

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F/A**

(Amendment No. 1)

(Mark One)

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

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

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

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number 1-14426

ALON HOLDINGS BLUE SQUARE - ISRAEL LTD.

(Exact name of Registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

2 Amal Street, Rosh Ha'ayin 48092, Israel

(Address of principal executive offices)

Ortal Klein, Corporate Secretary;
Tel: (972)-9-9618636; Fax: (972)-9-9618504

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

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

Title of class
American Depositary Shares, each representing one Ordinary Share ⁽¹⁾

Name of each exchange on which registered
New York Stock Exchange, Inc.

Ordinary Shares, par value NIS 1.0 per share ⁽²⁾

New York Stock Exchange, Inc.

(1) Evidenced by American Depositary Receipts.

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

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

None

(Title of Class)

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

None

(Title of Class)

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

65,990,879 Ordinary Shares, par value NIS 1.0 per share

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

☒ Yes ☐ No

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

Large Accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

U.S. GAAP ☐

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

Other ☐

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

EXPLANATORY NOTICE

This Amendment No. 1 (this “Amendment”) amends the annual report on Form 20-F for the year ended December 31, 2010 originally filed with the Securities and Exchange Commission on June 30, 2011 (the “Annual Report”) and is being filed solely to correct (i) a clerical error in the text of the Report of Independent Registered Public Accounting Firm appearing on pages F-2 and F-3 of the Annual Report and (ii) a clerical error in the text of Note 1.a (Information on the activities of Alon Holdings Blue Square – Israel Ltd. and its subsidiaries) of our financial statements appearing on page F-13 of the Annual Report. The audit report and financial statements are hereby replaced in their entirety.

No other changes have been made to the Annual Report. This Amendment speaks as of the date of the initial filing of the Annual Report. Other than as described above, this Amendment does not, and does not purport to, amend, update or restate any other information or disclosure included in the Annual Report or reflect any events that have occurred after the date of the initial filing of the Annual Report.

ALON HOLDINGS BLUE SQUARE - ISRAEL LTD.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

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Report of Independent Registered Public Accounting Firm

To the shareholders of
ALON HOLDINGS BLUE SQUARE - ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)

We have completed integrated audits of Alon Holdings Blue Square – Israel Ltd. (Formerly Blue Square – Israel Ltd.) and its subsidiaries and proportionately consolidated companies (collectively - the "Company" or "Blue square") consolidated financial statements and of its internal control over financial reporting as of December 31, 2010, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our integrated audits, are presented below.

Consolidated financial statements

We have audited the accompanying consolidated statements of financial position of the Company as of December 31, 2010, 2009 and 2008 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended on those dates. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our integrated audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2010, 2009 and 2008 and the results of its operations, changes in equity and its cash flows for each of the years ended on those dates, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

As discussed in Note 2 ac. to the consolidated financial statements, in 2010 the Company changed the manner in which it accounts for business combinations and for transactions with non-controlling interests in the consolidated financial statements.

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Internal control over financial reporting

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and management is responsible for the assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 15(b). Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also includes performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in the Report of Blue Square Management on Internal Control Over Financial Reporting appearing under item 15, management has excluded Dor Alon Energy in Israel (1998) Ltd. ("Dor Alon") from its assessment of internal control over financial reporting as of December 31, 2010 because it was acquired by the Company in a business combination consummated on October 3, 2010. We have also excluded Dor Alon from our audit of internal control over financial reporting. Dor Alon is a majority owned subsidiary of Blue Square whose total assets and total net sales represent approximately 42% and 13%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

Haifa, Israel
June 30, 2011

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

					Convenience translation (note 1b)
					December 31,
					December 31,
		2008	2009	2010	2010
	Note	NIS			U.S. dollars
In thousands					
Assets					
CURRENT ASSETS:					
Cash and cash equivalents	13a	95,325	612,227	125,956	35,491
Investment in securities	10	186,849	212,912	310,237	87,415
Short-term deposit s	13b	206	67	98,084	27,637
Trade receivables	12a	729,970	809,783	1,731,747	487,953
Other accounts receivable	12b	87,624	69,504	162,599	45,815
Derivative financial instruments	11	-	9,690	-	-
Income taxes receivable		74,446	84,274	64,094	18,060
Inventories	12c	497,080	514,858	680,296	191,687
		1,671,500	2,313,315	3,173,013	894,058
NON-CURRENT ASSETS:					
Investments in associates	9b	4,915	4,878	6,012	1,694
Derivative financial instruments	11	5,248	12,691	56,078	15,801
Real estate inventories	33a	-	-	83,337	23,482
Payments on account of real estate	9a	-	-	164,132	46,247
Investment in securities	10	-	-	30,327	8,545
Loans receivable, net of current maturities	14	-	1,326	176,043	49,604
Property and equipment, net	6	*1,899,615	*1,956,914	2,928,515	825,166
Investment property	7	*413,111	*421,188	546,870	154,091
Intangible assets, net	8	404,422	409,194	1,486,744	418,919
Other long-term receivables	15	1,554	-	47,098	13,270
Deferred taxes	21	44,508	45,991	66,018	18,603
		2,773,373	2,852,182	5,591,174	1,575,422
Total assets		4,444,873	5,165,497	8,764,187	2,469,480

* Retroactive application (see note 2ad.1)

June 30, 2011			
Date of approval of the financial statements	David Wiessman Executive Chairman of the Board of Directors and Chief Operating Decision Maker	Zeev Vurembrand Chief Executive Officer	Dror Moran Vice President and Chief Financial Officer

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

					Convenience translation (note 1b) December 31, 2010
					December 31,
					2010
					U.S. dollars
Note	2008	2009	2010		
					NIS
					In thousands
Liabilities and equity					
CURRENT LIABILITIES:					
Credit and loans from banks and others	19	77,989	143,086	470,284	132,512
Current maturities of debentures and convertible debentures	19	25,999	76,698	202,769	57,134
Current maturities of long-term loans from banks	19	132,913	131,512	297,771	83,903
Trade payables		1,006,386	917,585	1,342,763	378,350
Other accounts payable and accrued expenses	18	424,798	494,147	686,447	193,419
Customers' deposits		-	-	30,405	8,567
Derivative financial instruments	11	-	-	7,700	2,170
Income taxes payable		6,933	6,051	7,431	2,093
Provisions	23	43,397	51,298	71,870	20,251
		1,718,415	1,820,377	3,117,440	878,399
NON CURRENT LIABILITIES:					
Long-term loans from banks and others, net of current maturities	19	341,586	596,721	1,399,159	394,240
Convertible debentures, net of current maturities	19	130,525	142,021	117,801	33,193
Debentures, net of current maturities	19	985,844	1,251,333	2,183,093	615,129
Other liabilities	20	*35,221	* 16,202	199,983	56,349
Derivative financial instruments	11	21,074	7,591	9,151	2,578
Liabilities in respect of employee benefits, net of amounts funded	22	49,911	47,249	51,492	14,509
Deferred taxes	21	* 61,401	*57,279	103,929	29,284
		1,625,562	2,118,396	4,064,608	1,145,282
Total liabilities		3,343,977	3,938,773	7,182,048	2,023,681
EQUITY:					
Equity attributed to equity holders of the Company:					
Ordinary shares of NIS 1 par value	16	57,094	57,438	79,712	22,460
Additional paid-in capital	16	1,018,405	1,030,259	1,218,409	343,311
Other reserves	17	(261)	5,676	(12,539)	(3,533)
Accumulated deficit		*(150,804)	*(61,049)	(85,760)	(24,165)
		924,434	1,032,324	1,199,822	338,073
Non-controlling interests		* 176,462	*194,400	382,317	107,726
Total equity		1,100,896	1,226,724	1,582,139	445,799
Total liabilities and equity		4,444,873	5,165,497	8,764,187	2,469,480

* Retroactive application. (see Note 2ad.1)

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31			Convenience translation (note 1b) for the year ended December 31, 2010
		2008	2009	2010	2010
		NIS			U.S. dollars
		In thousands (except per share data)			
Revenues		7,429,121	7,349,076	9,227,453	2,600,015
Less – government levies		-	-	723,709	203,919
Net revenues		7,429,121	7,349,076	8,503,744	2,396,096
Cost of sales		5,369,149	5,291,012	6,192,352	1,744,816
Gross profit		2,059,972	2,058,064	2,311,392	651,280
Selling, general and administrative expenses		1,794,720	1,817,099	2,069,970	583,254
Operating profit before other gains and losses and changes in fair value of investment property		265,252	240,965	241,422	68,026
Other gains	24	12,233	4,699	3,258	918
Other losses	24	(14,716)	(32,803)	(28,188)	(7,943)
Changes in fair value of investment property , net		19,067	20,775	32,917	9,275
Operating profit		281,836	233,636	249,409	70,276
Finance income	27	60,700	64,780	85,852	24,190
Finance expenses	27	(166,295)	(177,454)	(235,847)	(66,454)
Finance expenses, net		105,595	112,674	149,995	42,264
Share of loss of associates		(33)	(37)	(518)	(146)
Income before taxes on income		176,208	120,925	98,896	27,866
Taxes on income	28	43,806	23,124	36,287	10,225
Net income for the year		132,402	97,801	62,609	17,641
Attributable to:					
Equity holders of the Company		104,586	77,163	47,839	13,479
Non-controlling interests		27,816	20,638	14,770	4,162
Earnings per ordinary share or ADS attributable to equity holders of the Company	29				
Basic		2.41	1.77	0.96	0.27
Fully diluted		1.62	1.77	0.96	0.27

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31			Convenience translation (note 1b) Year ended December 31 2010 U.S. dollars
		2008	2009	2010	
		NIS			
		In thousands			
Profit for the year		<u>132,402</u>	<u>97,801</u>	<u>62,609</u>	<u>17,641</u>
Other comprehensive income (losses) items, net of tax:					
Available-for-sale financial assets:	10				
Revaluation		(763)	11,485	1,821	514
Impairment transferred to income statement		1,553	-	-	-
Gain from sales transferred to income statement		(3,004)	(3,983)	(9,925)	(2,797)
Actuarial gain (loss) from post employment benefit obligations	22	(10,346)	1,016	(277)	(78)
Currency translation differences		-	-	(6,406)	(1,805)
Total – other comprehensive income (losses)		<u>(12,560)</u>	<u>8,518</u>	<u>(14,787)</u>	<u>(4,166)</u>
Total comprehensive income for the year		<u><u>119,842</u></u>	<u><u>106,319</u></u>	<u><u>47,822</u></u>	<u><u>13,475</u></u>
Attributable to:					
Equity holders of the Company		92,898	83,958	36,800	10,369
Non-controlling interests		26,944	22,361	11,022	3,106
		<u><u>119,842</u></u>	<u><u>106,319</u></u>	<u><u>47,822</u></u>	<u><u>13,475</u></u>

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company				Non- controlling interests	Total equity	
	Ordinary shares	Additional paid-in capital	Other reserves	Accumulated deficit			
	NIS in thousands						
BALANCE AT JANUARY 1, 2008	57,094	1,018,405	1,415	*(103,347)	973,567	*279,007	1,252,574
CHANGES DURING 2008:							
Comprehensive income for the year	-	-	(1,676)	94,574	92,898	26,944	119,842
Employee share-based payment	-	-	-	7,969	7,969	206	8,175
Transaction with non- controlling interests	-	-	-	-	-	(103,264)	(103,264)
Dividend	-	-	-	(150,000)	(150,000)	-	(150,000)
Dividend to non-controlling interests of subsidiaries	-	-	-	-	-	(26,431)	(26,431)
BALANCE AT DECEMBER 31, 2008	57,094	1,018,405	(261)	*(150,804)	924,434	*176,462	1,100,896
CHANGES DURING 2009 :							
Comprehensive income for the year	-	-	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
Dividend to non-controlling interests of subsidiaries	-	-	-	-	-	(12,138)	(12,138)
BALANCE AT DECEMBER 31, 2009	57,438	1,030,259	5,676	*(61,049)	1,032,324	*194,400	1,226,724
CHANGES DURING 2010 :							
Comprehensive income for the year	-	-	(11,272)	48,072	36,800	11,022	47,822
Employee share-based payment	-	-	-	6,512	6,512	322	6,834
Movement in equity as result of business combination	20,328	945,442	-	-	965,770	170,054	1,135,824
Transactions with non- controlling interests	-	-	(6,943)	-	(6,943)	24,138	17,195
Exercise of options	759	-	-	-	759	-	759
Issuance of shares upon conversion of convertible debentures	1,187	42,708	-	-	43,895	-	43,895
Acquisition of treasury shares	-	-	-	(4,295)	(4,295)	-	(4,295)
Dividend	-	(800,000)	-	(75,000)	(875,000)	-	(875,000)
Dividend to non-controlling interests of subsidiaries	-	-	-	-	-	(17,619)	(17,619)
BALANCE AT DECEMBER 31, 2010	79,712	1,218,409	(12,539)	(85,760)	1,199,822	382,317	1,582,139
Convenience translation into U.S. dollars in thousands (note 1b)							
BALANCE AT JANUARY 1, 2010	16,184	290,296	1,599	(17,202)	290,877	54,776	345,653
CHANGES DURING 2010 :							
Comprehensive income for the year	-	-	(3,176)	13,545	10,369	3,106	13,475
Employee share-based payment	-	-	-	1,835	1,835	91	1,926
Movement in equity as result of business combination	5,728	266,397	-	-	272,125	47,916	320,041
Transaction with non- controlling interest	-	-	(1,956)	-	(1,956)	6,801	4,845
Exercise of options	214	-	-	-	214	-	214
Issuance of shares upon conversion of convertible debentures	334	12,034	-	-	12,368	-	12,368
A cquisition of treasury shares	-	-	-	(1,210)	(1,210)	-	(1,210)
Dividend	-	(225,416)	-	(21,133)	(246,549)	-	(246,549)
Dividend to non-controlling interest of subsidiaries	-	-	-	-	-	(4,964)	(4,964)
BALANCE AT DECEMBER 31, 2010	22,460	343,311	(3,533)	(24,165)	338,073	107,726	445,799

* Reclassification , see note 2ac

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31			Convenience translation (note 1b) Year ended December 31 2010 U.S dollars
	2008	2009	2010	
	NIS			
	In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before taxes on income	176,208	120,925	98,896	27,866
Income tax (paid) received, net	(94,212)	(38,101)	5,741	1,618
Net cash provided by operating activities (a)	327,777	177,520	101,192	28,513
Net cash provided by operating activities	409,773	260,344	205,829	57,997
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(211,646)	(203,889)	(193,474)	(54,515)
Purchase of investment property	(69,749)	(9,435)	(20,720)	(5,838)
Purchase of intangible assets	(30,372)	(20,738)	(34,133)	(9,618)
Investment in restricted deposit	-	(470,000)	-	-
Proceeds from collection of restricted deposit	-	470,000	-	-
Proceeds from collection of short-term deposits and other receivable, net	102,531	139	12,401	3,494
Proceeds from sale of property and equipment	1,559	2,581	1,306	368
Proceeds from sale of investment property	6,567	5,700	-	-
Proceeds from sale of marketable securities	185,104	101,867	373,040	105,111
Investment in marketable securities	(169,747)	(113,966)	(365,091)	(102,872)
Acquisition of subsidiaries (see note 5)	-	(4,789)	87,219	24,576
Grant of loans to jointly controlled companies	-	-	(31,442)	(8,859)
Payments on account of real estate	-	-	(76,884)	(21,664)
Collection of long-term loans, receivable	-	-	1,565	441
Interest received	17,778	11,948	18,331	5,165
Net cash used in investing activities	(167,975)	(230,582)	(227,882)	(64,211)

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (note 1b) for the year ended December 31, 2010 U.S dollars
	2008	2009	2010	
	NIS			
	In thousands			
CASH FLOWS FROM FINANCING ACTIVITIES:				
Purchase of treasury shares	-	-	(4,295)	(1,210)
Dividend paid to Company shareholders	(150,000)	-	(875,000)	(246,548)
Dividend paid to non-controlling interests	(22,077)	(16,491)	(17,619)	(4,964)
Repayment of debentures	-	(13,297)	(2,155)	(607)
Acquisition of non-controlling interests in subsidiary	*(186,403)	*(8,020)	-	-
Transactions with non-controlling interests in subsidiaries without loss of control	-	*10,912	17,195	4,845
Issuance of debentures	121,259	294,280	205,035	57,773
Receipt of long-term loans	231,398	387,700	470,600	132,601
Repayment of long-term loans	(130,571)	(139,060)	(165,014)	(46,496)
Repayment of long term credit from payables	(1,740)	(1,740)	(1,740)	(490)
Short-term credit from banks and others, net	15,689	76,144	(52,404)	(14,766)
Receipt of loans from controlling shareholders	-	-	90,000	25,359
Proceeds from exercise of options in the Company and a subsidiary	-	2,306	759	214
Acquisition of shares from non-controlling interests	-	-	(24,557)	(6,919)
Settlement of forward contracts	-	-	21,248	5,987
Interest paid	(89,244)	(93,900)	(147,532)	(41,570)
Net cash provided by (used in) financing activities	(211,689)	498,834	(485,479)	(136,791)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS	30,109	528,596	(507,532)	(143,007)
Translation differences on cash and cash equivalents	-	-	(71)	(20)
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS AT BEGINNING OF YEAR	53,029	83,138	611,734	172,368
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF YEAR	83,138	611,734	104,131	29,341

*Retroactive application, see note 2 ad1.

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
(Formerly Blue Square – Israel Ltd.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31			Year ended
	2008	2009	2010	December 31,
	NIS			2010
	In thousands			U.S dollars
(a) Net cash provided by operating activities:				
Adjustments for:				
Depreciation and amortization	153,882	165,248	206,945	58,311
Increase in fair value of investment property, net	(19,067)	(20,775)	(32,917)	(9,275)
Share in losses of associates	33	37	518	146
Share based payment	8,175	12,166	6,834	1,926
Loss from sale and disposal of property and equipment, net	2,569	3,299	5,962	1,680
Provision for impairment of property and equipment, net	3,420	19,981	946	267
Changes in fair value of derivative financial instruments	(19,247)	(21,250)	(8,029)	(2,262)
Linkage differences on monetary assets, debentures, loans and other long term liabilities	59,669	52,347	57,626	16,237
Capital (gain) loss from changes in holdings in subsidiaries	(9,801)	911	-	-
Employee benefit liability, net	263	144	2,371	668
Decrease (increase) in value of investment in securities, deposits and long-term receivables, net	11,169	(4,468)	(15,013)	(4,230)
Interest paid, net	71,466	81,952	118,311	33,336
Changes in operating assets and liabilities:				
Investment in real estate inventories	-	-	(87,092)	(24,540)
Payments on account of real estate inventories	-	-	(71,564)	(20,165)
Decrease (increase) in trade receivables and other accounts receivable	59,967	(65,468)	(53,264)	(15,008)
Decrease (increase) in inventories	(43,136)	(17,224)	(49,910)	(14,063)
Increase (decrease) in trade payables and other accounts payable	48,415	(29,380)	19,468	5,485
	<u>327,777</u>	<u>177,520</u>	<u>101,192</u>	<u>28,513</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(b) Supplementary information on investing and financing activities not involving cash flows:				
Issuance of shares upon conversion of convertible debentures of the Company	-	12,198	43,895	12,368
Conversion of convertible debentures of subsidiary	6,655	-	-	-
Purchase of property and equipment and investment properties on credit	14,797	174	37,084	10,449
Advances from customers deposited in restricted use deposit	-	-	22,428	6,320

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

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 1 - GENERAL:

a. 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. Upon completion of the acquisition of Dor Alon, see note 5, the Company operates in four reportable segments: (1) Supermarkets, (2) Non-food Retail and Wholesale , (3) Real Estate and (4) Commercial and fueling sites (see note 34).

Alon Holdings Blue Square – Israel Ltd. is a limited public company incorporated and domiciled in Israel, whose ADSs and 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. The consolidated financial statements of the Company for the year ended December 31, 2010 were authorized for issue in accordance with a resolution of the directors on June 30, 2011.

The results for the year 2010 and the statement of financial position as at December 31, 2010, include the results of the subsidiary Dor Alon from October 3, 2010 to December 31, 2010 and the financial position as of December 31, 2010 of that company. Dor Alon's shares are listed on the Tel Aviv stock exchange. See also note 5.

b. Convenience translation into U.S dollars (hereinafter-"dollars" or "\$")

For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2010 have been translated into dollars, at the representative rate of exchange on December 31, 2010 (U.S. \$1 = NIS 3.549). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

a. Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereafter – "IFRS") as issued by the International Accounting Standard Board (hereafter – "IASB").

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The accounting policies adopted by the Company are consistent with those of the previous financial year except as discussed in note ad.1 below.

The Company has included an additional comparative statement of financial position and relevant notes (as of December 31, 2008), to reflect the amendment to IAS 17 (see note ad1), and certain reclassifications performed in 2010 (see note ac).

The consolidated financial statements have been prepared under the historical cost convention, as modified by actuarial adjustments for defined benefit plan assets and liabilities and financial assets (including derivative instruments) and investment property measured at fair value. The cost of certain non-monetary assets, investments in associated companies and certain equity items as of the transition date have been determined on the basis of their deemed cost, or historical cost adjusted to inflation in Israel through December 31, 2003, as allowed by the IFRS transition guidance.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4. Actual results may differ materially from estimates and assumptions used by the Company's management.

b. Consolidated financial statements

1) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. For business combinations from January 1, 2010, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

In accordance with IFRS 3R, upon the acquisition of Dor Alon, the Company valued the acquisition date fair value of the non-controlling interests in Dor Alon on the basis of the active market price of the equity shares of Dor Alon not held by the Company on the Tel Aviv Stock Exchange, where Dor Alon is listed.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition fair value of the acquirer's previously held interest in the acquire is remeasured to fair value as at the acquisition date through profit and loss.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in the statement of income or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

For business combinations prior to December 31, 2009, the following differences applied:

Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

Contingent consideration was recognized if, and only if, the Company had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

2) Transactions with non-controlling interests

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests without loss of control are also recorded in equity.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

When the Company ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in the statement of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the statement of income.

Upon a decrease in ownership rate without loss of control the Company reallocates a portion of the goodwill arising to the controlling interests to the non-controlling interests.

A put option granted to a non-controlling interest is accounted for as a financial liability based on the present value of the exercise price of the option. Related finance expenses are carried to statements of income on a current basis.

Before January 1, 2010, disposals to non-controlling interests resulted in gains and losses for the Company and were recorded in the statement of income. Purchases from non-controlling interests resulted in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

3) Joint ventures

The Company's interests in jointly controlled entities are accounted for by the proportionate consolidation method. The Company combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. The Company recognizes that part of gains or losses arising from the sale of assets by the Company to a jointly controlled entity that is attributable to the other partners in the jointly controlled entity. The Company does not recognize its share of profits or losses from the jointly controlled entity that result from the Company's purchases of goods from the jointly controlled entity until it resells the goods to an independent party. However, a loss on the transaction is recognized immediately if such loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

The part of the loans granted attributable to the joint venture partner is classified as loans and receivables in accordance with IAS 39.

4) Associates

Associates are entities over which the Company has significant influence but not control generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to the statement of income where appropriate.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the function responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker does not include investments in equity-accounted associates and does not review information regarding segment assets and segment liabilities in his performance measurement.

d. Foreign currency transactions

1) Functional and presentation currency

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

2) Transactions and balances

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

Foreign exchange gains and losses are presented in the statement of income within finance income or expenses.

Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

3) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a. Assets and liabilities for each balance sheet presented are translated at the closing rate of that balance sheet. However, where the exchange difference arises on an intragroup balance that, in substance, forms part of an entity's net investment in a foreign operation then the exchange difference is not recognized in the statement of income but is recognized in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.
- b. Income and expenses for each statement of income are translated at average exchange rates; (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
- c. All resulting exchange differences are recognized in other comprehensive income.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

e. Property and equipment

Property and equipment are initially recognized at acquisition cost. Cost includes expenditure that is directly attributable to the acquisition, construction or installation of the items. Property and equipment included as part of the acquisition of a subsidiary is included at the fair value as at the date of acquisition. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. When part of an asset is replaced, its carrying amount is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Purchased land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Land and buildings	50-100
Leasehold improvements	12
Fueling stations equipment	10-25 (mainly 14)
Motor vehicles	5-7
Furniture, equipment and installations	3-16 (mainly 10)

Leased assets and leasehold improvements are depreciated using the straight-line method to allocate their cost over their estimated useful lives.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see h below).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains (losses)" in the statement of income.

For the independent appraisers that valued the property and equipment of Dor Alon upon their consolidation for the first time, see also note 6.

f. Investment property

Investment property is held for long-term rental yields or value appreciation and is not occupied by the Company. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, reflecting market conditions, determined at least annually by independent appraisers, "Haushner Civil Eng. & Real Estate Appraisal Ltd." and " Barak Friedman Cohen & Co. Economic & Real Estate Appraisal."

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Fair value is based on current prices in an active market, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If such information is not available, the Company uses alternative sources such as recent prices on less active markets or discounted cash flow projections.

For the independent appraisers that valued the investment property of Dor Alon upon their consolidation for the first time, see also note 7.

Gains and losses arising from changes in fair value are recorded in the statement of income under "Changes in fair value of investment property, net" in the period in which they arise.

Land that is held under an operating lease with The Israeli Lands Administration, is classified and accounted for as an investment property, provided that the conditions for such classification are met. In such cases, the lease rights are initially recognized as an asset and the lease obligation as a liability, in a manner similar to a finance lease.

Revenue from the sale of investment property, is recognized when the significant risks and rewards of ownership of the property have been transferred to the buyer; such revenue is not recognized where there are significant uncertainties as to the collection of the consideration of the transaction, the costs related thereto, or when the Company has significant continuing involvement in the property that was sold.

g. Intangible assets:

1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Intangible assets".

Goodwill is tested annually for impairment, or earlier, when circumstances indicate that the carrying value may be impaired. Goodwill is carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed when there is a subsequent increase of value.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

2) Brand names, trademarks and customer relationships

The cost of brand names, trademarks and customer relationships acquired in a business combination is their fair value at the date of acquisition. Trade marks that have indefinite lives are not amortized. After initial recognition, those intangible assets, that have finite useful lives, are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost over their estimated useful lives (brand names and trademarks - eight to fifteen years and customer relationships – seven to fifteen years).

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

3) Computer software

The costs of separately acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (mainly four years).

Costs associated with servicing or maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company, that will generate probable future economic benefits and that meet certain technical, financial and other criteria are recognized as intangible assets. Costs include directly attributable employee benefits and applicable consulting and development fees. Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding four years).

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

4) Evacuation fees

Premiums paid to assume existing operating lease agreements are presented at cost net of accumulated amortization and impairments. These costs are amortized over the remaining term of the lease.

5) Fees paid on the establishment of loan facilities

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

6) Favorable and unfavorable operating lease contracts

The Company determines for each operating lease acquired whether the terms are favorable or unfavorable. The Company recognizes an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. The favorable and unfavorable lease contracts are amortized over their contractual terms.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Impairment of non-financial assets

Intangible assets, including goodwill and brands that have an indefinite life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation and amortization are reviewed for impairment at each statement of financial position date whenever any events have occurred or changes in circumstances have taken place, which might indicate that there has been impairment of the non-financial assets. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset can be recovered, and if necessary, records an impairment provision for the amount needed to write down the carrying amount to the recoverable amount.

The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. Value in use is based on estimated future cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. In determining the value in use of an asset, the Company uses best available estimates as to the conditions that will prevail during the remaining useful life of the asset and as to the current condition of the asset. In computing the fair value less costs to sell of real estate, including land and lease rights, the Company makes use of valuations prepared by appraisers.

