(2.1)%	(6.8)%	NA
Number of stores at end of period	206	200	NA
Stores opened during the period	4	7	NA
Stores closed during the period	1	1	NA
Total square meters at end of period	369,900	362,300	NA
Square meters added during the period, net	4,900	7,800	NA
Sales per square meter	9,102	9,366	2,349
Sales per employee (in thousands)	498	484	129

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

Revenues for the Supermarkets segment for the first half of 2010 increased by 0.2% from NIS 3,359.0 million in the first half of 2009 to NIS 3,364.5 million (U.S. \$868.3 million) in the first half of 2010. The main reason for the increase was the net addition of 12 new stores from the beginning of 2009, with an area of 15,400 square meters, partially offset by a decrease of approximately 2.1% in SSS. The SSS during the first half of 2010 were NIS 3,185.2 million compared to NIS 3,253.5 million in the corresponding period last year. The sales from the addition of our new stores for the first half of 2010 were NIS 179.3 million compared to NIS 105.5 million in the corresponding period last year.

Profit for the Supermarkets segment in the first half of 2010 increased by 24.4% to NIS 126.3 million (U.S. \$ 32.6 million) (3.8% of segment revenues) compared to the segment profit of NIS 101.5 million (3.0% of segment revenues) in the corresponding period last year. The increase in the segment profit was due to the effects of the Company's strategic plan and the improvement in the macro-economic situation in Israel

Non Food Retail and Wholesale Segment

	For the Six month ended June 30			Convenience translation ^(a) for the six months ended June 30
	2010	2009	Change %	
	NIS in thousands			
Segment Revenues	251,816	270,259	-6.7%	64,985
Segment profit	9,583	18,584	-48.0%	2,473
Segment profit as a percentage of segment revenues	3.7%	6.6%	-3.0%	3.7%

Revenues for the Non Food Retail and Wholesale segment decreased by approximately 6.2% from NIS 270.3 million in the first half of 2009 to NIS 251.8 million (U.S. \$65.0 million) in the first half of 2010. The decrease in revenues was mainly due to a decrease in the houseware sector offset by an increase in the leisure sector.

Profit for the Non Food Retail and Wholesale segment in the first half of 2010 amounted to NIS 9.5 million (U.S. \$ 2.4 million) (3.7% of segment revenues) compared to the segment profit of NIS 18.5 million (6.6% of segment revenues) in the corresponding period in 2009. The decrease in the segment profit was due to a decrease in sales in the houseware sector offset by an increase in sales in the leisure sector and due to one-off costs of NIS 2.9 million due to the transfer to the new Non-food segment group logistics center and the consolidation of the Bee group center and move to single new offices.

Real Estate Segment

	For the Six month ended June 30			Convenience translation ^(a) for the six months ended June 30
	2010	2009	Change %	
	NIS in thousands			
Segment Revenues	10,754	10,641	1.1%	2,775
Appreciation of Investment Property	13,187	1,740	657.9%	3,403
Segment profit	17,531	7,571	131.6%	4,524
Segment profit as a percentage of segment revenues	163.0%	71.1%	91.9%	163.0%

Revenues for the Real Estate segment for the first half of 2010 increased by 1.1% to NIS 10.8 million (U.S. \$2.8 million), compared to NIS 10.6 million in the corresponding period of 2009. The increase was mainly due to an increase in revenue from existing lease agreements (which are linked to the Israeli consumer price index ("CPI") and therefore were affected by the increase in the CPI), new rent agreements and improvements in rates of renewed rental agreements.

Increase in the fair value of Investment Property In the first half of 2010, the Real Estate segment recorded a gain from appreciation of investment property, as a result of the advancement in the planning and operation of the Company's developments as well as the increase in the rental rates achieved for new rental agreements, in the amount of NIS 13.2 million (U.S. \$ 3.4 million) compared to NIS 1.7 million in the corresponding period of the previous year.

Profit for the Real Estate segment in the first half of 2010 increased by 131.6% to NIS 17.5 million (U.S. \$ 4.5 million) compared to the segment profit of NIS 7.5 million in the corresponding period. The increase in the segment profit was due to the increase in gain from appreciation, as described above.

Segment Information Analysis for the second quarter

Supermarkets Segment

	For the three months ended June 30		Change %	Convenience translation ^(a) for the six months ended June 30	
	2010	2009		2010	U.S. dollars
	NIS in thousands				
Segment Revenues	1,674,632	1,731,387	-3.3%	432,163	
Segment profit	67,971	57,099	19.0%	17,541	
Segment profit as a percentage of segment revenues	4.1%	3.3%	0.8%	4.1%	
Convenience translation ^(a) for the three months ended June 30					
For the three months ended June 30		2010	2009	2010	
NIS		NIS	NIS	U.S.\$	
				(Unaudited)	
Decrease in same store sales*		(5.2)%		(6.1)%	NA
Number of stores at end of period	206		200		NA
Stores opened during the period	1		2		NA
Stores closed during the period	1		1		NA
Total square meters at end of period	369,900		362,300		NA
Square meters added during the period, net	(800)		2,800		NA
Sales per square meter	4,525		4,624		1,167
Sales per employee (in thousands)	242		244		62

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

Revenues for the Supermarkets segment for the second quarter of 2010 decreased by 3.3% to NIS 1,674.6 million (U.S. \$ 432.2 million), compared to NIS 1,731.4 million in the corresponding quarter of 2009. The decrease in revenues was mainly due to a reduction in SSS at a rate of 5.2% because of the timing of the Passover holiday and partially offset by the opening of net 7 new stores from the beginning of the second quarter of 2009 with an area of 10,400 square meters. The SSS during the second quarter of 2010 were NIS 1,559.2 million compared to NIS 1,646.2 million in the corresponding period last year. The sales from net new stores for the second quarter of 2010 were NIS 115.4 million compared to NIS 85.2 million in the corresponding period last year.

Profit for the Supermarkets segment in the second quarter of 2010 increased by 19.0% to NIS 68.0 million (U.S \$ 17.5 million) (4.1% of segment revenues) compared to the segment profit of NIS 57.1 million (3.3% of segment revenues) in the corresponding quarter. The increase in the segment profit was due to the effects of the Company's strategic plan, which were reflected in the improvement in the gross profit and the reduction in the losses of Eden Teva and the improvement in the macro-economic situation in Israel.

Non Food Retail and Wholesale Segment

	For the three months ended June 30		% Change	Convenience translation ^(a) for the three months ended June 30
	2010	2009		
	NIS in thousands			
Segment Revenues	99,546	117,519	-15.3%	25,689
Segment profit (loss)	(8,946)	666	N.A.	1,721
Segment profit (loss) as a percentage of segment revenues	(6.7)%	0.6%	6.1%	6.7%

Revenues for the non Food Retail and Wholesale segment for the second quarter of 2010 decreased by 15.3 % to NIS 99.5 million (U.S \$ 25.7 million), compared to NIS 117.5 million in the corresponding quarter of 2009. The decrease was mainly due to the timing of the Passover holiday which affected this segment even more strongly than the Supermarket segment.

Profit (Loss) for the Non Food Retail and Wholesale segment in the second quarter of 2010 decreased to NIS (6.7) million (U.S \$ (1.7) million) (6.7% of segment revenues) compared to the segment profit of NIS 0.7 million (0.6% of segment revenues) in the corresponding quarter in 2009. The decrease in the segment profit was due to a decrease in sales resulting from the timing of Passover as mentioned above and an increase in one-time expenses due to the strategic steps taken in Bee group as mentioned above.

