

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

(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, 2014

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 BLUE SQUARE ISRAEL LTD.

(Exact name of Registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

Europark Yakum, France Building, Yakum 6097200 Israel

(Address of principal executive offices)

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

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

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

Title of class

Name of each exchange on which registered

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

New York Stock Exchange, Inc.

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

New York Stock Exchange, Inc.

(1) Evidenced by American Depositary Receipts.

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

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

None
(Title of Class)

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

None
(Title of Class)

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

66,161,860 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

INTRODUCTION

Unless otherwise indicated, as used in this Annual Report, (a) the term “Alon Blue Square” or the “Company” means Alon Blue Square Israel Ltd., (b) the terms “we,” “us” and “our,” mean Alon Blue Square and its consolidated subsidiaries, (c) “Mega Retail” means our wholly-owned subsidiary, Mega Retail Ltd., (d) “Dor Alon” means Dor Alon Energy In Israel (1988) Ltd., a corporation in which we held approximately 78.43% of the outstanding ordinary shares as of March 31, 2015, and the balance of whose shares are publicly held and traded on the Tel Aviv Stock Exchange, and its subsidiaries, (e) “Bee Group” means our wholly-owned subsidiary, Bee Group Retail Ltd., (f) “BSRE” means Blue Square Real Estate Ltd., a corporation of which we held 63.71% of the outstanding shares as of March 31, 2015, and the balance of whose shares are publicly held and traded on the Tel Aviv Stock Exchange, and its subsidiaries, (g) “Naaman” means Naaman Group (NV) Ltd., a corporation in which we held approximately 77.51% of the outstanding ordinary shares as of March 31, 2015, and the balance of whose shares are publicly held and traded on the Tel Aviv Stock Exchange, and its subsidiaries, and (h) “Diners Israel” means Diners Club Israel Ltd, a corporation in which we held 49% of the outstanding shares as of March 31, 2015.

We operate in four reporting segments. As of December 31, 2014, we were the largest retail company in Israel based on the number of stores. In our Supermarkets segment, operated mostly through Mega Retail, we are the second largest food retailer in the State of Israel. In our Fueling and Commercial Sites segment, operated through Dor Alon, we operate a chain of filling stations and convenience stores in different formats in Israel, and we are considered to be one of the four major gas companies in Israel. In our Houseware and Textile segment, operated through Bee Group, we sell “Non-Food” items in standalone retail outlets, in our supermarkets and via our wholesale channels. In our Real Estate segment, operated through BSRE, we own, lease and develop yield-generating commercial properties and projects. Activities that do not meet quantitative thresholds in order to constitute a separate segment consist of activities in issuing and acquiring credit cards transactions through our affiliate, Diners Club Israel Ltd., our activities in the cellular market via our mobile virtual network operator (MVNO) network in Israel through our wholly-owned subsidiary, Alon Cellular Ltd., activities in the baby products sector and operations of a logistic center in Beer Tuvia, which are all presented under Other Activities.

Please note that unless otherwise indicated, as used in this Annual Report, the term “owned” or “ownership” with respect to our supermarkets, Naaman outlets and filling stations means the ownership of the operations of our supermarkets, outlets and sites and not legal title to the real estate underlying our supermarkets, outlets and sites. In addition, unless otherwise indicated, data regarding Mega Retail's supermarket branches whose operations we resolved to cease are not separated from data regarding our supermarkets segment.

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

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

All references in this Annual Report to dollars or \$ are to U.S. dollars and all references in this Annual Report to NIS are to New Israeli Shekels. Unless mentioned otherwise, all figures in U.S. dollars are based on the representative exchange rate between the NIS and the dollar as published by The Bank of Israel for December 31, 2014, which was NIS 3.889 per \$1.00, except figures for the first quarter of 2015, which are based on the representative exchange rate between the NIS and the dollar as published by The Bank of Israel for March 31, 2015, which was NIS 3.978 per \$1.00.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
ITEM 1.	6
ITEM 2.	6
ITEM 3.	6
ITEM 4.	29
ITEM 4A.	86
ITEM 5.	87
ITEM 6.	128
ITEM 7.	153
ITEM 8.	169
ITEM 9.	178
ITEM 10.	181
ITEM 11.	198
ITEM 12.	201
PART II	
ITEM 13.	203
ITEM 14.	203
ITEM 15.	203
ITEM 16.	205
ITEM 16A.	205
ITEM 16B.	205
ITEM 16C.	205
ITEM 16D.	206
ITEM 16E.	206
ITEM 16F.	206
ITEM 16G.	206
Part III	
ITEM 17.	209
ITEM 18.	209
ITEM 19.	209

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data.

We have derived the following selected consolidated financial data as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014 from our consolidated financial statements and notes included elsewhere in this Annual Report. We have derived the selected consolidated financial data as of December 31, 2010, 2011 and 2012 and for each of the years ended December 31, 2010 and 2011 from our audited consolidated financial statements not included in this Annual Report. We prepare our consolidated financial statements in conformity with IFRS. Effective January 1, 2013, the Company applies new IFRS 11 “Joint Arrangements” retrospectively, and jointly controlled entities are presented in the consolidated statements using the equity method. The Company provides the quantitative disclosures of the effect of the application of IFRS 11 only for the immediately preceding period (i.e., year ended December 31, 2012). The statements of operations for the years 2010 to 2011 have not been restated as a result of our decision to adopt the relief of IFRS 11. For further information, see note 38 in the financial statements of 2013. You should read the selected consolidated financial data together with the section of this Annual Report titled “Item 5. Operating and Financial Review and Prospects”, our consolidated financial statements included elsewhere in this Annual Report, the related notes, and the independent registered public accounting firm’s report.