In the food retail segment, a cash generating unit (CGU) can be a single store or a group of stores where the cash inflows of one CGU are largely interdependent on the cash inflows of another CGU in the same geographic area. The food retail activities are grouped into 83 CGUs.

In the commercial and fueling sites segment the Company evaluates the fueling stations and the convenience stores on its sites together, on the basis, due to common customer base and business dependence on gas stations revenues. The convenience stores that are not located in fueling sites are grouped into 8 separate CGUs based on their geographical locations in a manner similar to the food retail activities.

In the Non-Food segment each of the self-operated stores (61) is considered a separate CGU on the basis of their geographical location and customers.

An impairment loss is recognized in the statement of income under "other gain (losses)". Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

For a cash-generating unit to which goodwill has been allocated, any impairment loss relating to that unit is initially applied to the goodwill and the balance to the carrying amount of the other assets.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of any qualifying asset (including investment property) are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

j. Financial assets

1) Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading and those designated at fair value through profit or loss; a financial asset is classified in this category if management has designated it as such, because it is managed and its performance is evaluated on a fair-value basis.

Derivative financial instruments are also classified in this category since they are not designated for hedging purposes. Assets in this category are classified as current assets if expected to be settled within one year from the date of the statement of financial position; otherwise they are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables", "short-term bank deposits", "loans receivable", "loans to associates" and "cash and cash equivalents".

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified to any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the settlement-date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of income within finance income or expenses in the period in which they arise.

Changes in the fair value of monetary and non-monetary available-for-sale securities are recognized in other comprehensive income (hereafter – OCI). Interest on securities that are available for sale calculated using the effective interest method is recognized in the statement of income as part of "finance income or expenses".

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in OCI are reclassified and included in the statement of income as part of "finance income or expenses".

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets carried at amortised cost is impaired. Evidence of impairment may include indications of an event that has an impact on the estimated future cash flows of the financial asset. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income; increases in fair value after impairments are recognized directly in equity.

In the case of debt investments, if the fair value subsequently increases and the income can be objectively related to an event occurring after the impairment loss was recognized; the impairment loss is reversed through the statement of income.

Impairment testing of trade receivables is described in note n below.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

k. Deposits received from customers

In the course of its operations, a subsidiary in the commercial and fueling sites segments receives deposits from its customers in respect of containers and other loaned equipment. The deposits are to be refunded at the current price of the deposit the company collects from its customers, linked to the Israeli CPI from the last time the price was updated. Under IAS 39 – "Financial Instruments – Recognition and Measurement" – the value of such a financial liability is the amount that can be demanded in return. Since the subsidiary does not have an unconditional right to defer the repayment beyond 12 months, the deposit liabilities are presented among current liabilities.

l. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The Company's derivative financial instruments do not meet the criteria required for hedge accounting. Changes in the fair value of these derivative financial instruments are recognized on a current basis in the statement of income as part of "finance income or expenses."

Changes in fair value of separable embedded derivatives are recognized in the statement of income as part of finance income or expenses.

See note r. below for the conversion component of the convertible debentures.

m. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined mainly by the "first-in, first-out" (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

The Company evaluates inventory shrinkage throughout the year based on the results of periodic stock taking in its stores, and records allowances based on the results of these counts as of the statement of financial position date.

The Company reviews the need for a provision for slow moving inventories, if applicable, by comparing the value of the inventories with the level of sales, the period that passed since the start of distribution and the quality of the goods, on the basis of past experience.

Real estate inventories are stated at the lower of cost and net realizable value. Cost includes the directly identifiable expenses of the acquisition of the inventories and capitalized borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less an estimate of the cost to complete and applicable selling expenses.

n. Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Management regularly monitors the balance of trade receivables, and the financial statements include a specific allowance computed for accounts, the collectability of which, in the view of management, is doubtful. Material financial difficulties of a customer, reasonable expectations that he will go into liquidation or will undergo a reorganization and inability to pay or delays in payment are indicators that the receivables are impaired. The carrying amount of the asset is reduced through the use of an allowance account to the present value of expected future cash flows and the amount of the loss is recognized in the statement of income within selling, general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in the statement of income.

o. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts are presented within "credit and loans from banks and others" in current liabilities in the statement of financial position. For the purposes of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

p. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from issuance proceeds.

Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

q. Trade payables and rebates

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Current rebates from suppliers are recorded in the financial statements upon receipt.

The Company expects to receive certain rebates upon meeting specified purchasing targets, such as the fulfillment of a minimum annual purchase quota (in quantitative or monetary amounts), or an increase in purchases in comparison with purchases made in previous periods. The related rebates are recognized in the financial statements as earned on a pro rata basis, based on a systematic calculation of the extent to which the Company has reached the target.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

In some cases rebates due from suppliers for which the Company has no obligation to meet specified purchasing targets, are recorded in the financial statements on the basis of the purchases actually made.

Rebates from suppliers are presented as a reduction of inventories and cost of sales, as applicable.

r. Borrowings

Borrowings (including loans, debentures and convertible debentures) are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the maturity amount is recognized in the statement of income over the period of the borrowings using the effective interest method.

For convertible debentures, in which the conversion component constitutes an embedded derivative (and not equity) whose economic characteristics and risks are not closely related to the debentures, the debentures are initially recognized as the difference between the total proceeds from issuance and the fair value of the bifurcated embedded derivative at the date of issuance. Subsequent to initial recognition, the embedded derivative is measured at each statement of financial position date at fair value with changes recognized in financial income or expenses in the statement of income, while the debentures are measured at amortized cost.

Loans from banks, debentures and convertible debentures, are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

s. Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in OCI or directly in equity. In this case the tax is also recognized in OCI or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognized, if they arise from initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Deferred income tax are not provided on temporary differences arising on investments in subsidiaries and associates, since the Company controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

t. Employee benefits

1) Retirement benefit obligations

The Company's pension liabilities are generally funded through payments to insurance companies or trustee-administered funds. The Company has both defined benefit and defined contribution plans.

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

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

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate and independent entity. The Company has no legal or constructive obligations to pay further contributions if the relevant fund does not hold sufficient assets to pay an employee the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are paid.

The Company's defined benefit obligation is based on the amount of benefits that the relevant employees are entitled to receive upon retirement, which is based on the number of years of employment and the employee's last monthly salary.

The retirement benefit obligation recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by Ernst & Young Israel, an independent qualified actuary (hereafter – the independent qualified actuary) using the projected unit credit method.

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

In accordance with IAS 19 "Employee benefits" the market yields the Company uses to discount expected future cash flows are based on the interest rates of Israeli Government bonds since the Company's management believes that Israel does not have a deep market for high-quality corporate bonds.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Amounts funded for retirement benefits are measured at fair value. These funded amounts represent “plan assets”, as defined by IAS 19, and therefore are offset from the retirement benefit obligation for statement of financial position presentation.

The Company purchases insurance policies and regularly contributes to pension / retirement benefit funds to meet the pension / retirement obligations. For defined contribution plans in which the Company has no further payment obligations once the contributions have been paid, the contributions are recognized as employee benefit expenses when they are paid.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2) Provision for unutilized sick leave

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

The provision for unutilized sick leave is based on an annual actuarial calculation by the independent qualified actuary: In making such a computation, the actuary makes actuarial assumptions (rates of employee turnover, future salary levels etc). The cost of this benefit is recognized using the same method as is used for defined benefit retirement plans. Actuarial gains and losses are recognized in OCI in the period which they arise.

3) Jubilee grant

Pursuant to employee agreements, certain employees are entitled to receive a jubilee grant upon completion of service of 20, 30 and 35 years.

The statement of financial position includes a provision in respect of the jubilee grant based on an annual actuarial calculation, by the independent qualified actuary.

4) Vacation and recreation benefits

Every employee is legally entitled to vacation and recreation benefits, both computed on an annual basis. This entitlement is based on the terms of employment. The Company records a liability and expense for vacation and recreation pay, based on the benefits that have been accumulated for each employee.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

5) Share-based payments

The Company operates an equity-settled, share-based compensation plan. Under this plan, the Company grants its employees stock options at its discretion. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense in the statement of income with a corresponding credit to accumulated deficit in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on the date on which they are granted. At each statement of financial position date, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the statement of income, with a corresponding adjustment to accumulated deficit in equity.

The consideration received upon exercise of share options, net of any directly attributable transaction costs, are credited to share capital (nominal value) and additional paid in capital.

6) Profit sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing for employees, based on a formula that takes into consideration the profit attributable to the supermarket stores and employees after certain adjustments. The Company recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

7) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed according to a detailed formal plan without possibility of withdrawal to either: terminating the employment of current employees; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

u. Provisions

Provisions for environmental restoration and legal claims are recognized when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required for settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Provisions are measured at present value according to management's best estimate of the expenditure required to settle the obligation at the statement of financial position date.

v. Other comprehensive income

Comprehensive income is comprised of net income for the year and other income and expense items that are not taken into account in determining net income and which are considered components of other comprehensive income; The Company's other comprehensive income or loss items are in respect of fair value adjustments of available for sale financial assets, exchange differences on translation of foreign operations and actuarial adjustments of employee defined benefit plans.

w. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Company.

When the Company acts as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, revenues are presented on a net basis. However, when the Company bears the risks and rewards resulting from the transaction, revenues are presented on a gross basis, distinguishing the revenue from the related expenses.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on past experience, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

1) Sales of goods – retail

Sales of goods are recognized when a product is sold to the customer. Retail sales are usually paid for by credit card, by checks or in cash.

Revenue from the sale of gift certificates is deferred and is recognized as income when the gift certificate is redeemed for the purchase of goods, or when the likelihood that the customer will redeem the certificate, based on the Company's experience, becomes remote.

Discounts, including those related to gift certificates are recognized as a reduction of sales upon recognition of the related sales.

Sales of oil products, lubricants and gas (excluding gas for domestic use) – the sales of fuel is recognized as revenue when supplied to the customer; at the fuel stations – at the time the fueling takes place.

Liquefied Petroleum Gas (hereafter – LPG) for domestic use – the sales of LPG are recognized as revenues in accordance with the quantities consumed in the reported periods.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Sales of goods – wholesale

The Company sells a range of products (apparel, housewares, infant products and toys) in the wholesale market.

Sales of goods are recognized when the products are delivered to the wholesaler. The criteria for delivery are satisfied when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contract, net of estimated volume discounts returns at the time of sale. No element of financing is deemed present as the sales are made under normal credit terms, which are consistent with market conditions.

Sales of oil products, lubricants and gas are recognized at the date of supply to the customer.

3) Rental revenue

The Company's lease agreements are "net" lease agreements, which require the tenants to pay all property related expenses. The rental revenue is recognized on a straight-line basis over the rent period.

4) Club member awards and loyalty programs

Club members participating in the Company's programs are entitled to earn benefits upon purchasing goods, which can be utilized over a specific term to receive certain free gifts or discounts on products or receive certain products sold by the Company free of charge.

The Company applies IFRIC 13: "Customer Loyalty Programmes" as from the transition date to IFRS, and accordingly defers revenue from such sales representing the fair value of such benefits. The attributed fair value takes into account management estimates of awards that will expire unexercised. The deferred revenue is recognized in income (carried to sales) when the award is exercised by the customer.

5) Revenue from sales of apartments

Revenue from the sale of residential apartments is measured according to the fair value of the consideration received or receivable. The Company recognizes the revenue when the significant risks and rewards of ownership have passed to the buyer the receipt of the consideration is expected and can be reliably measured. Revenue from the sale of apartments is generally recognized when the apartments have been substantially constructed, accepted by the customer and the full amount resulting from the sale agreement was paid by the buyer.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

x. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, net gains from changes in the fair value of financial assets measured at fair value through profit or loss, net gains from marketable securities, foreign currency gains, and net gains from changes in the fair value of derivative instruments that are recognized in the statement of income. Interest income is recognized as it accrues, using the effective interest method. The net gain from changes in the fair value of financial assets measured at fair value through profit or loss includes interest deriving from such assets.

Finance expense comprises interest expense on loans received and debentures issued, changes in the value of a liability in respect of a put option to the non-controlling interests in a subsidiary, net losses from changes in the fair value of financial assets measured at fair value through profit or loss, foreign currency losses, financing expenses paid under finance leases and net losses from changes in the fair value of other derivative instruments. All borrowing costs are recognized in the statement of income using the effective interest method.

y. Advertising costs

Advertising costs are expensed as incurred. Reimbursements from suppliers in respect of specific joint advertising campaigns are recognized as a reduction of these costs, in accordance with the terms of specific agreement.

z. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

Land held under an operating lease is classified and accounted for as investment property when the property would otherwise meet the definition of investment property. In such case, the operating lease is accounted for as if it were a finance lease.

Leases of property where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

For retroactive application, see also note ad.1.

aa. Dividend distribution

A dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

ab. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted-average number of Ordinary shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the net income attributable to equity holders of the Company and the weighted-average number of outstanding Ordinary shares for the effect of all potential Ordinary shares that are dilutive including share options granted to employees.

ac. Reclassifications

In accordance with the amendments to IAS 7 (Statement of cash flows) consequential to the revision of IAS 27 (Consolidated and separate financial statements), cash flows relating to the investment in and proceeds from realization of investments in subsidiaries without loss of control have been reclassified to cash flows from financing activities in the cash flow statements.

ad. New and Amended IFRS and Interpretations

New International Financial Reporting Standards, Amendments to Standards and New interpretations

1. The following amendment to standard is mandatory for the first time for the financial year beginning January 1, 2010:

Adoption of amendment to IAS 17 "Leases"

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, 2008 and 2009 were decreased by NIS 192,426 and NIS 193,228 thousand, respectively, and the property and equipment balances were increased by NIS 198,393 and NIS 199,196 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 years ended December 31, 2008 and 2009, was immaterial.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

For amendments in accounting policies for business combinations from January 1, 2010 see also note b. above.

2. The following new standard and amendments to standards have been issued, but are not effective for the financial year beginning January 1, 2010 and have not been early adopted:

- a) IFRS 9, "Financial Instruments". On October 28, 2010, the IASB reissued IFRS 9 as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 to add new requirements for derecognition of financial instruments, impairment, and hedge accounting. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument. A debt instrument that meets the following two conditions can be measured at amortised cost (net of any write down for impairment): the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments must be measured at fair value through profit or loss.

Further, embedded derivatives that under IAS 39 would have been separately accounted for at fair value through profit and loss because they were not closely related to the financial host asset will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety, and the asset as a whole is measured at fair value through profit and loss if any of its cash flows do not represent payments of principal and interest. Also all equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in the statement of income, except for those equity investments for which the entity has elected to report value changes in OCI. IFRS 9 maintains the existing amortised cost measurement for most liabilities, limiting change to those liabilities measured by the issuer at fair value.

The Company is currently assessing the potential effects of application of IFRS 9 on its financial statements.

- b) Amendment to IAS 12 – Income taxes
IAS 12 requires an entity to measure deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces the presumption, which can be broken, that recovery of the carrying amount of an investment property, whether acquired outright or in the framework of a business combination, will be through sale rather than through use. The amendment to IAS 12 will be applicable to annual periods starting on or after January 1, 2012. Early adoption is allowed.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The Company intends to adopt the amendment starting January 1, 2012. The adoption of the amendment is not expected to have a material effect on the Company's financial statements.

- c) The following new standards and amendments to standards have been issued in May and June 2011, are not effective for the financial year beginning January 1, 2010, are effective for annual periods beginning on or after January 1, 2013, and have not been early adopted:

1. IFRS 10 – Consolidated financial statements

This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess.

2. IFRS 11 – Joint arrangements

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence applies the equity accounting method for its interest. Proportional consolidation of joint ventures is no longer allowed.

3. IFRS 12 – Disclosure of interest in other entities

This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

4. IAS 27 (revised) – Separate financial statements

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

5. IAS 28 (revised) – Investments in associates and joint ventures

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

6. IFRS 13 - Fair value measurement

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

7. IAS 19 – Employee benefits

The IASB has issued an amendment to IAS 19 – Employee Benefits – which makes changes to the recognition and measurement of defined benefit pension expense and termination benefits and to disclosures for all employee benefits.

The Company is currently assessing the potential effects of application of these new standards and the amendments to existing standards on its financial statements. If the standards / amendments to standards in items 1 to 5 (inclusive) are early adopted, they have to be adopted together.

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS:

a. Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments in order to partially hedge certain risk exposures.

The board of directors and senior management of the Company are responsible for determining and supervising the financial risk management fundamentals of each entity in accordance with each entity's business activities, financial structure and the relevant market conditions.

Risk management is carried out by the chief financial officer and treasury department of each entity based on policies approved by the board of directors. Treasury identifies evaluates and hedges financial risks in close cooperation with the Company's operating units. The board of directors provides principles for overall risk management, covering specific areas, such as interest rate risk, credit risk, foreign exchange risk, use of derivative financial instruments and non-derivative financial instruments, raising long- term debt and investment of excess liquidity.

(1) Market risk

(a) Price risk

The Company is exposed to price risk in respect of its investments in debt securities that are classified as available for sale or at fair value through profit or loss. To manage its price risk arising from investments in debt securities, the Company diversifies its portfolio in accordance with the pre-defined limits set by the Company.

The Company invests in Israeli Government debt securities and debt securities of entities that are publicly traded on the Tel Aviv stock exchange that have a minimum rating of A+ at the date of investment.

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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

The table below summarizes the impact on the Company's post-tax profit for the year and on Comprehensive income of an increase/decrease of 5% in the market price of the investments. The analysis is based on the assumption that all other variables are held constant.

	Year ended December 31					
	2008	2009	2010	2008	2009	2010
	NIS in millions					
	Impact on post-tax profit			Impact on Comprehensive income		
Government bonds	-	-	-	2.7	4.1	3.3
Corporate bonds	0.5	0.2	3.5	3.5	2.9	7.2
Equity securities	-	1.0	1.0	-	1.0	2.1
	0.5	1.2	4.5	6.2	8.0	12.6

Post-tax profit for the year would increase/decrease as a result of gains/losses on debt or equity securities classified as at fair value through profit or loss. Comprehensive income would increase/decrease as a result of gains/losses on debt or equity securities classified as available for sale and securities classified as fair value through profit and loss.

(b) Foreign currency risk

Most of the operating units comprising the Company are domiciled and operate in Israel. Some of those units import part of their inventories and raw materials. Those units are exposed to foreign currency risk arising primarily with respect to the US dollar. Some units use forward currency contracts in order to hedge part of the foreign currency risk. In addition, certain of Dor Alon's suppliers provide it with credit and hold related deposits which are linked to the exchange rate of the U.S. dollar.

At December 31, 2009 and 2008, for the years then ended and for the period from January 1, 2010 to October 3, 2010 the Company did not have any substantial financial instrument balances in foreign currencies and, therefore, the Company's net exposure to foreign exchange risk was immaterial.

One of the Company's subsidiaries signed a rent agreement which is fixed in Swiss Franc (CHF). This agreement includes an embedded foreign currency derivative which is measured at each reporting date at fair value.

At December 31, 2010 if the currency had weakened/strengthened by 5% against the CHF with all other variables held constant, post-tax profit for the year would have been NIS 1.3 million higher / lower (2009: NIS 1.3 million, 2008: NIS 1.8 million).

If the NIS had strengthened / weakened by 5% against the U.S. dollar with all the other variables held constant, the post-tax profit would have been NIS 9.1 million higher / lower.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

(c) CPI risk

As at December 31, 2010, the net excess of financial liabilities over financial assets linked to the CPI was NIS 3,112 million (2009: NIS 1,633 million). As at December 31, 2010 the Company had forward contracts for a notional amount of NIS 287 million in order to partially hedge the CPI risk. These forward contracts are not accounted for using hedge accounting.

At December 31, 2010 if the CPI had increased/decreased by 2% with all other variables held constant, post-tax profit for the year would have decreased/increased by NIS 48.7 million (2009: NIS 20.2 million, 2008: NIS 13.6 million).

(d) Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. At December 31, 2010 if interest rates on borrowings had been 2% (200 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been NIS 19.3 million (2009: NIS 0.1 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Company's investments in debt securities earning fixed rates of interest and short-term deposits expose the Company to fair value interest rate risk. At December 31, 2010 if interest rates had been 5% higher/lower with all the other variables held constant other components of equity would have been NIS 7 million (2009: NIS 6.8 million) lower/higher mainly as result of the decrease/increase in the fair value of these debt securities classified as available for sale.

(2) Credit risk

Credit risk is managed separately by each of the Company's operating units. Credit risk arises from cash and cash equivalents, securities, short term deposits with banks as well as credit exposure to retail and wholesale customers.

Cash and cash equivalents, deposits and securities are maintained with major banking institutions in Israel.

The Company's investments include Israeli Government debt securities and debt securities of entities that are publicly traded on the Tel Aviv Stock Exchange and that have a minimum rating of A+ at the date of investment. According to the Company's investment policy, there are no significant concentrations of credit risk in respect of investments in debt securities.

Sales to retail customers are collected principally through use of major credit cards, post-dated checks (partially guaranteed by credit insurance) or cash. Sales to wholesale and business customers are made on terms of credit of up to 120 days.

Sales of gift certificates are made on terms of credit of up to 120 days to a large number of different entities.

Sales to wholesale customers are mainly made under accepted market credit terms. The credit quality of each wholesale customer is assessed. The Company's customers are diversified and the risk of credit concentration is immaterial. Individual risk limits are set based on internal ratings that take into consideration the customer's financial position, credit history and other factors.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

Where relevant, a credit committee consisting among others the general manager and the finance director meets to discuss the credit risks to the Company.

The provision for doubtful debts is updated on a regular basis based on the advice of the credit committee, external legal advisers and the Company's policy.

In the commercial and fueling segment there is a large customer that made up 7% of total sales of Dor Alon during the year 2010. Dor Alon assesses the debts of its main customers according to its history with those customers.

Dor Alon requests collateral from some of its customers and or the recipients of loans in accordance with management's credit risk assessment and does not anticipate difficulties in collecting the debts.

(3) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's operating units maintain flexibility in funding by use of credit facilities.

Management monitors rolling forecasts of the Company's liquidity reserve (comprised of borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is generally carried out at corporate level. These reserves vary by location to take into account the liquidity of the market in which the Company operates. In addition, the Company's liquidity management policy involves projecting cash flows and considering the necessary level of liquid assets, monitoring statement of financial position liquidity requirements, and maintaining debt financing plans.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Therefore, these amounts will not reconcile to the amounts disclosed in the statement of financial position except for balances due within 12 months which equal their carrying amounts as the impact of discounting is not material.

The table does not include the liabilities for operating leases, and the related embedded derivatives, contractual cash flows for operating leases are presented in note 31b. Cash flows relating to the conversion component of convertible debentures are included in the maturities of the debentures above.

The liability in respect of customers' deposits is presented in current liabilities at their full value. According to Company management, the repayment of these liabilities is not expected within the next five years.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

Dor Alon signed an agreement with the controlling shareholder of Blue Square under which it can deposit / borrow monies on on-call terms of up to NIS 50 million at any one time on a basis linked to the Israeli CPI at interest rates of prime less 1.25%. The agreement is unlimited in duration and each party can cancel it by giving three months notice.

On January 6, 2011 the parties signed a new agreement for a period of five years for amounts of up to NIS 150 million with similar terms.

December 31, 2010

	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total
	NIS in thousands				
Credit and loans from banks and others	475,596	-	-	-	475,596
Trade payables	1,342,763	-	-	-	1,342,763
Other payables	526,822	-	-	-	526,822
Bank and other loans	371,959	445,323	522,342	662,812	2,002,436
Debentures and convertible debentures	302,068	301,724	1,610,700	834,688	3,049,180
Other long-term payables	4,207	-	-	30,405	34,612
Total	3,023,415	747,047	2,133,042	1,527,905	7,431,409

December 31, 2009

	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total
	NIS in thousands				
Trade payables	915,845	-	-	-	915,845
Other payables	*459,248	-	-	-	459,248
Bank loans	307,694	142,639	258,362	341,752	1,050,447
Debentures and convertible debentures	150,025	106,747	882,408	752,244	1,891,424
Other long-term payables	4,561	10,914	-	*-	15,475
Total	1,837,373	260,300	1,140,770	1,093,996	4,332,439

*Retroaction application, see not 2ad.1.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

b. Capital risk management

The Company's objectives in managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to meet its financial covenants.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt to EBITDA. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents and other liquid financial assets. This ratio is a non-GAAP figure not determined in IFRS and its definition and calculation may vary from one Company to another. The Company considers this ratio to be an important measure for investors, analysts and rating agencies.

The dividend in 2010 was declared after the Board of Directors decided on January 14, 2010, in view of the changes and development of the Company since 2003 that the ratio of net financial obligations to EBITDA is to be calculated by deducting from the net financial obligations the Company's debt which is related by the Company to real estate that is not in use by the Company. The Board of Directors further resolved that the net debt to EBITDA ratio for dividend distribution will not exceed 4.5.

The debentures of Blue Square are rated A1 by Midroog, see note 19.

c. Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

The following tables present the Company's assets and liabilities that are measured at fair value at December 31, 2010 and 2009.

December 31, 2010	Level 1	Level 2	Level 3	Total balance
	NIS in thousands			
Assets:				
Financial assets at fair value through profit or loss:				
Corporate bonds	66,919	-	-	66,919
Government Bonds	27,447	-	-	27,447
Diners option	-	-	53,367	53,367
Investment in equity securities - property company	-	-	29,000	29,000
Embedded derivatives	-	2,711	-	2,711
Available-for-sale financial assets:				
Government Bonds	111,934	-	-	111,934
Corporate Bonds	74,937	-	-	74,937
Investment in equity securities - gas exploration companies	4,548	25,779	-	30,327
Total assets	285,785	28,490	82,367	396,642
Liabilities:				
Embedded derivative and derivatives	-	9,151	-	9,151
Conversion component embedded in convertible debentures	-	9,011	-	9,011
Forward contracts over exchange rate	-	7,700	-	7,700
Total liabilities	-	25,862	-	25,862
December 31, 2009				
	Level 1	Level 2	Level 3	Total balance
	NIS in thousands			
Assets:				
Financial assets at fair value through profit or loss:				
Corporate bonds	4,733	-	-	4,733
Forwards contracts over Israeli CPI	-	9,690	-	9,690
Diners option	-	-	12,266	12,266
Embedded derivatives in rent agreements	-	425	-	425
Equity securities	-	-	25,000	25,000
Available-for-sale financial assets:				
Government Bonds	110,884	-	-	110,884
Corporate Bonds	72,295	-	-	72,295
Total assets	187,912	10,115	37,266	235,293
Liabilities:				
Embedded derivatives:				
Conversion component embedded in convertible debentures	-	11,898	-	11,898
Rent agreements	-	7,591	-	7,591
Total liabilities	-	19,489	-	19,489

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the closing market price. These instruments are included in level 1. Instruments included in level 1 comprise primarily investments in Israeli Government debt securities and debt and equity securities of entities that are publicly traded on the Tel Aviv Stock Exchange. These instruments are classified as available-for-sale or fair value through profit or loss. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward contracts over the Israeli CPI are calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- For the Diners option – the fair value was determined based on a binominal valuation model, which takes into account Diners Israel's expected profits, earnings multiples of companies in Israel in this field of operations and costs of recruiting and maintaining credit card users. See also note 31, commitments, for a transaction after the statement of financial position date.
- For the equity securities which includes an investment in a property company and an investment in gas exploration companies:
 - a. The valuation of the property company is based on the following:
 - 1. Current transaction values of nearby residential and commercial properties;
 - 2. The assumption for variables such as the discount rate, the liquidity spread, occupancy rates of shopping centers and inflation rates of apartment prices we used to value other real estate properties as adapted for the specific nature of this real estate property as well as an estimate of the related expected cash flows such as the selling value of the asset and the date the sale is expected to occur; and
 - 3. The tax rates applicable to the income generated by the investee.
 - b. The valuation of the gas exploration companies is partly listed and is partly unlisted. The value of the unlisted shares, which makes up a small minority share in an entity that is involved in the exploration of gas in Israel is based on the share price of the majority holding of the entity that is listed on the Tel Aviv stock exchange.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

The following table presents the changes in level 3 instruments for the years ended December 31, 2010 and 2009.