Real Estate Segment

	As of June 30			Convenience translation ^(a) as of June 30
	2010	2009	Change %	
	NIS in thousands			
Segment Revenues	5,340	5,361	-0.4%	1,378
Appreciation of Investment Property	10,913	1,740	527.2%	2,816
Segment profit	14,287	5,166	176.6%	3,687
Segment profit as a percentage of segment revenues	267.5%	96.4%	171.1%	267.5%

Revenues for the real estate segment for the second quarter of 2010 decreased by 0.4 % to NIS 5.3 million (U.S \$ 1.4 million), compared to NIS 5.4 million in the corresponding quarter of 2009.

Increase in the Fair Value of Investment Property: During the second quarter of 2010, the Company recorded a gain from appreciation of investment property of NIS 10.9 million (U.S \$ 2.8 million) compared to NIS 1.7 million in the corresponding quarter of the previous year.

Profit for the Real Estate segment in the second quarter of 2010 increased by 176.6% to NIS 14.3 million (U.S \$ 3.7 million) (267.5% of segment revenues) compared to the segment profit of NIS 5.2 million (96.4% of segment revenues) in the corresponding quarter of 2009. The increase in the segment profit was mainly due to the increase in the gain from appreciation, as described above.

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

The following discussion presents an analysis of our cash flows for the six months and three months ended June 30, 2010 compared to six months and three months ended June 30, 2009.

Cash Flows in the first half of 2010

Cash Flows from Operating Activities: Net cash flows deriving from operating activities in the first half of 2010 amounted to NIS 85.9 million (U.S. \$22.1 million) compared to NIS 167.9 million in the first half of 2009. The decrease in cash flows from operating activities derives from the acquisition of real estate inventories in the amount of NIS 121.7 million (U.S.\$31.4 million), an improvement in the operating profit and a decrease in tax payments.

Cash Flows from Investing Activities: Net Cash flows used in investing activities in the first half of 2010 amounted to NIS 376.9 million (U.S. \$97.3 million) compared to net cash flows of NIS 485.5 million used in investing activities in the first half of 2009. Cash flows used in investing activities in the first half of 2010 included mainly purchases of property and equipment, intangible assets, investment property and payments on account of real estate in a total amount of NIS 151.0 million (U.S. \$39.0 million) a net investment in marketable securities of NIS 216.9 million (U.S. \$56.0 million) and the grant of a loan of NIS 18.9 million (U.S. \$4.9 million) to a proportionally consolidated company offset by interest income of NIS 9.9 million (U.S. \$2.5 million). Cash flows used in investing activities in the first half of 2009 included mainly the investment of NIS 470 million in a restricted deposit, the purchase of property and equipment, intangible assets and investment property amounting to NIS 104.9 million net of proceeds of NIS 80.0 million from the realization of the restricted short term deposit and proceeds from the realization of property and equipment and investment property in the amount of NIS 7.2 million.

Cash Flows from Financing Activities: Net Cash flows used in financing activities in the first half of 2010 amounted to NIS 58.2 million (U.S \$15.0 million) compared to net cash flow from financing activities of NIS 365.2 million in the corresponding period last year. Cash flows used in financing activities in the first half of 2010 included mainly repayment of long term loans of NIS 73.4 million (U.S \$ 18.9 million), the payment of interest of NIS 58.5 million (U.S \$ 15.1 million), payment of dividends of NIS 75 million (U.S. \$19.4 million) to the Company's shareholders and NIS 17.6 million (U.S. \$4.5 million) to the non-controlling interests and acquisition of treasury shares of NIS 4.3 million (U.S. \$1.1 million). This was offset by an increase in short term credit, net in the amount of NIS 166.3 million (U.S. \$42.9 million). Net Cash flows from financing activities in the first half of 2009 included mainly an increase in short term credit, net of NIS 476.6 million net of the repayment of long term loans of NIS 66.4 million and interest paid of NIS 45.9 million.

Cash Flows in the Second Quarter of 2010

Cash Flows from Operating Activities: Net cash flows deriving from operating activities in the second quarter of 2010 amounted to NIS 64.3 million compared to NIS 133.4 million in the second quarter of 2009. The decrease in cash flows from operating activities derives from the acquisition of real estate inventories in the amount of NIS 121.7 million (U.S.\$31.4 million), an increase in the balance of trade payables mainly as a result of the timing of payments.

Cash Flows used in Investing Activities: Net Cash flows used in investing activities in the second quarter of 2010 amounted to NIS 327.5 million (U.S. \$84.5 million) compared to net cash flows of NIS 35.5 million from investing activities in the corresponding quarter of the previous year. The cash flows used in investing activities in the second quarter of 2010 mainly included the purchase of property and equipment, intangible assets, investment property and payments on account of real estate in a total amount of NIS 112.3 million (U.S. \$29.0 million), net investment in marketable securities of NIS 200.7 million (U.S. \$51.8 million) and the grant of a loan to a proportionally consolidated company of NIS 18.9 million (U.S. \$4.9 million) net of interest received amounting to NIS 4.4 million (U.S. \$1.1 million). Cash used in investing activities in the second quarter of 2009 mainly included the proceeds from the realization of a restricted deposit of NIS 80.0 million net of purchases of property and equipment, intangible assets and investment property in a total amount of approximately NIS 52.3 million.

Cash Flows from Financing Activities: Net Cash flows from financing activities amounted to NIS 4.8 million (U.S. \$ 1.2 million) in the second quarter of 2010 as compared to net cash used in financing activities of NIS 91.0 million in the corresponding period last year. Cash flows from financing activities in the second quarter of 2010 included mainly an increase in short term credit net in the amount of NIS 58.8 million (U.S. \$15.1 million) net of the repayment of long term loans amounting to NIS 34.8 million (U.S. \$ 9.0 million) and interest paid of NIS 19.8 million (U.S. \$5.1 million). The cash flows used in financing activities in the second quarter of 2009 included mainly repayment of long term loans of NIS 35.9 million, dividend paid to non-controlling interests of subsidiaries of NIS 6.2 million, interest paid amounting to 10.5 million and a net reduction in short term credit of NIS 52.8 million.

Capital Resources and Requirements

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

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

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

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

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

	For the Six months ended June 30,		Convenience translation for the six months ended June 30,
	2010	2009	2010 U.S. dollars
	NIS In thousands		
Credit and loans from banks and others (current)	427,787	725,528	110,397
Current maturities of convertible debentures	76,235	29,064	19,674
Long-term from banks, net of current maturities	541,528	289,885	139,749
Convertible debentures, net of current maturities	132,334	128,070	34,151
Debentures, net of current maturities	1,261,208	1,001,537	325,473
Total debt	2,439,092	2,174,084	629,444
Cash and cash equivalents	262,517	137,241	67,746
Short-term bank deposit	-	207	-
Investment in securities	431,786	188,726	111,429
Total liquidity	694,303	326,174	179,175
Net debt	1,744,789	1,847,910	450,269

For further information on changes in net debt please refer to “Cash flow — First six months of 2010 compared to first six months of 2009 — Financing activities” above.