Statement of Income Data In accordance with IFRS:	For the year ended December 31,					
	2010	2011	2012	2013	2014 ⁽⁴⁾	2014 ⁽¹⁾
	NIS (in thousands, except per ordinary share or ADS data)					
Revenues	9,068,126	15,159,447	15,640,331	14,860,869	14,048,034	3,612,248
Less – government levies	723,709	2,813,671	2,955,154	2,974,529	2,987,077	768,084
Net revenues	8,344,417	12,345,776	12,685,177	11,886,340	11,060,957	2,844,164
Cost of sales	6,058,120	9,442,009	9,960,721	9,312,832	8,640,992	2,221,905
Gross profit	2,286,297	2,903,767	2,724,456	2,573,508	2,419,965	622,259
Selling, general and administrative expenses	2,042,655	2,611,801	2,548,770	2,472,855	2,459,701	632,477
Other gains	3,258	1,637	10,822	3,049	95,036	24,437
Other losses	(23,953)	(18,529)	(6,544)	(24,567)	(87,344)	(22,458)
Increases in fair value of investment property, net	32,917	41,913	16,874	47,589	50,258	12,923
Share in gains of associates	(518)	5,746	87,060	27,211	37,997	9,770
Operating profit	255,346	322,733	283,898	153,935	56,211	14,454
Finance income	85,620	156,567	83,002	78,168	61,791	15,889
Finance expenses	(232,940)	(328,493)	(324,930)	(332,184)	(273,043)	(70,209)
Finance expenses, net	(147,320)	(171,926)	(241,928)	(254,016)	(211,252)	(54,320)
Profit (loss) before taxes on income	108,026	150,807	41,970	(100,081)	(155,041)	(39,866)
Taxes on income (tax benefit)	38,591	48,485	(2,863)	(12,667)	219,855	56,531
Profit (loss) from continuing operations	69,435	102,322	44,833	(87,414)	(374,896)	(96,397)
Loss from discontinued operations	(6,826)	(18,609)	(22,468)	(29,994)	(3,065)	(789)
Net income (loss) for the year	62,609	83,713	22,365	(117,408)	(377,961)	(97,186)
Attributable to:						
Equity holders of the Company	47,839	59,513	(17,907)	(145,695)	(431,778)	(111,026)
Non-controlling interests	14,770	24,200	40,272	28,287	53,817	13,840
Earnings (loss) per Ordinary share or ADS attributable to equity holders of the Company:						
Basic						
Continuing operations	1.10	1.18	0.07	(1.75)	(6.50)	(1.67)
Discontinued operations	(0.14)	(0.28)	(0.34)	(0.45)	(0.05)	(0.01)
	0.96	0.90	(0.27)	(2.20)	(6.55)	(1.68)
Diluted						
Continuing operations	1.10	1.07	0.07	(1.75)	(6.50)	(1.67)
Discontinued operations	(0.14)	(0.28)	(0.34)	(0.45)	(0.05)	(0.01)
	0.96	0.79	(0.27)	(2.20)	(6.55)	(1.68)
Cash dividends declared per ordinary share or ADS(2)	14.01	1.13	-	-	-	-
Number of Ordinary Shares Outstanding at the end of each year: (3)	65,990,879	66,161,860	66,161,860	66,161,860	66,161,860	66,161,860

- (1) The translation of the NIS amounts into dollars has been made for the convenience of the reader at the representative exchange rate prevailing at December 31, 2014 (NIS 3.889 = \$1.00), as published by The Bank of Israel. During 2014, the US dollar increased in value vis-à-vis the NIS by approximately 12.04%.
- (2) Including dividends paid of NIS 12.31 (\$3.39) on October 18, 2010 after the issuance of 20,328 thousand shares as part of the acquisition of Dor Alon.
- (3) Does not include treasury shares.
- (4) The statement of income data for the year 2014 includes a provision for deferred tax liabilities in an amount of NIS 10 million subsequent to the decision of the Company to realize part of its holdings in a principal subsidiary.

	At December 31,					
	2010	2011	2012*	2013	2014	2014
	NIS (in thousands)					\$(¹)
Balance Sheet Data:						
In accordance with IFRS						
Working capital (deficit)	58,387	(494,401)	(660,255)	(596,090)	(828,975)	(213,158)
Total assets	8,770,208	9,094,217	9,213,254	9,162,484	8,564,160	2,202,151
Short term credit from banks and others and current maturities of debentures	970,824	1,561,296	1,933,295	1,691,255	1,524,903	392,107
Long term debt, net of current maturities	3,900,036	3,657,957	3,415,683	3,672,577	3,563,611	916,331
Total equity	1,585,165	1,546,226	1,587,549	1,485,015	1,141,789	293,595

- (1) The translation of the NIS amounts into dollars has been made for the convenience of the reader at the representative exchange rate prevailing at December 31, 2014 (NIS 3.889= \$1.00), as published by The Bank of Israel.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

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

Risks Related To Our Business As A Whole

Mega Retail incurred significant losses in 2014. If Mega Retail continues to incur significant losses, it could have a material adverse impact on our liquidity.

Mega Retail incurred significant losses in 2014 in a highly competitive environment in a sector that has seen decreased consumer spending. The loss included a operating loss of Mega Retail and its subsidiaries of approximately NIS 277 million, or \$71 million, in 2014 and the elimination of their deferred tax assets in the amount of NIS 132 million, or \$34 million. These losses reduced our liquidity, were a factor in the reduction in Alon Blue Square's credit rating from A3 to Baa1 credit review and a factor in the reduction in the credit rating of Alon Blue Square's commercial paper, which required Alon Blue Square to redeem a portion of its commercial paper. Mega continued to incur losses in the first four months of 2015, and we expect Mega will continue to incur losses until it implements its plan to reduce operating costs and sell the operations of a portion of its stores. See "Item 5. Operating and Financial Review and Prospects – General – Supermarket Segment."

If Mega Retail continues to incur significant losses, it may adversely affect Mega Retail's relations with its suppliers and other creditors, some of whom may change the terms of credit provided to Mega Retail, and limit Mega Retail's ability to carry out its business plans. Mega Retail will implement further cost reductions and sell stores in order to satisfy obligations that it is unable to pay in full as part of its plan to reduce losses. In addition, Alon Blue Square may be required to pay up to NIS 440 million, or \$113 million, of Mega Retail's obligations, for which Alon Blue Square has provided guarantees to financial institutions, and Alon Blue Square may also be liable for various other undertakings of Mega Retail. Alon Blue Square has also committed to provide additional funding to support Mega Retail in an aggregate amount not to exceed NIS 240 million, or \$62 million, to assist Mega Retail if peak temporary liquidity needs arise and if the disposal of the operations of stores is not effectuated in accordance with the schedule provided in Mega Retail's plan. Continued operating losses by Mega Retail could cause further reductions in the credit rating of Alon Blue Square and its commercial paper, requiring Alon Blue Square to redeem its commercial paper, repay bank loans and loans received from BSRE under the Deposit of Cash Balances Agreement, and impair Alon Blue Square's ability to raise additional funds on favorable terms, or at all. See "Item 3 Key Information – D. Risk Factors – Risks Related To Our Business As A Whole - A decrease in our credit rating may require us to repay some of our bank loans" below. Reduced liquidity at Mega Retail could also have a short term material adverse affect on the cash flow from lease payments received by BSRE because approximately 75% of the lease income of BSRE is generated from properties leased to Mega Retail in connection with the retail operation of our supermarkets. Due to the location and nature of the properties leased to BSRE, however, the Company believes that BSRE will not face difficulties in finding alternate tenants in the short term in the event Mega Retail decides to exit these properties. Any or all of the above may materially adversely affect Alon Blue Square's liquidity and affect its share price.