	Investment in equity securities	Diners option	Total
	NIS in thousands		
Year ended December 31, 2010			
Opening balance	25,000	12,266	37,266
Acquisition of subsidiary consolidated for the first time	-	6,669	6,669
Gains recognized in the statement of income	4,000	34,432	38,432
Closing balance	29,000	53,367	82,367
Total gains for the year included in the statement of income	*5,000	34,432	39,432

* Including dividends of NIS 1,000 thousand.

	Investment in equity securities	Diners option	Total
	NIS in thousands		
Year ended December 31, 2009			
Opening balance	15,000	4,700	19,700
Gains and losses recognized in profit or loss	10,000	7,566	17,566
Closing balance	25,000	12,266	37,266
Total gains for the year included in the statement of income	10,000	7,566	17,566

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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

d. Financial Instruments by category

	December 31, 2010			
	Loans and Receivables	Assets at fair value through profit or loss	Available for sale	Total
	NIS in thousands			
Cash and cash equivalents	125,956	-	-	125,956
Short term bank deposits	98,084	-	-	98,084
Investment in securities	-	123,366	217,198	340,564
Trade receivables	1,731,747	-	-	1,731,747
Other receivables excluding prepayments and other	103,443	-	-	103,443
Loans receivable	186,741	-	-	186,741
Other long-term receivables	24,522	-	-	24,522
Non-current derivative financial instruments	-	56,078	-	56,078
Total	2,270,493	179,444	217,198	2,667,135

	December 31, 2010		
	Other financial liabilities at amortized cost	Liabilities at fair value through the profit or loss	Total
	NIS in thousands		
Credit and loans from banks and others	470,284	-	470,284
Trade payables	1,342,763	-	1,342,763
Other account payables and accrued expenses	551,055	-	551,055
Customer's deposits	30,405	-	30,405
Bank and other loans	1,696,929	-	1,696,929
Convertible debentures	180,764	-	180,764
Conversion component embedded in convertible debentures	-	9,011	9,011
Debentures	2,313,887	-	2,313,887
Derivatives financial instruments	-	16,851	16,851
Other liabilities	8,141	-	8,141
Total	6,594,228	25,862	6,620,090

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

d. Financial Instruments by category (continued)

December 31, 2009				
	Loans and Receivables	Assets at fair value through the profit or loss	Available for sale	Total
	NIS in thousands			
Cash and cash equivalents	612,227	-	-	612,227
Short term bank deposits	67	-	-	67
Investment in securities	-	29,733	183,179	212,912
Trade receivables	809,783	-	-	809,783
Other receivables excluding prepayments and other	55,823	-	-	55,823
Derivative financial instruments (Forward Contracts)	-	9,690	-	9,690
Loans to associates	2,094	-	-	2,094
Other long-term receivables	1,125	-	-	1,125
Non-current derivative financial instruments	-	12,691	-	12,691
Total	<u>1,481,119</u>	<u>52,114</u>	<u>183,179</u>	<u>1,716,412</u>

December 31, 2009			
	Other financial liabilities at amortized cost	Liabilities at fair value through the profit or loss	Total
	NIS in thousands		
Credit and loans from banks and others	143,086	-	143,086
Trade payables	917,585	-	917,585
Other account payables and accrued expenses	456,054	-	456,054
Bank loans	728,233	-	728,233
Convertible debentures	130,123	-	130,123
Conversion component embedded in convertible debentures	-	11,898	11,898
Debentures	1,327,986	-	1,327,986
Derivatives financial instruments	-	7,591	7,591
Other liabilities	*17,171	-	*17,171
Total	<u>3,720,238</u>	<u>19,489</u>	<u>3,739,727</u>

* Retroactive application – see note 2 ad.1

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

e. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the internal composition based on historical information that has been accumulated in the Company's entities over the years, as follows:

	December 31	
	2009	2010
	NIS in thousands	
Trade receivables		
Balances with related party (note 33)	58,479	-
Credit cards	545,770	749,679
Insured checks receivables*	54,590	46,837
Checks receivables	85,276	136,083
Open accounts	44,052	669,512
	<u>788,167</u>	<u>1,602,111</u>

* The Company and some of the Company's subsidiaries are engaged with credit check companies to fully receive payments of checks that have been approved by the credit check company, even if no cover is available at the indicated time of presentation.

Cash and cash equivalents and short term bank deposits

Most of the Company's Cash and cash equivalents and short term deposit at December 31, 2010 were deposited with major Israeli banks.

Available-for-sale debt securities

As described above, most of the Company's investments are publicly traded on the Tel-Aviv Stock Exchange and are independently rated with a minimum A+ at the date of investment.

The balances are presented at fair value; where applicable, as a result of impairments, balances were transferred from equity to the statements of income.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets presented in the statement of financial position.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 3 - FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

f. Composition of financial instrument balances:

1. The currency exposure of the Company's monetary assets and liabilities and equity instruments and their fair values are as follows:

	December 31, 2010						
	NIS linked to CPI	NIS unlinked	US Dollar	Other currencies NIS in thousands	Other(*)	Total	Fair value
Assets:							
Cash and cash equivalents	-	120,820	4,843	293	-	125,956	**
Short term bank deposit	111	37,093	60,880	-	-	98,084	**
Investment in securities	146,902	132,502	1,780	-	59,380	340,564	**
Trade receivables	-	1,725,464	6,283	-	-	1,731,747	**
Other accounts receivables	2,133	100,719	591	-	-	103,443	**
Income taxes receivable	64,094	-	-	-	-	64,094	**
Loans receivable	81,076	52,587	53,078	-	-	186,741	179,287
Derivative financial instruments	-	-	2,711	-	53,367	56,078	**
Other long-term receivables	2,094	22,428	-	-	-	24,522	**
Total assets	296,410	2,191,613	130,166	293	112,747	2,731,229	**
Liabilities:							
Credit and loans from banks and others	-	470,284	-	-	-	470,284	**
Trade payables	-	1,048,650	293,743	370	-	1,342,763	**
Other accounts payable and accrued expenses	31,386	513,140	6,529	-	-	551,055	**
Customer's deposits	30,405	-	-	-	-	30,405	**
Income tax payables	7,431	-	-	-	-	7,431	**
Provisions	37,800	23,914	-	-	-	61,714	**
Loans	1,020,239	676,691	-	-	-	1,696,930	1,690,893
Debentures	2,083,458	230,429	-	-	-	2,313,887	2,479,221
Convertible debentures	189,775	-	-	-	-	189,775	201,030
Other long-term liabilities	7,636	505	-	-	-	8,141	**
Derivative financial instruments	-	-	10,250	6,601	-	16,851	**
Total liabilities	3,408,130	2,963,613	310,522	6,971	-	6,689,236	

(*) Financial instrument that are not monetary assets

(**) The fair value of these monetary balances is usually identical or close to their carrying value.

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NOTE 3 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued):

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

Year	Exchange rate of the US dollar	Israel known CPI (1)	Israel actual CPI (2)
	%	%	%
2010	(6)	2.3	2.7
2009	(0.7)	3.8	3.9

(1) Calculated based on published CPI date (through November of end year)

(2) Calculated based on actual CPI date (through December of end year)

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS :

Estimates and judgments are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonably possible under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1) Impairment of non financial assets

In accordance with the accounting policy stated in note 2, the Company reviews at each statement of financial position date whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of property and equipment and identifiable intangibles. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset in the Company's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision to adjust the carrying amount to the recoverable amount.

The recoverable amount of an asset is the higher of an asset's fair value less cost to sell and its value in use. These calculations require the use of estimates.

In accordance with the accounting policy stated in note 2, the Company tests at least annually whether goodwill and indefinite life intangible assets have been impaired. The recoverable amount of the cash-generating unit (CGU) to which goodwill has been allocated is determined based on value-in-use calculations. These calculations require the use of estimates. See note 8 for details of key assumptions.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

Referring to goodwill (as allocated to the CGUs, see above), the Company performed a sensitivity analysis for the key assumption used in its annual goodwill impairment test and determined that an increase in the pre-tax discount rate of 0.5% would result in the estimated recoverable amount of the Leisure CGU falling below its carrying amount by an additional NIS 3.9 million.

The Company's management believes that the Leisure CGU is at risk of goodwill impairment in case the pre-tax discount rate will increase by 0.5%.

The recoverable amounts of the other CGUs are substantially higher than the carrying value.

Referring to property and equipment in the Supermarket segment, if the discount rate had been different by 0.5% from management's estimate the carrying value of property and equipment would be NIS 239 thousand lower or NIS 197 thousand higher.

If the growth rate had been different by 0.5% from management's estimate the carrying value of property and equipment would be NIS 1.0 million lower or NIS 1.1 million higher.

2) Change in fair value of investment property

Investment property is presented at fair value based on assessments of external independent appraisers, who have the appropriate qualifications. In certain cases fair value is determined using discounted cash flows that are based on assumptions as to discount rate. Changes in the discount rate will change the calculated fair value and may therefore materially affect the Company's results of operations.

When the discount rate is different by 0.5% from management estimate the fair value of investment property will be NIS 26.8 million lower or NIS 23.3 million higher. When the discount rate is different by 1% from management estimate the fair value of investment property will be NIS 48.2 million lower or NIS 49.1 million higher.

3) Retirement benefit obligations, provision for jubilee grant and for unutilized sick leave

The present value of the obligations and provisions depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost of retirement benefits and the provisions for jubilee grant and unutilized sick leave include the discount rate. Other key assumptions such as future wage increases and retirement rates, are based in part on current market conditions and past experience. Any changes in these assumptions will impact the carrying amount of these obligations and provisions.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations and provisions. In determining the appropriate discount rate, the Company considers the interest rates of Israeli government bonds denominated in NIS that have terms to maturity approximating the terms of the related retirement benefit obligations and provisions.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

4) Provisions for claims

The provisions for legal claims are recorded based on the estimates of the Company's management (after consulting with legal counsel) as to the likelihood that cash flows will be required to settle these liabilities, and at the discounted amounts of such cash flows.

The Company's assessments are based on the Company's history in these cases, on the stage these claims are at and on the experience of the Company's legal advisers.

The outcome of the legal cases in court could be different from the Company's assessments.

See also note 30.

5) Income taxes and deferred taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Company recognizes liabilities for anticipated tax exposures based on estimates of whether additional taxes will be due. Where the final outcome of these matters differs from the amounts that were recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

6) Fair values of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (such as the Diners option and equity securities) is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of financial position date. The Company has used discounted cash flow analysis for various derivative financial assets that are not traded in active markets. Changes in assumptions could affect the reported fair value of these financial instruments.

7) Provision for doubtful debts

The provision for doubtful debts is recognized according to management's judgment, whenever there are objective indications that the Company will not be able to recover all amounts owing to it according to the original terms of the debt, due to material financial difficulties of the customer, a reasonable expectation that the customer will become insolvent or will undergo a reorganization and will be unable to repay its debts or there will be a delay in the repayments. In addition, the allocation of the goodwill between the separate segments of an acquiree and the valuation of favorable/unfavorable terms in operating lease contracts is subject to management judgements.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

8) Purchasing price allocation in business combination

The Company is required to allocate the purchase price of investments in newly consolidated subsidiaries to the assets and liabilities acquired, on the basis of an assessment of their fair values. These valuations require the use of material estimates and judgements by management.

These estimates and judgements include assessment of future cash flows, asset lives and growth rates of brand names and customer relationships. In case the acquisition is performed near the statement of financial position date, the preliminary assessment could be subject to change as more information relating to the assets and liabilities acquired.

NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES

i) Non Food Retail and Wholesale segment

a. Acquisitions:

1) Bee Group Retail Ltd. ("Bee group"):

- a) In April 2007, the Company purchased additional 10% of the issued and paid-up share capital of Bee Group – a 50% subsidiary controlled by the Company - in consideration for NIS 5 million. The excess of cost over the carrying amount of the non-controlling interests acquired - in the amount of NIS 1.8 million - was recorded as goodwill.
- b) In September 2008, the Company acquired an additional 25% of the outstanding share capital of Bee Group from the other shareholders of Bee Group (the "Sellers"), increasing the Company's interest in Bee Group to 85%. The Company paid NIS 35.4 million for these shares. The excess of cost over the carrying amount of the non-controlling interests acquired in the amount of NIS 29.8 million was recorded as goodwill.

Furthermore, during the five-year period from the date of closing, the Company is entitled to acquire the remaining 15% of Bee Group's share capital (the "Remaining Shares") for the aggregate consideration of approximately NIS 21.24 million, increased by 7.5% annually until actual payment (the "Call Option"). At the second anniversary of the closing date, the Sellers are entitled to sell the Remaining Shares to the Company for the same exercise price as for the Call Option in the event the Company had not previously exercised the Call Option (the "Put Option"). As a result of the above, the Company accounted for 100% ownership and control in Bee Group as from September 2008; the put option to the non-controlling interests is accounted for as a financial liability based on the current redemption value of the exercise price of the option with a corresponding reduction of non-controlling interests and an increase in goodwill of NIS 17.9 million.

In October 2010, the non-controlling interests in Bee Group exercised their Put option and sold their remaining 15% interest in the Bee Group to the Company for an amount of NIS 24.5 million.

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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES

2) Vardinon Textiles Ltd. ("Vardinon")

In April 2007, Bee Group completed its acquisition of 85.8% of the shares conferring ownership and control of Vardinon Textiles Ltd, an Israeli public Company which is traded on the Tel-Aviv Stock Exchange ("TASE"). Vardinon is engaged in the field of housewares.

The consideration for the acquisition amounted to 38.1 million. The acquisition generated goodwill of NIS 9.8 million, brand name of NIS 3.8 million and customer base of NIS 0.9 million based on the purchase price allocation.

In December 2007, Bee Group sold approximately 1.2% of Vardinon's shares in consideration for NIS 0.4 million, which approximated its carrying amount.

The financial statements of Vardinon were consolidated for the first time in 2007. The consolidated statements of income for the year 2007 include the share of profits of Vardinon for the period from the date of acquisition to December 31, 2007.

On June 1, 2009 Na'aman acquired 905,240 shares of Vardinon in consideration of NIS 1.4 million, after the acquisition Na'aman holds 88.74% of Vardinon's share capital. The excess of the consideration paid over the share in minority rights acquired in the amount of NIS 0.2 million was recorded as an addition to goodwill.

In February 2011, Na'aman published an offer to purchase the balance of the shares (2.6 million shares) of Vardinon it does not already own in consideration for NIS 7.9 million. On March 15, 2011, the acquisition was completed and the Vardinon shares were delisted from the Tel Aviv stock exchange.

3) Na'aman Porcelain Ltd. ("Na'aman")

On October 31, 2007, Bee Group completed the acquisition of 57.87% (51.5% on a fully diluted basis) of the shares of Na'aman, a public Company which is traded in the TASE. Na'aman is engaged in the field of housewares. Total consideration amounted to NIS 101 million (including NIS 1 million relating to acquisition costs). The acquisition generated goodwill of NIS 55.7 million, customer base of NIS 44.4 million and brand name of NIS 7.1 million based on the purchase price allocation.

The financial statements of Naaman were consolidated for the first time in 2007. The consolidated income statement for the year 2007 includes the share in the profits of Naaman for the period from the date of acquisition to December 31, 2007.

In May 2009, 446,723 options to purchase ordinary share of Naaman were exercised, and any remaining options expired. As a result, the Company's holding decreased and a gain in the amount of NIS 0.3 million was recognized in the statement of income.

On March 22, 2009, Bee Group acquired 1,128,340 ordinary shares of Na'aman in consideration for NIS 6.6 million, following which the Company holds 68.4% of Na'aman share capital. The excess of the share on non-controlling interests acquired over the consideration paid in the amount of NIS 2.5 million was recognized as "other gains" in the statement of income.

As of December 31, 2010, Bee Group held 66.85% of the shares in Na'aman.

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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

b. Bee Group Reorganization

During 2008, 2009 and 2010, Bee Group reorganized its holding of its subsidiaries.

- 1) Agreement for merger of Sheshet Chain of stores for Household utensils Ltd with Na'aman:

As part of the reorganization, Na'aman issued ordinary shares to Bee Group in consideration for its 75% holdings in Sheshet's issued share capital, and as a result Bee Group has increased its holdings in Na'aman and decreased its holdings in Sheshet. In addition, Na'aman has also issued ordinary shares to the other shareholder of Sheshet in consideration for its 25% holdings in Sheshet's issued share capital, and as a result Bee Group decreased its holding in Na'aman.

As a result of the decrease in Bee Group holdings in Sheshet, Bee group recognized a gain of NIS 12 million, and as a result of the increase in Bee Group holdings in Na'aman, Bee group recognized an increase in goodwill in the amount of NIS 11.6 million.

- 2) Agreement for Na'aman's acquisition of shares of Vardinon

Na'aman acquired all of Bee Group's holdings in Vardinon such that subsequent to the completion of the agreement, Na'aman holds approximately 85% of Vardinon's share capital. The purchase price was determined based on the price paid by the Bee Group for the acquisition of Vardinon's shares from the previous shareholders in accordance with an agreement dated February 28, 2007, net of adjustments as stipulated in the agreement.

- 3) Doctor Baby

In November 2009, following Board of directors resolutions and notices given to its shareholders, Dr. Baby Ltd. (a 50% subsidiary that is controlled by the Company; hereafter - "Dr Baby"), issued 5,000 new shares to the Company, for the total consideration of NIS 19.5 million. As a result, the holding of the other shareholders of Dr Baby was diluted while the Company's holding increased by additional 48.1% to 98.1%.

The other shareholders are disputing this change in shareholding and the matter was brought to an arbitration process which was completed after the statement of financial position date.

The other shareholders have no commitment to provide additional funding to Dr. Baby and consequently, the Company is reflecting 100% of Dr Baby's losses.

- 4) In addition to Bee Group reorganization, in 2009 and 2010, the Group's headquarters were Combined and expenses in an amount of approximately NIS 2.7 million and NIS 7.2 million, Respectively, were recognized in "other gains (losses)".

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

ii) Supermarkets

Acquisitions:

1) Eden Briut Teva Market Ltd. ("Eden")

In October 2007, the Company completed its acquisition of 51% of the outstanding shares of Eden, a private Israeli retail Company established in 2003, operating at the date of acquisition two supermarkets, specializing in organic, natural and health food products. The consideration for the acquisition was approximately NIS 22.5 million. In addition, the Company provided Eden with shareholder loans in the amount of NIS 47 million of which NIS 33 million is a long-term loan (which is treated as an inter-company loan and eliminated in consolidation). This loan is linked to the CPI and bears annual interest of 4%. The loan would be repaid commensurate with the distribution of a preferred dividend by Eden to the other shareholders, based on their shareholdings in Eden. The balance of NIS 14 million is a short-term loan. The loan bears interest of 2.55% as of December 31, 2009, which is similar to interest payable on short-term loans of the Company. Interest is payable on a quarterly basis. Principal is to be repaid in accordance with Eden's ability to do so. Should the terms for grant of a bonus of \$ 5 million to the CEO be met, half of the short-term owners' loan provided by the Company would be considered to be an owners' loan that is subject to the terms of the long-term owners' loan, as above. Should one of the terms for a grant of bonus to the CEO, which is the former owner of Eden, and currently holds 49% of the outstanding shares of Eden be met, one quarter of the owners' loan provided by the Company would be considered to be an owners' loan that is subject to the terms of the long-term owners' loan, as above.

The acquisition also provides for the Company to supply all guarantees and financing required in connection with Eden's operations in the future.

The payment of the above mentioned bonus to Eden's CEO is dependent upon the satisfaction of various operational and performance thresholds. Since Eden's CEO is obligated to continue working in Eden, the Company makes provisions in respect of possible future bonus payments.

The acquisition generated goodwill of NIS 39.9 million and brand name of NIS 6.6 million based on the purchase price allocation.

The financial statements of Eden were consolidated for the first time in 2007. The consolidated statement of income for the year 2007 includes the share of the profits of Eden for the period from the date of acquisition to December 31, 2007.

2) Mega Retail (formerly Blue Square Chain Investment Properties)

In November 2008, the Company completed the cash tender offer to acquire Mega Retail's share capital for a consideration of NIS 150.7 million. Following completion of the acquisition, the Company now holds 100% ownership and control of the shares, and Mega Retail's shares are no longer traded on the Tel Aviv Stock Exchange. As a result of the acquisition, the Company recorded goodwill in the amount of NIS 50.6 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

iii) Real estate:

Reorganization of real estate segment activity – transfer of real estate properties to the subsidiary Blue Square Real Estate Ltd.

In September 2009, the reorganization plan of the real estate activity of the Company and its centralization under the subsidiary (78.35%) Blue Square Real Estate (BSRE), was completed under which the real estate properties of the subsidiary Mega Retail Ltd. (formerly Blue Square Chain Investment & Properties Ltd) (Mega Retail), were transferred to BSRE.

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

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

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

BSRE pledged certain of the transferred properties as collateral for a loan taken in order to finance the transaction. Transaction costs, amounted to approximately NIS 2.5 million including the purchase tax, were recorded as expense in the statement of income (in "other gains (losses)").

iv) 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 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 paid 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.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

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 was on 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 enable the combined Company to become one of the largest retail groups in Israel and enable the combined group to enjoy the benefits of economies of scale and synergy.

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

The consolidated financial statements include the results or the financial position of Dor Alon from the acquisition date.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

iv) Investment in Dor Alon Energy in Israel (1988) Ltd. (Continued) :

The acquisition date fair values of Dor Alon's assets, liabilities and goodwill have been determined on a provisional basis as this business was acquired in close proximity to the year end, pending finalization of the post-acquisition review of the fair value of the acquired net assets.

The fair values of the identifiable assets and liabilities of Dor Alon as at the date of acquisition and their estimated useful lives were as follows:

	Fair value at acquisition NIS in millions	Estimated useful life In years
Current assets	1,472	
Property and equipment	935	1-99
Investment property	57	
Other long-term assets	42	
Brand names		
Indefinite life	107	
Definite life	37	6-12
Customer relationships	102	7-10
Operating leases– value of favorable terms	159	1-18
Operating leases– value of unfavorable terms	(174)	1-18
Other intangible assets	19	
Financial assets including long-term loans and investments	162.5	
Current Liabilities	(717)	
Financial liabilities including debentures	(1,684)	
Deferred taxes	(27)	
Other long-term liabilities	(1.5)	
Contingent liabilities (long-term and short-term)	(6)	
Total identifiable net assets at fair value	483	
Goodwill	654	
Non - controlling interests(*)	(171)	
Purchase consideration transferred	966	
Analysis of cash flows on acquisition-		
Net cash acquired with Dor Alon	87	

(*) 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).

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - BUSINESS COMBINATIONS AND REORGANIZATION OF CERTAIN ACTIVITIES (continued):

iv) Investment in Dor Alon Energy in Israel (1988) Ltd. (continued) :

The fair value of Dor Alon's trade receivables at the date of acquisition after provision for impairment of NIS 50 million was NIS 927 million.

The effect of Dor Alon on the Company's comprehensive income since the date of acquisition was approximately NIS 6 million. If the combination had taken place at the beginning of the year, the Company's net income for the year ended December 31, 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 127 million (unaudited) and revenues would have been NIS 14,420 million including government levies and NIS 11,051 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 NIS 3 million and are included in other losses in the condensed consolidated 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.

In connection with the acquisition Alon and the Company obtained a pre-ruling from the Israeli Tax Authority. The pre-ruling is subject to various conditions and provides, among other things, that the cost basis and the purchase date of the shares of Dor Alon for tax purposes in the possession of 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).

In the period between the acquisition date and December 31, 2010, Dor Alon sold 302,188 of the treasury shares it held. As a result of these sales the Company's interest in Dor Alon reduced to 78.38% and an amount of NIS 18.7 million, net was credited to equity.

v) Other:

- 1) As to a commitment of the Company in connection with the acquisition of Diners Israel, see note 31.
- 2) The list of principal investee companies is presented as an appendix to the financial statements.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 – PROPERTY AND EQUIPMENT:

- a. Composition of assets and accumulated depreciation, grouped by major classifications, and changes therein are as follows:

	Land, buildings and leasehold improvements (see e. below)	Fueling stations equipment	Furniture, equipment and installations	Motor vehicles	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2010	2,284,913	-	1,555,915	16,084	3,856,912
Additions	130,855	7,886	73,210	1,019	212,970
Disposals	(144,779)	(95)	(218,672)	(1,385)	(364,931)
Acquisition of subsidiary consolidated for the first time (1)	659,717	225,974	39,796	9,686	935,173
Transfer from investment property	3,000	-	-	-	3,000
	<u>2,933,706</u>	<u>233,765</u>	<u>1,450,249</u>	<u>25,404</u>	<u>4,643,124</u>
Accumulated depreciation:					
Balance at January 1, 2010	771,751	-	1,079,472	8,253	1,859,476
Additions	80,157	7,062	87,781	3,584	178,584
Disposals	(143,483)	(1)	(213,216)	(821)	(357,521)
Balance at December 31, 2010	<u>708,425</u>	<u>7,061</u>	<u>954,037</u>	<u>11,016</u>	<u>1,680,539</u>
Impairment of property and equipment (see b below)	(20,647)	-	(13,423)	-	(34,070)
Net book value at December 31, 2010	<u>2,204,634</u>	<u>226,704</u>	<u>482,789</u>	<u>14,388</u>	<u>2,928,515</u>

- (1) The fair value of the property and equipment acquired as part of the acquisition of Dor Alon was determined by Nahum Preminger, an independent valuation expert (see also note 5).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 – PROPERTY AND EQUIPMENT (continued):

	Land, buildings and leasehold improvements (see e. below)	Fueling stations equipment	Furniture, equipment and installations	Motor vehicles	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2009	*2,172,219	-	1,470,299	22,406	3,664,924
Additions	103,274	-	99,866	925	204,065
Disposals	(2,836)	-	(14,421)	(7,247)	(24,504)
Acquisition of subsidiary consolidated for the first time	125	-	172	-	297
Transfer from investment property	12,131	-	-	-	12,131
Balance at December 31, 2009	2,284,913	-	1,555,916	16,084	3,856,913
Accumulated depreciation:					
Balance at January 1, 2009	*717,256	-	1,009,452	11,518	1,738,226
Additions	57,257	-	83,062	3,141	143,460
Disposals	(2,762)	-	(13,042)	(6,406)	(22,210)
Balance at December 31, 2009	771,751	-	1,079,472	8,253	1,859,476
Impairment of property and equipment (see b below)	24,006	-	16,517	-	40,523
Net book value at December 31, 2009	1,489,156	-	459,927	7,831	1,956,914

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 – PROPERTY AND EQUIPMENT (continued):

	<u>Land, buildings and leasehold improvements</u>	<u>Fueling station equipment</u>	<u>Furniture, equipment and installations</u>	<u>Motor vehicles</u>	<u>Total</u>
	NIS in thousands				
Cost:					
Balance at January 1, 2008	*2,072,554	-	1,449,253	21,480	3,543,287
Additions	119,089	-	117,935	3,220	240,244
Disposals	(18,906)	-	(96,889)	(2,294)	(118,089)
Transfer from investment property	14,880	-	-	-	14,880
Transfer to investment property	(15,398)	-	-	-	(15,398)
Balance at December 31, 2008	<u>2,172,219</u>	<u>-</u>	<u>1,470,299</u>	<u>22,406</u>	<u>3,664,924</u>
Accumulated depreciation:					
Balance at January 1, 2008	*675,304	-	1,016,118	10,731	1,702,153
Additions	60,812	-	89,107	2,426	152,345
Disposals	(18,860)	-	(95,773)	(1,639)	(116,272)
Balance at December 31, 2008	<u>717,256</u>	<u>-</u>	<u>1,009,452</u>	<u>11,518</u>	<u>1,738,226</u>
Impairment of property and equipment (see b below)	15,608	-	11,475	-	27,083
Net book value at December 31, 2008	<u>1,439,355</u>	<u>-</u>	<u>449,372</u>	<u>10,888</u>	<u>1,899,615</u>

* Retroactive application, see note 2 ad.1.