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

Subsequent events

- On July 12, 2010 BSRE completed its capital raising of NIS 110 million of debentures which are linked to the Israeli CPI. The debentures bear an annual interest of 4.5% and are due to be repaid in four annual installments in 2017 to 2020.
- On July 15, 2010, we announced that as a result of the approval in the shareholders' general meeting of June 28, 2010 and the approval of the Register of Companies in Israel the Company's name would be changed to "Alon Holdings Blue Square – Israel Ltd".
- On August 10, 2010, we received a rating of A1 from Midroog for the debentures up to par value NIS 500 million that the Company may issue. The rating is subject to a number of conditions which are detailed in Midroog's report.
- On September 15, 2010 Midroog affirmed the A1 rating of Series A and B debentures previously issued to private investors by us.
- For the developments in the contingencies, see note 10 to the financial statements as of June 30, 2010.

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NOTE A: Convenience Translation to Dollars

The convenience translation of New Israeli Shekel (NIS) into U.S. dollars was made at the exchange rate prevailing at June 30, 2010: U.S. \$1.00 equals NIS 3.875. The translation was made solely for the convenience of the reader.

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

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

Year ended December 31, 2009	For the six months ended June 30,		For the three months ended June 30		Convenience translation ^(A) for the six months ended June 30, 2010 U.S. dollars
	2009	2010	2009	2010	
	In thousands				
Net income for the period	97,801	49,860	58,207	17,512	21,114
Taxes on income	23,124	24,780	25,656	6,879	4,123
Finance expenses, net	112,674	47,227	56,708	35,230	42,286
Share in losses of associates	37	88	576	4	-
Other losses, net	28,104	638	7,109	2,800	5,878
Increase in fair value of investment property	(20,775)	(1,740)	(13,187)	(1,740)	(10,913)
Depreciation and amortization	165,248	79,766	87,291	39,992	44,086
Share based payment	12,166	5,403	3,867	2,933	2,000
EBITDA	418,379	206,022	226,221	103,610	108,574
					58,350

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

This Management's Discussion and Analysis contains forward-looking statements within the meaning of safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, plans or projections about our business and our future revenues, expenses and profitability. Forward-looking statements may be, but are not necessarily, identified by the use of forward-looking terminology such as "may," "anticipates," "estimates," "expects," "intends," "plans," "believes," and words and terms of similar substance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual events, results, performance, circumstance and achievements to be materially different from any future events, results, performance, circumstance and achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the following: the effect of the recession in Israel on the sales in our stores and on our profitability; our ability to compete effectively against discount supermarkets and other competitors; quarterly fluctuations in our operating results that may cause volatility of our ADS and share price; risks associated with our dependence on a limited number of key suppliers for products that we sell in our stores; the effect of an increase in minimum wage in Israel on our operating results; the effect of any actions taken by the Israeli Antitrust Authority on our ability to execute our business strategy and on our profitability; the effect of increases in oil, raw material and product prices in recent years; the effects of damage to our reputation or to the reputation to our store brands due to reports in the media or otherwise; and other risks, uncertainties and factors disclosed in our filings with the U.S. Securities and Exchange Commission, including, but not limited to, risks, uncertainties and factors identified under the heading "Risk Factors" in our Annual Report on Form 20-F for the year ended December 31, 2009. You are cautioned not to place undue reliance on these forward-looking statements, which are only relevant as of the date of this Management's Discussion and Analysis. Except for our ongoing obligations to disclose material information under the applicable securities laws, we undertake no obligation to update the forward-looking information contained in this Management's Discussion and Analysis.

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ALON HOLDINGS BLUE SQUARE - ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

AS OF JUNE 30, 2010
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ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2010

	December 31, 2009 Audited	June 30		Convenience translation (note 2c)
		2009	2010 Unaudited	June 30, 2010 U.S. dollars
		NIS		In thousands

Assets

CURRENT ASSETS:

Cash and cash equivalents	612,227	137,241	262,517	67,746
Short-term bank deposit	67	207	-	-
Investment in securities	212,912	**188,726	431,786	111,429
Restricted deposit	-	440,015	-	-
Trade receivables	809,783	773,892	795,925	205,400
Other accounts receivable	69,504	96,308	83,406	21,524
Derivative financial instruments	9,690	-	9,051	2,336
Income taxes receivable	84,274	87,635	69,994	18,063
Inventories	514,858	527,798	537,341	138,669
	2,313,315	2,251,822	2,190,020	565,167

NON-CURRENT ASSETS:

Property and equipment, net	*1,956,914	*1,935,643	1,975,758	509,873
Real estate inventories	-	-	83,342	21,508
Payments on account of real estate inventories and investment property	-	-	92,653	23,910
Investment property	*421,188	*, **414,743	447,517	115,488
Intangible assets, net	409,194	404,934	410,593	105,959
Investments in associates	4,878	4,827	4,302	1,110
Derivative financial instruments	12,691	19,381	13,818	3,566
Other long-term receivables	1,326	1,356	24,952	6,439
Deferred taxes	45,991	46,504	40,541	10,462
	2,852,182	2,827,388	3,093,476	798,315
Total assets	5,165,497	5,079,210	5,283,496	1,363,482

*) Retroactive application, see note 3b

**) Reclassified

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

October 13, 2010

Date of approval of the financial statements

**David Wiessman
Chairman of the Board
of Directors**

**Zeev Vurembrand
President and Chief
Executive Officer**

**Dror Moran
Vice President and
Chief Financial Officer**

	December 31, 2009		June 30, 2010		Convenience translation (note 2c)				
	<u>Audited</u>	<u>2009</u>	<u>2010</u>	<u>Unaudited</u>	<u>June 30, 2010</u>				
			<u>NIS</u>	<u>U.S. dollars</u>					
Liabilities and equity									
CURRENT LIABILITIES:									
Credit and loans from banks and others	274,598	725,528	427,787		110,397				
Current maturities of debentures and convertible debentures	76,698	29,064	76,235		19,674				
Trade payables	917,585	1,025,728	960,840		247,959				
Other accounts payable and accrued expenses	494,147	491,895	499,513		128,904				
Income taxes payable	6,051	3,449	24		6				
Provisions	51,298	42,457	44,273		11,425				
Total current liabilities	<u>1,820,377</u>	<u>2,318,121</u>	<u>2,008,672</u>		<u>518,365</u>				
NON CURRENT LIABILITIES:									
Long-term loans from banks, net of current maturities	596,721	289,885	541,528		139,749				
Convertible debentures, net of current maturities	142,021	128,070	132,334		34,151				
Debentures, net of current maturities	1,251,333	1,001,537	1,261,208		325,473				
Derivative financial instruments	7,591	8,725	6,241		1,611				
Liabilities in respect of employee benefits, net of amount funded	47,249	49,619	47,728		12,317				
Other liabilities	16,202	41,280	22,526		5,813				
Deferred taxes	*57,279	*67,428	56,345		14,541				
Total long-term liabilities	<u>2,118,396</u>	<u>1,586,544</u>	<u>2,067,910</u>		<u>533,655</u>				
Total liabilities	<u>3,938,773</u>	<u>3,904,665</u>	<u>4,076,582</u>		<u>1,052,020</u>				
EQUITY:									
Equity attributable to equity holders of the Company									
Ordinary shares of NIS 1 par value	57,438	57,438	58,443		15,082				
Additional paid-in capital	1,030,259	1,030,259	1,042,364		268,999				
Other reserves	5,676	8,183	8,024		2,071				
Accumulated deficit	*(61,049)	*(105,796)	(89,118)		(23,000)				
	<u>1,032,324</u>	<u>990,084</u>	<u>1,019,713</u>		<u>263,152</u>				
Non - controlling interests	*194,400	*184,461	187,201		48,310				
Total equity	<u>1,226,724</u>	<u>1,174,545</u>	<u>1,206,914</u>		<u>311,462</u>				
Total liabilities and equity	<u>5,165,497</u>	<u>5,079,210</u>	<u>5,283,496</u>		<u>1,363,482</u>				