Economic conditions in Israel affect our financial performance.

The financial performance of each of our operating segments is dependent to a significant extent on the economy of Israel.

All of our supermarket sales are made in Israel, and we acquire a substantial majority of the goods that we sell from Israeli suppliers. During 2012 and 2013, Israel's Gross Domestic Product rose by 3.4% and 3.3%, respectively. Reports of the Israeli Central Bureau of Statistics indicate that during 2014 Israel's Gross Domestic Product rose by 2.8%. The year 2014 was characterized by a slowdown in the economic activity in Israel, and in particular a growth rate of 2.6% (as opposed to 3.2% in 2013) and a reduction of the consumer price index of 0.2% (as opposed to an increase in the consumer price index of 1.8% in 2013) and a slowdown in the consumer spending in the food industry in Israel. We believe that our customers continue to be cautious in their buying patterns and continue to choose to make their purchases at low-price and hard discount stores, which have a lower profit margin. The public's continued awareness of the costs of food and certain other products continues to negatively impact the food retailing business in Israel. See "Item 3. Key Information – D. Risk Factors – Risks Related To Our Supermarkets – Enacting legislation, establishment of government committees and protests against high cost of living may adversely affect our business" below.

The demand for Dor Alon's products and petroleum products in general is materially affected by the state of the Israeli economy. An economic slowdown may cause a decrease in demand for Dor Alon's products and have an adverse effect on Dor Alon's profit margins and exposure to customer credit risk. However, some petroleum products sold by Dor Alon are considered basic products which have a fixed demand.

The financial performance of our Houseware and Textile segment is also dependent to a significant extent on the economy of Israel. Global economic instability and uncertainty affected our non-food and wholesale business in the past by causing a slowdown in the growth of private consumption, which affected the growth of our houseware, home textile, toys and leisure businesses. Economic instability, uncertainty or slow down could also affect the growth of our Houseware and Textile businesses in the future.

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

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

Enacting legislation, establishment of government committees and protests against high cost of living may adversely affect our business.

In response to increased public awareness of the high cost of living, the Knesset has raised the priority of reducing the cost of living in Israel and has begun in the process of enacting legislation, including by way of establishment of government committees, in order to address this issue. These developments could materially adversely affect our ability to open new supermarkets and convenience stores and the profitability of our existing supermarkets and convenience stores. For additional information on this matter, see "Item 3. Key Information – D. Risk Factors – Risks Related To Our Supermarkets – The enactment of new laws and regulations, including the legislation in favor of "Promoting Competition in the Food Industry", may materially adversely affect our sales and profits, including limiting our ability to purchase additional stores or obligate us to sell some of our stores."

Inability to create synergies between our different businesses may adversely affect our operating results.

We currently operate five operating segments - supermarkets, fueling and commercial sites, houseware and textile, real estate and other. The diversion of management's attention and any delays or difficulties encountered in connection with the realization of corporate synergies and operational improvements could have an adverse effect on our business, financial results, financial condition or share price. If we are not successful in creating synergies between our different operating segments our operating results may be adversely affected.

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

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

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

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

A decrease in our credit rating may require us to repay some of our bank loans.

In October 2010, Bank Hapoalim loaned us an aggregate amount of NIS 200 million with an interest rate of 2.8% per year linked to the CPI. As of December 31, 2014, the balance of the loan was NIS 141.8 million (approximately US \$36.5 million). A decrease in the credit rating to "Baa2" will cause an increase of 0.25% per year in the interest rate we pay under such loan. A decrease in the credit level rating under "Baa2" will provide the bank the right to an immediate repayment of the balance of the loan.

In addition, under our Deposit of Cash Balances Agreement with BSRE the amount of funds each party may lend to the other may not exceed NIS 150 million at any time, and if our Series C Debenture is lowered by more than three credit rating levels, the amount lent from each party to the other may not exceed NIS 50 million. In the event of a decrease in the credit level rating to “Baa2”, we may be required to immediately repay loans to BSRE.

The credit rating of our debentures is currently “Baa1/Neutral-Negative” by Midroog Ltd., an Israeli rating agency and 51% subsidiary of Moody’s (“Midroog”).

Deterioration in our debt rating may cause a breach in the financial covenants of certain debt instruments and make it more difficult to renew credit lines on similar terms, may affect our ability to raise funds and increase the cost of money. The investing policy of certain institutional investors determines in many cases, a rating threshold for their investments in various debt instruments and may affect the marketability of such debt instruments.

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

As of March 31, 2015, Alon owned, directly and indirectly through Alon Retail Ltd., approximately 72.71%% of Alon Blue Square’s outstanding ordinary shares. So long as Alon, or any successor to its shareholdings in Alon Blue Square, continues to own beneficially more than 50% of our outstanding ordinary shares and voting power, it will be able to control the outcome of matters requiring shareholder approval that do not require a special majority, including the election of all Alon Blue Square directors, other than Alon Blue Square’s two external directors whose election, under the Israeli Companies Law, requires that a majority of the non-controlling shareholders who participate in the vote, vote for their appointment, or that the total number of shares of non-controlling shareholders that voted against their appointment does not exceed two percent of the aggregate voting rights in the Company.

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

A substantial portion of our employees' wages is adjusted upon changes to the minimum wage in Israel. Under Israeli law, the minimum wage, which is increased from time to time as a result of various economic parameters and updating of employee-union agreements, equals approximately 47.5% of the average wage for an employee in Israel, unless otherwise determined by government regulations. Following newly enacted legislation, as of April 1, 2015, the minimum wage was NIS 4,650 or approximately \$1,195, with further increases planned until the end of 2017. In addition, collective bargaining agreements have imposed a higher minimum wage for certain industries, such as cleaning employees and security employees. A large part of our employees receive minimum wage such that corresponding increases in minimum wage in the future will increase our labor costs and thus may adversely affect our operating results.

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

In addition to our wholly owned subsidiaries, Mega Retail and Bee Group, our two main subsidiaries are BSRE, in which we owned a 63.71% interest as of March 31, 2015, and Dor Alon, in which we owned an approximately 78.43% interest as of March 31, 2015, both of which are traded on the Tel Aviv Stock Exchange.

Through our subsidiary, Bee Group, as of March 31, 2015, we held approximately 77.51% of the outstanding shares of Naaman, which is traded on the Tel Aviv Stock Exchange. In addition, as of March 31, 2015 through our subsidiary Mega Retail, we owned 51% of the outstanding shares of Eden Teva. The ordinary shares of Eden Teva that are not owned by us are held by private third parties (including the CEO of Eden Teva).