- b. During 2010 the Company recorded net impairment provisions of NIS 0.5 million, comprising a provision of NIS 8.9 million and a reversal of a provision in the amount of NIS 11 million in the supermarkets segment, and an impairment in amount of NIS 2.6 million in the non-food retail and wholesale segment.

During 2009 the Company recorded impairment provisions of NIS 18.5 million, comprising a provision of NIS 17.5 million and a reversal of a provision in the amount of NIS 1.4 million in the supermarkets segment, and an impairment in amount of NIS 2.4 million in the non-food retail and wholesale segment.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 6 – PROPERTY AND EQUIPMENT (continued):

During 2008 the Company recorded impairment provisions resulting in net amount of NIS 3.4 million in the supermarkets segment. This was the result of recording provisions of NIS 9.3 million in respect of certain stores, against which was offset the reduction in the impairment provisions in respect of other stores that had been recorded in previous years in the amount of NIS 5.9 million.

Impairment provisions or the reversal of such provisions are included in the statement of income within other gains or losses.

In calculating the impairment for the reported years, based on discounted expected future cash flows, the Company used a discount rate before tax for each cash-generating unit (CGU) as detailed in Note 8b.

The balance of the impairment provisions as of December 31, 2010, 2009 and 2008, is after a reduction for depreciation corresponding to the depreciation of the related assets and after elimination of the portion of the provision relating to assets that were disposed of during the period.

c. Additional details:

Certain real estate assets which have been transferred to the Company from the previous parent cooperative are in the process of being registered in the name of the Company.

d. As to liens placed on assets, see note 32.

e. Capitalized lease payments in respect of long-term land leases from the Israeli Land administration are as follows:

	December 31	
	2009	2010
	NIS in thousands	
Capitalized leases for periods of 999 years	3,996	3,992
Capitalized leases for periods ending between the years 2010 and 2056, as detailed below:		
Leases for periods of under 10 years	4,617	5,113
Leases for periods of between 10 and 25 years	17,840	25,180
Leases for periods of over 25 years	166,775	289,803
	189,232	320,096
	193,228	324,088

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 7 – INVESTMENT PROPERTY:

The changes in the carrying value of investment property for the years ended December 31, 2010, 2009 and 2008 respectively, are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>NIS in thousands</u>		
At January 1	*294,657	*413,111	421,188
Transfer to property and equipment (b)	(14,880)	(16,601)	(3,000)
Transfer from property and equipment (c)	15,398	-	-
Additions (d)	104,657	9,435	38,793
Disposals	(6,567)	(5,700)	-
Acquisition of subsidiary consolidated for the first time	-	-	56,972
Net gain from adjustments of investment property to fair value	19,846	20,943	32,917
At December 31	<u>413,111</u>	<u>421,188</u>	<u>546,870</u>

*Retroactive application, see not 2ad.1.

- a) All the Company's investment properties are located in Israel.
- b) The property was let to subsidiaries and therefore it was transferred from investment properties to property and equipment.
- c) In 2008, the construction of the investment property was completed and therefore it was transferred from property and equipment to investment properties.
- d) The additions in 2010, totaling NIS 38.7 million, include lands in areas used for commercial development. The additions in 2009, totaling NIS 9.4 million, include NIS 1.7 million of rental offices and NIS 7.7 million of land in areas used for commercial development. The additions in 2008, totaling NIS 104.7 million, include NIS 39 million of rental offices and NIS 66 million of land in areas used for commercial development.
- e) The fair value of the principle investment property items was determined by "O. Haushner Civil Eng. & Real Estate Appraisal Ltd." and "Barak Friedman Cohen & Co. Economic & Real Estate Appraisal", independent qualified appraisers who are members of the Real Estate Appraisers Association in Israel – based on the current prices in an active market for similar property, locations and conditions, and based on the discounted cash flows that are expected to arise from the assets. The range of discount rates used by the appraiser are 7.75%-12% per annum (mainly 7.75-8.25%) (2009: 8- 8.5%).

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 7 – INVESTMENT PROPERTY (continued):

- f) Rental revenue that has been recognized in the statements of income within revenues:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Rental income	20,152	21,790	27,012

- g) Break down of investment property at December 31, 2010, by lease rights and ownership of land:

	December 31, 2010
	NIS in thousands
Under ownership	231,177
Finance lease from the Israeli Land Administration for a period of 999 years	7,070
	238,247
Finance lease from the Israeli Land administration for a period ending between the years 2010-2056, see detailed below:	
Leases for periods of under 10 years	935
Leases for periods between 10-25 years	169,881
Leases for periods of more than 25 years	138,174
	308,990
	547,237

- h) Capitalized borrowing costs:

The amount of borrowing costs capitalized during the year ended December 31, 2010 was NIS 2,900 thousand (2009 and 2008 Nil). The rate used to determine the amount of borrowing costs eligible for capitalization was 5.2% (linked to the Israeli CPI).

- i) The fair value of the investment property acquired as part of the acquisition of Dor Alon was determined by Nahum Preminger, an independent valuation expert (see also note 5) using a discount rate of 9%.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – INTANGIBLE ASSETS:

The composition of intangible assets and the accumulated amortization thereon, grouped by major classifications, and changes therein in 2010, 2009 and 2008, are as follows:

	<u>Goodwill</u>	<u>Software</u>	<u>Brand name and trade marks</u>	<u>Customer relationships</u>	<u>Evacuation Fees and Other</u>	<u>Total</u>
	<u>NIS in thousands</u>					
At January 1, 2008						
Cost	190,415	70,838	20,615	45,623	8,265	335,756
Accumulated amortization and impairment	-	(51,700)	(1,751)	(625)	(1,260)	(55,336)
	<u>190,415</u>	<u>19,138</u>	<u>18,864</u>	<u>44,998</u>	<u>7,005</u>	<u>280,420</u>
Net carrying amount						
Year ended December 31, 2008:						
Opening net carrying amount	190,415	19,138	18,864	44,998	7,005	280,420
Acquisitions of non-controlling interests	111,890	-	-	-	-	111,890
Additions	-	19,299	122	-	11,311	30,732
Decrease in ownership interest in subsidiary due to dilution	(2,467)	-	-	-	(447)	(2,914)
Amortization charge	-	(8,493)	(1,925)	(3,207)	(2,081)	(15,706)
Net carrying amount	<u>299,838</u>	<u>29,944</u>	<u>17,061</u>	<u>41,791</u>	<u>15,788</u>	<u>404,422</u>
At December 31, 2008:						
Cost	299,838	90,137	20,737	45,623	19,129	475,464
Accumulated amortization and impairment	-	(60,193)	(3,676)	(3,832)	(3,341)	(71,042)
Net carrying amount	<u>299,838</u>	<u>29,944</u>	<u>17,061</u>	<u>41,791</u>	<u>15,788</u>	<u>404,422</u>
Year ended December 31, 2009:						
Opening net carrying amount	299,838	29,944	17,061	41,791	15,788	404,422
Additions	227	20,009	115	-	387	20,738
Acquisition of subsidiary consolidated for the first time	1,200	-	-	-	5,189	6,389
Disposals	-	-	-	-	(274)	(274)
Amortization charge	-	(12,329)	(2,064)	(3,099)	(3,243)	(20,735)
Impairment	-	-	-	-	(1,346)	(1,346)
Net carrying amount	<u>301,265</u>	<u>37,624</u>	<u>15,112</u>	<u>38,692</u>	<u>16,501</u>	<u>409,194</u>
At December 31, 2009:						
Cost	301,265	110,146	20,852	45,623	24,371	502,257
Accumulated amortization and impairment	-	(72,522)	(5,740)	(6,931)	(7,870)	(93,063)
Net carrying amount	<u>301,265</u>	<u>37,624</u>	<u>15,112</u>	<u>38,692</u>	<u>16,501</u>	<u>409,194</u>

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – INTANGIBLE ASSETS (continued):

	Goodwill	Software	Brand names and trade marks	Customer relationships	Evacuation Fees, favorable operating leases and other	Total
	NIS in thousands					
Year ended December 31, 2010:						
Opening net carrying amount	301,265	37,624	15,112	38,692	16,501	409,194
Additions	-	26,701	150	-	9,182	36,033
Acquisition of subsidiary consolidated for the first time	653,945	4,692	144,000	102,000	173,426	1,078,063
Disposals	-	-	-	-	(221)	(221)
Amortization charge	-	(16,643)	(5,808)	(3,937)	(6,604)	(32,992)
(Impairment) reversal of impairment	(4,160)	-	-	-	827	(3,333)
Net carrying amount	<u>951,050</u>	<u>52,374</u>	<u>153,454</u>	<u>136,755</u>	<u>193,111</u>	<u>1,486,744</u>
At 31 December 2010						
Cost	951,050	141,539	164,669	147,623	206,670	1,611,551
Accumulated amortization and impairment	-	(89,165)	(11,215)	(10,868)	(13,559)	(124,807)
Net carrying amount	<u>951,050</u>	<u>52,374</u>	<u>153,454</u>	<u>136,755</u>	<u>193,111</u>	<u>1,486,744</u>

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – INTANGIBLE ASSETS (continued):

- a. Amortization is included in the statement of income within Selling, general and administrative expenses. Impairment loss and gain or loss resulting from changes in shareholding is presented in other gains or losses.
- b. Impairment tests for goodwill and indefinite live assets

Goodwill is allocated to six identified groups of cash-generating units (CGUs).

The components of goodwill and indefinite life intangible assets are as follows:

	December 31		
	2008	2009	2010
	NIS in thousands		
Supermarkets	162,780	163,980	162,420
Non - Food retail and wholesale:			
Houseware	110,952	111,179	111,179
Leisure	26,106	26,106	23,506
Commercial and fueling sites:			
Goodwill – commercial and fueling sites	-	-	453,945
Goodwill – direct marketing	-	-	186,000
Goodwill – jet fuel	-	-	14,000
Indefinite life – brand name	-	-	107,000
	<u>299,838</u>	<u>301,265</u>	<u>1,058,050</u>

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

The key assumptions used for value in-use calculations are as follows:

	Non - Food retail and wholesale		
	Supermarkets	Houseware	Leisure
	%		
Gross margin (1)	27	51	23
Growth rate (2)	1.5	1.5	1.5
Discount rate (3)	10.1	14.7	15

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – INTANGIBLE ASSETS (continued):

	Commercial and fueling sites		
	Commercial and fueling sites	Direct marketing	Jet fuel
	%		
Segment profit(1)	6	4	2
Growth rate (2)	1.3-6	4	4
Discount rate (3)	10.5	10.5	10.5

(1) Expected gross margin / segment profit.

(2) Weighted average growth rate used to extrapolate cash flows beyond the budget management estimations covering a five-year period.

(3) Pre-tax discount rate applied to cash flow projections.

These assumptions have been used for the analysis of each CGU.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating business unit.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 9 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

a. Investment in joint ventures*

The following amounts represent the group 50% share of the assets and liabilities, and the results of these companies (the identity of these companies are listed in the appendix at the end of the financial statements).

	December 31	
	2009	2010
	NIS in thousands	
Assets:		
Current assets	2,222	107,828
Non current assets	55,720	461,427
	<u>57,942</u>	<u>569,255</u>
Liabilities:		
Current liabilities	1,704	104,368
Non current liabilities	8,659	43,550
	<u>10,363</u>	<u>147,918</u>
Net Assets:	<u>47,579</u>	<u>421,337</u>
	Year ended December 31	
	2009	2010
	NIS in thousands	
Revenues	7,689	51,958
Expenses	494	67,902
Net income (loss) for the year	<u>8,164</u>	<u>(14,724)</u>

- * In 2010, these companies include the companies involved in the Wholesale market project – see below, certain real estate subsidiaries of BSRE (including Joint Venture Blue Square – Hadar) and certain proportionally consolidated subsidiaries of Dor Alon.

For further details of the agreements regarding the Wholesale market complex in Tel Aviv – see also below.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued):

Agreements regarding the wholesale market complex in Tel Aviv

1. Acquisition agreements

During June 2010 a 50%:50% joint venture between BSRE and Gindi Investments (hereafter – the purchasers) entered into agreements to purchase land rights in part of the wholesale market area in Tel Aviv for a period ending on August 31, 2099. The rights are for the development, construction and marketing of a project including an apartment building complex, areas for commercial use and areas for multi-purpose use.

In July 2010 the Minister of the Interior approved the agreements and with this approval all the agreement's precedent conditions were fulfilled.

The land rights were acquired for a basic total consideration of NIS 950 million (100%) together with the obligation to pay additional consideration in certain circumstances, as discussed below.

The basic total consideration will be paid in payments linked to the CPI as follows:

- a. The first payment of approximately NIS 260 million, was paid before the due date and was discounted using an annual discount rate of 4%.
- b. An amount of approximately NIS 660 million (the second payment) will be paid on the earlier of receipt of building rights or 24 months from the date the agreements were signed in return for the transfer of the ownership rights to the area to the purchasers.
- c. The last payment of NIS 30 million will be made upon receipt of the form 4 completion approval of the shopping center.
- d. In addition to the basic total consideration, the sellers have rights to additional consideration (hereafter – the additional consideration) determined on the basis of the selling price of the residential apartments. As at the statement of financial position date, no obligation for the additional consideration had arisen.

The Company's ownership rights are subject to the completion of the second payment and therefore the statement of financial position reflects only the first payment as a payment on account of real estate.

2. Financing of the project

As part of the acquisition agreements, the purchasers produced a firm commitment letter from a bank, according to which the bank confirms that it will provide the purchasers, under certain terms, financing to complete the acquisition of the leasing rights to the area.

The credit will be granted upon the second payment to the sellers but in any case no later than June 30, 2012 and for the third payment no later than December 30, 2018.

The credit is subject to the fulfillment of a number of precedent terms including provision of a lien to the bank, provision of an unlimited guarantee by all shareholders of the purchasers (BSRE and Gindi 50%:50%) and provision of a lien on all the holding rights of the controlling shareholders in the purchasers.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued):

The purchasers agreed with the bank to sign the credit and loan agreements as well as the payment of arrangement and cancellation fees. As at the financial position statement date BSRE had not yet entered into the financing agreements with the accompanying bank.

On receipt of the firm commitment letter, BSRE, as part of the purchasers, paid a one-time payment of NIS 0.5 million and the purchasers agreed to pay a fee of 0.67% of the amount they did not use.

During the reporting period, BSRE, as part of the purchasers, paid an amount of NIS 1.4 million for such fee, which was capitalized.

3. Principles agreements with Gindi.

In April 2010 BSRE and Gindi signed an agreement of principles which, inter alia, determined the following:

- a. BSRE will provide 60% of the first installment as discussed above.
- b. Gindi will provide management services, including selling and marketing, to the project in return for a management fee of 16% of the profit from the project, calculated as determined in the agreement.
- c. As an advance for the management fee above, an amount of NIS 15 million will be paid over five years from the date of the acquisition agreement.

Up to the statement of financial position date the purchasers entered into 385 selling agreements for apartments totaling approximately NIS 885 million (including VAT). As of May 19, 2011 purchase agreements for 443 apartments for a total consideration of NIS 1,020 million (including VAT) had been signed and received advances of NIS 211 million.

In April 2011 the purchasers received the approval to start digging and building supports at the site starting in May 2011.

During the year 2010 the Company did not recognize any revenues from the sale of apartments.

4. The Giv'on car park

In August 2010 BSRE joined Gindi as a 50% joint venture partner in a BOT project for a period of 23 years to build a car park with 1,000 underground spaces in Tel Aviv below an open space. The final agreement for this projects is subject to further approvals and conditions which had not been completed as of the date of signing these financial statements.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued):

b. Investment in associates

1. Composition

	Year ended December 31	
	2009	2010
	NIS in thousands	
Shares:		
Cost of shares	402	2,054
Share in undistributed profits (losses) accumulated since acquisition	2,382	1,864
	2,784	3,918
Perpetual capital notes (a)	1,378	1,378
Long-term loans (b)	716	716
	4,878	6,012

- (a) Perpetual capital notes are linked to the Israeli CPI and bear interest at an annual rate of 5%.
The interest and difference of linkage to the CPI are paid on annual basis.
- (b) The loans are linked to the Israeli CPI and bear interest at an annual rate of 4.5%. The repayment date has not yet been determined.
The interest and difference of linkage to the CPI are paid on annual basis.
2. The Company share of the results of its principal associates, all of which are unlisted, and its interest held, are as follows:

Name	% interest held
Radio "Non-stop" Ltd	33%
Radio "Zafon" Ltd	12%
Mercury Aviation*	31%

* Acquired as part of the acquisition of Dor Alon, see also note 5.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 – INVESTMENT IN SECURITIES

a. Comprised as follows:

	December 31	
	2009	2010
	NIS in thousands	
Available for sale financial assets - current	183,179	186,871
Available for sale financial assets – non-current	-	30,327
Financial assets at fair value through profit or loss	29,733	123,366
	<u>212,912</u>	<u>340,564</u>

b. Composition per type of security:

	December 31	
	2009	2010
	NIS in thousands	
Debt securities	187,912	281,237
Equity securities	25,000	59,327
	<u>212,912</u>	<u>340,564</u>

c. Available for sale financial assets

	2008	2009	2010
	NIS in thousands		
At January 1	166,599	157,136	183,179
Acquisition of subsidiary consolidated for the first time	-	-	32,863
Purchases	169,747	113,966	164,013
Proceeds	(185,104)	(101,867)	(166,727)
Transfers to other comprehensive income	(2,214)	7,502	(9,732)
Transferred to statement of income	8,108	6,442	13,602
At December 31	<u>157,136</u>	<u>183,179</u>	<u>217,198</u>

In 2008, 2009 and 2010 the Company removed profits in the amount of NIS 3,810 thousand, NIS 4,547 thousands and NIS 11,553 thousands, respectively, from equity into the statement of income. In addition, in 2008 the Company removed NIS 2,503 thousands from equity due to impairments to the statement of income.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 – INVESTMENT IN SECURITIES (continued):

d. Financial assets at fair value through profit or loss

	December 31	
	2009	2010
	NIS in thousands	
Debt securities	4,733	94,366
Investment in equity securities	25,000	29,000
Total	29,733	123,366

The fair value of all debt securities is based on closing prices in an active market.

NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS:

Derivative financial instruments	Statement of financial position item	December 31			
		2009		2010	
		NIS in thousands			
		Assets	Liabilities	Assets	Liabilities
Forward contracts over the Israeli CPI (a)	Derivative financial instruments	9,690	-	-	-
Foreign exchange contracts (b)	Derivative financial instruments	-	-	-	7,700
Embedded derivatives :					
Rent agreements	Derivative financial instruments	425	7,591	2,711	9,151
Conversion component embedded in the convertible debentures (see note 19)	Convertible debentures	-	11,898	-	9,011
Diners option (c)	Derivative financial instruments	12,266	-	53,367	-
Total		22,381	19,489	56,078	25,862

- (a) The notional principal amounts of the outstanding forward contracts over the Israeli CPI at December 31, 2009 were NIS 351 million.
- (b) The notional amount of open forward foreign exchange contracts (up to 3 months, mostly 2 months) as of December 31, 2010 is \$ 80,300 thousands.
- (c) The agreement for the joint purchase of 49% of the share capital of Diners as described in note 31a is treated as a derivative under IAS 39. The Company has concluded that this transaction should be accounted for as a derivative financial instrument because at this stage this is merely an option to purchase 49% of Diners' shares, where the option exercise price is equal to the outstanding balance of the loan to acquire the shares. The loan was provided by the seller. As security for the loan the company pledged and agreed to restrictions on the shares until the loan is repaid. The Company has the option to repay the loan and terminate the agreement by the end of the fourth year after the first credit card is issued, by returning the shares.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS (continued):

This derivative is presented at its fair value using a binomial model. Changes in the fair value of the derivative are recognized in income or loss in each period.

NOTE 12 – TRADE RECEIVABLES, INVENTORIES AND OTHER RECEIVABLES:

a. Trade receivables

	December 31	
	2009	2010
	NIS in thousands	
Trade receivables	848,432	1,772,500
Less: provision for impairment of trade receivables	(38,649)	(40,753)
	<u>809,783</u>	<u>1,731,747</u>

As of December 31, 2010, trade receivables of NIS 37,476 (2009: NIS 10,298) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	December 31	
	2009	2010
	NIS in thousands	
Supermarkets segment		
Up to 3 months	7,043	4,820
3 to 6 months	1,521	6,895
	<u>8,564</u>	<u>11,715</u>

	December 31	
	2009	2010
	NIS in thousands	
Non-food segment		
Up to 6 months	1,099	2,931
7 to 12 months	635	5,323
	<u>1,734</u>	<u>8,254</u>

	December 31	
	2009	2010
	NIS in thousands	
Commercial and fueling sites segment		
Up to 3 months	-	8,562
3 to 12 months	-	4,029
More than 12 months	-	4,916
	<u>-</u>	<u>17,507</u>

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – TRADE RECEIVABLES, INVENTORIES AND OTHER RECEIVABLES (continued):

As of December 31, 2010, trade receivables of NIS 51,159 (2009: NIS 50,602) were impaired and provided for. The amount of the provision was NIS 40,753 as of December 31, 2010 (2009: NIS 38,649). The individually impaired receivables mainly relate to individual customers, which have unexpectedly encountered difficult situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is over 12 months.

Movements in the Company's provisions for impairment of trade receivables are as follows:

	December 31	
	2009	2010
	NIS in thousands	
At January 1	37,578	38,649
Increase in the provision	1,071	2,104
At December 31	38,649	40,753

The creation and release of provisions for impaired receivables has been included in the statement of income within "Selling, general and administrative expenses." Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. See also note 3, credit risk, as to collateral held as security.

The fair value of trade receivables is usually identical or close to their carrying value.

b. Other receivables

	December 31	
	2009	2010
	NIS in thousands	
Prepayments	10,781	13,443
Related parties	7,930	33,901
Government authorities	-	14,194
Advances to suppliers and others	2,516	22,002
Current maturities of loans receivable	741	10,699
Receivables in respect of gift certificates	21,875	16,646
Other	25,661	51,714
	69,504	162,599

The fair value of other receivables is usually identical or close to their carrying value.

c. Inventories

	December 31	
	2009	2010
	NIS in thousands	
Fuel and oil products	-	102,136
Consumer (including non-food) products	514,858	578,160
	514,858	680,296

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 13 – CASH, CASH EQUIVALENTS AND DEPOSITS:

a. Cash and cash equivalents

	December 31	
	2009	2010
	NIS in thousands	
Cash at bank and on hand	18,357	70,232
Bank deposits with original maturities of three months or less	593,870	55,724
	<u>612,227</u>	<u>125,956</u>

Cash, cash equivalents and bank overdrafts include the following for the purposes of the statement of cash flows:

	December 31	
	2009	2010
	NIS in thousands	
Cash and cash equivalents	612,227	125,956
Bank overdrafts	(493)	(21,825)
	<u>611,734</u>	<u>104,131</u>

b. Short-term deposits

	December 31	
	2009	2010
	NIS in thousands	
Deposits at suppliers (1)	-	72,776
Short term deposits relating to debentures (2)	-	25,198
Other deposits	67	110
	<u>67</u>	<u>98,084</u>

(1) Linked to the U.S. Dollar, bearing interest of LIBOR plus 1.1%.

(2) Deposit used as security for debentures – see also note 19.

NOTE 14 – LOANS RECEIVABLE

	December 31	
	2009	2010
	NIS in thousands	
Loans to proportionally jointly controlled companies (1)	-	53,206
Loans to the Fuel Administration (2)	-	29,943
Loans to others (3) (4)	2,067	103,593
	<u>2,067</u>	<u>186,742</u>
Less current maturities	741	10,699
	<u>1,326</u>	<u>176,043</u>

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 – LOANS RECEIVABLE (continued)

- (1) Including NIS 30,660 thousand relating to the Wholesale Market project bearing interest of 3% – see also note 9a.
- (2) The loan to the Fuel Administration is included in accordance with the Control of Commodities and Service Order (Settlements in the Fuel Economy), 1988.
- (3) Mainly owners of filling stations to which the Company supplies fuel. As at December 31, 2010 the amount includes a single debtor balance of NIS 21.8 million.
- (4) Includes a loan to a related party of NIS 37.3 million. The loan is linked to the Israeli CPI, bears interest of 5% and matures in January 2015.

The fair value of these loans at December 31, 2010 is NIS 179.2 million.

The long term loans are receivable in the years subsequent to the statement of financial position date as follows:

	December 31	
	2009	2010
	NIS in thousands	
Second year	741	4,874
Third year	585	4,805
Fourth year	-	3,802
Fifth year	-	39,373
Sixth year and afterwards	-	47,013
Without stated maturity date	-	76,176
	<u>1,326</u>	<u>176,043</u>

NOTE 15 – OTHER LONG TERM RECEIVABLES

	December 31	
	2009	2010
	NIS in thousands	
Conditional grants to owners of fuel stations (1)	-	11,305
Prepaid rent (2)	-	11,764
Deposits from purchasers of apartments (3)	-	22,428
Others	-	1,601
	<u>-</u>	<u>47,098</u>

(1) Includes mainly conditional grants the Company paid to the owners of land in connection with the construction of filling stations. The amounts will become grants after the end of the commitment period or during the period if the filling station owners meet their undertakings to operate the stations during the agreement period.

The Company examines the land owners' ability to meet their liabilities at every statement of financial position date.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 – OTHER LONG TERM RECEIVABLES (continued):

Based on past experience, and in accordance with management assessments, the owners of the filling stations are expected to meet their liabilities. These grants are charged to the statement of income in selling, general and administrative expenses over the term of the agreements.

(2) The prepaid rent in respect of the commercial and fueling sites is amortized over the term of the lease. As at December 31, 2010 the remaining term of the leases is between 2 and 13 years (mainly 13 years).

(3) Relates to deposits of 5% of the price of the apartments paid by the purchasers of apartments in the Wholesale Market project. As at December 31, 2010 these amounts were deposited with a trustee.

The use of these deposits is restricted to the uses determined in the purchase agreements.

NOTE 16 – EQUITY

	Number of Shares issued
At January 1, 2008	43,372,819
Change during 2008	-
At December 31, 2008	43,372,819
Change during 2009:	
Issuance of shares upon conversion of convertible debentures	344,239
At December 31, 2009	43,717,058
Change during 2010:	
Issue of shares as part of business combination	20,327,710
Exercise of options	759,051
Issuance of shares upon conversion of convertible debentures	1,187,060
At December 31, 2010	<u>65,990,879</u>

The total authorized number of ordinary shares as of December 31, 2010 and 2009 is 100 million shares with a par value of NIS 1 per share. All issued shares are fully paid.