* Retroactive application, see note 3b

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
 (FORMERLY BLUE SQUARE – ISRAEL LTD.)
 CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
 FOR THE SIX AND THREE MONTHS PERIODS ENDED JUNE 30, 2010

	Year ended December 31, 2009 Audited	For the six months ended June 30		For the three months ended June 30		Convenience Translation (note 2c) for the six months ended June 30, 2010 Unaudited U.S. dollars
	2009	2010	Unaudited	2009	2010	2010 Unaudited U.S. dollars
NIS In thousands (except share and per share data)						
Revenues	7,349,076	3,608,739	3,599,487	1,843,951	1,768,663	928,900
Cost of sales	5,291,012	2,603,905	2,572,775	1,342,204	1,255,705	663,942
Gross profit	2,058,064	1,004,834	1,026,712	501,747	512,958	264,958
Selling, general and administrative expenses	1,817,099	883,981	891,642	441,062	450,472	230,101
Operating profit before other gains and losses and changes in fair value of investment property	240,965	120,853	135,070	60,685	62,486	34,857
Other gains	4,699	4,464	1,419	1,739	463	366
Other losses	(32,803)	(5,102)	(8,528)	(4,539)	(6,341)	(2,201)
Changes in fair value of investment property, net	20,775	1,740	13,187	1,740	10,913	3,403
Operating profit	233,636	121,955	141,148	59,625	67,521	36,425
Finance income	64,780	37,995	20,078	27,016	14,764	5,181
Finance expenses	(177,454)	(85,222)	(76,787)	(62,246)	(57,049)	(19,814)
Share in losses of associates	(37)	(88)	(576)	(4)	-	(149)
Income before taxes on income	120,925	74,640	83,863	24,391	25,236	21,643
Taxes on income	23,124	24,780	25,656	6,879	4,123	6,621
Net income for the period	97,801	49,860	58,207	17,512	21,113	15,022
Attributable to:						
Equity holders of the Company	77,163	39,605	47,725	13,071	18,969	12,317
Non – controlling interests	20,638	10,255	10,482	4,441	2,144	2,705
Net income per Ordinary share or ADS attributed to Company shareholders:						
Basic	1.77	0.91	1.08	0.30	0.43	0.28
Fully diluted	1.77	0.91	1.06	0.30	0.42	0.27
Weighted average number of shares or ADSs used for computation of income per share:						
Basic	43,558,614	43,397,543	44,282,052	43,421,996	44,589,741	44,282,052
Fully diluted	43,558,614	43,397,543	44,834,944	43,421,996	44,975,642	44,834,944

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
 (FORMERLY BLUE SQUARE – ISRAEL LTD.)
 CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE SIX AND THREE MONTH PERIODS ENDED JUNE 30, 2010

Year ended December 31, 2009 (Audited)	For the six months ended June 30		For the three months ended June 30		Convenience translation (note 2c) for the six months ended June 30, 2010 (Unaudited) U.S. dollars	
	2009	2010 (Unaudited)	2009	2010		
	NIS In thousands					
Net income for the period:	97,801	49,860	58,207	17,512	21,113	15,022
Other comprehensive income (losses), net of tax:						
Available-for-sale financial assets	7,502	9,925	1,137	2,974	2,212	293
Exchange differences on translation of foreign operations	-	-	1,006	-	1,006	260
Actuarial gain (loss) on post-employment benefit obligations	1,016	-	(223)	-	(223)	(58)
Other comprehensive income, net of tax	8,518	9,925	1,920	2,974	2,995	495
Total comprehensive income for the period	106,319	59,785	60,127	20,486	24,108	15,517
Total comprehensive income attributable to:						
Equity holders of the Company	83,958	48,049	49,925	15,607	21,949	12,884
Non-controlling interests	22,361	11,736	10,202	4,879	2,159	2,633

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2010

Equity attributable to equity holders of the Company						Non - controlling interests	Total equity
Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total			

BALANCE AT JANUARY 1, 2010 (audited)	57,438	1,030,259	5,676	(61,049)	1,032,324	194,400	1,226,724
CHANGES DURING THE SIX-MONTHS ENDED JUNE 30, 2010 (unaudited):							
Total comprehensive income for the period							
	-	-	2,348	47,577	49,925	10,202	60,127
Exercise of options granted by share based plans	716	-	-	-	716	-	716
Employee share-based payment	-	-	-	3,649	3,649	218	3,867
Dividends paid	-	-	-	(75,000)	(75,000)	-	(75,000)
Purchase of treasury shares	-	-	-	(4,295)	(4,295)	-	(4,295)
Issuance of shares upon conversion of convertible debentures	289	12,105	-	-	12,394	-	12,394
Dividends to non – controlling interests of subsidiaries	-	-	-	-	-	(17,619)	(17,619)
BALANCE AT JUNE 30, 2010 (unaudited)	58,443	1,042,364	8,024	(89,118)	1,019,713	187,201	1,206,914

Equity attributable to equity holders of the Company						Non - controlling interests	Total equity
Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total			

BALANCE AT JANUARY 1, 2009 (audited)	57,094	1,018,405	(261)	*(150,804)	924,434	*176,462	1,100,896
CHANGES DURING THE SIX - MONTHS ENDED JUNE 30, 2009 (unaudited):							
Total comprehensive income for the period							
	-	-	8,444	39,605	48,049	11,736	59,785
Employee share-based payment	-	-	-	5,403	5,403	-	5,403
Transaction with non – controlling interests	-	-	-	-	-	2,445	2,445
Issuance of shares upon conversion of convertible debentures	344	11,854	-	-	12,198	-	12,198
Dividends to non – controlling interests of subsidiaries	-	-	-	-	-	(6,182)	(6,182)
BALANCE AT JUNE 30, 2009 (unaudited)	57,438	1,030,259	8,183	*(105,796)	990,084	184,461	1,174,545

*) Retroactive application, see note 3b

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

CONDENSED CONSOLIDATED INTEIRM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2010

	Equity attributable to equity holders of the Company					Non - controlling interests	Total equity
	Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total		
BALANCE AT JANUARY 1, 2009 (audited)	57,094	1,018,405	(261)	*(150,804)	924,434	*176,462	1,100,896
CHANGES DURING 2009 (audited):							
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 non – controlling interests	-	-	-	-	-	7,283	7,283
Issuance of shares upon conversion of convertible debentures	344	11,854	-	-	12,198	-	12,198
Dividends to non – controlling interests of subsidiaries	-	-	-	-	-	(12,138)	(12,138)
BALANCE AT DECEMBER 31, 2009 (audited)	57,438	1,030,259	5,676	*(61,049)	1,032,324	*194,400	1,226,724
	Equity attributable to equity holders of the Company						
	Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit	Total	Non - controlling interests	Total equity
	Convenience translation into U.S. dollars in thousands (note 2c)						
BALANCE AT JANUARY 1, 2010 (audited)	14,823	265,873	1,465	*(15,755)	266,406	*50,168	316,574
CHANGES DURING THE SIX- MONTHS ENDED JUNE 30, 2010 (unaudited):							
Total comprehensive income for the period	-	-	606	12,278	12,884	2,633	15,517
Exercise of options granted by share based plans	185	-	-	-	185	-	185
Employee share-based payment	-	-	-	940	940	56	996
Dividends paid	-	-	-	(19,355)	(19,355)	-	(19,355)
Purchase of treasury shares	-	-	-	(1,108)	(1,108)	-	(1,108)
Issuance of shares upon conversion of convertible debentures	74	3,126	-	-	3,200	-	3,200
Dividends to non – controlling interests of subsidiaries	-	-	-	-	-	(4,547)	(4,547)
BALANCE AT JUNE 30, 2010 (unaudited)	15,082	268,999	2,071	(23,000)	263,152	48,310	311,462