Mega Retail leases from BSRE the real estate underlying a substantial portion of the supermarkets that it owns. Substantially all the ordinary shares of BSRE that are not owned by Alon Blue Square are publicly held.

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

Rights to filling stations in the Dor Alon chain, Mega Retail supermarkets and Naaman stores are subject to agreements with third parties who may not renew the agreements or worsen their terms, which could affect our profitability.

The majority of the real estate underlying the filling stations of Dor Alon, the Mega Retail supermarkets and the Naaman Group stores are leased from third parties with whom we have entered into agreements to rent such properties. Upon the expiration of such agreements, the owners of the stations, supermarkets and stores may not renew their agreements with Dor Alon, Mega Retail and Naaman Group and enter into agreements with other companies, or worsen the terms of the agreements, either of which would result in a loss of profits.

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

The sharp fluctuation in oil prices in recent years has led to the fluctuation in our electricity prices and the price of raw materials used in the plastic packing industry. We cannot assure you that our suppliers will not raise prices in the future. Further increase in oil, raw material and product prices would impose significant expenses and costs on us, which could have an adverse effect on our operation results. During 2014, electricity prices were higher than those in 2013. Increases in oil, electricity, raw material and product prices may adversely affect our operating results.

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

Our non-financial assets and equity are not adjusted for inflation in Israel, while the repayment of interest and principal of part of our loans and debentures are adjustable, linked to changes in the Israeli consumer price index, as provided in our loan and debenture agreements. As a result, an increase in inflation in Israel would have the effect of increasing our financial expenses without any corresponding offsetting increase in our assets and revenues in our financial statements, leading to lower reported earnings and equity. The extent of this effect on our financial statements would be dependent on the rate of inflation in Israel. The Company has an excess of CPI-linked liabilities over CPI-linked assets (mainly in respect of outstanding debentures). From time to time, we engage in transactions to hedge a portion of this inflation risk through NIS – CPI swaps in order to reduce our risk to inflation, although we do not eliminate the risk of inflation.

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

In addition, BSRE, a 63.71% subsidiary of the Company, is exposed to modifications of the construction valuation index, which may affect constructions costs.

An increase in the interest rate of the Bank of Israel may adversely affect our financial expenses.

We have issued debentures and obtained loans in NIS, some of which bear fixed interest and some of which variable interest. An increase in the interest rate published by the Bank of Israel will affect our financial expenses related to our debentures and loans which bear variable interest. Additionally, an increase in the interest rate published by the Bank of Israel may adversely affect our financing costs, in case we may be required to raise funds for future activities.

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

As of December 31, 2014, we held approximately NIS 301.4 million in Israeli corporate and government bonds with fixed interest rates, a portion of which are linked to the Israeli CPI. A decrease in the market value of these bonds or interest rates or a change in the status of the companies in whose bonds we have invested could lead to a material increase in our net financing expenses.

Fluctuations in the capital markets may affect our ability to raise funds in order to finance our operations, to refinance our debt and enter into additional operational fields.

We fund our operations from a variety of sources, including from operating activities and by raising capital from banks and the capital markets. We currently have issued debentures with an aggregate principal amount of NIS 2,509.7 million. From time to time, we refinance a portion of our debt and issue new debentures to fund new projects. Adverse change in capital market conditions, specifically in the demand for debentures and debentures yield, or new regulations in the capital market may adversely affect our ability to raise funds in order to finance our operations, refinance our debt or enter into additional operational fields, any of which may materially adversely affect our financial results and our ability to operate.

Volatility of Alon Blue Square's share and ADS price could adversely affect our shareholders.

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

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

- entry into strategic partnerships or joint ventures by us or our competitors;
- the political, economic, security and military conditions in Israel;
- the inclusion of our shares on a specific index on the Tel Aviv Stock Exchange;
- additions or departures of key personnel; and
- sales of ordinary shares by Alon Blue Square's controlling shareholder.

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

Volatility of the price of Alon Blue Square's securities on the New York Stock Exchange or the Tel Aviv Stock Exchange is likely to be reflected in the price of Alon Blue Square's securities on the other market. In addition, fluctuations in the exchange rate between the NIS and the dollar may affect the price of Alon Blue Square's ordinary shares on the Tel Aviv Stock Exchange and, as a result, may affect the market price of Alon Blue Square's ADSs on the New York Stock Exchange.

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

Any devaluation of the NIS against various non-Israeli currencies in which we or our suppliers pay for imported goods has the effect of increasing the selling price of those products which we sell in Israel in NIS and thereby our operating results. Dor Alon is exposed to fluctuations in the US dollar - NIS exchange rate due to credit that Dor Alon obtains from its suppliers (mostly from oil refineries in Israel which is linked to the US dollar). Depreciations of the NIS - US dollar exchange rate could materially adversely affect Dor Alon's financial results. This devaluation would have a greater effect on our non-food retail and wholesale business because a higher proportion of the goods that we sell in our non-food retail stores are acquired from overseas suppliers. Any devaluation of the NIS would also cause an increase in our expenses as recorded in our NIS denominated financial results even though the expenses denominated in non-Israeli currencies would remain unchanged.

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

Also see "Item 3. Key Information – D. Risk Factors – Risk Related To Our Business As A Whole – Increases in oil, electricity, raw material and product prices may affect our operating results."

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

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

Additionally, we may be subject to breaches of cyber security which may cause interruptions in our service or allow unauthorized third parties to access our customers' personal data. In the event of such a cyber security breach, we may need to make a significant investment to fix or replace our IT systems, and we may face costly litigation, government investigations, government enforcement actions, fines and/or lawsuits. In addition, our brand and reputation, as well as our relationships with our customers, may be negatively impacted.

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

We and all of our subsidiaries are incorporated under Israeli law and our principal offices and operations are located in the State of Israel. Political, economic, security and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying, from time to time, in intensity and degree, has led to security and economic problems for Israel. For example, on July 8, 2014, the State of Israel launched an almost two month military operation in the Hamas-controlled Gaza strip. We could be adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation, or a significant downturn in the economic or financial condition of Israel.

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

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

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

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

We may be required to invest resources in order to develop our mobile virtual network operator business. We cannot guarantee that the cellular services business will be profitable.

