Alon Blue Square

Investor Presentation

April 2013

אלון רבוע כחול

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Alon Blue Square – Company Overview

- The largest retail group in Israel
- Yearly turnover of app. NIS13 Billion with more than 700 points of sale
- Traded in Tel Aviv (TASE:BSI) and New York (NYSE:BSI), included in the TLV 100 index
- Rated A2 with Stable outlook
- Loyalty clubs with more than 1.5 million members, of which 180k holds credit cards
- Presence in all major consumption areas of an Israeli family:

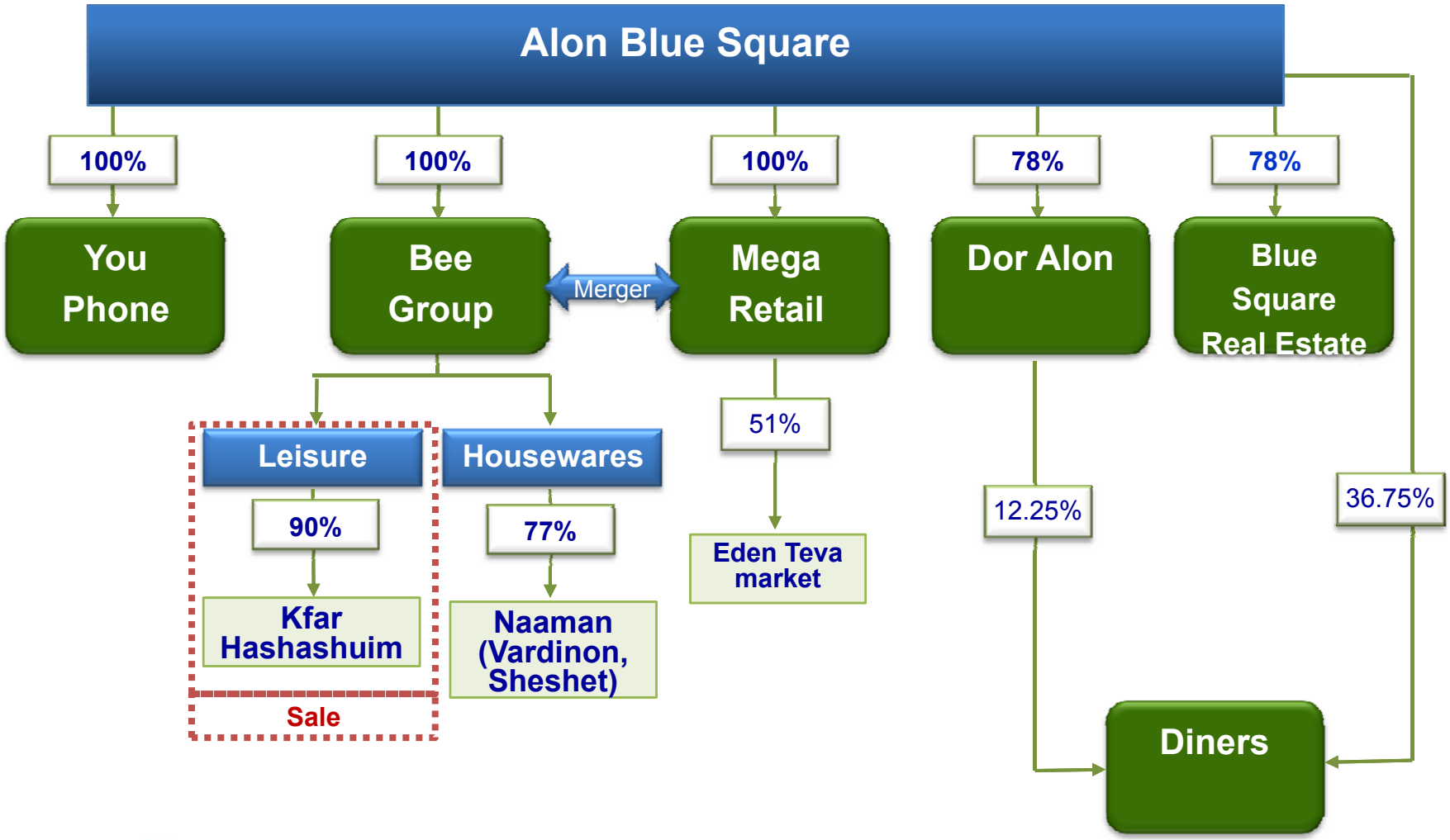
Food, Fuel, Real Estate, Home and Leisure, Credit Cards, Communication