*) Retroactive application, see note 3b

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
 (FORMERLY BLUE SQUARE – ISRAEL LTD.)
 CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR
 FOR THE SIX AND THREE MONTHS PERIODS ENDED JUNE 30, 2010

Year ended December 31, Audited	For the six months ended June 30		For the three months ended June 30		Convenience Translation (note 2c) for the six months ended June 30, 2010 Unaudited U.S. dollars In thousands
	2009	2010	2009	2010	
	NIS				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by operating activities (a)	298,445	202,666	93,834	153,045	88,029
Income tax paid, net	(38,101)	(34,775)	(7,972)	(19,642)	(23,684)
Net cash provided by operating activities	260,344	167,891	85,862	133,403	64,345
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	(203,889)	(99,424)	(80,590)	(46,092)	(49,329)
Proceeds from sale of property and equipment	2,581	1,537	52	1,036	52
Purchase of investment property	(9,435)	(3,307)	(3,641)	(978)	(3,299)
Payments on account of investment property	-	-	(53,466)	-	(53,466)
Proceeds from sale of investment property	5,700	5,700	-	-	-
Investment in restricted deposit	(470,000)	(470,000)	-	-	-
Proceeds from collection of restricted deposit	470,000	79,985	-	79,985	-
Purchase of intangible assets	(20,738)	(4,405)	(13,341)	(5,181)	(6,222)
Proceeds from collection of short-term bank deposits, net	139	-	67	-	17
Proceeds from sale of securities	101,867	57,179	116,340	22,976	71,891
Investment in securities	(113,966)	(54,339)	(333,292)	(20,946)	(272,606)
Acquisition of subsidiaries (b)	(4,789)	(4,789)	-	-	-
Grant of loans to jointly controlled companies	-	-	(18,933)	-	(18,933)
Interest received	11,948	6,330	9,860	4,747	4,439
Net cash provided by (used in) investing activities	(230,582)	(485,533)	(376,944)	35,547	(327,473)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of convertible debentures	(13,297)	-	(27)	-	(27)
Dividends paid to shareholders	-	-	(75,000)	-	-
Issuance of debentures	294,280	-	-	-	-
Dividends paid to non- controlling interests	(16,491)	(10,534)	(17,619)	(6,181)	(3,321)
Additional investment in subsidiaries by purchasing non - controlling interests	*(8,020)	*(6,607)	-	-	-
Purchase of treasury shares	-	-	(4,295)	-	-
Proceeds from realization of portion of investment in subsidiary	*10,912	*10,074	-	*10,074	-
Receipt of long-term loans	387,700	6,500	4,500	2,500	4,500
Repayment of long-term loans	(139,060)	(66,389)	(73,409)	(35,901)	(34,773)
Repayment of long term credit from trade payables	(1,740)	(870)	(870)	(435)	(435)
Proceeds from exercise of options in a subsidiary	2,306	2,306	-	2,306	-
Short-term credit from banks and others, net	76,144	476,575	166,273	(52,843)	58,583
Proceeds from exercise of options	-	-	716	-	86
Interest paid	(93,900)	(45,879)	(58,486)	(10,495)	(19,840)
Net cash provided by (used in) financing activities	498,834	365,176	(58,217)	(90,975)	4,773
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS					
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS AT BEGINNING OF PERIOD	528,596	47,534	(349,299)	77,975	(258,355)
Translation differences on cash and cash equivalents	-	-	82	-	82
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	611,734	130,672	262,517	130,672	262,517
					67,746

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
 (FORMERLY BLUE SQUARE – ISRAEL LTD.)
 CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
 FOR THE SIX AND THREE MONTHS PERIODS ENDED JUNE 30, 2010

	Year ended December 31,	For the six months ended June 30		For the three months ended June 30		Convenience Translation (note 2c) for the six months ended June 30, 2010 Unaudited U.S. dollars	
		2009 Audited	2009 Unaudited	2009	2010		
		NIS					
		In thousands					
(a) Net cash provided by operating activities:							
Income before taxes on income	120,925	74,640	83,863	24,391	25,236	21,643	
Adjustments for:							
Depreciation and amortization	165,248	79,766	87,291	39,992	44,086	22,527	
Increase in fair value of investment property, net	(20,775)	(1,740)	(13,187)	(1,740)	(10,913)	(3,403)	
Share in losses of associates	37	88	576	4	-	149	
Share based payment	12,166	5,403	3,867	2,933	2,000	996	
Loss from sale and disposal of property and equipment, net	3,299	7	867	365	719	224	
Provision for impairment of property and equipment, net	19,981	2,189	369	2,189	245	95	
Loss (gain) from changes in fair value of derivative financial instruments	(21,250)	(17,952)	556	(15,396)	(2,468)	143	
Linkage differences on monetary assets, debentures, loans and other long term liabilities, net	52,347	16,358	10,626	23,668	22,690	2,742	
Capital loss (gain) from changes in holdings in subsidiaries	911	(1,022)	-	1,522	-	-	
Accrued severance pay, net	144	(292)	206	(304)	(1,128)	53	
Decrease (increase) in value of investment in securities, deposits and long-term receivables, net	(4,468)	7,064	(1,567)	4,768	(2,195)	(404)	
Interest paid, net	81,952	39,549	48,626	5,748	15,401	12,549	
Changes in operating assets and liabilities:							
Investment in real estate inventories	-	-	(82,485)	-	(82,485)	(21,286)	
Payments on account of real estate inventories	-	-	(39,188)	-	(39,188)	(10,113)	
Decrease (increase) in trade receivables and other accounts receivable	(65,468)	(56,196)	(6,699)	290,230	301,280	(1,726)	
Decreased (increase) in inventories	(17,224)	(30,155)	(22,483)	53,814	13,607	(5,802)	
Increase (decrease) in trade payables and other accounts payable	(29,380)	84,959	22,596	(279,139)	(198,858)	5,830	
	298,445	202,666	93,834	153,045	88,029	24,217	

* Reclassified

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX AND THREE MONTHS PERIODS ENDED JUNE 30, 2010

Year ended December 31,	For the six months ended June 30		For the three months ended June 30		Convenience translation (note 2c) for the six months ended June 30, 2010 Unaudited U.S. dollars	
	2009	2010	2009	2010		
	Audited	Unaudited				
		NIS				
In thousands						
(b) Acquisition of subsidiaries:						
Assets and liabilities at date of acquisition:						
Working capital (excluding cash and cash equivalents)	2,350	2,350	-	-	-	
Property and equipment, net	(297)	(297)	-	-	-	
Deferred taxes, net	(453)	(453)	-	-	-	
Intangible assets	(6,389)	(6,389)	-	-	-	
	(4,789)	(4,789)	-	-	-	
(c) Supplementary information on investing and financing activities not involving cash flows:						
Conversion of convertible debentures of the company	12,198	12,198	12,394	12,198	-	
Restricted deposit against receipt of a short term loan	-	50,000	-	50,000	-	
Purchase of property and equipment on credit	174	10,153	12,338	10,153	12,338	
	174	10,153	12,338	10,153	3,184	

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**NOTE 1 - GENERAL:****Information on the activities of Alon Holdings Blue Square - Israel Ltd and its subsidiaries**

Alon Holdings Blue Square-Israel Ltd. (formerly Blue Square – Israel Ltd.) ("Blue Square") is an Israeli corporation, which, directly and through its subsidiaries (together - the Company), mainly operates in Israel. All references to the Company include, unless the context otherwise indicates, Blue-Square and its subsidiaries. The Company operates in three operating segments: (1) Supermarkets, (2) Non-food Retail and Wholesale (3) Real Estate (see Note 8).