We compete in the cellular business where competition is strong and where we compete in ongoing price wars to increase their market shares. The cellular services business in Israel is also characterized by high churn rates and low customer loyalty. We may not be able to successfully compete against our more experienced competitors in the cellular services market, particularly given the high penetration rate of the Israeli mobile telephone market. Our ability to remain competitive relies on our continued purchase of cellular services from our suppliers at attractive rates. These suppliers are the cellular companies which compete with us. During 2012, additional new operators began providing cellular services, further increasing competition in the Israeli cellular services market, reducing prices in the cellular services provided, and made it more difficult to reach profitability in our cellular services business.

In addition, the telecommunications market in Israel is complex and is highly regulated. Our cellular business is subject to regulations promulgated by the Israeli Ministry of Communications and the enforcement of such regulations which may affect the operating results of our cellular business. We may be required to devote substantial management attention and resources to develop the new business. Current and future regulations will limit the manner in which we may conduct our business and may increase our costs. We cannot guarantee if or when our cellular services business will be profitable.

We are exposed to, and currently are engaged in, a variety of legal proceedings, including class action lawsuits.

We sell goods to millions of consumers on a daily basis. As a result of the scope and magnitude of our operations we are subject to the risk of a large number of lawsuits, including class action suits by consumers and consumer organizations. These actions are costly to defend and could result in significant judgments against us. Recent years have been characterized by a substantial increase in the number of requests for certification of class actions filed and approved in Israel, including against us, and this trend is expected to continue. Currently, we are engaged in various material legal proceedings, many of which are for substantial amounts. Should these requests to certify lawsuits against us as class actions be approved and succeed, this may have a material adverse effect on our financial results. For a summary of legal proceedings against us, see "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Legal Proceedings."

Risks Related To Our Supermarkets

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

The food retailing industry in Israel is highly competitive and is characterized by high turnover and narrow operating margins. We compete with the other largest supermarket chain, Shufersal growing low-priced supermarket chains, such as Rami Levy Chain Stores Hashikma Marketing 2006 Ltd., or Rami Levy, Bitan Wines Ltd., or Bitan, Victory Supermarket Chain Ltd., or Victory, and Osher Ad - Food Warehouses, or Osher Ad, independent grocers, open-air markets, and other retailers selling supermarket goods. Competitive pressures increase as the supermarket sector in Israel approaches higher saturation levels and continue to increase as our competitors expand their operations. Because there are few barriers to entry, new companies continue to enter the market with hard discount formats throughout the country, increasing the available store space in an already saturated market.

We believe that an important factor in the purchase decisions of a large portion of the Israeli public is the price of the products it purchases. As a result, in recent years, we and our competitors have established and expanded low-price and hard discount store formats.

In addition, growing low-priced supermarket chains during recent years have continued to aggressively increase their market share and expand their presence in locations throughout Israel, often geographically beyond their original locations, increasing competition in an already difficult market, particularly in the hard discount format. Over the past two years, we sold 25 of our stores to third parties operating hard discount format supermarkets. We estimate that our market share of the total retail market of food, beverages and tobacco decreased to 10.2% in 2014 from 11.4% in 2013. The low barriers of entry, including the relatively low cost of establishing a new smaller supermarket chain, have contributed to the increase in the number and expansion of smaller supermarket chains in recent years. These smaller supermarket chains have been able to capture a significant part of the sales from the major chains in their areas by using lower cost non-unionized labor and having lower operating costs.

In addition, Fourth Chain Company Ltd., or Fourth Chain, consisting of a number of smaller supermarket chains which previously operated on a local geographic level, market a private label brand and jointly negotiate with suppliers, enabling these supermarket chains to sell lower priced products.

Mega Retail incurred significant losses in 2014, partially due to the competition in the food retailing business, which could have a material adverse on Mega Retail's liquidity. See "Item 3. Key Information – D. Risk Factors – Risks Related To Our Business As A Whole - Mega Retail incurred significant losses in 2014. If Mega Retail continues to incur significant losses, it could have a material adverse impact on our liquidity."

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

The food retailing business in Israel has seen a decrease in consumer spending. If this market trend continues, our operating results will be adversely affected.

According to the Nielsen Company, or Nielsen, “Summary year 2014 in the consumption of goods market in Israel”, the quantity of food, beverages, home products and near food products purchased by consumers in Israel declined by 1.4% in 2014 as compared to 2013. We believe that the public's continued awareness of the costs of food and certain other products continues to negatively impact the food retailing business in Israel. If this trend of decreased consumer spending will continue, or operating results will be adversely affected.

The enactment of new laws and regulations, including the legislation in favor of “Promoting Competition in the Food Industry”, may materially adversely affect our sales and profits, including limiting our ability to purchase additional stores or obligate us to sell some of our stores.

The food retail industry in Israel is subject to laws and regulations which may adversely affect our sales and profits. In addition, from time to time, new laws and regulations are enacted which may adversely affect our business and limit our ability to conduct our business.

In March 2014, the Knesset adopted new legislation in favor of “Promoting Competition in the Food Industry” (the “**Food Law**”). Among other things, the Food Law provides for a list of required actions and prohibited actions regarding the relationship between suppliers and retailers, imposes limitations on large retailers, and contains provisions intended to increase the transparency of prices. We have agreed upon new commercial terms with our suppliers which conform to the requirements of the Food Law. The purpose of the law is to promote and increase competition in the food and retail industry in order to reduce product prices. See “Item 4. Business Overview – Government Regulation – Legislation in favor of Promoting Competition in the Food Industry” for more information. The Food Law is already effective, excluding the transparency of prices aspect which becomes effective May 20, 2015.

The Food Law may affect our ability to purchase additional stores in specific areas or could obligate us to sell some of our stores, limits our flexibility in our dealings with our suppliers, and requires us to disclose our prices at all our stores, all of which may materially adversely affect our sales and profits. We cannot assure you that new laws and regulations will not be enacted in the future, which may materially adversely affect our sales and profits and limit our ability to conduct our business.