Complementary and synergetic activities

Change Management

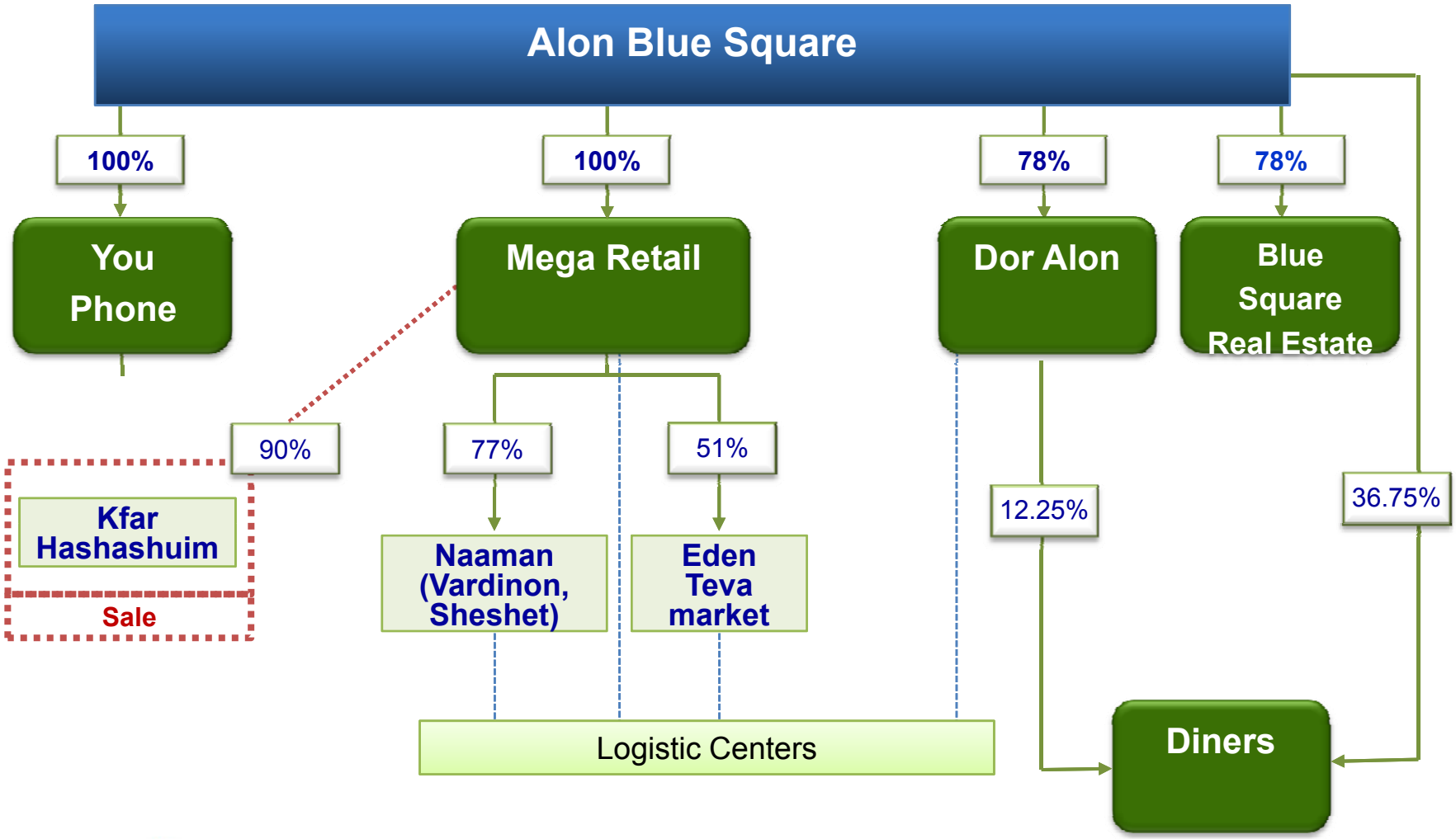
- Over the past few months several top executive where replaced:
  - Mr. David Weisman appointed as CEO and Chief Business officer
  - Mrs. Limor Ganot appointed as Co-CEO of Alon Blue Square
  - Mr. Moti Keren appointed as CEO of Mega Retail
  - Mr. Shlomo Zohar appointed as chairman of the board of Bee group and Naaman Group
  - Mr. Raviv Brocmaier appointed as CEO of Bee group and Naaman Group

Current Group Structure



The company intent to sale the activity

Group Structure after Bee and mega merger



The company intent to sale the activity

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What have we done in the past years?

2003
Acquisition of shares in Co-op Consumer Society

2004
Entered the world of Non food Retail

2006
Construction of the Real Estate Sector, Launching of YOU Club

2008
Leadership in the organic food sector in Israel – Eden Teva. Acquisition of Naaman, Vardinon

2009
Purchase of Dor Alon - exercise of control and expansion of operations of the convenience stores

2010
Launching Mega Bool and Mega Private Label

2011
You – Purchase of 49% of Diners Israel

2012
Launching YouPhone, the group's MVNO

2013
Measures to strengthen food and non-food retail, increasing market share

אלון רבוע כחול

Business Overview

אלון רבוע כחול

Main Business areas

Fuel stations and convenience stores	Supermarkets (1)	Real Estate	Non Food (1)(2)
Dor Alon	Mega	Blue Square Real Estate (properties leased to third parties)	Naaman, Vardinon, Sheshet
	Eden Teva		

(1) Properties leased from Blue Square Real estate assigned to Supermarkets and Non Food

(2) Kfar Hashashuim is presented and discontinued operation

Fuel and commercial sites segment

- Dominant retail activity in two main areas: fuel and convenience stores
- First lead to conceptual change: from gas stations and commercial complex services including convenience stores, Segafredo coffee shops and other
- Full nationwide deployment includes about 370 gas stations
- Over 200 convenience stores at gas stations, kibbutz and moshav and city centers
- Convenience store sales over NIS850 mil (including cigarettes), the market leader by a considerable margin
- Better purchasing power than competitors
- Gas stations on Highway no. 6
- Rapid growth rate - doubling the number of stations within a decade
- Holds 50% of Segafredo, a coffee shop chain
- A young company - low environment capex
- Clear leader in gas fueling