Alon Holdings Blue Square – Israel Ltd is a limited liability company incorporated and domiciled in Israel, whose shares are listed for trading on the New-York Stock Exchange (the "NYSE") and on the Tel-Aviv Stock Exchange (the "TASE").

The Company is controlled by Alon Israel Oil Company Ltd. ("Alon").

The address of its registered office is 2 Amal St., Afek Industrial Zone, Rosh Ha'ayin, Israel.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:**a) Statements of compliance**

The condensed consolidated interim financial statements of the Company as of June 30, 2010 and for the six and three month periods ended on that date (hereinafter - the interim financial statements) have been prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). These interim financial statements, which are unaudited, do not include all disclosures necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements as at December 31, 2009 and for the year then ended and their accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

b) Changes in the exchange rates of the U.S. dollar and the Israeli CPI in the reported periods

	Exchange rate of the US dollar	Israel CPI
	%	%
Six-month period ended June 30:		
2010	2.7	0.4
2009	3.1	1.2
Three-month period ended June 30:		
2010	4.4	1.4
2009	(6.4)	1.9
Year ended December 31, 2009	(0.7)	3.8

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

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

The exchange rate of the US dollar at June 30, 2010 is US\$1 = NIS 3.875

c) Convenience translation into U.S. dollars

The condensed financial statements as of June 30, 2010 and for the six month period then ended have been translated into U.S. dollars using the representative rate of exchange at that date (U.S. \$ 1 = NIS 3.875). The translation was made solely for the convenience of the reader.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended December 31, 2009, except for the adoption of new Standards and Interpretations as of January 1, 2010, noted below:

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

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Company has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), "consolidated and separate financial statements", at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting for when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. Accordingly, the effect of these transactions with non-controlling interests has been reclassified in the cash flow statement from cash flows from investing activities to cash flows from financing activities. Apart from this reclassification there has been no impact of IAS 27 (revised) on the current period.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued):

b) The amendment to IAS 17 "Leases" (hereafter – IAS 17) represents part of the annual improvement project of the IASB which was published in April 2009. The amendment cancels the specific directives relating to the classification of land leases, by canceling the inconsistency with the general directives for classifying leases. Under the amendment, the unequivocal determination included in the past in IAS 17, under which a lease of land in which the ownership is not expected to be transferred to the lessee at the end of the lease period will be classified as operating lease was omitted. Under the amendment, the Company will assess the land classification as financial lease or operating lease under the general directives in IAS 17 for classifying leases. The amendment is applicable retroactively for annual periods beginning January 1, 2010 or thereafter. The Company applies the above amendment to IAS 17 effective January 1, 2010 retroactively.

As a result of the application of the amendment, amounts paid in respect of leased land that were classified in the past as operating leases and thus were presented as prepaid expenses, were reclassified as finance leases and accordingly are included within the property and equipment, net.

As a result of the retroactive application, the prepaid expenses balances as of December 31, 2009 and June 30, 2010 were decreased by NIS 193,228 thousand and NIS 190,605 thousand, respectively, and the property and equipment balances were increased by NIS 199,196 thousand and NIS 196,572 thousand, respectively. The balances of NIS 3,915 thousand and NIS 979 thousand, resulting from a change in the computation of the annual expenses were carried to accumulated deficit and non-controlling interests, respectively. The effect on the net income for the six month and annual periods ended June 30, 2009 and December 31, 2009, was immaterial.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

NOTE 4 - EFFECT OF SEASONALITY:

The Company's operations are characterized by the effect of the timing of the Jewish religious holidays, in particular "Rosh-Hashanah" (New Year) and "Passover", with increases of sales in the quarters when these holidays take place. In view of this, the results for the three-month period ended June 30, 2010 do not necessarily provide an indication of the results to be expected for the entire year ended December 31, 2010.

NOTE 5 – INVESTMENT IN DOR ALON ENERGY IN ISRAEL (1988) LTD.

On October 3, 2010, the Company completed the acquisition of approximately 80% of the shares in Dor Alon Energy in Israel (1988) Ltd ("Dor Alon"), a company listed on the Tel Aviv stock exchange, from its controlling shareholder Alon, which is also the Company's controlling shareholder. Dor-Alon is engaged in the development, construction and operating of vehicle fueling stations, adjacent commercial centers and independent convenience stores, marketing of fuel products and other products through the fueling stations and convenience stores and direct marketing of distillates to customers. Dor-Alon operates in three principal operating segments: The fueling and commercial sites segment, the direct marketing segment, and the jet-fuel marketing segment. In return for the Dor Alon shares, the Company issued 20,327,710 shares to Alon in such a way that each Dor Alon share held by Alon was exchanged into 1.8 shares of the Company.

The purchase price for the acquisition of Dor Alon is NIS 966 million based on the Company's ordinary share price of NIS 47.51 (based on the closing price on October 3, 2010 on the Tel Aviv stock exchange). According to the outline of the acquisition, the Company will pay a dividend distribution in an amount of NIS 800 million by way of a capital reduction after having received the relevant legal approvals in September 2010, see also note 36b to the Company's annual financial statements.

On September 14, 2010 the District Court in Israel approved the dividend distribution, not out of profits, in the amount of NIS 12.307 per share (U.S.\$ 3.39 per share/ADS, based on the representative exchange rate as of October 4, 2010), totaling NIS 800 million (U.S.\$ 220.5 million) and on September 16, 2010 the CEO of the Tel Aviv Stock Exchange approved the registration for trade of another 20,327,710 of the Company's shares. The ex-div date for this dividend distribution was October 5, 2010 and the payment date will be October 18, 2010.

The Company has acquired control in Dor Alon to allow the companies to combine the retail operations of the Company and Dor Alon and will enable the combined Company to become one of the largest retail groups in Israel and would enable the combined group to enjoy the benefits of economies of scale;

The acquisition will be accounted for using the acquisition method (at fair value basis).

As the acquisition was completed subsequent to June 30, 2010, the consolidated condensed interim financial statements do not include the results or the financial position of Dor Alon.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

NOTE 5 – INVESTMENT IN DOR ALON ENERGY IN ISRAEL (1988) LTD (continued)

The acquisition date fair values of Dor Alon's assets, which are preliminary as the transaction was only completed on October 3, 2010 and may be adjusted as a result of obtaining additional indications as to their values, are as follows:

	Unaudited NIS in millions
Current assets	1,405
Property and equipment	940
Intangible assets	342
Other non-current assets	223
Current liabilities	(1,331)
Deferred taxes	(52)
Other non-current liabilities	(1,053)
Total identifiable net assets at fair value	474
Goodwill arising on acquisition	663
Non - controlling interests(*)	171
Purchase consideration transferred	<u><u>966</u></u>

Analysis of cash flows on acquisition-Net cash acquired with Dor Alon 56

(*) The non - controlling interests have been included at fair value which was calculated based on Dor Alon's ordinary share price of NIS 60.44 (based on the closing price on October 3, 2010 on the Tel Aviv stock exchange).