In July 1996, the Company completed a global offering of 6,900,000 American Depositary Shares (ADS), with each ADS representing one Ordinary share, at a price per share of \$11. In addition, in June 1999, 1,500,000 ADSs were issued upon the exercise of stock options.

The ADSs are traded on the New York Stock Exchange (NYSE). The ADSs represent 2.96% of the outstanding Ordinary Shares of the Company as of May 31, 2011. As of May 31, 2011 the shares are quoted at \$ 8.86 per ADS.

Commencing November 2000, the Company's shares have also been listed for trade on the Tel Aviv Stock Exchange. As of December 31, 2010 the shares are quoted at NIS 31.40 per ordinary share.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 16 – EQUITY (continued):

On June 17 2009, convertible debentures of the Company with a par value of NIS 6,917 thousands were converted into 344,239 ordinary shares.

During 2010, convertible debentures of the Company with a par value of NIS 11,268 thousands were converted into 1,187,060 ordinary shares.

During the year ended December 31, 2010 the company purchased 89,888 treasury shares with a cost of NIS 4,295 thousand. After the statement of financial position date the Company purchased 115,243 treasury shares at a cost of approximately NIS 4 million.

On October 3, 2010 in consideration for the acquisition of Dor Alon (see note 5 above) the Company issued 20,327,710 ordinary shares.

Share options plan

On January 21, 2008, the Company's Board of Directors resolved to adopt a share options plan (hereinafter - "the plan") for executives and employees of the Company. The total number of shares reserved for issuance under the plan is 5 million shares, (including options issuable to the Company's President and Chief Executive Officer, Mr. Zeev Vurembrand). All exercises of options under the plan are on a cashless basis. Each option can be exercised to purchase one ordinary share of NIS 1 par value of the Company. Immediately upon allotment, the ordinary shares issued upon exercise of the options will have the same rights as other ordinary shares of the Company.

Under the plan, employees and/or executives who exercise the options will be allotted only shares that reflect the benefit component embodied in the options, as computed at the date of exercise, i.e., the difference between the exercise price of each option and the quoted price of a NIS 1 par value share at the date of exercise.

The employees and executives are entitled to exercise the options at the end of the following vesting periods: 66.7% at the end of two years from the date of grant and the remaining 33.3% at the end of three years from the date of grant. The options granted to employees and executives can be exercised in the period of 30 days and 6 months from the end of the vesting period, respectively. Any options not exercised by this date will expire.

Following are details of options granted under the plan during the reported periods:

Grant date	Options granted	Exercise price at grant date (NIS)	Share price (NIS)	Average fair value (NIS)*
March 2008	2,452,500	36.15	36.15	6.12
March 2008 (executives)	2,200,000	39.06	36.15	5.57
May 2008 (executives)	140,000	39.06	46.0	13.2
August 2008	135,000	36.15	36.23	6.7
August 2008 (executives)	100,000	39.06	36.23	6.1
March 2009	63,000	34.42	23.74	3.1
July 2009	92,000	34.42	32.53	7.7
August 2009 (executives)	80,000	37.33	33.85	8.0
March 2010 (executives)	20,000	47.70	45.35	10.9
March 2010	274,000	47.70	45.35	11.6

* The fair value of the options was computed using the Black & Scholes option-pricing model using the following assumptions:

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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(Formerly Blue Square – Israel Ltd.)

NOTE 16 – EQUITY (continued):

Grant date	Expected dividend yield (%)	Expected volatility (%)	Risk free interest rate (%)	Expected term until exercise (years)
March 2008	6.4	28	4.5	2-3
March 2008	6.4	28	4.5	2.5-3.5
May 2008	6.4	29	5.1	2.5-3.5
August 2008	7.5	30	5.1	2-3
August 2008	7.5	30	5.1	2.5-3.5
March 2009	6.5	43	2.3	2-3
July 2009	6.5	45	2.5	2-3
August 2009	6.5	43	3.0	2.5-3.5
March 2010	4.0	43	2.9	2.5-3.5
March 2010	4.0	43	2.9	2.1-3.1

Volatility is based on historical volatility of the Company's share price for periods matching the expected term of the option until exercise.

The plan is governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. In accordance with the track chosen by the Company and pursuant to the terms thereof, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company's accounts, in respect of options granted to employees under the plan - with the exception of the work-income benefit component, if any, determined on the grant date.

Compensation expense included in the consolidated statements of income in respect of the Company's options plan, amounts to NIS 8.0 million, NIS 11.7 million and NIS 6.5 million for the years 2008, 2009 and 2010, respectively.

Average exercise prices are as follows:

	Average exercise price per share * (NIS)	Number of options (thousands)
At January 1, 2008	-	-
Granted	35.83	5,028
Forfeited	34.42	(159)
At December 31, 2008	35.88	4,869
Granted	35.41	235
Forfeited	36.35	(614)
At December 31, 2009	35.79	4,490
Granted	41.55	294
Exercised	35.80	(2,837)
Forfeited	35.36	(81)
At December 31, 2010	30.71	1,866
Options that can be exercised at December 31, 2010	-	-

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 – EQUITY (continued):

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Number of options (thousands)	Range of exercise prices (NIS)*	Average of expiry date (years)
December 31, 2009	4,490	34.42-37.33	1.0
December 31, 2010	1,866	27.62 - 41.55	0.6

* After adjusting the option exercise price at the rate of 50% of cash dividends distributed.

On March 22, 2011 after the statement of financial position date, the Company granted 290,000 options for shares in the Company of the 2008 plan to key management. The exercise price of the options is NIS 36.51 per option. The terms of the 2008 plan apply to these options.

Share options plans in subsidiaries

- a. In August 2008, BSRE's Board of Directors resolved to adopt a share options plan for executives of BSRE. The total number of shares reserved for issuance under the plan is 250,000 shares. All exercises of options under the plan are to be on a cashless basis. Each option can be exercised to purchase one ordinary share of NIS 1 par value of BSRE. Immediately upon allotment, the ordinary shares issued upon exercise of the options will have the same rights as other ordinary shares of BSRE. The exercise price of the option is set at the grant date according to the average quoted price of BSRE's ordinary share during the 30 trading days before the date of the grant.

Under the plan, executives who will exercise the options would be allotted only shares that reflect the benefit component embodied in the options, as computed at date of exercise, i.e., the difference between the exercise price of each option and the quoted price of a NIS 1 par value share at date of exercise.

Under the plan, the options to executives can be exercised in the period of 6 months from the end of the vesting period. Any option not exercised by this date will expire.

In August 2008, BSRE granted 125,000 options to BSRE's Chief Executive Officer, who will be entitled to exercise the options at the end of the following vesting periods: 66.7% at the end of two years from the date of grant and the remaining 33.3% at the end of three years from the date of grant.

The exercise price is NIS 51.76 (unlinked) per share. The quoted price of BSRE's ordinary share before the date of approval of the grant of options by the Board of Directors, was NIS 46.91.

The benefit component based on Black & Scholes option pricing model is NIS 7.11 in respect of the first batch and NIS 9.83 in respect of the second batch, so that the total fair value amounts to NIS 1 million.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 – EQUITY (continued):

The fair value is based on the following assumptions: expected volatility of approximately 26%; risk-free interest rate of approximately 5%; and anticipated term until the end of the exercise period.

The exercise price would be adjusted at the rate of 50% of cash dividends distributed during the term of the options.

The plan is governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. In accordance with the track chosen by the Company and pursuant to the terms thereof, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company's accounts, in respect of options granted to employees under the plan - with the exception of the work-income benefit component, if any, determined on the grant date.

Compensation included in the consolidated statements of income in respect of BSRE option plan amounts to NIS 0.2 million, NIS 0.4 million and NIS 0.3 million for the years 2008, 2009 and 2010, respectively.

In October 2010, BSRE granted 18,077 shares in BSRE upon the exercise of options in consideration for their par value. In February 2011, after the statement of financial position date, following the exercise of part of the options in BSRE, BSRE granted 19,840 shares in BSRE in consideration for their nominal value.

- b. In November 2005, Na'aman granted 300,000 options to employees, under a cashless exercise option plan approved in August 2005. The beneficial employees were entitled to exercise the options at the end of the following vesting periods: 33% at the end of November 2006, 33% at the end of November 2007 and the remaining 34% at the end of November 2008. The options granted to employees were exercisable by the end of May 2009.

On May 2009 all the options above were forfeited.

- c. Dividends per share

During the year 2010, the Company paid dividends per share of NIS 1.70 on February 25 and NIS 12.31 on October 18.

During the year 2008, the Company paid dividends of NIS 3.46 on October 7, 2008.

Regarding capital risk management, see also note 3.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 17 – OTHER RESERVES:

	<u>2008</u>	<u>2009</u>	<u>2010</u>			
	<u>Available for sale investments</u>	<u>Available for sale investments</u>	<u>Available for sale investments</u>	<u>Currency translation differences</u>	<u>Capital reserve arising from transactions with non controlling interests</u>	<u>Total</u>
	<u>NIS in thousands</u>					
At January 1	1,415	(261)	5,676	-	-	5,676
Change in other reserves						-
Available for sale investments	(1,676)	5,937	(6,253)	-	-	(6,253)
Transactions with non controlling interests	-	-	-	-	(6,943)	(6,943)
Currency translation differences	-	-	-	(5,019)	-	(5,019)
At December 31	<u>(261)</u>	<u>5,676</u>	<u>(577)</u>	<u>(5,019)</u>	<u>(6,943)</u>	<u>(12,539)</u>

NOTE 18 – OTHER ACCOUNT PAYABLES AND ACCRUED EXPENSES:

	<u>December 31</u>	
	<u>2009</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Payroll and related expenses and other employee benefits	134,131	162,159
Government authorities	17,750	133,944
Liability in respect of gift certificates	159,290	149,465
Put option granted to a minority interest (see note 5a1)	23,317	-
Accrued expenses	93,775	152,100
Other	65,884	88,779
Total	<u>494,147</u>	<u>686,447</u>

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 19 - LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES:

Composition

	December 31	
	2009	2010
	NIS in thousands	
Loans from banks and other (1)	871,319	2,167,214
Debentures (2)	1,327,986	2,313,895
Convertible debentures (2)	142,066	189,768
	<u>2,341,371</u>	<u>4,670,877</u>

(1) Loans from banks and others:

	December 31	
	2009	2010
	NIS in thousands	
Current liabilities:		
Bank overdrafts (note 13)	493	21,825
Bank loans	101,774	408,959
Commercial paper *	40,819	39,500
Current maturities of non-current loans	131,512	297,771
	<u>274,598</u>	<u>768,055</u>
Non-current liabilities:		
Bank loans and other loans	596,721	1,399,159**
	<u>871,319</u>	<u>2,167,214</u>

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 19 - LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

- * On June 30, 2009 the Company issued commercial paper to institutional investors in an amount of NIS 40 million for a period of four years. The commercial paper bears a variable annual interest and is repayable every six months at the demand of the holders. During 2010 the Company redeemed NIS 500 thousand par value of the Commercial Paper.
- ** Including a loan of NIS 129,000 thousand from the controlling shareholder due in 2012. The loan is unlinked and bears interest of prime less 1.25% as of December 31, 2010.

Composition and details of liabilities based on interest rates and linkage terms

	December 31		
	Weighted average	2009	2010
	interest rate (a)	NIS in thousands	
	%		
NIS - Linked to the Israeli CPI	4.04	317,409	1,020,239
NIS - Unlinked and bearing a fixed annual interest rate	6.49	263,094	179,846
NIS - Unlinked and bearing a variable annual interest rate	4.24	290,816	967,129
		<u>871,319</u>	<u>2,167,214</u>

(a) Weighted average interest rate, as of December 31, 2010.

(b) The long-term loans net of current maturities are repayable in the years subsequent to the statement of financial position date as follows:

	December 31	
	2009	2010
	NIS in thousands	
Second year	114,607	393,788
Third year	95,520	186,293
Fourth year	75,943	132,081
Fifth year and afterwards	310,651	686,997
	<u>596,721</u>	<u>1,399,159</u>

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NOTE 19 - LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

(c) The carrying amounts and fair value of the non-current loans are as follows:

	December 31			
	2009	2010	2009	2010
	NIS in thousands			
	Carrying amount		Fair value (*)	
Bank and other loans	728,233	1,696,930	737,316	1,690,893

(*) The fair values of long-term loans are based on cash flows discounted using a rate based on the capitalization rate of 3.7% (2009: 4.6%).

The carrying amounts of short-term loans approximate their fair value.

(d) Financial covenants

Bee Group and its subsidiaries have loans with a total of approximately NIS 127 million as at December 31, 2010, whereby the companies have undertaken to meet certain financial covenants. These financial covenants include a limitation on the distribution of dividends. As of December 31, 2010, Bee Group and its investee companies meet the above mentioned covenants after receiving a waiver from the bank.

BSRE have a loan with a total balance of NIS 236.5 million, whereby the company have undertaken to meet certain financial covenants. As of December 31, 2010, BSRE meet the above mentioned covenants.

Dor Alon's subsidiaries have loans with a total balance of approximately NIS 121.3 million as at December 31, 2010 for which they have undertaken to meet certain covenants. As at December 31, 2010 Dor Alon's subsidiaries met the covenants.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 19 - LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

(2) Debentures and convertible debentures

Debentures	Ref	Weighted Average interest rates at December 31, 2010	December 31	
			2009	2010
			NIS in thousands	
The Company:				
Alon Holdings Blue Square (Series A)	d(1) (a)	5.90%	227,719	232,916
Alon Holdings Blue Square (Series C)	d(1)(c)	2.50%	-	100,373
			227,719	333,289
Blue Square Real Estate:				
Marketable debentures-Blue Square Real Estate (Series B)	d(3)(b)	4.70%	849,515	868,895
Marketable debentures-Blue Square Real Estate (Series C)	d(4)	4.20%	300,571	307,429
Marketable debentures-Blue Square Real Estate (Series D)	d(5)	4.50%	-	112,083
			1,150,086	1,288,407
Dor Alon Energy:				
Marketable debentures-Dor Alon Energy (Series B)	d(7)	5.00%	-	341,090
Marketable debentures-Dor Alon Energy (Series C)	d(8)	4.29%	-	81,000
Marketable debentures-Dor Alon Energy (Series D)	d(9)	6.65%	-	139,000
Dorgas Batuchot Ltd.	d(10)	4.95%	-	73,112
Dor Debentures	d(11), d(12)(1)	6.45%	-	73,529
Total			-	707,731
			1,377,805	2,329,427
Less- amount of discount (net of accumulated amortization)			(49,819)	(15,532)
			1,327,986	2,313,895
Less-current maturities			(76,653)	(130,802)
			1,251,333	2,183,093
Convertible debentures				
Alon Holdings Blue Square (Series B)	d(1)b, c	5.90%	15,093	2,330
Blue Square Real Estate (Series A)	d(3)a, d	6.25%	107,119	112,227
Dor Alon Energy (Series A)	d(6)	5.00%	-	61,017
Total			122,212	175,574
Conversion component at fair value	a)		11,898	9,011
Premium (net of amortization)			7,956	5,183
Total			142,066	189,768
Less-current maturities			(45)	(71,967)
			142,021	117,801

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 19 - LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

a) Conversion component of convertible debentures

The conversion component of the convertible debentures is calculated based on a binomial model with using the following assumptions:

	December 31, 2009		December 31, 2010	
	The company	BSRE	The company	BSRE
Discount rate	1.53%	3.8%	3.0%	2.93%
Share price (NIS)	38.06	69.0	31.40	94.67
Standard deviation of the share price	50.19%	35.1%	28.18%	34.79%

The value of the conversion component of Dor Alon's convertible debentures as of December 31, 2010 was zero.

b) Repayment dates of debentures and convertible debentures (excluding discount or premium)

	December 31	
	2009	2010
	NIS in thousands	
First year - current maturities	76,698	181,533
Second year	37,683	186,981
Third year	73,240	483,274
Fourth year	312,931	483,375
Fifth year and afterwards	999,465	1,169,838
Total	<u>1,500,017</u>	<u>2,505,001</u>

c) The carrying amounts and fair value of the debentures and the convertible debentures are as follows:

	December 31			
	2009	2010	2009	2010
	NIS in thousands			
	Carrying amount		Fair value*	
Debentures	1,327,986	2,313,895	1,429,528	2,479,221
Convertible debentures	142,066	189,768	148,866	201,030
Total	<u>1,470,052</u>	<u>2,503,663</u>	<u>1,578,394</u>	<u>2,680,251</u>

*The fair values of debentures and convertible debentures, both marketable and not marketable, are based on market prices and cash flows discounted using a rate based on the capitalization rate of between 1.9% and 4.3%.

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NOTE 19 - LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

d) Debentures and convertible debentures – additional details

Blue Square

- 1) In August 2003, the Company issued NIS 400 million par value debentures to institutional investors in consideration for their par value as follows:

- (a) 200 million registered debentures (Series A) of NIS 1 par value each.

These debentures are linked (principal and interest) to the Israeli CPI, but in the event that the Israeli CPI is lower than the base index (index known at date of issuance), the amount of the debentures will not be adjusted below the base index. The principal is repayable in three equal annual installments on August 5 of each of the years 2012 to 2014, and bears interest at the rate of 5.9% per annum. The interest is payable semi-annually on February 5 and on August 5.

- (b) 200 million registered convertible debentures (Series B) of NIS 1 par value each

These debentures are linked (principal and interest) to the Israeli CPI, but in the event that the Israeli CPI is lower than the base index (index known at date of issuance), the amount of the debentures will not be adjusted below the base index. The principal is repayable in three equal annual installments on August 5 of each of the years 2007, 2009 and 2011, and bears interest at the rate of 5.9% per annum. The interest is payable semi-annually on February 5 and on August 5.

The debentures (Series B) are convertible to ordinary shares of the Company at a conversion ratio that is subject to adjustments in the event of distribution of bonus shares and cash dividends and the issuance of rights. As of December 31 2010, the conversion ratio is that each NIS 6.083 par value of debentures are convertible to one ordinary share of 1 NIS par value. The aforementioned conversion ratio is after adjustment for cash dividends distributed since the date of issuance of the debentures (Series B) until the statement of financial position date.

The terms of the debentures provide that the holders of the debentures will not be entitled to request the Company to register for trading on the New York Stock Exchange any shares derived from the conversion of the debentures (Series B). Such shares will be traded only on the Tel Aviv Stock Exchange (TASE).

At December 31, 2010 the par value of the Convertible Debentures (Series B) was NIS 2,000,694. As to the conversion of convertible debentures into shares, see note 16.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 19 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

Other terms:

- i) The terms of the debentures (Series A and Series B) provide that in the event that the shares of the Company are delisted from trading on the TASE, and/or in the event that the shares of the Company are no longer held by the public and/or in the event that Standard & Poor's Maalot ("S&P Maalot") reduces the Company's rating to BBB or lower, then within three months from one of the above mentioned events the Company, subject to the then prevailing law, will offer to acquire the debentures at a price equivalent to the price of debentures of the same type reflecting a return of 2.5% in excess of the return on Government debentures with an average life similar to the remaining average life of the debentures of that series as of the date of the offer, but in no event will the price exceed the carrying value of the debentures of that series.
 - ii) On April 26, 2010 Standard & Poors Maalot entered the rating for the debentures of the Company and BSRE of iA+ into Credit Watch with negative outlook, due to the Wholesale Market transaction of BSRE. On October 26, 2010, Standard & Poors Maalot reduced the rating for the Company's debentures from iA+ to iA-. Also, on this date, the Company and BSRE announced they would terminate their rating agreements with Standard & Poors Maalot. From that date, Midroog (a subsidiary of Moody's) will be the rating agency that will continue to rate the Company's and BSRE's debentures.
- 2) On November 9, 2010, following the filing of a Shelf Offering Report, the Company completed its public tender of Series C par value NIS 100 million CPI linked debentures bearing annual fixed interest of 2.5% payable in two semi-annual payments on May 4 and November 4 in each of the years 2011 to 2022. The principal will be repaid in 12 equal payments on November 4 of each of the years 2011 to 2022 (inclusive). The debentures were issued at a discount of 3.2% and for a consideration of NIS 96.8 million. The debentures were rated A1 by the rating agency Midroog.

BSRE

- 1) Pursuant to prospectus dated August 16, 2006, BSRE issued NIS 875 million par value debentures:
- (a) 100 million registered convertible debentures (Series A) of NIS 1 par value each.

These debentures are to be redeemed in four equal annual installments on August 31 of each year in the period from 2013 through 2016. The Series A debentures are linked (principal and interest) to the CPI and bear interest at an annual rate of 6.25%, which is payable every six months, on February 28 and August 31 of each year from 2007 until the final redemption of the debentures. The Series A debentures are convertible into registered BSRE ordinary shares of NIS 1 par value at any time through August 16, 2016, except during the periods from August 17 through August 31 in each of the years between 2013-2015 (inclusive). The conversion rate for these debentures as at December 31, 2010 was NIS 268.71 par value of debentures per share.

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NOTE 19 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

- (b) 650 million registered debentures (Series B) of NIS 1 par value each.

These debentures are to be redeemed in four equal annual installments on August 31 of each year in the period from 2013 through 2016. The Series B debentures are linked to the CPI and bear interest at an annual rate of 4.7%, which is payable every six months, on February 28 and August 31 of each year from 2007 until the final redemption of the debentures.

- (c) Expansion of Series B

On September 26, 2008, the BSRE Series B was expanded by way of private allocation of NIS 125,000 par value of debentures to institutional investors. The debentures (Series B) have been allocated in consideration for 97.5% of their par value – a total of NIS 121,875 – and their terms are identical to the terms of the Series B debentures as specified in section b. above.

The annual effective interest rate on the debentures, taking into account the issuance expenses as above, is 6.43%.

- (d) As at December 31, 2010 BSRE's (Series A and B) debentures were rated by Midroog at A1 with a negative outlook.

- (e) 300 million registered debentures (Series C) of NIS 1 par value each.

On October 18, 2009, BSRE issued to the public Series C debentures in the total amount of NIS 300,000; the debentures were issued through a tender under a shelf prospectus of the company dated May 20, 2009.

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

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

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NOTE 19 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

- 2) On July 12, 2010, BSRE completed its NIS 110 million Series 'D' Debenture issue in accordance with a shelf prospectus. The Debentures are linked to the Israeli CPI and bear fixed interest of 4.5%. The Debenture principal will be redeemed in four equal annual payments, which will be paid on June 30 in each of the years 2017 to 2020 (inclusive). The Debenture interest will be paid in semi-annual payments on June 30 of each of the years 2011 to 2020 (inclusive) and December 31 of each of the years 2010 to 2019 (inclusive).

The terms of the debentures determine that in case Midroog Ltd. or another rating agency were to reduce the BSRE's rating to A3 the annual interest rate will increase by 0.35%. In case BSRE's rating were to be reduced further then the annual interest rate will increase by 0.35% multiplied by the number of notches that the Company's rating is reduced below A3.

Dor Alon

- 1) Dor Alon (Series A)

In accordance with a prospectus dated May 29, 2005, these convertible debentures with a par value at the date of issue of NIS 325,005 thousand are linked (interest and principal) to the Israeli CPI and bear interest of 5% per annum. As at December 31, 2010 the par value of the remaining debentures was NIS 61,017 thousand, which is repayable during 2011. The conversion ratio of these debentures as at December 31, 2010 is NIS 81.83.

- 2) Dor Alon (Series B)

In accordance with a prospectus dated May 29, 2005, these debentures with a par value of NIS 585,220 thousand are linked (principal and interest) to the Israeli CPI. The interest of 5% per annum is repayable in semi-annual installments on May 31 and November 30 until May 2015. The principal balance at December 31, 2010 was NIS 341,090 thousand, which is repayable at annual payments on May 31 over five years, with NIS 68,218 thousand each year.

- 3) Dor Alon (Series C)

These debentures with a par value of NIS 81,000 thousand were issued according to a prospectus dated August 20, 2009 on the Tel Aviv Stock exchange. The debentures bear the interest rate of Israeli government bonds (No.817) with the addition of 2.25%. The interest is paid in quarterly installments up to December 2017. The principal is repayable in semi-annual installments on June 1 and December 1 over five years, starting 2013, with NIS 16,200 thousand each year.

- 4) Dor Alon (Series D)

These debentures with a par value of NIS 139,000 thousand were issued according to a prospectus dated August 20, 2009 on the Tel Aviv stock exchange. The debentures bear a fixed annual interest rate of 6.65%, payable in quarterly installments up to December 2016. The principal is repayable in equal semi-annual payments on June 1 and December 1 from 2013 to 2016, with NIS 34,750 thousand each year.

- 5) Dorgas Batuchot Ltd.

These debentures with a par value at the date of issue of NIS 96,000 thousand are linked (principal and interest to the Israeli CPI). The debentures bear a fixed rate of annual interest of 4.95%. The principal balance at December 31, 2010 was NIS 73,112 thousand, which is repayable over the next nine years at a rate of NIS 7,616 thousand per annum with NIS 4,568 thousand in the tenth year.

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NOTE 19 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

6) Dor Debentures

These debentures (Series 1 and Series 2) with a par value at the date of issue of NIS 75 million were issued to institutional investors. At December 31, 2010 the debentures were rated A-.

e) Covenants for debentures and convertible debentures

1. The debentures issued by Dor Debentures and Dorgas Batuchout (see d(10) and (11) above) include the requirement to meet certain covenants. As at December 31, 2010 the covenants for Dor Debentures (Series 2) and Dorgas Batuchot were met.
2. As at December 31, 2010 Dor Debentures did not meet the covenants relating to the Series 1 debentures issued by Dor Debentures. At the request of the trustee, the Company provided a bank guarantee of NIS 15.5 million that is valid up to July 2011 (see also note 32(f) below). During the period to July 2011, the Company and the trustee will establish whether to change the terms of the original covenants. As a result a liability amounting to NIS 7,737 thousand was classified as current liabilities as at December 31, 2010.

NOTE 20 – OTHER LIABILITIES :

	December 31		
	2008	2009	2010
	NIS in thousands		
Long term liabilities, net of current portion	3,480	1,740	-
Put option granted to non-controlling interests	21,638	-	-
Rental contracts and value of unfavorable terms of operating leases (see also note 5)	1,947	3,719	173,713
Advances from purchasers of apartment (see also note 15)	-	-	22,428
Other	*8,156	*10,743	3,842
	<u>35,221</u>	<u>16,202</u>	<u>199,983</u>

*Retroactive application, see note 2ad.1

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 21 – DEFERRED INCOME TAX:

- a. Deferred tax assets and liabilities, as presented in the statement of financial position (after offsetting) are expected to be recovered or settled, as follows:

	December 31		
	2008	2009	2010
	NIS in thousands		
Deferred tax assets:			
Deferred tax asset to be recovered after more than 12 months	25,225	26,708	26,191
Deferred tax asset to be recovered within 12 months	19,283	19,283	39,827
	44,508	45,991	66,018
Deferred tax liabilities:			
Deferred tax liability to be recovered after more than 12 months	*(56,917)	*(41,874)	(95,556)
Deferred tax liability to be recovered within 12 months	(4,484)	(15,405)	(8,373)
	(61,401)	(57,279)	(103,929)
Deferred tax liabilities, net	(16,893)	(11,288)	(37,911)

The deferred taxes are computed at the tax rates of 18%-24%. (2009;18%-25% and 2008; 25%-26%).