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

We purchase most of our dairy, fresh produce and poultry products from the Tnuva Corporation, which holds a leading position in the domestic dairy and poultry markets. To the best of the Company's knowledge, some of the collective acquisition entities of Kibbutzim in Israel that hold shares in Alon, our controlling shareholder, also hold approximately 23% of Tnuva. In 2014, Tnuva's products accounted for approximately 12.9% of all the products sold at our supermarkets. For more information on our arrangements with Tnuva, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon and Alon Blue Square's Subsidiaries – Arrangements with Tnuva." In addition, the Strauss group, an Israeli food manufacturer, accounted in 2014 for approximately 7.7% of all products sold at our supermarkets, and the Osem group accounted for approximately 6.9% of all products sold at our supermarkets in 2014. Due to our status as a leading food retailer in Israel which allows us to offer a wide assortment of products and promotions of these suppliers' products on a national level, and the fact that we maintain a long-standing relationship with Tnuva, the Strauss group, Osem, Unilever, and Neto, we do not believe that there is a material risk of future discontinuance of the supply of products of these key suppliers. However, we do not have a written contract with Tnuva, Strauss group or Osem obligating them to supply products to us. The ten largest suppliers accounted for approximately 55.4% of our product sales in 2014. Due to the relatively large market share of these suppliers, we depend on them and on a number of other suppliers that supply brands characterized by high customer loyalty, such as the Central Company for the Manufacture of Soft Drinks Ltd., which is the exclusive franchisee of Coca Cola in Israel and which distributes, among other products, other popular soft drinks and milk products. Increases in prices by our suppliers are generally not offset, fully or as quickly, by increases in our selling prices and revenues because of competitive pressures. We cannot assure that, in the future, Tnuva, Strauss group, Osem or any of these other suppliers will not significantly raise the prices of the products they supply us in the future, or encounter difficulties in providing these products to us, in either of which cases our operating results might be adversely affected.

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

We have two distribution centers, one is in Kibbutz Eyal from which we distribute a large portion of the products we carry to our supermarkets, and one in Rishon Letzion from which we distribute fruits and vegetables. The products distributed by our distribution center to our supermarkets made up approximately 32% of our total purchases during 2014. Our inability to utilize the distribution centers for any reason may significantly impair our ability to distribute our products to our supermarkets and would adversely affect our sales and profit margin, and increase expenses.

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

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

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

The Israeli government is authorized to control the retail and wholesale prices of goods and services offered in Israel. The number of products subject to government-imposed price control increased in 2014, with the Israeli government considering adding additional items to the list of controlled products, such as fruits and vegetables, as well as products that are comparable to the products currently subject to price controls. In addition, during periods of high inflation in the past, more extensive price controls were imposed throughout Israel. We do not believe that current price controls have any material adverse effect on our business or operating results. However, any imposition of more extensive price controls in the future may have a material adverse effect on our operating results. We cannot assure you that broader price controls will not be imposed in the future.

Risks Related To Fueling and Commercial Sites

Fluctuations in the price of petroleum products and increases in excise tax rates may have a material adverse effect on the earnings and profitability of Dor Alon.

The primary factors affecting the price of petroleum products in Israel are the prices of petroleum products in the Mediterranean Basin, foreign exchange rates and the excise taxes imposed on the sale of petroleum products in Israel. In the last few years, fuel prices worldwide and in Israel have fluctuated significantly. Fluctuations in fuel prices have a direct effect on Dor Alon's working capital.

Generally, an increase in fuel prices causes increases in the value of Dor Alon's inventory and increases the volume of customer credit that Dor Alon extends to its customers and, therefore, also increases Dor Alon's working capital requirements and increases its exposure to customer credit risk. Increased working capital requirements result in increased finance expenses.

The excise tax component of certain fuel prices such as diesel oil, kerosene and gasoline is significant. Excise tax is imposed directly on fuel companies at the time of sale of fuel to customers and is generally payable within 10 days after the sale, while the credit line provided by Dor Alon to its customers is significantly longer. As Dor Alon's working capital requirements increase due to the increases in excise taxes, it will be required to procure additional credit facilities and incur additional financing expenses. Failure to obtain additional credit facilities would have a material adverse effect on the business, financial condition and results of our operations.

In addition, a decrease in fuel prices under supervision (octane 95 gasoline) generally causes decreases in the value of Dor Alon's inventory. A decrease in these fuel prices may cause a loss in the reporting period during which this price decrease occurs.

Competition in the energy industry is intense, and an increase in competition in the market in which Dor Alon sells its products could adversely affect the earnings and profitability of Dor Alon.

Competition in the Israeli energy industry is intense and has even increased in recent years. Dor Alon's major competitors are large fuel companies in Israel and natural gas marketing companies: Paz Oil Company Ltd., or Paz, The Delek Israel Fuel Corporation Ltd., or Delek, and Sonol Israel Ltd., or Sonol, are Dor Alon's competitors in the filling stations field of activity, and Paz, Delek, Sonol PazGas, AmisraGas, SuperGas and tens of additional small and medium size fuel marketing companies as well as small LPG companies, which are mostly local companies that operate in a limited geographic area, are Dor Alon's competitors in the direct marketing field of activity. The principal competitive factors affecting the retail fuel and natural gas marketing business are location of filling stations, brand identity, product price, the variety of related services offered to customers, the level of service, financial strength allowing the establishment of new filling stations, procurement of petroleum products at competitive prices and the terms offered to fleet customers, real estate owners and/or owners of filling stations. In addition, Dor Alon faces competition from Oil Refineries Ltd., or ORL, following its privatization and increased competition from Paz which now owns one of the two oil refineries in Israel. Increases in competition may adversely affect our earnings and profitability.

If price control over diesel fuel and LPG is imposed, it may have a material adverse effect on Dor Alon's results of operations.

On July 31, 2012, an amendment to the Price Control of Goods and Services Order (Application of the Law on Diesel Fuel for Transportation and Determining the Level of Control), 2012, was published, requiring a fueling company to annually report the profitability of diesel fuel sold at filling stations. In accordance with the amendment, the Company reports such data from time to time, pursuant to chapter VII of the Price Control of Goods and Services Law, 1996. Although Dor Alon estimates that the reporting requirements of the Order will not materially adversely affect Dor Alon's results of operations, at this stage, we cannot evaluate the influence of additional requirements which may be imposed in the future, including price control, which may materially adversely affect our results of operations.

The LPG price for refineries is determined by the Fuel and Gas Administration at the end of each month for the following month. In May 2013, the Fuel and Gas Administration notified its intent to impose price controls for LPG sales to the private sector. In February 2015, new ordinances were published which would require Dor Alon to publish, on its website, a list of the average prices charged to its private customers. At this stage, we cannot evaluate the influence of price controls on LPG on our operation results.

Dor Alon is exposed to risks associated with the reduction of the marketing margin of petroleum products, which may influence the financial results of Dor Alon.

Dor Alon's profitability is derived from the marketing margin of petroleum products, which is a fixed amount that is not affected by oil prices and is particularly low. Therefore, Dor Alon is exposed to risks arising from changes in the marketing margin of petroleum products which are under price control and petroleum products that are not under price control. A reduction of the marketing margin by the Israeli Ministry of National Infrastructure, Energy and Water Resources may adversely affect our financial results.

Dor Alon may incur costs to comply with petroleum and natural gas product and environmental regulatory controls related to its operating activities.