If the combination had taken place at the beginning of the year, the Company's net income for the six month period ended June 30, 2010 including income from discontinued activities, which relate to the transfer of gas exploration operations to the Dor Alon shareholders at the time of the transfer, would have been NIS 82 million (unaudited) and revenues would have been NIS 6,969 million including government levies and NIS 5,657 million net of government levies (unaudited).

The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and activities of Dor Alon with those of the Company.

The total acquisition related costs are expected to be NIS 3 million of which approximately 2 million have been recorded as of June 30, 2010 and are included in other losses in the condensed consolidated interim statement of income and are part of operating cash flows in the statements of cash flows.

None of the goodwill recognized is expected to be deductible for income tax purposes.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.

(FORMERLY BLUE SQUARE – ISRAEL LTD.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

NOTE 5 – INVESTMENT IN DOR ALON ENERGY IN ISRAEL (1988) LTD (continued)

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).

NOTE 6 - SHARE CAPITAL:

- a. In the six month period to June 30, 2010, additional convertible debentures with a par value of NIS 5,804 were converted to 288,844 shares of the Company. In addition, 716,000 shares were issued upon the exercise of employee share options.
- b. On February 25, 2010, the Company paid a cash dividend in the amount of NIS 1.704 per share, totaling approximately NIS 75 million.
- c. Following approval by the Company's Audit Committee and Board of Directors, on March 25, 2010, the Company purchased 89,888 of its own shares ("treasury shares") 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. The amount paid by the Company to the officers for the shares are deemed a distribution by the Company for purposes of Israeli law, and the payment reduced the amount available for distribution as dividends to shareholders.
- d. As the result of the dividend distribution subsequent to June 30, 2010 (see note 5) the conversion ratio of the convertible debentures was amended and is currently 6.083 and the adjusted exercise price of the employee share options was adjusted in accordance with the terms of the grant. The effect of the amendment of the conversion ratio resulted in an increase the fair value of the embedded conversion feature, which is expected to be approximately NIS 23 million and will be recorded in financial expenses in the fourth quarter of 2010.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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NOTE 7 - RELATED-PARTY BALANCES

Balances arising from sales/purchases of goods/services:

	December 31,		June 30
	2009	2009	2010
	(Audited)	(Unaudited)	
Trade receivables	58,479	64,207	67,472
Other receivables	7,930	4,954	7,166
	66,409	69,161	74,638
Trade payables	70,894	78,537	71,819
Other payables	233	1,654	263
	71,127	80,191	72,082

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.

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NOTE 8 – SEGMENT INFORMATION:

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

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

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

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

The Company's three operating segments consist of the following:

- (1) Supermarkets – The Company operates the second largest food retail chain in Israel. Through its subsidiary, Mega Retail Ltd. ("Mega Retail"), which operates Supermarket branches, the Company offers 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, products for infants, cosmetics and hygiene products. As of June 30, 2010, Mega Retail operated 206 supermarkets. This segment also includes properties owned through Blue Square Real Estate ("BSRE"), in connection with the supermarket operation of our stores (including warehouses and offices).
- (2) Non-food (Retail and Wholesale) – Through the subsidiary, Bee Group Retail Ltd. ("Bee Group"), Bee group operates as retailer and wholesaler in the Non Food segment. As of June 30, 2010, Bee Group operated 270 non-food Retail outlets, mostly through franchisees, with specialties in houseware and home textile, toys, leisure, and infant.
- (3) Real Estate - Through the subsidiary BSRE the Company is involved in the investment, promotion and development of yield generating investment properties: mainly commercial centers, logistics centers and offices and land for the purpose of capital appreciation and deriving long-term yield. In addition, BSRE is a partner in the Tel Aviv Wholesale Market project.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

NOTE 8 – SEGMENT REPORTING (continued):

	Six months ended June 30, 2010 (unaudited)				
	Supermarkets	Non - food retail and wholesale	Real estate	Adjustments	Total consolidated
				NIS in thousands	
Net segment revenues	3,364,527	224,206	10,754	-	3,599,487
Inter segment revenues	-	27,610	-	(27,610)	-
Operating profit before other gains and losses, net and changes in fair value of investment property	130,234	12,792	4,343	(85)	147,284
Segment profit	126,333	9,583	17,531	(85)	153,362
Unallocated corporate expenses					(12,215)
Financial income					20,078
Financial expenses					(76,786)
Share in losses of associated companies					(576)
Income before taxes on income					83,863
Six months ended June 30, 2009 (unaudited)					
	Supermarkets	Non - food retail and wholesale	Real estate	Adjustments	Total consolidated
	NIS in thousands				
Segment revenues	3,358,964	239,134	10,641	-	3,608,739
Inter segment revenues	-	31,125	-	(31,125)	-
Operating profit before other gains and losses, net and changes in fair value of investment property	101,262	22,588	5,831	(324)	129,357
Segment profit	101,546	18,584	7,571	(324)	127,377
Unallocated corporate expenses					(8,504)
Unallocated corporate gains due to decrease in holdings, net					3,082
Financial income					37,995
Financial expenses					(85,222)
Share in losses of associated companies					(88)
Income before taxes on income					74,640

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

NOTE 8 – SEGMENT REPORTING (continued):

	Three months ended June 30, 2010 (unaudited)				
	Non - food		Real estate NIS in thousands	Adjustments	Total consolidated
	Supermarkets	retail and wholesale			
Segment revenues	1,674,632	88,691	5,340	-	1,768,663
Inter segment revenues	-	10,855	-	(10,855)	-
Operating profit before other gains and losses, net and changes in fair value of investment property	70,617	(5,713)	3,373	1,138	69,415
Segment profit	67,971	(8,946)	14,287	1,138	74,450
Unallocated corporate expenses					(6,929)
Financial income					14,764
Financial expenses					(57,049)
Share in losses of associated companies					-
Income before taxes on income					25,236
Three months ended June 30, 2009 (unaudited)					
	Non - food	retail and wholesale	Real estate NIS in thousands	Adjustments	Total consolidated
	Supermarkets	and wholesale	NIS in thousands		
Segment revenues	1,731,387	107,203	5,361	-	1,843,951
Inter segment revenues	-	10,316	-	(10,316)	-
Operating profit before other gains and losses, net and changes in fair value of investment property	56,734	4,369	3,426	38	64,567
Segment profit	57,099	666	5,166	38	62,969
Unallocated corporate expenses					(3,882)
Unallocated corporate gains due to decrease in holdings, net					538
Financial income					27,016
Financial expenses					(62,246)
Share in losses of associated companies					(4)
Income before taxes on income					24,391

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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NOTE 8 – SEGMENT REPORTING (continued):

	Year ended December 31, 2009 (audited)				
	Supermarkets	Non - food retail and wholesale	Real estate	Adjustments	Total consolidated
				NIS in thousands	
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, net and changes in fair value of investment property	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 decrease in holdings					3,210
Financial income					64,780
Financial expenses					(177,454)
Share in losses of associated companies					(37)
Income before taxes on income					120,925
Six months ended June 30, 2010 (unaudited)					
	Supermarkets	Non - food retail and wholesale	Real estate	Adjustments	Total consolidated
				Convenience translation to U.S dollar in thousands	
Net segment revenues	868,265	57,860	2,775	-	928,900
Inter segment revenues	-	7,125	-	(7,125)	-
Operating profit before other gains and losses, net and changes in fair value of investment property	33,609	3,301	1,121	(22)	38,009
Segment profit	32,602	2,473	4,524	(22)	39,577
Unallocated corporate expenses					(3,152)
Financial income					5,181
Financial expenses					(19,814)
Share in losses of associated companies					(149)
Income before taxes on income					21,643

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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NOTE 9 – EVENTS DURING THE PERIOD:

a. 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 as part of 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 ventures (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"). The Company obtained financing to allow acquisition of the land from a bank.