Fuel and commercial sites segment – 2012 summary

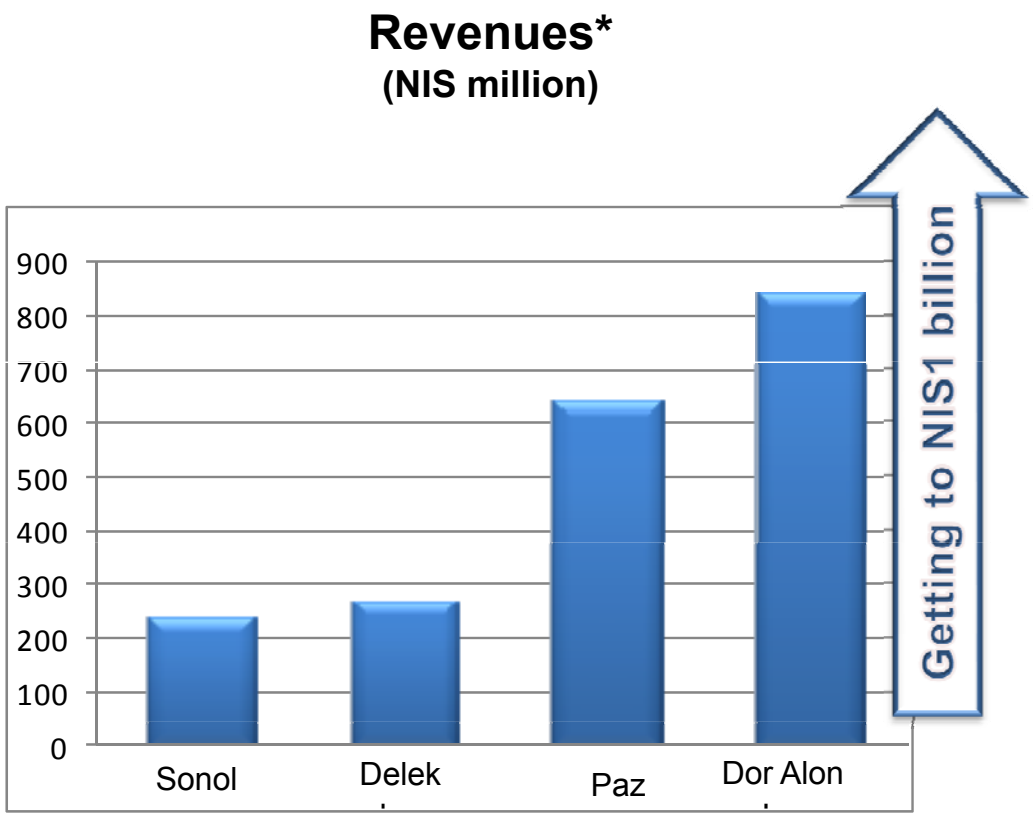
- Dealing effectively with the retail margin reduction
- Signed agreement with Tamar to supply natural gas to Sugat and initial agreements signed to supply natural gas to industrial customers
- Net of inventory losses / gains and one-time items, net income in 2012 increased by 69% from 2011 and EBITDA increased by 5.8%
- Streamlining the real cost of wage costs was partially offset by regulatory changes in the minimum wage and pensions
- Delivery to the Palestinian Authority stopped
- Process of reducing credit to customers while maintaining market share
- Winning first place in the polls and independent external field in gas stations and convenience stores.
- Coping well with the regulator (environment)

Number 1 in convenience stores

אלונית

AM:PM

city market



* Including cigarettes
** Paz – including sales to franchisers

Fuel and commercial sites segment – improved results

EBITDA NIS million	2012	2011	Change
Fueling and commerce*	266.50	251.80	5.8%

Q4 2012	Q4 2011	Change
59.0	44.4	32.9%

An increase of 5.8% on Adjusted EBITDA (after eliminating the effect of gains / losses on inventory)

Net Income NIS million	2012	2011	Change
Fueling and commerce*	37.0	23.0	60.9%
% of segment revenues	0.6%	0.4%	NR

An increase of more than 60% in adjusted net profit (after eliminating the effect of gains / losses on inventory and one time items)

Fuel and commercial sites segment – Looking forward

- We crossed the 200 stations: controlled growth and increase the number of retail areas and the basket of services and products offered
- Development of c-stores in the kibbutz and moshav
- Managing working capital needs while continuing the reduction in credit to customers in a measured way while maintaining market share
- Continued development activities in synergistic energy - gas refueling stations, power stations, etc.
- Realizing the potential real estate

Comparison with similar companies in Israel and the U.S.

$ in Mil.	Dor Alon	Delek Israel	Casey's General Stores	Susser Holdings
data for 12 months ended	31.12.2012	31.12.2012	30.01.2013	29.12.2012
Area of operations	Israel	Israel	Mid-West USA	South USA
No. of stores	202	243	1731	560
Revenues	1601.0	1774.6	7194.8	5818.1
Gross profit	236.7	200.5	1061.2	611.4
EBITDA	70.1	58.0	316.0	181.6
EV	545.9	716.9	2782.7	1575.0
EV/EBITDA	**7.3**	**12.4**	**8.8**	**8.7**

* Calculate EV includes financial assets and other liquid assets (loan to Fuel Administration, Diners, possession in Tamar, loans granted, etc.)

Delek – including Pee Glilot

Hidden asset value

- Real estate potential in existing assets:
  - Aloney Yam (50%)
  - Ein Shemer (50%)
  - Kfar Saba
  - Sgula
  - Kiryat Bialik
- Natural gas - Dor Alon Holds 5% in Dor Gas partnership which holds 4% in Tamar. Dor Gas has contracts based cash flow of about 40-60 m $ (Dor Alon share) over the life of the reservoir