*Retroactive application, see note 2ad.1

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 21 – DEFERRED INCOME TAX (continued):

b. The gross movement on the deferred income tax account is as follows:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Balance at January 1	*(25,147)	*(16,893)	(11,288)
Statement of income charge	4,000	9,587	(1,705)
Additions in respect of companies consolidated for the first time	-	453	(26,561)
Tax charged directly to other comprehensive income	4,254	(4,435)	1,643
Balance at December 31	<u>*(16,893)</u>	<u>*(11,288)</u>	<u>(37,911)</u>

c. The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Depreciable property and equipment and investment property*	Intangible assets and other	Total
	NIS in thousands		
Balance at January 1, 2008	(34,644)	(18,844)	(53,488)
Charged (credited) to the statement of income	(8,868)	3,267	(5,601)
Charged directly to OCI (see note 28)	-	873	873
Balance at December 31, 2008	(43,512)	(14,704)	(58,216)
Charged (credited) to the statement of income	10,808	1,174	11,982
Additions in respect of companies consolidated for the first time	-	(1,901)	(1,901)
Credited directly to OCI (see note 28)	-	(2,622)	(2,622)
Balance at December 31, 2009	(32,704)	(18,053)	(50,757)
Credited to the statement of income	(3,518)	1,697	(1,821)
Additions in respect of companies consolidated for the first time	(14,154)	(31,432)	(45,586)
Charged directly to OCI (see note 28)	-	1,628	1,628
Balance at December 31, 2010	<u>(50,376)</u>	<u>(46,160)</u>	<u>(96,536)</u>

*Retroactive application, see note 2ad.1.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 21 – DEFERRED INCOME TAX (continued):

d.	Provisions for employee rights	Carry forwards tax losses	Derivative instruments	Provision for impairment of trade receivables	Total
Balance at January 1, 2008	24,469	4,383	(511)	-	28,341
Credited to the income statement	3,009	2,442	4,150	-	9,601
Credited directly to OCI	3,381	-	-	-	3,381
Balance at December 31, 2008	30,859	6,825	3,639	-	41,323
Charged (credited) to the income statement	(4,076)	8,464	(6,783)	-	(2,395)
Additions in respect of companies consolidated for the first time	-	2,354	-	-	2,354
Charged directly to OCI	(1,813)	-	-	-	(1,813)
Balance at December 31, 2009	24,970	17,643	(3,144)	-	39,469
Charged (credited) to the income statement	(2,226)	4,687	(2,672)	327	116
Additions in respect of companies consolidated for the first time	2,731	4,025	-	12,269	19,025
Charged directly to OCI (see note 28)	15	-	-	-	15
Balance at December 31, 2010	25,490	26,355	(5,816)	12,596	58,625

Losses for tax purposes, carried forward to future years

As of December 31, 2010, 2009 and 2008 the subsidiaries have operating tax loss carry forwards of approximately NIS 204.6 million, NIS 123 million and NIS 56.5 million, respectively. The balance of carry forward losses, in respect of which deferred tax assets were not included, amounted to NIS 84.9 million, NIS 41 million and NIS 35.6 million as of December 31, 2010, 2009 and 2008, respectively. In addition, the Company and its subsidiaries have capital loss tax carry forwards of approximately NIS 30.4 million, NIS 32.5 million and NIS 28.1 million as of December 31, 2010, 2009 and 2008, respectively. The tax benefit in respect of capital tax loss carry forwards amounting to NIS 27.7 million has not been recorded due to uncertainty of their realization.

Capital gains (except for capital gain on sale of marketable securities subject to regular tax rates) are liable to a tax rate of 25% on capital gains generated after January 1, 2003. The tax rate would be gradually reduced to 18% in 2016 in accordance with The Economic Realization Law, see note 28 (a)(2).

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 22 – RETIREMENT BENEFIT OBLIGATIONS:

a. Composition of the liability for defined benefit plans:

	December 31	
	2009	2010
	NIS in thousands	
Statement of financial position obligations for:		
Present value of funded obligation	336,769	405,409
Provision in respect of unutilized sick leave	32,834	35,308
	369,603	440,717
Fair value of the plan assets	322,354	389,225
Total present value of the obligation, net	47,249	51,492

b. Changes in the liability for defined benefit plans:

	2008	2009	2010
	NIS in thousands		
Liability in respect of defined benefit plans at January 1	308,494	326,754	369,603
Acquisition of subsidiary consolidated for the first time	-	-	29,205
Benefits paid	(21,512)	(38,252)	(24,901)
Current service costs	32,410	31,657	38,868
Actuarial losses (gains)	(9,953)	33,168	7,414
Interest costs	17,315	16,276	20,528
Liability in respect of defined benefit plans at December 31	326,754	369,603	440,717

c. Changes in plans assets:

	2008	2009	2010
	NIS in thousands		
Fair value of plan assets at January 1	272,508	276,843	322,354
Acquisition of subsidiary consolidated for the first time	-	-	27,753
Employer contributions paid into the plan	29,090	28,750	30,868
Actuarial gains (losses)	(23,748)	35,287	6,850
Benefits paid	(18,532)	(31,299)	(18,265)
Expected return on plan assets	17,638	12,874	18,561
Other adjustments	(113)	(101)	1,104
Fair value of plan assets at December 31	276,843	322,354	389,225

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NOTE 22 – RETIREMENT BENEFIT OBLIGATIONS (continued):

The actual return (loss) on plan assets was NIS 25,411 (2009 – NIS 48,161 thousands, 2008-NIS (6,110)).

Expected contributions to post-employment benefit plans for the year ending December 31, 2011 are approximately NIS 43,300 thousand.

The accumulated amount of actuarial gains (losses) that were recognized in the OCI as of December 31, 2010, 2009 and 2008 is NIS (10,253) thousands, NIS (9,976) thousands and NIS (10,992) thousands, respectively.

d. Expense recognized in the income statement in respect of defined benefit plans:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Current services costs	32,410	31,657	38,868
Interest cost	17,315	16,276	20,528
Expected return on plan assets	(17,638)	(12,874)	(18,561)
Other adjustments	113	101	(1,104)
	<u>32,200</u>	<u>35,160</u>	<u>39,731</u>

The expense recognized in the statement of income for defined contribution plans was NIS 2,671 thousands in 2010 and, NIS 2,227 thousand in 2009 respectively.

e. The expenses were included in the following statement of income items:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Selling, general and administrative expenses	32,523	31,758	37,764
Financial (income) expenses	(323)	3,402	1,967
	<u>32,200</u>	<u>35,160</u>	<u>39,731</u>

The principal actuarial assumptions used were as follows:

	December 31	
	2009	2010
Discount rate	5%-6%	4.7%-5.3%
Inflation rate	2.6%	2.7%
Expected return on plan assets	2.6%-6.1%	4.7%-5.8%
Future salary increases	4.4%-5.7%	2.6%-7.7%
Rates of employee turnover	4%-55%	4%-60%

Assumptions regarding future mortality rates are based on actuarial advice in accordance with published statistics and past experience in Israel. Mortality rates are based on the pension circular 2007-3-6 of the Ministry of Finance.

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NOTE 23 – PROVISION FOR OTHER LIABILITIES AND CHARGES:

	Termination benefits	Legal claims	Total
	NIS in thousands		
At January 1, 2009	6,000	37,397	43,397
Charged (credited) to the income statement:			
Provisions made during the period	-	16,182	16,182
Provisions reversed during the period	-	(132)	(132)
Provisions used during the period	(6,000)	(2,149)	(8,149)
At December 31, 2009	-	51,298	51,298
Acquisition of subsidiary consolidated for the first time	-	6,452	6,452
Provisions capitalized to property and equipment(*)	-	15,730	15,730
Charged (credited) to the income statement:			
Provisions made during the period	282	10,999	11,281
Provisions reversed during the period	-	(500)	(500)
Provisions used during the period	-	(12,391)	(12,391)
At December 31, 2010	282	71,588	71,870

(*) Liability for lease fees for assets where the lease term has ended and where there are disagreements relating to the amount the Company is due to pay.

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NOTE 24 – OTHER GAINS (LOSSES):

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Other gains:			
Capital gain in respect of changes in holdings of subsidiaries as a result of a reorganization (note 5b)	12,001	3,210	-
Gain from sale of property and equipment	-	1,451	81
Reversal of impairment provision, net	-	-	3,031
Other	232	38	146
	<u>12,233</u>	<u>4,699</u>	<u>3,258</u>
Other losses:			
Capital loss in respect of the decrease in holdings of a subsidiary	2,220	-	-
Termination benefits	6,000	-	-
Loss from sale of property and equipment and other assets	2,569	4,750	6,043
Impairment provisions of property and equipment and intangible assets	3,420	19,981	3,977
Reorganization costs (see note 5b)	-	2,700	7,196
Dor Alon acquisition transaction costs	-	-	2,974
Other	507	5,372	7,998
	<u>14,716</u>	<u>32,803</u>	<u>28,188</u>
Other gains (losses), net	<u>(2,483)</u>	<u>(28,104)</u>	<u>(24,930)</u>

NOTE 25 – EXPENSES BY NATURE:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Change in inventories	(43,136)	(17,224)	49,910
Net purchases	5,273,649	5,175,890	6,093,415
Wages salaries and related expenses	775,079	780,332	836,544
Depreciation, amortization and impairment charges	153,935	165,248	206,945
Transportation and storage expenses	102,835	95,482	118,234
Advertising costs	87,191	82,070	120,854
Rent and maintenance expenses	183,313	226,517	306,059
Other expenses	631,003	599,796	530,361
	<u>7,163,869</u>	<u>7,108,111</u>	<u>8,262,322</u>
Total cost of sales, selling general and administrative expenses	<u>7,163,869</u>	<u>7,108,111</u>	<u>8,262,322</u>

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NOTE 26 – EMPLOYEE BENEFIT EXPENSES:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Wages, salaries, including social security costs	734,494	734,181	789,275
Termination benefits	6,000	-	-
Share options granted to managers and employees	8,175	12,166	6,834
Post-employment benefits*	32,410	37,387	42,402
	<u>781,079</u>	<u>783,734</u>	<u>838,511</u>
Number of positions (100%)**	<u>7,475</u>	<u>7,149</u>	<u>***9,890</u>

* Including employee benefit expenses that were charged to finance expenses.

** In certain cases several employees share one 100% position, i.e., each employee works part time.

*** From October 3, 2010 the number of positions includes the number of employees of Dor Alon.

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NOTE 27 – FINANCE INCOME AND EXPENSES:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Income:			
Interests :			
Interest income on short-term bank deposits	10,668	3,044	5,479
Interest income from bank and others	8,208	8,543	14,268
Net gain from marketable securities available for sale	7,923	14,165	21,861
Net gain from securities at fair value through profit and loss	-	10,000	14,063
Changes in fair value of derivatives:			
Conversion component	32,744	-	-
Forward contracts on the Israeli CPI	-	21,283	2,322
Diners option	-	7,566	27,859
Embedded derivatives	1,157	179	-
	<u>60,700</u>	<u>64,780</u>	<u>85,852</u>
Expenses:			
Interest and differences from linkage to the Israel CPI:			
Bank borrowings	36,197	45,836	58,110
Debentures and convertible debentures	102,670	112,277	134,473
Bank commissions and others	7,323	9,971	8,218
Changes in fair value of derivatives:			
Conversion component	1,199	8,659	31,248
Forward contracts on the Israeli CPI	11,593	-	-
Embedded derivatives	7,313	711	3,798
	<u>166,295</u>	<u>177,454</u>	<u>235,847</u>
Net finance cost	<u><u>105,595</u></u>	<u><u>112,674</u></u>	<u><u>149,995</u></u>

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NOTE 28 – INCOME TAX EXPENSES:

a. Corporate taxation in Israel

1. Commencing tax year 2008, the results of operations for tax purposes of the Company and its subsidiaries are measured in nominal values. Through the end of tax year 2007, the results of operations of the Company and its subsidiaries were measured having regard to the changes in the CPI in accordance with the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter – the inflationary adjustments law).

In February 2008, the Knesset (the Israeli parliament) passed a law according to which the provisions of Inflationary adjustments law will no longer apply to the Company in 2008 and thereafter.

2. Tax rates

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

On July 14, 2009 the Economic Rationalization Law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009 and 2010), 2009, was published. This law determined, inter alia a further gradual reduction of the corporate tax up to 18% in year 2016 onwards.

The rates as from 2011 are as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

The effect of the change in the future tax rates was reflected in the results for the year 2009 by decrease in deferred tax liability and recognition in income from taxes in the amount of NIS 14.2 million.

Capital gains are taxed at a rate of 25% on the capital gains derived after January 1, 2003 (as to marketable securities – that were acquired after January 1, 2006), and at the regular corporate tax rates on income derived through the aforementioned date.

b. Tax assessments

1. The Company has received final tax assessments for tax years through 2008. Regarding tax assessments for the years 1999-2001, see also note 30.
Some of the principal subsidiaries have received final assessments for tax years through 2004. For some of the subsidiaries, no final tax assessments have been received since their inception.
2. As to deduction assessment for the years 2001-2004, see note 30.

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NOTE 28 – INCOME TAX EXPENSES (continued):

c. Effect of adoption of IFRS in Israel on tax liability

As mentioned in note 2a, the Company prepares its financial statements in accordance with IFRS, commencing January 1, 2008.

As also indicated in the said note, IFRS vary from Accounting Principles Generally Accepted in Israel and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the law for the amendment of the Income Tax Ordinance (No. 174 – Temporary Order as to Tax Years 2007, 2008 and 2009), 2010 that was passed in the Knesset on January 25, 2010 (hereafter – the amendment to the ordinance), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007, 2008 and 2009; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements.

The meaning of the amendment to the ordinance is that IFRS would actually not be applied upon computation of the income reported for tax purposes for the said tax years.

On January 18, 2011 the Income Tax Authority announced its intention of expending the said Temporary Order to tax year 2010.

The amendment to the ordinance did not have a material effect on the tax expenses reported in these financial statements.

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NOTE 28 – INCOME TAX EXPENSES (continued):

d. Taxes on income included in the income statements:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Current taxes:			
Current tax on profits for the year	47,676	33,899	33,231
Adjustments in respect of prior years	130	(1,188)	1,351
Total current taxes	47,806	32,711	34,582
Deferred taxes (note 21)	(4,000)	(9,587)	1,705
Income tax expense	<u>43,806</u>	<u>23,124</u>	<u>36,287</u>

e. The income tax charged (credited) to OCI during the year is as follows:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Deferred tax:			
Tax on actuarial loss (gain) on post employment benefits scheme	3,381	(1,813)	15
Tax on fair value adjustments of available-for-sale financial assets	873	(2,622)	1,628
	<u>4,254</u>	<u>(4,435)</u>	<u>1,643</u>

The other items transferred to other comprehensive income do not have a tax affect

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NOTE 28 – INCOME TAX EXPENSES (continued):

- f. The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Profit before tax	176,208	120,925	98,896
Theoretical tax expenses (27%, 26% and 25% respectively)	47,576	31,441	24,724
Tax effects of:			
Difference between the measurement basis of income for tax purposes and the measurement basis of income for book purposes, net	(6,115)	(5,651)	(7,344)
Expenses not deductible for tax purposes, net	9,241	5,001	5,155
Utilization of previously unrecognized tax losses	(1,420)	(762)	(482)
Tax losses for which no deferred income tax asset was recognized	8,031	9,669	5,517
Tax benefit recorded for the first time on carry forward capital losses (gains)	-	(2,976)	-
Decrease in taxes resulting from computation of deferred taxes at a rate which is different from the theoretical rate	(2,083)	(1,177)	(1,847)
Non-taxable financial (income) expenses*	(8,746)	3,030	7,689
Capital losses (gains) for which no deferred tax was recognized	(2,808)	(74)	1,524
Change in future tax rate	-	(14,189)	-
Adjustment in respect of prior years	130	(1,188)	1,351
Tax charge	43,806	23,124	36,287

* mainly resulting from changes in value of conversion component in convertible debentures.

NOTE 29 – EARNINGS PER SHARE:

a. Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, (see note 15).

	2008	2009	2010
Profit attributable to equity holders of the Company (NIS in thousands)	104,586	77,163	47,839
Weighted average number of ordinary shares in issue	43,372,819	43,558,614	49,589,822

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NOTE 29 – EARNINGS PER SHARE: (continued):

b. Diluted

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>NIS in thousands</u>		
Profit attributable to equity holders of the Company	104,586	77,163	47,839
Gain from conversion feature and Interest expense on convertible debt (net of tax)	(31,527)	-	-
Effect of options in subsidiary	-	-	(108)
Profit used to determine diluted earnings per share	<u>73,059</u>	<u>77,163</u>	<u>47,731</u>
	<u>Number of shares</u>		
Weighted average number of ordinary shares in issue adjustments for:	43,372,819	43,558,614	49,589,822
Assumed conversion of convertible debt	1,664,873	-	-
Assumed exercise of options	-	-	224,358
Weighted average number of ordinary shares for diluted earnings per share	<u>45,037,692</u>	<u>43,558,614</u>	<u>49,814,180</u>
Options which were not included in the computation diluted earnings per share due to anti dilutive effect	<u>4,869,000</u>	<u>4,490,332</u>	<u>342,000</u>
Convertible debentures which were not included in the computation of diluted earnings per share due to anti dilutive effect	<u>-</u>	<u>13,268,880</u>	<u>2,000,694</u>

In addition there are convertible debentures in Company's subsidiary BSRE that had no dilutive effect on the Company's earnings per share.

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NOTE 30 – CONTINGENCIES:

Contingencies related to Mega Retail

- a. In December 2010, a claim and a request to recognize it as a class action was filed against the Company and Mega Retail Ltd. ("Mega") relating to the sale of different cheese and butter products in the supermarkets operated by Mega. According to the claimant, the Company sells surrogate cheese and butter products as if they were real cheese and milk products, and in that way misleads the customers. The claimant quantifies his damage at approximately NIS 700 and estimates the damage to the group of claimants for the purpose of the claim at NIS 456 million.
In the opinion of the Company, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, the Company did not make any provision for this claim in its financial statements .
- b. In May 2011, the Company's subsidiary (51%) Eden Briut Teva Market Ltd. ("Eden") was served with a claim and a request to recognize it as a class action in which Eden is sued together with a cheese supplier regarding the sale of certain cheese products. The plaintiff claims that Eden sells in its supermarkets certain cheese substitute products while presenting them as cheese products, and that the customers are misled by Eden's alleged representations regarding such products. The plaintiff filed for the Claim to be approved as a class action representing all customers who bought such products in the seven years prior to the filing of the claim. The plaintiff's personal claim is estimated by her at approx. NIS 200, and if the Claim is approved as a class action, the approximate claim is estimated by the plaintiff at approx. NIS 84 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.
- c. In August, 2010 the Company and subsidiaries were 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 denies 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.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 30 – CONTINGENCIES (continued):

- d. 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.
In the opinion of the Company, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, the Company did not make any provision for this claim in its financial statements .

As part of the ordinary course of business the Company receives claims relating to its activities. In the opinion of management, based on the opinion of the legal advisers handling the claims and in light of the relevant circumstances, the provisions included in the financial statements are sufficient to cover the potential liabilities and none of claims, individually or in the aggregate, will have a material negative effect on the Company's activities, its financial condition or its results.

Contingencies related to the YOU customer club ("YOU") ¹

- a. On February 9, 2011, a claim was filed against Mega, together with a request to recognize the claim as a class action, relating to the omission to grant discounts on certain products, which only applied to members of the YOU customer club, in contravention with the promotion price which was shown on the signage next to those products. If the claim were to be accepted as a class action the claim was assessed by the claimant at NIS 2.5 million.
In the opinion of the Company, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, the Company did not make any provision for this claim in its financial statements .
- b. In December 2010, a claim and a request to recognize it as a class action was filed against the YOU, claiming that discounts for filling the car with petrol at Dor Alon petrol stations, which the club supposedly promised were not given. If the claim were to be accepted as a class action, the claimant assesses his claim at NIS 894 million. In the opinion of the Company, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, the Company did not make any provision for this claim in its financial statements .
- c. In November 2010, a claim and a request to recognize it as a class action was filed against YOU, claiming that discounts for filling the car with diesel at Dor Alon petrol stations, which the club supposedly promised as well as wrongly advertised were not given in reality. If the claim were to be accepted as a class action, the claimant assesses his claim at NIS 54 million. In the opinion of the Company, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, the Company did not make any provision for this claim in its financial statements .
- d. 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 YOU, 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.

¹ 75% held by Blue Square and 25% held by Dor Alon.

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NOTE 30 – CONTINGENCIES (continued):

- e. In March 2010, Mega, YOU and Dor Alon were served with a claim and a request for its approval as a class action regarding the grant of discounts to YOU card holders in certain stores of the "Alonit" chain .
The Claim requests that the customer loyalty plan will return discount sums that according to the Claim should have been granted to YOU card holders who purchased in certain Alonit stores and did not receive a discount, or received a discount of 5% instead of allegedly claimed discount of 10%
The plaintiff's personal claim is estimated by him at approximately NIS 130 and if the Claim is approved as a class action, the approximate claim is estimated by the plaintiff at an amount of at least NIS 49.4 million. In addition, the plaintiff requests a declaratory relief according to which the customers club must grant a 10% discount in all Alonit chain stores. The parties have reached an agreement which has not yet received the approval of the Court.
In the opinion of the Company, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, the Company did not make any provision for this claim in its financial statements .
- f. In February 2010, a claim and a request to certify the claim as a class action was filed against the Company, regarding the grant of discounts to YOU card holders. The claim alleged that during a period of time unknown to the plaintiff, the Company held a special sale in which customers of Mega that are members of the YOU club loyalty plan will receive an additional discount of 10% on the sale price of certain products, and such discount was not granted fully as advertised. The plaintiff's personal claim is estimated at NIS 3.10, and if the claim is certified as a class action, the approximate claim is estimated by the plaintiff at NIS 2 million at least.
The Company and the claimant came to a settlement according to which the Company will pay an immaterial amount to the claimant. The settlement is subject to court approval.

Restricted practices

From April 2000 to May 2003, the Israeli Antitrust Authority conducted an investigation into alleged restrictive trade arrangements between major supermarkets chains in Israel and dominant suppliers. During the investigation, an inquiry was conducted in the Company's offices and a former CEO and other senior officers were questioned. On January 5, 2005, the Commissioner of the Israeli Antitrust Authority issued his position regarding "commercial restrictive practices between the dominant food suppliers and the major supermarket retail chains". According to the Commissioner's position, some of these practices were found to be restrictive trade agreements under the antitrust laws. The Commissioner prohibited these practices unless approved by the Restrictive Trade Practices Court or exempted by the Commissioner himself. Among the practices that were found to be restrictive according to the Commissioner were the following: arrangements with suppliers that determine the suppliers of the retail chains, their identity and their number; arrangements for the management of product categories in conjunction with suppliers; arrangements regarding the retail selling price; arrangements for determining market share of a particular supplier's products and arrangements for determining prices made by suppliers to competing chains; arrangements with regard to the use of suppliers' manpower to stock merchandise on the shelves of the chain stores. Limits were imposed with regard to display areas, on financial benefits to the chains and on special offers to chains for meeting certain sale targets. After the publication of the position paper, the Commissioner stated his position that these directives constitute a position paper, which is "intended to provide guidance concerning the normative status of various practices in the food retail industry as perceived by the Antitrust Authority". The Commissioner indicated that this document does not have normative status. The Company has been applying most of these directives among others, by adopting an internal compliance program. Presently the Company has no knowledge of how, if at all, its business would be affected should the Commissioner take any action against it, with respect to those issues under dispute, which in the Company's opinion and its legal advisers do not contravene the law. In August 2006, the Restrictive Trade Practices Court approved a consent decree reached between the Commissioner and certain food suppliers. The consent decree is directed at the food suppliers listed therein and stipulates various prohibitions, conditions and restrictions that apply to these suppliers with regard to certain practices. The consent decree addresses the following arrangements: Reduction in discounts and rebates in exchange for meeting sales targets, setting market share, exclusivity in sales, price dictation by supplier, and shelf arrangements.

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NOTE 30 – CONTINGENCIES (continued):

As to shelf arrangements: whereas in his position document, the Commissioner determined that the use of suppliers' representatives to physically arrange the shelves in the chains' stores constitutes a restrictive arrangement, the suppliers disagree with this position, and the Commissioner agreed not to take enforcement measures with regard to such arrangements for 30 months, so long as such arrangements satisfy certain conditions. In February 2009, the above period was extended by 36 months, until February 2012.

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

The Company is not a party to the consent decree; however, it could nevertheless have an effect on the practices of the Company's suppliers and indirectly on the Company. At this stage, the Company cannot estimate the effect of the Commissioner's position and the consent decree on its financial results.

Tax and local authorities:

A request for municipal taxes, including an increase of annual taxes, for approximately NIS 3.2 million and a retroactive request for NIS 12 million together with linkage and interest differences were issued relating to the logistics center in Rishon le Zion owned by Mega. According to the Company's management, based on legal advisers, the chance that the above request will be accepted are below 50% and therefore no provision was included in the financial statements for this matter.

In July 2005, the Income Tax Authorities issued a notice of a deduction assessment for the years 2001- 2004 to the Company. The amount claimed under these assessments totaled NIS 34 million, and primarily relates to certain benefits granted to employees in the Company's stores. In November 2005, several senior employees were questioned under warning, with respect to these benefits. Following these assessments and after the rejection of the Company's position on the matter, the Income Tax Authorities issued deduction assessment orders for the years 2001- 2004 in the amount of approximately NIS 44 million to the Company. The Company filed appeals with the District Court contesting these assessment orders which are still pending. In the opinion of the Company and its advisors, the provisions included in the Company financial statements are sufficient to cover the potential liabilities.

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NOTE 30 – CONTINGENCIES (continued):

In July 2007, the Israeli Tax Authorities issued Value Added Tax assessments for the years 2001- 2006 in the amount of approximately NIS 22 million in connection with the foregoing deduction assessments as specified in item (4) below to the Company. The Israeli Tax Authorities did not accept most of the Company's assertions, although they agreed to deduct the total amount to NIS 16.3 million. The Company filed an appeal with the District Court on February 2009, which as of the filing of this Annual Report is still pending. In the opinion of the Company and its advisors, the provisions included in the Company financial statements are sufficient to cover the potential liabilities.

Contingencies related to Dor Alon

- a. A class action was lodged against a subsidiary and other fuel companies in December 2007. The total amount of the claim is NIS 132 million (the subsidiary's share in this amount is NIS 8.8 million). The claimant asserts that the defendants charged each customer NIS 2 for fueling on Saturdays and on holidays.
Based on the opinion of its legal advisers, the subsidiary's management believes that the chances of the claimant would prevail in the claim are lower than 50% and therefore did not include a provision in its accounts for this matter.
- b. In October 2009, Dor Alon received a statement of claim and an application for approval of the claim as a class action; the claim was lodged against Dor Alon and other fuel companies. The claimant claims payment of damages of NIS 124 million (Dor Alon's share in the said claim amount as per the statement of claim is NIS 21.9 million).
According to the claimant, the defendants overcharged him for fuel when filling up his car. According to the claimant, after passing his debit card but before starting to fill up, the payment meter started operating without the provision of fuel. The overcharge has allegedly amounted at times to several Agorot and at times to several NIS.
In the opinion of Dor Alon, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, Dor Alon did not make any provision for this claim in its financial statements.
- c. In December 2010 a claim and an application for approval of the claim as a class action was filed with the District Court in Tel Aviv against Dor Alon, a subsidiary of Dor Alon and the three largest fuel companies in the total amount of approximately NIS 200 million. The claim was filed arguing that liquid oil in the pipes and petrol tanks caused the contamination of ground water. According to the claimants the fuel companies did not adhere to the guidelines of the Environment Ministry and did not check the fueling installations were waterproof. In the opinion of Dor Alon, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, Dor Alon did not make any provision for this claim in its financial statements.
- d. In December 2010 a claim and an application for approval of the claim as a class action was filed with the District Court in Tel Aviv against Dor Alon, and other fuel companies in the total amount of approximately NIS 197 million. The issue in the claim is differences in temperature of the petrol between the moment it is acquired by the fuel companies and the moment it is sold to the customers, in a way that misstates the amount of energy sold to the customers and this way, according to the claimant, the fuel companies profit millions of NIS per annum. Dor Alon has not yet filed its defense. In the opinion of Dor Alon, based on the opinion of its legal advisers, the chances that the claim will be rejected exceed 50%; Accordingly, Dor Alon did not make any provision for this claim in its financial statements.