The sale and distribution of petroleum and natural gas products in Israel is subject to extensive regulation and supervision focused on preventing potential harm to the environment (principally water, air and soil contamination) and maintaining public safety. Petroleum and natural gas products are classified, under certain circumstances, as hazardous materials that are potentially contaminating. Therefore, handling and dealing with these products in Israel is subject to regulation and supervision. In recent years, enforcement of the laws in Israel concerning environmental issues has become more stringent. These developments will likely increase the costs required to construct and maintain our filling stations and private filling stations. If we do not comply with the abovementioned regulatory controls, we may be subject to litigation by regulatory authorities, third party claims, class action lawsuits and other litigation in addition to the risk of losing, conditioning or delaying the business permit of filling stations with environmental contamination. Furthermore, defending ourselves against regulatory violations alleged by regulatory authorities or consumers may in the future require substantial financial and management resources.

Dor Alon is exposed to customer credit risk that may increase with future increases in the price of petroleum products.

Currently, accepted practice in the fuel marketing industry in Israel is to grant customers (especially fleet customers and commercial customers) a credit line for the purchase of products for extended periods without any security interest. Beginning in 2012, Dor Alon reduced the credit line for its customers. During 2014, Dor Alon had an average of NIS 524 million in outstanding customer credit (27 credit days) in the Filling Stations and Convenience Stores operation, and an average of NIS 324 million in outstanding customer credit (85 credit days) in the Direct Marketing operation. As a result of customer credit, we are exposed to the risk of delayed collections and nonpayment of debt.

Increases in the price of petroleum products and in excise taxes as well as competition in the industry in which Dor Alon operates may lead to increases in the amount of credit granted to customers. This would lead to a potential increase in the exposure to credit risks and an increase in Dor Alon's working capital requirements. This would require Dor Alon to obtain additional credit lines which may limit Dor Alon's ability to conduct its business. A significant increase in the price of petroleum products and in excise taxes may materially adversely affect our ability to conduct its business.

Political, economic and military instability in Israel may impede Dor Alon's ability to operate and harm its financial results.

In addition to the risks described below in the risk factor entitled "Risks Related To Our Business As A Whole - Political conditions in Israel affect our operations and may limit our ability to sell our products", the security situation in Israel tends to affect recreational activities of private automobile owners in Israel, and as a result, affects their consumption of petroleum products. Deterioration in the security situation causes a decrease in the consumption of petroleum products in Israel.

In addition, the general security situation in Israel affects the incoming and outgoing tourist industry in Israel and the airlines' volume of activity, which in turn affects our activities in supplying jet fuel to these airlines.

Risks Related To Our Houseware and Textile Segment

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

The merchandise we sell in our Houseware and Textile and wholesale business is varied, and we therefore compete in several different markets. Our “Naaman” and “Vardinon” stores compete in the houseware, home textile and accompanying accessories markets.

In recent years, competition in the Houseware and Textile and wholesale industry has increased, primarily due to the entry of retail chains and stores from outside the food industry, and Office Depot, do-it-yourself chains such as Home Center and ACE (a franchisee of Ace Hardware), household stores, home textile stores, such as Golf & Co. Ltd., Fox Home and Kitan Textile Industries Ltd., houseware stores, electricity appliances stores, and also due to the expansion of the houseware and home textile departments in supermarkets, in the houseware industry. This competition affects the selling prices of our products and the level of our sales. Increased competition may adversely affect our level of sales and our profitability.

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

Tension between Israel and the Palestinian Authority may cause a delay in supply of products.

Some of our bed textile products are sewn in the Palestinian Authority. If there is a closure of the borders between Israel and the areas governed by the Palestinian Authority for security reasons, this could affect the transport of persons and goods and can harm the supply of products from these sewing workshops. From our past experience, there were no significant delays in the supply of products from these sewing workshops during such closures. Furthermore, sudden and unexpected interruption in supply by one of Vardinon’s suppliers can cause a shortage in products which that supplier supplied for a period of several months until the beginning of supply from an alternative supplier.

We are dependent to a significant extent on one supplier. If this supplier raises prices or encounters difficulties in providing its products, our operating results will be adversely affected.

Our Houseware and Textile segment is dependent on Office Textile Ltd. which provides us with dyed and printed fabrics. Delay in supply of products from, or a deterioration in the terms of trade with, Office Textile may adversely affect our Houseware and Textile segment operation.

Disruptions of the Israeli ports may affect our ability to import products used in our Houseware and Textile business.

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

Political and economic conditions in China may affect the operating results of our Houseware and Textile segment.

Most of our Houseware and Textile segment's imports are from suppliers located in China. Because most of the products sold by our Houseware and Textile segment are manufactured in and imported from China, its activity may be affected by changes in the political and economic conditions in China. For instance, any material change in the NIS-US dollar or the NIS-Chinese Yuen currency exchange rates may increase our manufacturing costs and increase the price of those imported products from China.

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

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

Our Houseware and Textile segment profitability is significantly influenced by the cost of raw materials and cost of sales. Increase in these factors may adversely affect our operational results.

Our Houseware and Textile segment is exposed to fluctuations in the cost of raw materials used to manufacture our products, which affect the cost of our products. We monitor the price volatility and may speed up or delay orders in cases we identify trends of increases or decreases in the price of raw materials and products and adjust the sale price accordingly. Additionally, the cost of goods of our Houseware and Textile segment products is a fundamental component in the pricing of these products and the volume of sales and profit margins. Most of our Houseware and Textile segment products are imported (directly by us or by our suppliers). Cost of goods are affected or may be affected by changes in the rate of import tariffs, especially a change in import tariffs in the Far East, costs of raw materials, changes in shipping rates and changes in foreign currency exchange rates (mainly US dollar and Chinese currency). An increase in the price of raw materials or cost of goods may adversely affect our operational results.

Risks Related To Real Estate

Entrepreneurship in real estate and residential construction entails risks of not meeting the targets set forth in the original schedule and budget.

Entrepreneurship in real estate and residential construction entails risks of not meeting the targets set forth in the original timetable and budget, among others, due to lack of manpower in the construction industry, ongoing shortage of raw materials and/or increase in prices of raw material. Given that BSRE's activities include the development of residential and commercial areas in the wholesale market project in Tel Aviv, this risk may materially adversely affect BSRE's operational results. In the event BSRE is not able to meet the targets set forth in its original timetable and/or budget, BSRE may incur additional costs and/or it may be required to defer its recognition of revenues, any of which may have a material adverse effect on our financial results.

We are subject to risks regarding the ownership of real estate assets, including a slowdown in the Israeli yield-generating real estate market, which may adversely affect our business.