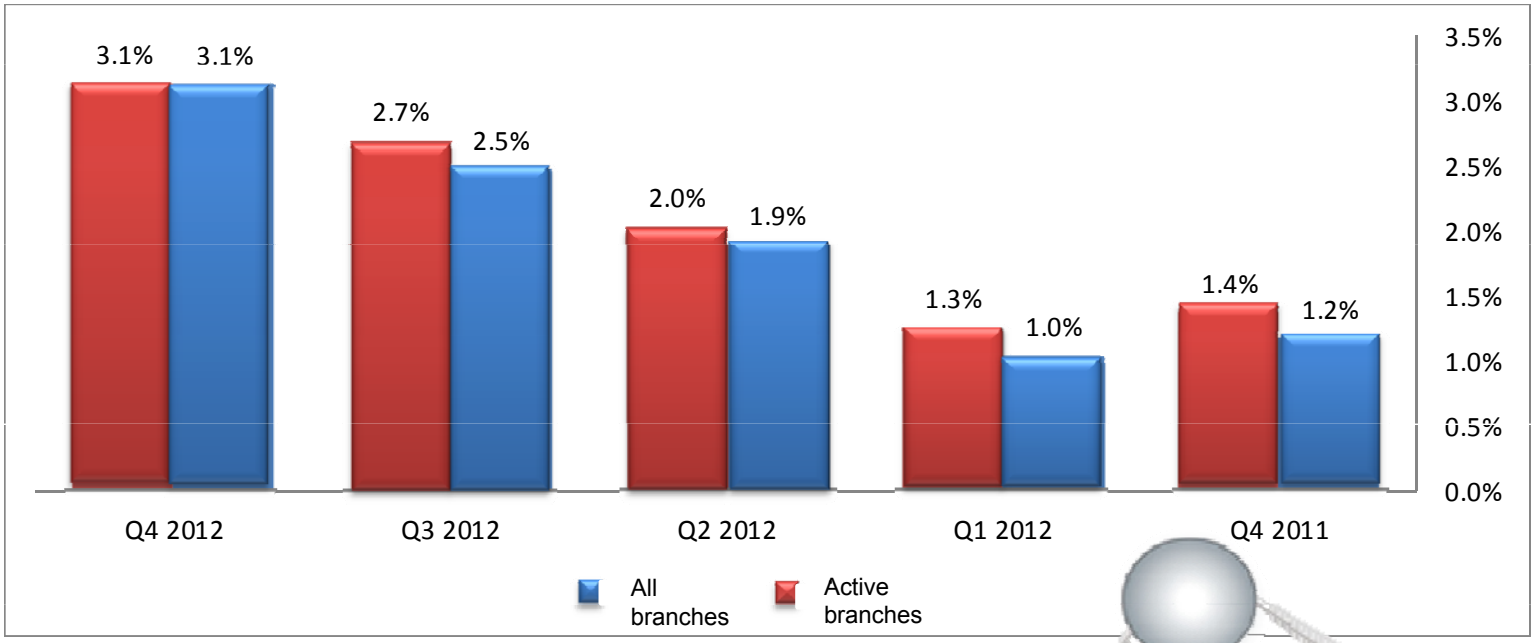
Supermarkets segment

- Mega – exists for more than 72 years
- Extensive national spred with a strong presence in city centers
- Branches layout as for December 2012:
  - 119 branches of mega in town - neighborhood stores
  - 67 branches Mega Ball – HD
  - 15 branches of abundant cheap - HD ultraorthodox Jews sector
  - 20 branches of Eden Teva market
- Total retail space: about 369 thousand square meters
- Mega Online - complementary activity with double-digit annual growth
- Eden Teva Market - the leading brand in Israel: "healthy supermarket"
- Mega Home - sale of "Non Food" in mega branches by utilizing the synergy with Naaman and excess commercial space
- Quality private label

Supermarkets segment – 2012 summary

- Stagnation in food retailing, a decrease of 0.2% in sales in real terms compared to 2011
- HD market share continue to grow to about 50% of the market
- Escalating competition
- Weakness in the HD segment, especially in highly competitive areas (sale / closing of nine branches of about 11 planned)
- Significant streamlining procedures
- Average wages for Mega and Supersol are higher by 50% of the average wages in the private networks (approximately 25% higher than the industry wage order required)
- Improvement in operating profitability over the last few quarters mainly due to efficiency steps taken

Segment results

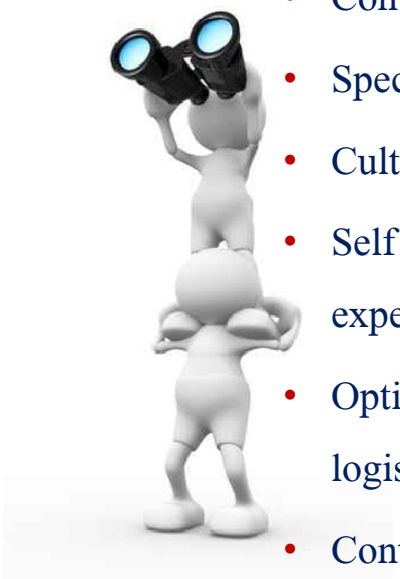


Active branches - all branches excluding nine branches closed

Continuous improvement in profitability over the last few quarters

Supermarkets segment – Looking forward

- Strategic Plan Update includes:
  - Continued effort to increase efficiency and adjusting cost structure
  - Specific treatment on the HD segment, and a special focus on loosing branches
  - Cultivating the neighborhood stores
  - Self arrangement of shelves - complete by the end of 2013, will enhance the customer experience and increase the network efficiancy
  - Optimization of the supply chain at the group level - the establishment of Kibutz Eyal logistic center and operating the logistics centers in Beer Tuvia and Rishon Lezion
  - Continued integration of non-food into our branches, together with Naaman



- Taking advantage of synergies with other operations through loyalty club and YouPhone
- The process of refining the customer value proposition and retrieving loyal customers back
- Preliminary results of the first quarter of 2013 show a trend of increasing market share
- The Company believes it will return to growth towards the end of 2013 even if the first quarters will hurt profitability at the expense of market share

Eden Teva Market - like any supermarket only healthier

- Established in 2003, Alon Blue Square acquires control in 2007 (one branch and the other in advanced stages of construction)
- Israel's largest nationwide Food and Health Network, with sales of about NIS400 million year
- Israel's only one stop shop for healthy products
- "Market" shopping experience with a very high level of service
- High positioning in the customer eyes, a brand second in strength to SuperPharm
- Milk revolution - led to high double-digit growth in same store sales and strengthen brand image while breaking the "expensive" image
- Launching a reservation site online which increases the access to the network and sales
- Eden was breakeven in the fourth quarter

Supermarkets segment: SWOP analysis

Strengths:

- Broad geographic distribution with emphasis on town centers
- Workers and experienced managers, committed emotional relationship
- Preferred fresh concept of the market
- Quality private label
- Eden Teva Market
- Large loyalty Club allows additional benefits of additional services group, such as gas, cellular, etc..
- 72 years of success

Weaknesses:

- Perception of high price relative to the market and reality
- Processes, structure and organizational culture require conceptual change
- Higher cost structure compared to private networks
- High wage costs than new competitors

Non Food segment

- The Group entered into non-food world in 2004 as a complement to the food retail activities
- About 200 points of sale in Israel, along with wholesale channels
- Naaman Porcelain, Vardinon – Veteran and admired brands, leading in their fields
- Houseware segment achieves good results both in retail and wholesale
- Decision was made to focus on houseware and textile segment which are synergistic to the activities of the Group
- Existing the Leisure segment by way of sale / decrease in holdings in Kfar Hashashuim
- Appointment of Chairman (Mr. Shlomo Zohar) and CEO (Mr. Raviv Brookmayer)

VARDINON

Naaman נעמן

Non Food segment – 2012 summary

- Growth in housewares segment, Sheshet is in reconfiguration process
- Weakness in Kfar Hashashuim
- Executing efficiency plan: Ending the merger process between Naaman and Vardinon, merge headquarters, replacing managers, moved to one advanced logistics center
- BEE merge with Mega (complete this year) for further streamlining and maximizing synergies with the houseware segment
- New logistic center increased one-time expenses and is not fully utilized (will merge with mega logistic operation).
- "Collapse" of major franchisee of Sheshet and Kfar Hashashuim at the end of 2011 eroded the profit in 2012 due to the transition to self operation and increased provisions

Non Food segment – looking forward

- Merger between Mega Retail and BEE to realize the synergies between the fields of food and non food and Efficiency in non-food activities throughout the value chain
- Introducing new activities to the logistic center
- Implementing an online site and improving logistics processes
- Sale of leisure activity (Kfar Hashashuim) which is not synergetic to the group.
- Strengthening synergies with the group - "store within a store" in Mega branches
- Strengthening existing brands while assimilation and amalgamation of Vardinon and Sheshet into Naaman
- Improved results in the first quarter 2013

TO DARE IS TO DO!

- Diners Club Israel
- YOU loyalty plan
- YouPhone

You Phone

You loyalty plan

- Loyalty program unites the Alon Group companies
- Alon Group owns 49% of Diners Israel, and benefits from the entire credit cards value chain
- Credit cards are issued under the brands Diners and MasterCard
- About 1.5 million members (1.2 + 0.3 Zol Beshefa) in addition to – 100k Eden Teva club members and – 20k Members of AM PM Club
- About 180k club members using credit cards, show the highest loyalty to the group

DINERS CLUB ISRAEL

- About 330k credit cards
- Turnover of transactions of NIS5.5 billion issue in 2012
- Credit and loans to credit card holders in the amount of about NIS400 million
- Acquired in the amount of about NIS36 million
- Booked at about NIS400 million (our share 49%), valuated significantly higher

Diners Club INTERNATIONAL
Where Your Pleasures Belong

Consolidated P&L Diners (NIS million)

Actual 01-12/2012	
Income	
Credit card transactions	88
Net interest income	49.2
Non-interest financial income	0.7
Total income	137.9
Expenses	
For credit losses	3.4
Operating	15.6
Selling and marketing	22.7
Administrative and general	1
Payment to banks	9.3
Management fees	27.5
Total expenses	79.5
Profit before tax	58.4
Provision for taxes on profit	18.5
Operating profit after tax	39.9

YouPhone

- Soft Launch - July 2012, a full commercial launch - November 2012
- New customers recruitment rate – 20k per quarter
- Activity is expected to show higher profitability than retail
- Nationwide coverage - 25 dedicated stores, selling SIM cards at Mega and Dor Alon (over - 400 stores)
- Tool for differentiation with competitors and strengthen customer loyalty

Win-win for us and our customers

- We have established a legitimate cellular brand
- Tool to strengthen Mega and Dor Alon customer loyalty, with the potential for high stand alone profitability
- Taking advantage of the sale floor of Mega and Dor Alon allows for reduced client obtaining cost
- Best offer the customer:
  - Lowest price
  - Refunds on daily fuel and food purchases
  - Comprehensive service - Frontal, telephone and internet
  - High network quality