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NOTE 30 – CONTINGENCIES (continued):

- e. An administrative petition has been filed against the Tel Aviv municipality (and against a subsidiary of Dor Alon and others being nominal parties). The purpose of this petition is to oblige the Tel Aviv municipality to enforce the by-laws on the business of the subsidiary operating during the night, on Saturdays and holidays in Tel Aviv. The subsidiary of Dor Alon filed a response in which it presented its preliminary claims asserting that the petition should be rejected immediately. The sides have presented their final arguments but no decision has been reached. In the opinion of Dor Alon's management, based on the opinion of its legal advisers, the chances that the claimants would prevail in the petition are lower than 50%.
- f. Several bills of indictment and verdicts are pending against Dor Alon and its subsidiaries for operating filling stations or convenience stores without a business license and non-compliance with permits. In addition, closing orders have been issued regarding public filling stations and convenience stores that operated without a business license. The closing orders are pending and Dor Alon is making efforts to get the required business licenses. bills of indictment have been filed against a subsidiary for operating convenience stores without a business license. In the opinion of Dor Alon, the closure of one or more of the filling stations and / or convenience stores that were issued closure orders would not have a material effect on Dor Alon's results of operations.
- g. In December 2010 an indictment was issued in the local court in Tel Aviv against Dor Alon, a subsidiary of Dor Alon, two officers of Dor Alon and an employee a claim by the Environment Ministry claiming they did not perform checks of the leakage of fuel tanks and pipes in a number of Dor Alon's fueling stations and claiming that they did not pass the results of their waterproofness checks to the person in charge of the prevention of water contamination by fuels in the Environment Ministry (as described above), claiming omission of reporting of an oil leak, non-treatment of a facility that was not waterproof and the non-installation of a piezometer, in accordance with 1959 Water Law and the 1977 (prevention of water contamination regulations) (fueling stations) Regulations. The relevant period for performing the waterproofing checks in the statement of claim was between 2000 and 2004. In accordance with Dor Alon's management, based on the opinion of its legal advisers, the chances that the claim will be allowed are less than 50% and therefore Dor Alon did not make a provision in its financial statements.
- h. Dor Alon received claims for additional retroactive municipality taxes for four of its fueling stations by the Hof Hasharon district Council ("the Council"). For one of the stations, the claim was significantly reduced as a result of an agreement reached between Dor Alon and the Council. The other claims amount to approximately NIS 17 million. Dor Alon appealed the Council's Municipal Tax claims. In accordance with Dor Alon's management, based on the opinion of its legal advisers, the chances that the claim will be allowed are less than 50% and therefore Dor Alon did not make a provision in its financial statements.
- i. On December 3, 2003 a claim was filed in the amount of NIS 450 against the gas companies (including a subsidiary of Dor Alon) alleging that the defendants were parties to a cartel, which they entered into beginning in 1994 (and even prior thereto) and up to 2003, in the course of which the Restrictive Practices Authority gave notice of a recommendation to file charges against the gas companies and their managers in connection with the existence of a cartel, as stated. The plaintiff contends that by means of the alleged cartel the gas companies collected unfair and unreasonable prices. A request for certification of the claim as a class action pursuant to the Restrictive Practices Law, the Consumer Protection Law and Rule 29 of the Rules of Civic Procedure (1984), was filed together with the claim. The amount of the class action was set by the requesting party at an amount of at least NIS 1 billion, along with punitive damages. The subsidiary of Dor Alon has submitted its response to the request for certification of the claim as a class action. The parties twice reached a compromise agreement that was submitted to Court's approval.

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NOTE 30 – CONTINGENCIES (continued):

However, the Court rejected the two compromise agreements and therefore the legal procedures continue. In any case, in the opinion of Dor Alon's management, based on the opinion of its legal advisers, the chances that the claim would be allowed by the Court are lower than 50%; therefore no provision has been included in Dor Alon's financial statements for this matter.

- j. A class action was lodged on March 22, 2009 against a subsidiary of Dor Alon and other gas companies; the amount of the claim is NIS 821 million (Dor Alon's subsidiary's share in the said amount is NIS 32 million). In the statement of claim it is asserted that when the defendants replace a gas container to the consumer the container still contains a certain volume of gas, which is later used by the defendants. According to the claimants, the defendants fully charge the claimants for the gas in the container but the consumers do not use all of the gas they pay for, since some of the gas is taken back by the defendants. Dor Alon filed a statement of defense and an application for striking it out in limine. Dor Alon's management estimates, based on the opinion of its legal advisers, that the chances that the claim would be allowed are lower than 50%; therefore Dor Alon did not include a provision for this claim in its financial statements.
- k. On July 21, 2010, a statement of claim against a subsidiary of Dor Alon, 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 plaintiff notified that she intends to submit a request to strike off the claim as the issue was discussed in court and decided upon. In the opinion of the Company's legal advisers, based on a legal precedent in this matter and on the notice of the claimant, the chances that the claim will be accepted are below 50% and therefore the financial statements currently do not provide for any amount.
- l. On November 3, 2010 a claim and a request to approve the claim as a class action was issued against a subsidiary of Dor Alon and other gas companies (the share of Dor Alon's subsidiary was estimated at NIS 4 million). The issue in the claim is the alleged cooperation between the gas companies and apartment builders which requires tenants to enter into contracts with a certain gas supplier in a way the tenant allegedly overpays the gas company. The subsidiary of Dor Alon is currently learning the claim and is preparing its defense. In Dor Alon's opinion, based on the opinion of its legal advisers, the chances that the claim will be accepted are below 50% and therefore Dor Alon did not include a provision in its financial statements.
- m. 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 matter is at the stage of the provision of evidence by the parties. The chance of the claim to be approved is lower than 50%; therefore Dor Alon didn't make a provision for the claim in its financial statements.

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NOTE 30 – CONTINGENCIES (continued):

- n. In April 2011 Dor Alon received a claim and a request to approve the claim as a class action, against a subsidiary of Dor Alon, in the total amount of NIS 30 million. The claim alleges that in accordance with the Consumer Protection Regulations (Price Per Measurement Unit), 2008, Dor Alon subsidiary is obligated to mark the price per measurement unit in its AM:PM stores, in addition to the price of the product. According to the claimant, the lack of such marking does not enable examining the attractiveness of products which are sold in packages of different sizes or volumes .
The Company has not yet filed a statement of defence .
In Dor Alon's opinion, based on the opinion of its legal advisers, the chances that the claim will be accepted are below 50% and therefore Dor Alon did not include a provision in its financial statements .
- o. In March 2011 a claim and an application for approval of the claim as a class action was filed against Dor Alon and other fuel companies. The issue in the claim is differences between the temperature of the LPG and the energy it provides as a result of burning. Based on information received from Dor Alon's management, the Company believes that the chances that the claim will be certified as a class action are less than 50% and therefore Dor Alon did not include a provision in its financial statements.
- p. As part of the ordinary course of business Dor Alon receives claims relating to its activities. In the opinion of management, based on the opinion of the legal advisers handling the claims and in light of the relevant circumstances, the provisions included in the financial statements are sufficient to cover the potential liabilities and none of claims, individually or in the aggregate, will have a material negative effect on the Company's activities, its financial condition or its results.

Contingencies related to Bee Group

In May 2011, a claim and a request to recognize the claim as a class action was filed against the Company regarding special sales held at "Kfar Hasha'ashuim" brand toy stores operated by the company's subsidiary (100%) of Bee Group Retail Ltd .

According to the claimant, the toy stores misled their customers by not presenting the prices charged for products prior to the special sales, as required by law, in addition to the special sales prices .

The claimant estimates the damage to the group of claimants for the purposes of the Claim at NIS 30 million .

Based on the opinion of legal counsel, management of the Company believes that the chances of the claim are remote.

Business licenses

The operation of the Company's supermarkets in Israel requires permits from several authorities including the Health and Environment ministries and the Police and Fire Departments. Some of these permits are currently in the name of the Co-Op Blue Square Services Society, or the Co-Op, our former controlling shareholder, and entities other than the Company, and have not yet been transferred or re-issued to the Company. In addition, as a result of the reorganization of the Supermarket and Real Estate operations conducted by the Company, such permits are to be transferred to the name of the wholly owned subsidiary, Mega Retail Ltd., which operates all of the Company's Supermarket activity. Furthermore, as a result of the hostilities between Israel and the Palestinians, the relevant authorities, including for example the police, have required the Company to adopt various security measures. These security requirements prescribe extensive investment in safety equipment, the retaining of security personnel and may lengthen the time taken to obtain permits from the municipal authorities. In the event that the Company is unable to obtain or maintain the required permits, it may be required to close the affected stores or take other action. However, the Company does not anticipate that not obtaining the necessary permits will have a material adverse effect on its business.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 30 – CONTINGENCIES (continued):

As of December 31, 2010, some of the Company's supermarket stores and our Eden Teva Briut stores have no valid business permits/license.

From time to time the Company and some of its directors and managers are indicted in connection with business licenses and planning and building regarding of the Company's stores. As of the date of this Report, there are provisional closure orders pending against some of the Company's stores. The Company is working towards obtaining the required permits and at the same time delaying the effectiveness of the provisional orders until such required permits are obtained. Management estimates that these matters will not have a material adverse effect on the Company's operations.

Claims that have been closed during the period

- a. In December 2009 the Company was served with a claim and a request for approval as a class action regarding alleged misrepresentations as to the contents of Fruit spreads sold by the Company under its private label 'Mega'. The plaintiff's personal claim was estimated at NIS 52 and if the claim is approved as a class action, the plaintiff estimates the claim at least at NIS 8.4 million. On April 28, 2010 the claim was withdrawn, after an agreement was signed between the Company and the plaintiff.
- b. 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 437 million. In March 2011 the request to certify the claim as a class action was struck off and the personal claim was rejected.
- c. Certain shareholders of Dr Baby (a subsidiary of BEE) and its former general manager, are disputing the issuance of additional 5,000 shares of the Company in consideration for NIS 19.5 million, which resulted in the dilution of their holdings and the dismissal of the former general manager. As a result of the above share issue, BEE's holding in Doctor Baby increased by 48.1% to 98.08%. Doctor Baby's shareholders and its former general manager request the annulment of the issuance, or alternatively, that the Company will pay them a compensation in the amount of NIS 15 million. The issue is in the process of hearing before an arbitrator. In January 2011 the arbitrator issued his opinion to reject the claim in its entirety.
- d. On September 14, 2009 the Company was served with a claim and a request for approval as a class action (the "Claim"), in which the Company is being sued regarding the sale of cosmetics and perfume products without marking the expiry date or the period of allowed use after its opening, as is allegedly obligatory according to the 15 amendment of the Pharmacists directive [new edition] 1981 which came into effect on July 1, 2009. The plaintiff's personal claim is estimated by him at approximately NIS 175 and if the Claim is approved as a class action, the approximate claim is estimated by the plaintiff at least at NIS 13 million. In addition, the plaintiff requests that the court will issue an injunction forbidding the company from selling such products without the marked expiry date or the maximum allowed period for use after opening. The Company and the plaintiff came to a compromise agreement according to which the Company will pay the plaintiff an amount that is immaterial to the Company. The compromise agreement was approved by the Court, although the court reduced the sums that were agreed upon as lawyer's fees and plaintiff's compensation. In March 2011, the plaintiff filed an appeal to the Supreme Court with regard to said reduction of lawyer's fees and plaintiff's compensation.

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NOTE 30 – CONTINGENCIES (continued):

- e. In November 2010 a claim including a request to recognize it as a class action was filed against the Company, claiming that the Company did not grant discounts as part of the YOU promotion for customers paying with the "Rav Card" or "Praxel" cards and / or the impossibility of paying with a Praxel card in the loyalty club promotion. If the claim were to be accepted as a class action the claim amount would be estimated by the claimant at NIS 7 million.
- In June 2011, further to the crediting by the Company of customers that did not receive discounts, the court accepted the plaintiff's request to withdraw the claim, and approved settlement sums agreed upon between the parties, in an amount immaterial to the Company, as lawyer's fees and compensation to the plaintiff, to be paid to the plaintiff by the Company.

NOTE 31 – COMMITMENTS:

- a. On December 26, 2006, all conditions precedent for the completion of the agreement between Blue Square and Dor Alon (a subsidiary of the Company since October 3, 2010, see also note 5), the first party, and Cal - Israel Credit Cards Ltd. (hereinafter - CAL) and Diners Club Israel Ltd (hereinafter - Diners Israel), a subsidiary of CAL, the second party, were satisfied.
- According to the said agreement, the Company and Dor Alon jointly purchased from CAL 49% of the Issued share capital of Diners Israel in consideration for a total amount of approximately NIS 21.3 million (hereinafter - the Consideration). The holdings of Blue Square and Dor Alon in the issued share capital of Diners are as follows: The Company - 36.75% and Dor Alon - 12.25%. The consideration was financed through a non recourse loan provided by CAL to Blue Square and Dor Alon. The loan is for a period of 8 years, and it is linked to the CPI and bears interest at an annual rate of 6%. The loan is due to be repaid in a single payment at the end of the period. The loan and interest are secured only by the shares of Diners Israel. Both parties can cancel the agreement if, at the end of a period of 4 years and/or 6 years, the number of credit cards will not exceed a pre-agreed quantity, as set in the agreement, or if the loyalty plan ceases to function or the customer club agreement (referred to in b below) is terminated.

Furthermore, the Company is entitled to receive income arising from the activity of the loyalty program, in proportion to its holdings in the shares of Diners Israel. The entitlement of the Company to participate in the income from the activity of Diners Israel, which is not part of the loyalty program's activity, is contingent upon meeting some milestones at defined times as specified in the agreement. As of the date of this report, the entitlement has not yet been established, and hence, the Company has not presented its share in the investment in Diners Israel, and no liability was recorded in respect of the said loan. The Company will be entitled, under certain conditions and during a pre-defined period, to purchase the right to participate in the income of Diners Israel, against a one-time payment.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 31 – COMMITMENTS (continued) :

On May 25, 2011, the agreement was amended.

Under the agreement with CAL, Blue Square and Dor Alon were entitled to share with CAL the net income of Diners Israel in connection with the activities of the credit cards bearing the “You” name based on the respective ownership interests in Diners Israel. In addition, Blue Square and Dor Alon signed an agreement with CAL pursuant to which Loyalty Plan members are to be issued Mastercard “You” credit cards that will be treated the same as the Diners “You” credit cards for the purpose of Blue Square’s agreement with Dor Alon. On May 25, 2011, management agreed to an amendment to the agreement of principles between CAL, Diners Israel, Alon Holdings, Dor Alon, and the Alon Holding-Dor Alon Joint Loyalty Plan Partnership, pursuant to which Alon Holdings and Dor Alon would have the right to 49% of the profits of Diners Israel Ltd., both related to the “You” bearing credit cards, and to all other credit cards issued by Diners, effective as of January 1st, 2011 (with the exception of certain activities the profits of which will be allocated to the parties per their respective holdings from July 1st, 2011). Alon Holdings and Dor Alon will repay the non-recourse loan granted to them by CAL for the purchase of the shares in the amount of NIS 34.3 million. Additionally, the amendment sets the terms as to the business relationship between the parties and extends the agreement until December 31, 2015, following which the agreement will be extended for an additional three years based on the terms and conditions set in the amendment to the agreement. The amendment also sets a calculation method for the purchasing the 49% of Diners owned by Blue Square and by Dor Alon, should the agreement between Diners and the Loyalty club not be extended. As of the date of this Annual Report, the amendment has been approved by the parties’ respective boards of directors.

- b. Operating lease commitments - the Company leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between five and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rates. The Company leases cars under cancellable operating lease agreements. The Company is required to give up to two months notice for the termination of these agreements. Future minimum payments under non-cancelable operating leases for the years subsequent to the statement of position dates are as follows:

	December 31	
	2009	2010
	NIS in thousands	
First year	214,530	320,281
Second year	201,450	307,505
Third year	188,394	265,289
Fourth year	149,649	222,173
Fifth year	113,184	192,417
Sixth year and thereafter	308,778	797,571
	<u>1,175,985</u>	<u>2,105,236</u>

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 31 – COMMITMENTS (continued):

c. Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred is as follows:

	December 31,	
	2009	2010
	NIS in thousands	
Property and equipment	38,557	36,043
Investment property	-	35,011
Inventory	17,200	1,376

d. Kibbutz Eyal

Further to the contingent transaction signed in 2007 with Kibbutz Eyal, the Israel Land Administration gave its approval to grant 41 dunams to a joint venture of Kibbutz Eyal and BSRE against the payment of prepaid lease fees of NIS 12.1 million. In February, after the conditions of the transaction had been fulfilled, the transaction was completed and the parties signed a protocol of operation, according to which, among other things, BSRE will receive 50% of the authorized and issued share capital of the joint venture in consideration for the transfer of the rights in the real estate . BSRE granted the entity shareholders loans in the amount of NIS 1.3 million and NIS 7.0 million in consideration for the issue of a series of capital bonds granted for a period of five years. At the date of these financial statements the joint venture started preparations to apply for building permits.

In May 2011 the joint venture entered into a rental agreement with Mega Retail. The rental agreement is subject to approvals of the relevant corporate bodies including the approval of the general meeting of BSRE.

e. Wholesale market

For commitments relating to the Wholesale market project, see also note 9a.

f. Agreement with the Palestinian Authority for the supply fuel products

In August 1994, Dor Alon entered into an agreement with the Palestinian Authority for the supply of all types of refined fuel products (including the marketing of LPG for a subsidiary) for the purposes of use in the areas that are and will be under the jurisdiction of the Palestinian Authority during the period of the agreement (hereafter – the Palestinian Territories). Under the agreement Dor Alon was granted the exclusive right to supply refined fuel products from Israel to the Palestinian Authorities in such a manner that Dor Alon is the sole authorized supplier of refined petrol products to the Palestinian Territories. In December 2006, Dor Alon and the Palestinian Authority reached an agreement to renew the above agreement subject to a number of changes. Under the renewed agreement, commencing 2007 Dor Alon supplies distillates and LPG only to the Gaza Strip (instead of the entire territories of the Palestinian Authority). In 2010, approximately 7% of Dor Alon's sales were destined to the Palestinian Authority. Dor Alon also entered into an agreement with a third party (hereafter – the partner), that is entitled to part of the profits, calculated based on an economic calculation, arising from sales to the Palestinian Authority in accordance with the agreement and its conditions. The partner's share, as above, is carried to selling expenses in the financial statements.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 31 – COMMITMENTS (continued):

- g. In July 2002, Dor Alon transferred its offices to a site close to Kibbutz Yakum. The lease agreement was signed for a period up to July 2012 and was extended during 2010 to July 2013 with the option for the extension of one year. The annual rental is NIS 1,992 thousand, linked to the December 2001 CPI.
- h. Dor Alon has agreements with the owners of land for the building and operation of 21 filling stations and three agreements for the building of commercial centers. Dor Alon has undertaken to pay Alon Israel Oil Company Ltd. An amount equal to U.S. \$ 250 thousand for each of the above agreements that is exercised. An agreement is considered exercised when the filling station or commercial center has started providing services to the public. As of December 31, 2010, two commercial centers and two filling stations had started operation.
- i. As part of Dor Alon's formal negotiations with the Environment Ministry it suggested a multi-annual plan for identifying and rectifying pollution in filling station sites operated by Dor Alon and which were built after the Water Regulations came into force. Under the plan Dor Alon will perform the above plan over a period of 8 years. The said plan and any activity performed in the framework of this plan are considered to be of a positive nature by the Environment Ministry. Such positive actions may be taken into account when deciding whether to take Dor Alon and its officeholders to Court. In addition, Dor Alon and the Ministry reached an understanding on the installation of a system designed to prevent fuel fumes emissions (stage 2) in the filling stations operated by Dor Alon. As part of the said understandings, Dor Alon would install such systems in sites that are located up to 40 meters from residential properties. According to Dor Alon's management, Dor Alon will install such system in approximately 16 filling stations that it operates. The cost of such an investment amounts to approximately U.S.\$ 70 thousand per filling station. Dor Alon expects that its investment in the relevant equipment, in order to implement the provisions of the said Regulations, in each of the next two years will be approximately NIS 6 million. In addition, Dor Alon expects that it will be required to invest further amounts also in future years.

NOTE 32 - LIENS AND GUARANTEES:

LIENS:

- a. A proportionately consolidated Company has registered fixed charges on its land, goodwill, rights to insurance and share capital and a floating charge on rent income from its assets to secure its liabilities to banks. As of December 31, 2010, the Company's liabilities relating to the proportionately consolidated Company amount to approximately NIS 4.3 million.
- b. The BEE Group and some of its subsidiaries (excluding Na'aman and Vardinon) placed unlimited, fixed and floating charges and a first ranking lien on the warehouse and all its assets, property, book debts, rent, goodwill, profits, revenues, rights of ownership and other benefits in favor of banks to secure their liabilities to banks, amounting as of December 31, 2010 to NIS 173.8 million.

In order to secure the liabilities of Na'aman and Vardinon, the companies have undertaken not to pledge any of their assets and/or provide any kind of guarantee to a third party without prior approval of the banks.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 32 - LIENS AND GUARANTEES (continued):

- c. As of December 31, 2010 there are charges on fifteen of properties transferred to BSRE by Mega Retail Ltd. for the purpose of securing the liabilities of the vendors of the above properties acquired by BSRE to third parties (mainly banks). The balance of loans as of December 31, 2010, for which the liens were placed amounted to approximately NIS 237.1 million.

In addition to the above, at the date of approval of these financial statements on five of the assets which were transferred as part of the split off from Alon Holdings in 2006, together with the foundation of BSRE, liens were placed to secure the liabilities to third parties (mainly banks) relating to these properties to Alon Holdings.

Also, charges have been registered on seven further properties from among the properties transferred. In the latter case, however, the Company has received 'exclusion letters' (hereinafter - the conditional 'exclusion letters') from the holders of the above charges. The Company has advised BSRE, that it has abided by, or will abide by, the terms of the conditional 'exclusion letters,' and that there is no significant impediment to the completion of their transfer to BSRE.

- d. On December 31, 2010 a BSRE subsidiary had a loan in an amount of NIS 74.5 million to finance the establishment of logistic center in Beer Tuvia. A first ranking lien on the property and the accompanying rights was registered in favor of the bank.
- e. As of December 31, 2010 there is a charge on one of the properties transferred from Mega Retail to BSRE for the purpose of securing the liabilities of the vendors of the property acquired by Mega Retail to the third parties. In addition, a charge has been registered on one further property transferred by Mega Retail Ltd. To BSRE in favor of a third party . In the latter case, however, Mega Retail has received "exclusion letter" from the holders of the above property.
- f. In order to secure the liabilities of Dor Alon and its subsidiaries to banks, the balance of which as of December 31, 2010 amounted to NIS 733 million, Dor Alon and its subsidiaries floating charges on all their assets , share capital and goodwill, excluding relating to the domestic sales of LPG. Some of the unlimited charges are in accordance with a development contract with the ILA. Liens were also placed on ownership rights in certain real estate assets and rights to receive funds and notes, insurance rights etc. in connection with these real estate assets. To secure the liabilities of other subsidiaries to commercial banks a fixed and a current charge were placed on the current assets, the fixed assets, the goodwill, the insurance rights, the receipts from credit card companies and share capital.
In addition, Dor Alon recorded a first degree pledge on the shares of 14 proportionally consolidated entities and all the accompanying rights, a first degree pledge on rights which were pledged to Dor Alon in connection with commercial centers and fuel services, including insurance rights and the right to receive funds from various debtors and shareholders of the proportionally consolidated entities.

GUARANTEES :

- a. The Company has provided bank guarantees for third parties such as service suppliers, for gift certificates and customers in an aggregate amount of approximately NIS 5.5 million. Furthermore, the Company has provided bank guarantees for its subsidiary, Eden Teva Briut, in an aggregate amount of approximately NIS 120 million.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 32 - LIENS AND GUARANTEES (continued):

- b. BSRE has issued the following guarantees:
 - i. A guarantee for the liabilities of the purchasers to the sellers as part of the Wholesale market transaction. In addition, BSRE guaranteed the liabilities of the proportionally consolidated companies discussed in note 9(a)1.
 - ii. In an unlimited amount to a bank as part of the credit and loan agreement discussed in note 9(a)1.
 - iii. In the amount of NIS 4,140 thousand to the Tel-Aviv municipality and the building contractor for the Giv'on car park.
 - iv. In the amount of NIS 9.7 million to the Netanya development organization as part of its liabilities in a development agreement.
- c. Mega Retail provided a bank guarantee to a third party in an amount of approximately NIS 4.9 million.
- d. As of December 31, 2010, Bee Group and some of its investee companies (excluding Na'aman and Vardinon) provided guarantees to each other for the total liabilities to the banks of the group (excluding Na'aman, Sheshet and Vardinon) in an amount of NIS 94.3 million.
- e. Dor Alon provided guarantees in the amount of NIS 147,501 thousand in connection with tenders in which it participates as a bidder and in connected with legal proceedings to which it is a party.
- f. Dor Alon provided a guarantee of NIS 15.5 million to secure its debentures and met the relevant covenants as at December 31, 2010.

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NOTE 33 – RELATED-PARTY DISCLOSURES

Key management personnel – includes the members of the board of directors and senior managers in the Company and Dor Alon, as well as the CEOs of BEE Group and BSRE.

The principal related parties of the Company are, among others: Alon Retail Ltd., Alon Israel Oil Company Ltd., Alon USA LP, Bielsol Investments (1987) Ltd., collective acquisition entities of kibbutzim in Israel that hold Alon Israel Oil Company Ltd, and other companies, whose interests are controlled by the Company's directors among others.

a. Transactions with related parties:

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Directors' fees	1,709	1,718	3,070
Legal consulting (5)	2,024	5,051	2,434
Purchases (4)	851,666	840,486	814,583
Commissions (1)	(5,743)	(6,636)	(4,988)
Discounts (2)	924	444	495

- 1) In January 2004 the shareholders of Blue Square approved an agreement according to which it provides Dor Alon purchasing and supply services for stores operated by them. In consideration for these services, the Company is entitled to payment equivalent to the cost of the services provided with the addition of a margin as stated in the agreement.
- 2) On September 13, 2005, the Company's general shareholders meeting approved a discount arrangement for some of the employees of the companies holding directly or indirectly in the Company's shares (some of the employees of Alon Group) (hereinafter - "the entitled employees").

The discounts to be given to the entitled employees will be identical to those given to the Company's employees, which during 2010 were: 12% at the Mega In Town stores, 12% at Mega on-line, 12% at the Mega stores and 6% at the Shefa Shuk stores and Mega Bool stores.

The discounts are limited to purchases in a total amount of NIS 8,500 a month.