Under these agreements, BSRE and Gindi ("the Joint Venturers") 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 to project milestones. Part of the first installment in the amount of approximately NIS 185 million was transferred to a trustee on May 20, 2010, and the remaining approximately NIS 75 million subsequent to June 30, 2010. 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, depending 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 agreement provided for a restriction period during which the Purchasers are not able to sell their rights in the project to third parties.

The Joint Venturers have also undertaken to plan and construct public buildings and parking lots for the sellers, for a consideration based on the costs incurred that will not exceed NIS 102 million.

In an agreement of principles signed between BSRE and Gindi, BSRE agreed to pay 60% of the first NIS 260 million of the consideration paid by the Joint Venturers and 60% of any additional payment that will be required to develop the project until the second installment 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 Joint Ventures 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 for the five years period that started after the agreements were signed. BSRE's share of this payment in accordance with the agreement is 50%.

The signing of the final agreements was approved by an extraordinary meeting of the shareholders of BSRE on June 2, 2010. The final agreements, which were signed on June 3, 2010, were subject to the approval of the Minister of the Interior, which was received on July 11, 2010.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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NOTE 9 – EVENTS DURING THE PERIOD (continued):

In addition, in July 2010 Gindi won the auction to Build Operate and Transfer ("BOT") a parking lot in Tel Aviv for approximately 1,000 parking places for a period of 23 years. In August 2010, BSRE joined Gindi in this project as a 50% joint venturer. The final agreement is subject to further approvals and conditions which have not been completed as of the date of the signing of these financial statements.

b. During the period, a subsidiary of BSRE acquired land in Point Wells, near Seattle (USA) from a subsidiary of Alon USA, a related company, for an amount of \$19.5 million (approximately NIS 82 million). BSRE intends to change the zoning of the land from heavy industrial use to urban center zoning. In case the Company were to sell the land the subsidiary of Alon USA may participate in the consideration net of costs as defined in the agreement. BSRE has granted Alon USA the right to use the land for a period of up to ten years. In return the subsidiary of Alon USA will make a quarterly payment of \$440 thousand (approximately NIS 1.7 million) starting July 1, 2010.

c. On April 26, 2010, Standard & Poors Maalot entered the rating for the debentures of the Company of iA+ into Credit Watch with negative outlook, due to the Wholesale Market transaction of BSRE.

NOTE 10 – CONTINGENCIES:

a. In July 2010 a claim was filed against Mega Retail Ltd. Including a request for it to be approved as a class action, alleging that the Company is misleading the customer when it sells certain products in closed packaging, for an amount per item rather than by weight, even though there are differences in weight between the packages, and without an indication of the weight of each package.

The plaintiff's personal claim is estimated by him at NIS 14, and if the claim is certified as a class action, the approximate claim is estimated by the plaintiff at NIS 6 million.

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.

b. In August, 2010 the Company was served with a claim in which it is being sued by a former supplier of fruits and vegetables claiming that the company breached the agreements between the parties regarding the supply of fruits and vegetables, a breach that allegedly resulted in damages assessed by the plaintiff at approximately NIS 178 million. As mentioned in the claim, due to court fees, it was filed for the sum of NIS 100 million.

The Company is currently reviewing the claim and denying all above allegations. The Company believes it acted according to all binding agreements and is not liable to any damages claimed. The Company further denies that any damages were at all caused to the plaintiff. 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 claim develops.

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NOTE 10 – CONTINGENCIES (continued):

c. In August 2010, the Company was served with a claim and a request for approval as a class action, in which it is being sued, together with the "YOU" Customer Loyalty Club limited partnership in which the Company holds 75%, regarding the alleged omission of a way to notify the request not to receive commercial cellular messages (SMS) as required by law, and the failure to remove the plaintiff from a distribution list of SMS numbers of "YOU" card holders. The plaintiff's personal claim is estimated by him at NIS 1,250, and if the claim is certified as a class action, the approximate claim is estimated by the plaintiff at NIS 390 million.

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.

d. In August 2010 a claim was filed against the Company, Including a request for it to be approved as a class action, alleging that the Company does not deduct the weight of the package in which it sells fresh meat.

The plaintiff's personal claim is estimated by him at NIS 873, and if the claim is certified as a class action, the approximate claim is estimated by the plaintiff at NIS 436,750,000.

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.

e. On June 27, 2010, a statement of claim and a request to approve the claim as a class action and as a derivative claim was lodged against Dor Alon, members of the Board of Directors of Dor Alon and Alon.

The claim was lodged by holders of Series A debentures of Dor Alon that wish to represent the holders of Series A Dor Alon debentures as of February 7, 2010, who did not convert the debentures into Dor Alon shares.

In their claim, the plaintiffs claim that the distribution (on February 9, 2010) of the shares of Alon Natural Gas Exploration Ltd. to Dor Alon's shareholders was an unlawful distribution. The plaintiffs also claim that Dor Alon should have adjusted the Series A debentures' conversion rate following the distribution of shares as above.

The plaintiffs request that the Court would oblige Alon and the members of Dor Alon's Board of Directors to return to Dor Alon the shares that were distributed as above; alternatively, the plaintiffs request that Dor Alon will be required to adjust the conversion rate of the debentures to the "Ex rate" subsequent to the distribution; alternatively, the plaintiffs seek damages for non adjustment of the conversion rate.

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.

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NOTE 10 – CONTINGENCIES (continued):

f. On July 21, 2010, a statement of claim against New Dorgas Ltd. (a subsidiary of Dor Alon, hereafter – New Dorgas) and a request to approve the claim as a class action were received in Dor Alon's offices; the amount claimed is NIS 100 million. According to the statement of claim, under Section 8(8) of the Prices Stabilization in Commodities and Services Order (Temporary Provision) Maximal Prices of Oil Products), 1996, the amount specified in the gas bill paid through the bank also includes the bank's commission in respect of the payment of the bill. The plaintiff claims that she paid her gas bills through the bank and thereby was charged for the bank commission for such payments. 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 11 – SUBSEQUENT EVENTS:

a. In July 2010, Midroog issued a rating of A1 with negative outlook for series A, B and C of BSRE's listed debentures.

b. On July 12, 2010 BSRE completed its capital raising of NIS 110 million of debentures linked to the Israeli CPI. The debentures will bear an annual interest of 4.5% and will be repaid in four annual installments in 2017 to 2020.

c. On July 15, 2010, the Company announced that as a result of the approval in the shareholders' general meeting of June 28, 2010 and the approval of the Register of Companies in Israel the Company's name would be changed to "Alon Holdings Blue Square – Israel Ltd".

d. On August 10, 2010, the Company received a rating of A1 from Midroog for the Debentures up to par value NIS 500 million that the Company will issue. The rating is subject to a number of conditions which are detailed in Midroog's report.

e. On September 15, 2010 Midroog affirmed the A1 rating of Series A and B debentures previously issued to private investors by the Company.

f. On October 11, 2010, the non - controlling interests holders of Bee Group exercised their Put option and sold the remaining 15% of Bee Group to the Company for a total consideration of approximately NIS 24.5 million – see also note 5(i)(a)1 to the annual financial statements.