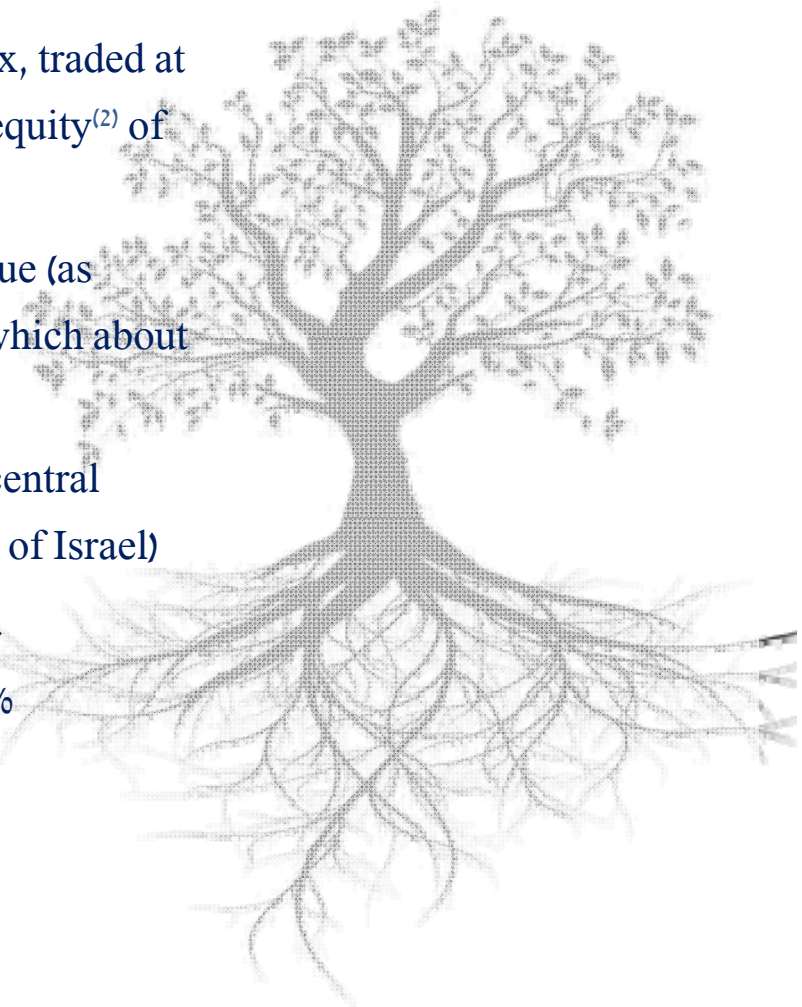
Creating value for mega and Dor Al0n

From analysis we have done:

- YouPhone customer is more loyal and increases spending in Mega and Dor Alon beyond the control group of You customers
- YouPhone brings new money to Mega and Dor Alon. New YouPhone joiners that haven't bought for three months before joining the group and started buying in Mega and Dor Alon after joining YouPhone
- Mega and Dor Alon clients who joined YouPhone substantially increase their spending within the Group

Real estate segment – the roots of the retail tree

- Focus on yielding assets in commerce (currently 68%), logistics (currently 24%) and office (currently 8%)
- Blue Square Real Estate is listed on the Tel Aviv 100 Index, traded at market value[1] of about NIS1.4 billion with shareholders equity[2] of about NIS1.5 billion
- Assets - 121 assets, about 274,000 sqm for rent, market value (as shown on the books of BSRE) of about NIS3.1 billion of which about NIS2 billion are unencumbered
- Strong and stable cash flow relies on prime real estate in central locations (about 78% of the assets are located in the center of Israel)
- High occupancy - 98.7% mostly long-term lease contracts.
- Low leverage - financial liabilities to gross CAP, only 56%
- An 82% increase in NOI since 2006



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(1) As of April 2012
(2) As for 31.12.2012

Real Estate segment – 2012 summary

- Agreement with Comverse to construct office building in Ra'anana. Sale of 50% interest in the project to Harel with profit
- Completion of the project land acquisition of the wholesale market, selling about 86% of the apartments and started marketing the commercial area of the mall

- Start construction of Eyal logistics center
- Start construction of Givon parking
- Expanding Hadar Mall in Jerusalem by 12k sqm
- Opening the commercial center in Kiryat Hasharon (about 14.5k sqm of commerce and offices)
- Point Wells - permission to build three thousand units. Await final approval
- Rated A1/negative

Impressive growth under outstanding management

50 המנהלים הטובים 2012

47 מקום

זאב שטיין
רבוע נדלן

ציון סופי
6.71

> מי נתן לך את הצ'אנס הראשון לנהל?

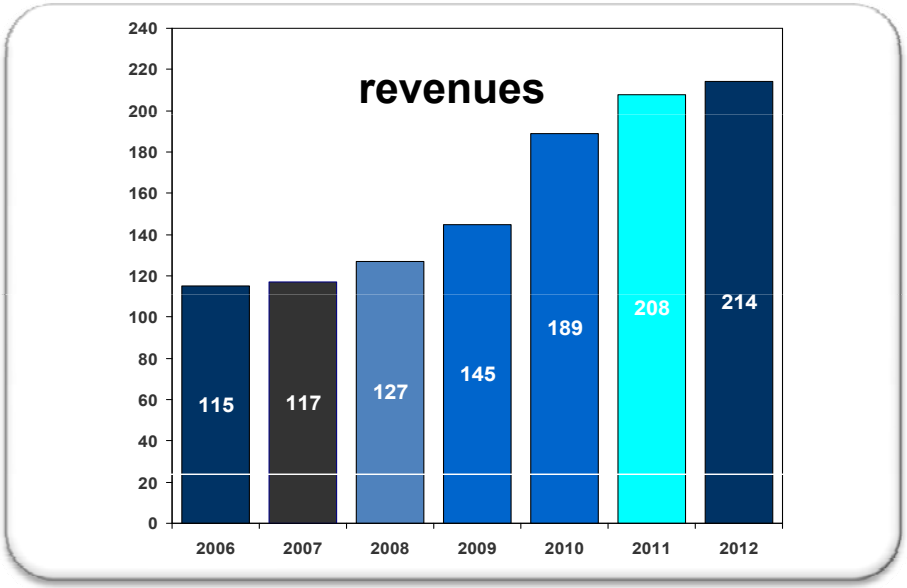
"הקריירה העסקית שלי התחילה עם משפחת אלון לפני 20 שנה, כשאלון עוד היתה חברה צעירה עם עשר תחנות דלק נכנסתי כמהנדס ואדריכל. עברתי לתפקיד של אדריכל ומהנדס החברה, ומשם עברתי להיות סמנכ"ל תבנון ופיתוח. לצדו של דורו ויסמן, שנתן לי את הצ'אנס הראשון, לקחנו כיוון חדש והכ־נסנו את מרכזי הרענון לתחנות הדלק".