- 3) The Company sells gift certificates for the par value in the certificate less a discount, according to commercial terms negotiated with the clients during the regular course of business.
- 4) Mega Retail purchases goods from Tnuva and Dor Alon. These arrangements are in the ordinary course of our business, and the terms and conditions of these arrangements are at "arm's-length". The Company purchases most of its dairy, fresh produce and poultry products from the Tnuva corporation, which holds a leading position in the domestic dairy and poultry markets. To our knowledge, some of the collective acquisition entities of kibbutzim in Israel that hold shares of Alon, our controlling shareholder, hold 21.5% of Tnuva.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 33 – RELATED-PARTY DISCLOSURES (continued):

- 5) The Company receives legal services from S. Biran & Co. a related party of the Company.
- 6) Employment agreement with Ms. Moran Wiessman

The Chairman of the Board of Directors' daughter, Ms. Moran Wiessman, is employed in BEE Group as a process engineer since January 2009. Moran Wiessman receives a basic gross monthly wage of NIS 12,000, car maintenance (in the amount of NIS 600 gross per month in addition to fuel expenses) and social benefits as acceptable for an employee of her status. The employment agreement was approved by the audit committee, the board of directors and the general meeting of the Company in July 2009. As part of this approval, the approval procedures in the Company necessary for a pay increase or grants to Ms. Wiessman were determined. Ms. Wiessman holds a B.Sc degree in Industry and Management from Ben Gurion University.

- 7) Point Wells

During 2010, BSRE acquired an approximately 240-dunam parcel of property in Point-Wells near Seattle, Washington, USA, for U.S. \$19.5 million from a subsidiary of Alon USA, a related company, which serves primarily as a plant for storage and distribution of fuel and oils and an agreement to develop the property. BSRE intends to change the zoning of the land from heavy industrial use to urban center zoning. The amount is included in real estate inventories in the statement of financial position. During the year BSRE received rental income of U.S. \$ 878 thousand (NIS 3.3 million) and capitalized borrowing costs of U.S. \$ 680 thousand (NIS 2,413 thousand). The rental agreement is for a period of up to 10 years. 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.

- 8) Acquisition of apartment

During the year the Company's chairman acquired an apartment from a proportionally consolidated company for NIS 2,330 thousand.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 33 – RELATED-PARTY DISCLOSURES (continued) :

b. Balances with related parties

Year-end balances arising from sales/purchases of goods/services:

	December 31,		
	2008	2009	2010
	NIS in thousands		
Trade receivables	56,550	58,479	-
Other receivables	8,104	7,930	33,901
	<u>64,654</u>	<u>66,409</u>	<u>33,901</u>
Trade payables	74,403	70,894	95,561
Other payables	80	233	327
	<u>74,483</u>	<u>71,127</u>	<u>95,888</u>

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

As to a loan of NIS 129,000 thousand from the controlling shareholder – see also note 19.

As to a loan receivable from a related party, see note 14.

c. Dor Alon

1. In March 2005, Dor Alon and Alon signed a management agreement, whereunder the parent company would render Dor Alon management and consulting services; these services were to be provided by the parent company or by its other subsidiaries. During the period of the agreement, the chairman of the Board of Directors of Dor Alon will be appointed based on the parent company's recommendation.
2. Dor Alon pays quarterly management fees equal to 3% of Dor Alon's EBITDA (income from ordinary operations with the addition of depreciation and amortization) in accordance with Dor Alon's quarterly, consolidated financial statements, but not exceeding NIS 1,250 thousand per quarter, linked to the CPI of December 2004. The management fees do not include director's fees and such directors (excluding the chairman of the board of directors and the president of the company) would be entitled to receive directors' fees from Dor Alon. This management agreement was in force until December 31, 2010, and on December 30, 2010 the agreement was renewed, with the same terms as stated above, for a further five year period with the agreement of the parties. At the end of the period the agreement will be renewed for further three year periods.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
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NOTE 33 – RELATED-PARTY DISCLOSURES (continued):

3. In May 2005, Dor Alon and Alon signed an agreement, according to which Dor Alon would be allowed to deposit funds with Alon, from time to time, and at the mutual agreement of the parties, and to receive funds from Alon on On-call terms, linked to the prime interest rate less 1.25%, subject to a maximum of NIS 50 million at any time. The agreement is unlimited and either party is entitled to terminate the agreement by providing a three month written notice.

On January 6, 2011 a new overdraft agreement was signed, for a period of five years, under which the funds provided by Dor Alon to Alon as a loan or by Alon as a loan to Dor Alon, will not exceed NIS 150 million at any time linked to the prime interest rate less 1.25%. Against the deposits, the depositor is entitled to require the recipient party to provide her / or third parties bank guarantees, or letters of credit. Each party is entitled to redeem or require redemption of the balance by giving notice of three banking business days. See also note 3.

4. As part of the transfer of assets and operations that took place in 2004, Alon undertook to indemnify Dor Alon for expenses Dor Alon may incur relating to the period through the date of transfer of the assets and Dor Alon undertook to indemnify Alon in case lawsuits would be brought against it in respect of expenses relating to the period subsequent to the transfer of assets to Dor Alon. Also, Dor Alon undertook to indemnify Alon in respect of the tax liability to which Alon would be subject if Dor Alon were to breach the provisions of Section 104A of the Income Tax Ordinance regarding the transferred assets. Alon has undertaken to indemnify Dor Alon in respect of any amount Dor Alon would be required to pay in connection with the period during which 21 employees of Alon that were transferred to Dor Alon as part of the transfer of operations were employed by Alon.

Key management compensation

	Year ended December 31		
	2008	2009	2010
	NIS in thousands		
Salaries and other short-term employee benefits	17,539	20,741	20,971
Post-employment benefits	1,401	1,597	854
Share-based payments	3,977	6,172	3,040
Total	22,917	28,510	24,865

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NOTE 34 – SEGMENT INFORMATION:

The Company includes segment information according to IFRS 8. 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 the internal reports.

The Company presents four reportable segments: Supermarkets, Commercial and fueling sites, Non-food (Retail and Wholesale) and Real estate. Most of the Company's activities are located in Israel.

Selling, general and administrative expenses of Head Quarters operations 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 four 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. This segment also includes properties owned through BSRE in connection with the supermarket operation of Mega Retail's stores (including warehouses and offices).
- (2) Commercial and fueling sites – Through its subsidiary Dor Alon the Company is engaged in the development, construction and operation 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. The commercial and fueling sites segment is presented according to the published financial statements of Dor Alon. In the reconciliation to the financial statements the Company reclassified the credit card fees and included the amortization of the excess of cost arising at the time of acquisition.
- (3) Real Estate – Through its subsidiary BSRE the Company is engaged in generating yield from commercial centers, logistics centers and offices, land for the purpose of capital appreciation and deriving long-term yield as well as in the development of the "Wholesale Market" residency project.
- (4) Non-food (Retail and Wholesale) –Through our subsidiary, BEE Group Retail Ltd. ("BEE Group"), BEE group operates as retailer and wholesaler in the non food segment. As of December 31, 2010, Bee Group operated 281 non- food Retail outlets, mostly through franchisees, with specialties in houseware and home textile, toys, leisure, and infant.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 34 – SEGMENT INFORMATION (continued):

	Supermarkets	Non - food Retail and wholesale	Real estate	Commercial and fueling sites	Adjustments	Total consolidated
	NIS in thousands					
Year ended December 31, 2010:						
Net segment revenues	6,894,978	438,623	25,162	1,144,981	-	8,503,744
Inter segment revenues	-	43,444	-	8,339	(51,783)	-
Depreciation and amortization	163,020	15,156	-	27,328	1,441	206,945
Operating profit (loss) before other gains and losses net and changes in fair value of investment property	241,942	(7,189)	(4,843)	42,936	(9,424)	263,422
Segment profit	232,944	(19,519)	28,073	39,335	(9,424)	271,409
Unallocated corporate expenses						(22,000)
Financial expenses, net						149,995
Share in losses of associated companies, net						(518)
Income before taxes on income						98,896
Year ended December 31, 2009:						
Net segment revenues	6,863,020	464,266	21,790	-	-	7,349,076
Inter segment revenues	-	58,874	-	-	(58,874)	-
Depreciation and amortization	153,347	11,901	-	-	-	165,248
Operating profit (loss) 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)
Gain due to decrease in holdings						3,210
Financial expenses, net						112,674
Share in losses of associated companies, net						(37)
Income before taxes on income						120,925
Year ended December 31, 2008:						
Net segment revenues	6,966,839	442,130	20,152	-	-	7,429,121
Inter segment revenues	-	55,393	-	-	(55,393)	-
Depreciation and amortization	143,704	10,178	-	-	-	153,882
Operating profit (loss) before other gains and losses net and changes in fair value of investment property	258,168	23,355	7,378	-	2,957	291,858
Segment profit	246,096	23,163	26,445	-	2,957	298,661
Unallocated corporate expenses						(26,606)
Gain due to decrease in holdings						9,781
Financial expenses, net						105,595
Share in losses of associated companies, net						(33)
Income before taxes on income						176,208

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

NOTE 34 – SEGMENT INFORMATION (continued):

The Company does not regularly report any segment assets and liabilities measure to the chief operating decision maker, see also note 2c.

NOTE 35 – EVENTS SUBSEQUENT TO DECEMBER 31, 2010 :

- a. In February 2011 Na'aman published an offer to purchase the balance of the shares (2.6 million shares) of Vardinon it does not already own in consideration for NIS 7.9 million. On March 15, 2011, the acquisition was completed and the Vardinon shares were delisted from the Tel Aviv stock exchange.
- b. On March 13, the subsidiary Alon Cellular, received a license from the Ministry of Communication to operate as a mobile virtual network operator (MVNO). In connection with the Company's plans to enter the cellular communications market by becoming an MVNO, on March 23, 2011 Alon Cellular signed a memorandum of understanding with Partner Communications Ltd. for launching cellular services in an MVNO model, which will enable Alon Cellular to offer cellular services and become a major player in Israel's communications market.
- c. On March 10, 2011, a joint venture of Dor Alon and a third party in a memorandum of understanding with Sugat sugar refineries Ltd ("Sugat") to construct a cogeneration facility by the joint venture (on land that will be leased to the joint venture by Sugat) to produce up to 110 Watt. Through the facility the joint venture will produce steam, electricity and carbon dioxide that will be produced in the facility also to third parties. In addition, the memorandum of understanding set out that the joint venture would connect Sugat's factory to the natural gas network, will convert Sugat's existing energy facility to a dual facility allowing using either crude oil or natural gas, will operate and maintain the existing energy facility for Sugat, all in accordance with the terms and times set out in the memorandum of understanding.
- d. Through June 1, 2011, additional convertible debentures with a par value of NIS 166,668 were converted to 27,399 shares of the Company.
- e. On March 22, 2011, 290,000 options were granted out of the 2008 Option plan. The exercise price is NIS 36.51 per option. In accordance with the 2008 option plan the beneficiary will receive a number of shares that reflects the benefit element in the options. The period of exercise for the options will be six months from the vesting date (two thirds of the options vest after two years of the grant date and one third after three years from the grant date).
- f. See note 31 for the amendment to the Diners agreement after the statement of financial position date.
- g. See note 31 for the amendment to the agreement with Kibbutz Eyal.

ALON HOLDINGS BLUE SQUARE – ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Formerly Blue Square – Israel Ltd.)

DETAILS OF PRINCIPAL SUBSIDIARIES, PROPORTIONALLY CONSOLIDATED COMPANIES AND ASSOCIATES AT DECEMBER 31, 2010

APPENDIX

Holding Company	Name of Company	Percentage of ownership and control by holding Company as of December 31, 2010	
Alon Holdings Blue Square-Israel Ltd.	Mega Retail Ltd.	100%	Subsidiary
	Blue Square Real Estate Ltd.	78.35%	Subsidiary
	BEE Group Ltd.	100%	Subsidiary (see note 5a1c)
	Diners Club Israel Ltd.	36.75%	See note 32(1)
Mega Retail Ltd.	Dor Alon Energy in Israel (1988) Ltd.	78.38%	Subsidiary
	Alon Cellular Ltd.	70.1%	Subsidiary
	Eden Briut Teva Market Ltd.	51%	Subsidiary
	Loyalty plan-partnership "YOU"	75%	Partnership
Blue Square Real Estate Ltd.	Radio Non-Stop Ltd.	33%	Associated Company
	Kenyon Hadar Management Company Ltd.	50%	Proportionately Consolidated
	Hyper Lod Center Ltd.	100%	Subsidiary
	Joint venture Blue Square - Hadar	50%	Proportionately Consolidated
Bee Group Ltd.	Logistic Center Bee Square Real Estate Ltd.	100%	Subsidiary
	Center Investments 1108 Ltd.	50%	Proportionately consolidated
	Izdarehet Investments Company Ltd.	50%	Proportionately consolidated
	City Core Tel Aviv Ltd.	50%	See note 9(a)
Na'aman Porcelain Ltd.	City Mall Tel Aviv Ltd.	50%	See note 9(a)
	Na'aman Porcelain Ltd	66.85%	Subsidiary
	Kfar Hasha'ashuim Marketing Ltd.	100%	Subsidiary
	Doctor baby	98.1%	Subsidiary
Dor Alon Energy in Israel (1988) Ltd.	Vardinon Textile Ltd.	88.74%	Subsidiary (see also note 35)
	Sheshet Chain of Stores for Household Utensils Ltd.	100%	Subsidiary
	Dor Alon Gas Technologies Ltd.	100%	Subsidiary
	Dor Alon retail sites management LTD	100%	Subsidiary
	Alon fuel management and operation networks (1999) Ltd.	100%	Subsidiary
	Loyalty plan-partnership "YOU"	25%	Partnership
	Dor energy holdings (2004) Ltd.	100%	Subsidiary

ITEM 19.**EXHIBITS**

The exhibits filed with or incorporated into this Annual Report are listed in the index of exhibits below.

Exhibit No. Description

- | | |
|------|---|
| 1.1 | Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 1.2 | Articles of Association of the Registrant (incorporated by reference to Exhibit 1.2 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009). |
| 2.1 | Form of Amended and Restated Deposit Agreement among Alon Holdings Blue Square - Israel Ltd., The Bank of New York as Depositary, and all Owners and Holders from time to time of American Depositary Shares issued thereunder (incorporated by reference to Exhibit (a) to the Registration Statement on Form F-6 (File No. 333-05158)). |
| 4.1 | Service Agreement made and entered into on the 1st day of January 1990 between Blue Square Chain (Super Super) Ltd. and Blue Square Chain (Hyper Hyper) Ltd. (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.2 | Supply Agreement made and entered into on the 1st day of January 1990 between Blue Square Chain (Super Super) Ltd. and Blue Square Chain (Hyper Hyper) Ltd. (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.3 | Management Agreement made and entered into on July 23, 1996 between Blue Square Chain Investments & Properties Ltd. and the Registrant (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.4 | An Agreement to Loan Employees made and entered into on July 23, 1996 between Blue Square Chain Properties (Hyper Hyper) Ltd. and the Registrant (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.5 | Agreement made and entered into on July 25, 1996 between the Registrant and Blue Square Chain (Hyper Hyper) Ltd. regarding property selection (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.6 | Registration Rights Agreement, dated as of July 25, 1996, by and among the Registrant and Co-Op Blue Square Consumers Cooperative Society Ltd. (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.7 | Letter, dated July 1, 1996, by Co-Op Blue Square Consumers Cooperative Society Ltd. indemnifying the Registrant against certain real estate tax liabilities (incorporated by reference to Exhibit 10.17 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.8 | Letter, dated May 21, 1993 and March 18, 1993, by Co-Op Blue Square Consumers Cooperative Society Ltd. indemnifying Blue Square Chain Investments & Properties Ltd. against certain real estate tax liabilities (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form F-1 (File No. 333-05024)). |
| 4.9 | Form of Letter of Exemption and Indemnity adopted in February 2001 (incorporated by reference to Exhibit 4.13 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2000). |
| 4.10 | Form of Letter of Exemption and Indemnity (English translation accompanied by the Hebrew original) (incorporated by reference to Exhibit 4.14 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2001). |
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Exhibit No. Description

- 4.11 Form of Letter of Indemnity adopted in June 2008 (English translation) (incorporated by reference to Exhibit 4.11 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2008).
- 4.12 Special Collective Agreement made on the 28th day of May 1996 between Co-Op Blue Square Consumers Cooperative Society Ltd., the Registrant and The New Federation of Labor in Israel/The Federation of Clerical, Administrative and Services Employees and Consumers Cooperative Union-Central Cooperative Society Ltd. (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form F-1 (File No. 333-05024)).
- 4.13 Special Collective Agreement made on the 3rd day of September 2000 between Alon Holdings and The New Federation of Labor in Israel. The Federation of Clerical, Administrative and Services Employees / the Commercial Section Employees and the committee of Alon Holdings employees. (English summary accompanied by the Hebrew original) (incorporated by reference to Exhibit 4.16 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2001).
- 4.14 Collective Agreement, made on August 13, 2003, by and among Blue Square – Israel Ltd. and The New Federation of Labor in Israel/The Federation of Clerical, Administrative and Services Employees and the National Committee of the Blue Square Co-Op Employees (English translation) (incorporated by reference to Exhibit 4.15 to Alon Holdings Annual Report on Form 20-F for the year ended December 31, 2003).
- 4.15 Collective Agreement, made on October 15, 2003, by and among Alon Holdings Blue Square - Israel Ltd. and The New Federation of Labor in Israel/The Federation of Clerical, Administrative and Services Employees and the National Workers Committee of Alon Holdings Blue Square -Israel Ltd (English translation) (incorporated by reference to Exhibit 4.16 to Alon Holdings Annual Report on Form 20-F for the year ended December 31, 2003).
- 4.16 Special Collective Bargaining Agreement made on the 21st day of January 2005 among Alon Holdings, the Histadrut and the National Committee of Alon Holdings Blue Square -Israel. (English translation) (incorporated by reference to Exhibit 4.15 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2004).
- 4.17 Special Collective Bargaining Agreement made on April 26, 2006 among Alon Holdings, the MAOF Histadrut and Blue Square -Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.16 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.18 Special Collective Bargaining Agreement made on May 29, 2006 among Alon Holdings, the MAOF Histadrut and Blue Square - Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.17 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.19 Special Collective Bargaining Agreement made on July 16, 2007 among Alon Holdings, the MAOF Histadrut and Blue Square - Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.19 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2007).
- 4.20 Special Collective Bargaining Agreement made on April 5, 2009 among Alon Holdings, Blue Square Chain Investments & Properties Ltd., the MAOF Histadrut and Blue Square-Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.20 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2008).
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Exhibit No. Description

- 4.21 Deed of Trust made on August 5, 2003, by and between Alon Holdings Blue Square – Israel Ltd. and Israel Discount Bank Trust Company Ltd., together with second schedule (English translation) (incorporated by reference to Exhibit 4.18 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2003).
- 4.22 First Schedule to Deed of Trust – Debenture Certificate for Registered Debenture (Series A) of NIS 1 par value each (out of series of NIS 200,000,000 par value Debentures (Series A)) (English translation) (incorporated by reference to Exhibit 4.19 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2003).
- 4.23 First Schedule to Deed of Trust – Debenture Certificate for Registered Debenture (Series B) of NIS 1 par value each (out of series of NIS 200,000,000 par value Debentures (Series B)) (English translation) (incorporated by reference to Exhibit 4.20 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2003).
- 4.24 Agreement between the Registrant and Blue Square Chain (Hyper Hyper) Ltd. (incorporated by reference to Exhibit 4.21 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2002).
- 4.25 General services framework and expenses allotment agreement, dated October 11, 2005, among Alon Holdings, Blue Square Chain Investments & Properties Ltd. and Blue Square Chain (Hyper Hyper) Ltd., as amended (incorporated by reference to Exhibit 4.21 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2005).
- 4.26 Transfer Agreement, dated June 21, 2006, between Alon Holdings and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.23 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.27 Split Agreement, dated April 2, 2006, between Alon Holdings and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.24 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.28 Lease Agreement, dated August 13, 2006, between Alon Holdings and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.25 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.29 Lease Agreement, dated June 23, 2006, between Alon Holdings and Blue Square Chain Investments & Properties Ltd Blue Square Real Estate Ltd (assigned to BSRE) (English translation) (incorporated by reference to Exhibit 4.26 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.30 Transfer Agreement, dated March 31, 2009, between Blue Square Real Estate Ltd. and Blue Square Chain Properties & Investments Ltd., together with Addendum No. 1, dated September 13, 2009 (English translation) (incorporated by reference to Exhibit 4.30 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009).
- 4.31 Service Agreement, dated August 13, 2006, between Alon Holdings and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.27 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.32 Underwriting Agreement, dated August 15, 2006, among Blue Square Real Estate Ltd., and Poalim I.B.I Underwriting and Issues Ltd., Africa-Israel Issues Ltd., Discount Underwriting and Issues Ltd. and various other underwriters (English translation) (incorporated by reference to Exhibit 4.28 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
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Exhibit No. Description

- 4.33 Deed of Trust (for Series A Debenture) made on August 14, 2006, by and between Blue Square Real Estate Ltd. and Hermetic Trust (1975) Ltd., together with second schedule (English translation) (incorporated by reference to Exhibit 4.29 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.34 First Schedule to Deed of Trust - Debenture Certificate for Registered Debentures (Series A) of NIS 1 par value each (out of series of NIS 100,000,000 par value Debentures (Series A)) (English translation) (incorporated by reference to Exhibit 4.30 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.35 Deed of Trust (for Series B Debenture) made on August 14, 2006, by and between Blue Square Real Estate Ltd. and Hermetic Trust (1975) Ltd., together with second schedule (English translation) (incorporated by reference to Exhibit 4.31 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.36 First Schedule to Deed of Trust - Debenture Certificate for Registered Debentures (Series B) of NIS 1 par value each (out of series of NIS 650,000,000 par value Debentures (Series B)) (English translation) (incorporated by reference to Exhibit 4.32 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2006).
- 4.37 Deed of Trust (for Series C to H Debentures) dated May 19, 2009, by and between Blue Square Real Estate Ltd. and Hermetic Trust (1975) Ltd., together with Addendum to Deed of Trust dated October 18, 2009 (English translation) (incorporated by reference to Exhibit 4.37 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009).
- 4.38 Deed of Trust (for Series C to G Debentures and Series H to J Debentures) dated February 18, 2010, between Alon Holdings and Hermetic Trust (1975) Ltd., together with First Schedule - Debenture Certificate for Series C to G, First Schedule - Debenture Certificate for Series H to J, and second schedule (English translation) (incorporated by reference to Exhibit 4.38 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009).
- 4.39 Document of Principles of Transaction, dated July 26, 2007, among Alon Holdings and Orin Provizor Holdings Ltd., M.A.Sh.-M.I.S. Ltd., Mr. Guy Provizor, and Eden Natural Health Market Ltd., as amended (English translation) (incorporated by reference to Exhibit 4.35 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2007).
- 4.40 Sale Agreement, made on August 2, 2007, between Kfar Hasha'ashuim Central Warehouse Ltd. and Eldar Gil & Mahoney Assets Ltd., as amended (English translation) (incorporated by reference to Exhibit 4.36 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2007).
- 4.41 Share Purchase Agreement, dated August 3, 2008, between Bee Group Retail Ltd. and Twikor Ltd., Mr. Avner Katz, Mr. Doron Yanai, Mr. Ronen Levy, Avi Katz Marketing Ltd. and Levy R.S. Managements and Investments Ltd. (English translation) (incorporated by reference to Exhibit 4.38 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2008).
- 4.42 Protocol, dated April 11, 2010, between Tel Aviv Wholesale Agricultural Produce Market Company Ltd., Tel Aviv Municipality, Lev Tel Aviv Towers Ltd. and Tel Aviv City Mall Ltd. (English translation) (incorporated by reference to Exhibit 4.42 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009).
- 4.43 Agreement, dated June 3, 2010, between Tel Aviv Wholesale Agricultural Produce Market Company Ltd., Lev Tel Aviv Towers Ltd. and Tel Aviv City Mall Ltd., together with Deed of Undertaking by the Interested Parties (English translation) (incorporated by reference to Exhibit 4.43 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009).
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Exhibit No. Description

- 4.44 Agreement, dated June 3, 2010, between Tel Aviv Municipality, Lev Tel Aviv Towers Ltd., and Tel Aviv City Mall Ltd., together with Deed of Undertaking by the Interested Parties (English translation) (incorporated by reference to Exhibit 4.44 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009).
- 4.45 Document of Principles, dated April 15, 2010, between Blue Square Real Estate Tel Aviv Market Commercial Ltd., Blue Square Real Estate Tel Aviv Market Housing Ltd., Gindi Commercial Tel Aviv Ltd. and Gindi Housing Tel Aviv Ltd. (English translation) (incorporated by reference to Exhibit 4.45 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2009).
- 4.46 Share Purchase Agreement, dated May 17, 2010, between Alon Israel Oil Company Ltd. and Alon Holdings Blue Square Israel Ltd. (English translation) (incorporated by reference to Annex A to Alon Holdings' report on Form 6-K, filed on May 27, 2010).
- 8.1 List of Subsidiaries (incorporated by reference to Exhibit 8.1 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2010).
- 12.(a).1 Certification by CODM pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 12.(a).2 Certification by CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 12.(a).3 Certification by CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 13.(a).1 Certification of CODM, CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 14.(a).1 Consent of Independent Registered Public Accounting Firm from Kesselman & Kesselman, certified public accountants (Isr.) dated June 30, 2011.
- 14.(a).2 Consent of an Expert dated June 26, 2011 (incorporated by reference to Exhibit 14.(a).2 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2010).
- 14.(a).3 Consent of an Expert dated June 26, 2011 (incorporated by reference to Exhibit 14.(a).3 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2010).
- 14.(a).4 Consent of an Expert dated June 26, 2011 (incorporated by reference to Exhibit 14.(a).4 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2010).
- 14.(a).5 Consent of an Expert dated June 26, 2011 (incorporated by reference to Exhibit 14.(a).5 to Alon Holdings' Annual Report on Form 20-F for the year ended December 31, 2010).
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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

ALON HOLDINGS BLUE SQUARE -ISRAEL LTD.

By: /s/ David Wiessman

Name: David Wiessman

Title: Executive Chairman of the Board of Directors
and Chief Operating Decision Maker

By: /s/ Zeev Vurembrand

Name: Zeev Vurembrand

Title: Chief Executive Officer

By: /s/ Dror Moran

Name: Dror Moran

Title: Vice President and Chief Financial Officer

Date: July 06, 2011

CERTIFICATION

I, David Wiessman, certify that:

1. I have reviewed this Annual Report on Form 20-F/A of Alon Holdings Blue Square - Israel Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

By: /s/ David Wiessman

Name: David Wiessman

Title: Executive Chairman of the Board of Directors and Chief Operating Decision Maker

Date: July 6, 2011

CERTIFICATION

I, Zeev Vurembrand, certify that:

1. I have reviewed this Annual Report on Form 20-F/A of Alon Holdings Blue Square - Israel Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

By: /s/ Zeev Vurembrand

Name: Zeev Vurembrand

Title: Chief Executive Officer

Date: July 6, 2011

CERTIFICATION

I, Dror Moran, certify that:

1. I have reviewed this Annual Report on Form 20-F/A of Alon Holdings Blue Square - Israel Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

By: /s/ Dror Moran

Name: Dror Moran

Title: Chief Financial Officer

Date: July 6, 2011

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Alon Holdings Blue Square - Israel Ltd. (the "Company") on Form 20-F/A for the period ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David Wiessman

Name: David Wiessman

Title: Executive Chairman of the Board of Directors and Chief Operating Decision Maker

By: /s/ Zeev Vurembrand

Name: Zeev Vurembrand

Title: Chief Executive Officer

By: /s/ Dror Moran

Name: Dror Moran

Title: Chief Financial Officer

Date: July 6, 2011

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-149175) of Alon Holdings Blue Square – Israel Ltd. (the "Company"), of our report dated June 30, 2011, relating to the financial statements of the Company and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 20-F/A.

Haifa, Israel
July 6, 2011

/s/ Kesselman & Kesselman

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers
International Limited