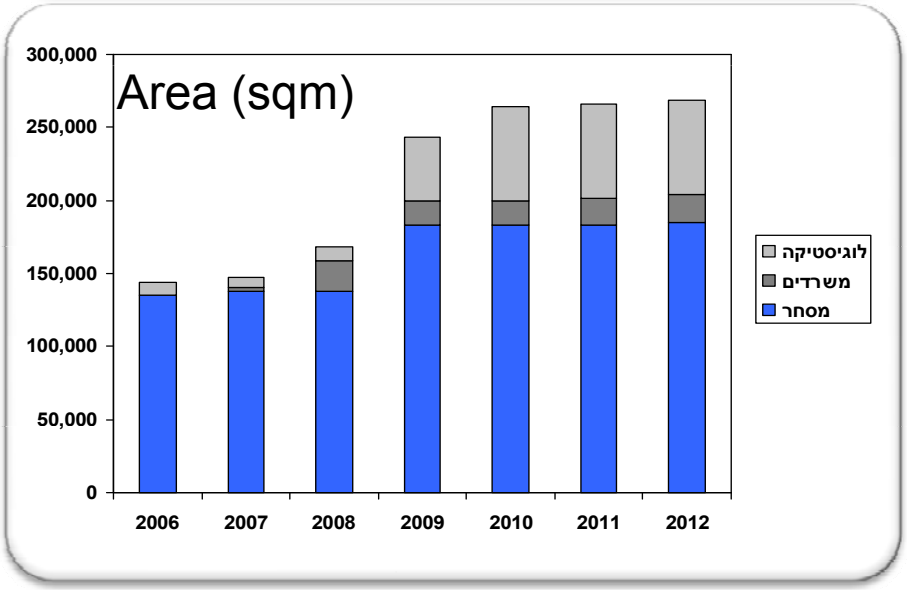
איזו שנה היתה 2012 עבורכם?

"שנה מצוינת: הרבה פרויקטים שהיו בתכנון עברו לשלב הביצוע, יוסיפו לנו שטחים להשכרה ויתר־מו לגידול בהכנסות העתידיות שלנו. ההישג הגדול שלנו הוא פרויקט השוק הסיטונאי, שבו השלמנו השנה כמה יעדים כמו רכישת הקרקע, שיווק של יותר מ־60% מהפרויקט, הנמות הימון לבנייה וק־בלת היתר לשטחי המגורים".

ב־2013 אתם צופים התרחבות או צמצום?

"הצמיחה הגדולה התחילה ב־2012, והשיא צפוי ב־2015. אנחנו מתכננים חמש שנים קדימה בכל הת־חומים. במיוחד כשאנחנו מדברים על שנים שהגידול הוא כל כך משמעותי. ב־2013, שהיא שנה של צמיחה, יש שישה פרויקטים בביצוע, התמקדות וגידול".





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BSRE vs. TLV real estate yields

Expiration date	Gross yield	Price 7.4.2013	series
31/08/2016	1.66%	123.70	B
31/10/2018	2.38%	115.93	C
30/06/2020	3.21%	114.54	D

Real estate segment – looking forward

- Promoting projects according to budgets and schedules:
  - Comverse[1] - about 23k sqm offices, long contract with Converse, the projected expected to end at Q3/2014
  - Kibbutz Eyal[1] - about 25k sqm logistics, long contract with Mega Retail, expected to end at Q3/2013
  - Rehasim - about 2.5k sqm commerce and offices, expected to end at Q4/2013
  - Hadar Mall[1] - Expanding the mall in about 12k sqm, expected to end at Q4/2013
  - Givon Parking[1] - about 1,000 parking spaces BOT project, expected to end at 2014
  - Wholesale Market[1] - about 37k sqm of commercial area and 722 residential units, expected to end at 2015
- Total expected increase of about 62k sqm in leased areas
- Continue strengthening the process of improving existing properties, promoting programs to change the zoning, additional uses
- Realization of assets beyond their improvement potential or non-core assets

(1) - company share 50%

Financial Data

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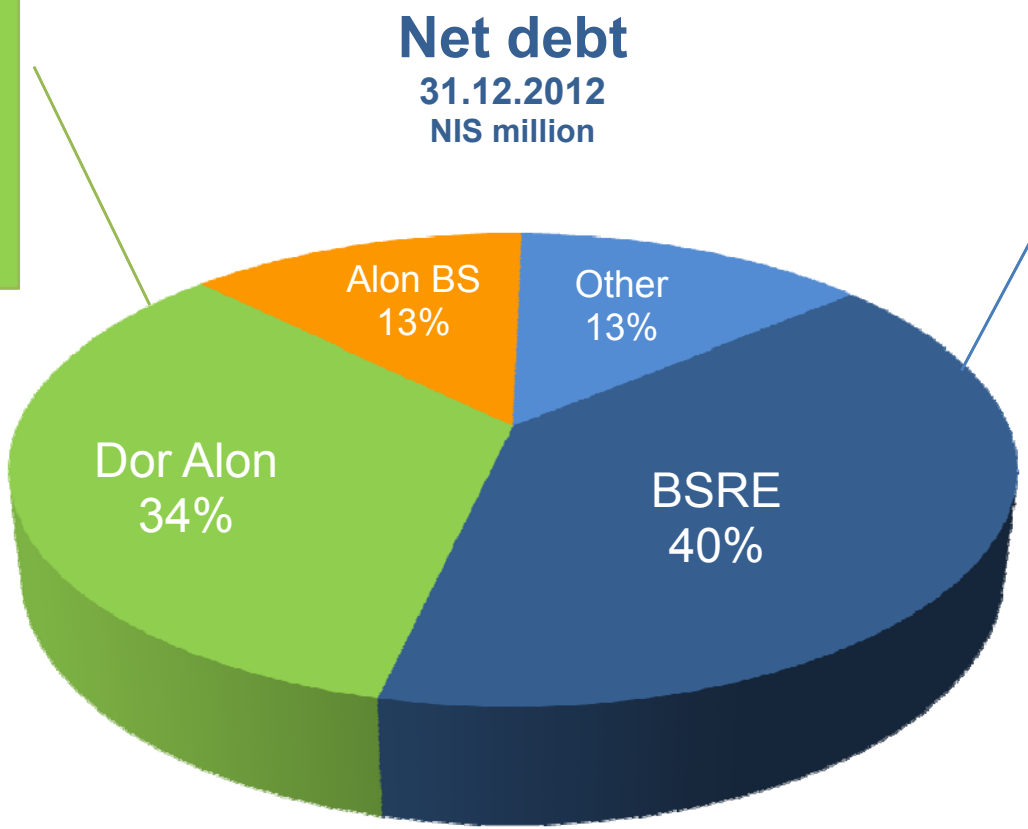
Balance Sheet (NIS million)

Decmber 31 2012			
Total current assets:	**3,387.5**	**Total current liabilities:**	**4,080.4**
Cash, financial assets and deposits	706.5	Short term debt and current maturities	1,976.9
Trade receivable	1,431.0	Trade payable	1,249.7
Inventory	654.2	Other	853.8
Other	595.8		0.0
Total non-current assets:	**6,112.4**	**Total non-current liabilities:**	**3,813.2**
Property and equipment	2,867.5	Loans from banks and debentures	3,403.6
Intangible assets	1,406.8	Other	409.6
Investment property	1,076.2	**Total liabilities:**	**7,893.6**
Other	761.9	**Shareholdersw equity (including minority rights)**	**1,606.3**
Total assets	**9,499.9**	**Total equity and liabilities**	**9,499.9**

Important: fixed assets also includes real estate leased to the group. The book value is about - NIS1.2 billion compared to fair value of about NIS2.2 billion

Debt allocation according to subsidiaries

About 13% of consolidated debt stands against working capital needs in Dor Alon (Revolver)



About 40% of the consolidated debt is attributable to the real estate activity and mostly not guaranteed by any liens

Strong Liquidity

- The group generates sizable cash flows from operations
- Unutilized credit facilities with banks
- Balance credit cards totaling about NIS500 mil (inc. Dor Alon)
- Dividends from subsidiaries with strong cash flow
- High ownership percentage in publicly listed subsidiaries
- In 2012 one-time investment in residential real estate of about NIS260 million reduced cash flow
- Capital expenditures are lower than annual depreciation

Item	2012	2011	10-12/2012	10-12/2011
Cash flow from continues operation excluding investment in real estate inventory	547.0	642.1	110.4	144.6
Investment in real estate inventory	(260.8)	(14.5)	(1.0)	(3.2)
Cash flow from operation	**286.1**	**627.6**	**109.4**	**141.4**

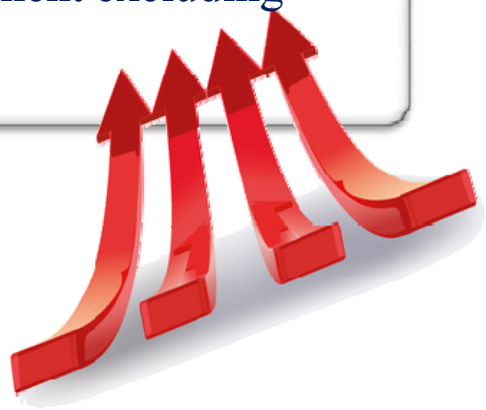
Consolidated Income Statements (NIS million)

Item	2012	2011	10-12/2012	10-12/2011
Revenues, net	12,850.4	12,345.8	3,114.8	3,020.8
Gross profit	2,842.3	2,903.8	681.0	688.6
Operating profit before other income/expense	184.1	292.0	19.9	17.1
Other income/(Expenses) and changes in fair value of investment property	129.8	25.0	32.1	3.9
Operating profit before finance	**313.9**	**317.0**	**52.0**	**21.0**
Financial income/(expenses), net	(245.8)	(171.9)	(34.2)	(41.6)
Share in gains (losses) of associates	12.0	5.7	3.4	(0.4)
Income (loss) before taxes on income	80.2	150.8	21.2	(21.0)
Taxes on income	16.6	48.5	6.8	34.7
Net income (loss) from continuing operatio	**63.6**	**102.3**	**14.4**	**(55.7)**
Net loss from discontinued operation	(22.5)	(18.6)	(11.9)	(10.4)
Net income	41.2	83.7	2.5	(66.1)
EBITDA	**470.4**	**568.9**	**89.8**	**87.8**

Areas of operation

Segment results	2012	2011	% change	Q4 2012	Q4 2011	% change
Commercial and Fueling sites	164.7	173.6	-5.1%	21.2	17.5	21.1%
Supermarkets	139.7	169.7	-17.7%	49.7	19.4	156%
Non-Food	(15.5)	(29.0)	47%	(12.7)	(21.2)	40%
Real Estate	125.9	57.3	120%	19.7	18.8	4.8%

- Significant improvement in the results of the segments in the fourth quarter against the same quarter
- A 9% increase in the results of fueling and commerce segment excluding gain/losses on inventory



Summary

- Market leader in all fields of operation
- Groundbreaking in improving our activities (Diners YOU Club, YouPhone, convenience stores)
- Act cautiously and responsibly in the face of market conditions and regulatory challenges
- Expansion of real estate activity and creating value both in Blue Square RE and Dor Alon

"WHO WANTS TO PREDICT THE FUTURE NEEDS TO INVENT IT "

Corporate Responsibility - Alon Blue Square in Platinum category on Maala rating

Target: Achieving business growth while implementing environmental, social and ethical considerations on the ongoing management, in addition to business considerations

The way: Optimal management of all our effects, above and beyond the legal requirements - beyond compliance

The groups focus: Promoting quality of family life in Israel

Organizations with whom we work with:

Contribution to the community

As part of the new social program we lead together with the joint volunteer to improve the quality of family life, the group's employees families hosted children in their homes during Hanukkah. In addition, we adopt a number of military battalions, operate a program for wise consumption, donate and volunteer in warm homes

אלון רבוע כחול