We own, through our subsidiaries, real-estate assets, most of which are currently used by our retail operation, and the remainder of which is leased to third parties or held for future development. These assets are subject to risks with regard to ownership of real-estate assets, including a slowdown in the Israeli yield-generating real estate market, evidenced by a decline in demand and surplus of supply of commercial properties, a reduction in the availability of credit sources, an increase in financing costs and/or stricter requirements by banks for providing such financing, which may have a material adverse effect on the real-estate markets, occupancy rates, rental fees and revenues from third parties and on the value of the assets in the Company's financial statements. These risks include increase of operational costs, decline of the financial conditions of the lessees and additional factors which are beyond our control. Any of these risks could adversely affect our business.

In addition, from time to time we acquire real estate with the intention of changing the zoning of such real estate. We cannot assure that the relevant planning authorities will approve these contemplated zoning changes or, if approved, that we will be able to sell our real estate at a profit following a change of zoning.

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

Most of BSRE's activities, including its residential and commercial wholesale market project in Tel Aviv, are largely financed from external sources. We cannot be certain that BSRE will be able to obtain financing on favorable terms for its activities, and BSRE cannot be certain that its existing credit facilities will be renewed. In addition, an adverse change can occur in the terms of the financing that it receives. Any such occurrence could increase BSRE's financing costs and/or result in a material adverse effect on the results of the Company and its ability to develop its real estate business. As of December 31, 2014, BSRE had long term loans including debentures in the outstanding amount of approximately NIS 2.1 billion. The amount of long term loans currently outstanding may inhibit BSRE's ability to obtain additional financing for its future capital needs, inhibit BSRE's long-term expansion plans, increase its costs and adversely affect the price of its ordinary shares. For more information, see "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – BSRE Series D Debentures".

An earthquake of great magnitude could severely damage our business.

In the event of an earthquake, BSRE may incur damages, including but not limited to extensive damages to its properties and loss of revenues, which cannot be evaluated. As of the date of this report BSRE has insured its properties against earthquakes, including indemnification for loss of rent revenues for a period of 12 months, although this insurance will not cover all the damages and losses we would incur in the event of an earthquake.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of Alon Blue Square.

Alon Blue Square Israel - Ltd. was incorporated in June 1988 as a company under the laws of the State of Israel. Our principal executive offices are located at Europark Yakum, France Building, Yakum 6097200, Israel, and our telephone number is +972-9-961-8504.

In 1996, we completed our initial public offering and our ADSs were listed for trading on the New York Stock Exchange. In November 2000, our ordinary shares were listed for trading on the Tel Aviv Stock Exchange.

On July 17, 2010, our name was changed to "Alon Holdings Blue Square – Israel Ltd.", and on April 24, 2013, our name was changed to "Alon Blue Square Israel Ltd."

In October 2010, we acquired all the shares of Dor Alon Energy in Israel (1988) Ltd. ("Dor Alon"), a publicly traded company listed on the Tel Aviv Stock Exchange ("TASE") that were held by Alon Israel Oil Co. Ltd. ("Alon"). The shares acquired represented approximately 80% of the outstanding shares of Dor Alon, and in exchange, we issued 20,327,710 ordinary shares to Alon. Dor Alon is one of the four largest fuel companies in Israel based on number of filling stations and is a leader in the convenience stores sector. For further information on this transaction, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon and Alon Blue Square – Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD."

Other Recent Developments

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

In our Supermarket segment:

- The adoption by Mega Retail in 2013 of a new strategic plan, including the rebranding of its store formats which includes the completion by March 2015 of the re-deployment of our new hard discount YOU store format, increasing its operational efficiency, including by reduction of its store space, improvement of its distribution and supply capabilities, including self distribution and the launch of a new distribution center, and the successful implementation of the self-arrangement of shelves in its supermarkets. For further information see “Item 4. Information on the Company – B. Business Overview – Supermarkets.”
- In 2014, the closure of 19 branches with a total area of 50,000 sq.meters.

In our Fueling and Commercial Sites segment:

- In February 2012, Dor Alon Energy Centers, a limited partnership under the control of a subsidiary of Dor Alon (55%) and a third party (45%) (the “Partnership”), entered into an agreement with Sugat Sugar Refineries Ltd. (“Sugat”), according to which the Partnership will plan, finance, establish, maintain, and operate a power plant in Sugat’s industrial area in Kiryat Gat, Israel, consisting of an energy output of up to 124 megawatts. In the first stage, the energy output of the plant is to be 64 megawatts. The Partnership completed conversion of the Sugat powerplant on June 22, 2014.
- The approval by the Israel Land Authority in February 2014 of the allocation of land in the southern industrial region of Herzliya to a company owned equally by Dor Alon and a third party. The allocation is subject to several conditions, including the payment of capitalized lease fees. The jointly owned company is in the process of submitting an objection with regard to the amount of the capitalization lease fees and is working to complete the transaction with the Israel Land Authority. The zoning plan permits the jointly owned company to establish a project containing 52,000 square meters designated for commercial and industrial purposes. Dor Alon intends to continue to operate (through the joint company) the promotion and implementation of this project, including the allocation of land to the project by the Israel Land Authority.

In our Real Estate segment:

- In connection with the Wholesale Market Project in Tel Aviv, as of March 16, 2015, commitments for 696 sale agreements with apartment purchases for NIS 1,740 million (including VAT) had been entered into and advances of NIS 1,167 million (including VAT) had been received. For more information on the transaction with the Wholesale Market Company, see “Item 4. Information on the Company – B. Business Overview – Real Estate – Description of Real Estate Properties” below and “Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon and Alon Blue Square's Subsidiaries – Agreement with the Wholesale Market Company.”
- BSRE has completed construction of a 23,000 square-meter office building on real property it owns in Ra'anana and a 3,500 square-meter basement and 900 parking spaces (the “structure”), most of which has been leased to Converse for a period of 10 years. See “Item 4. Information on the Company – B. Business Overview – Real Estate – Description of Real Estate Properties” below.
- In July 2014, a lot constituting a part of the logistic center in Rishon Lezion was sold for NIS 35 million. In December 2014, the logistic center was sold for NIS 95 million. A total of NIS 65 million were deposited in trust and were transferred on January 4, 2015. The remaining consideration is secured by a financial guarantee of the purchasers and will be paid until the end of March 2015. Exclusive possession of the logistic center was delivered in favor of the purchasers on December 31, 2014. The profit from the sale amounted to NIS 57.0 million before taxes, of which NIS 29 million was recorded in other gains in the fourth quarter of 2014.
- In July 2010, Gindi was awarded a tender to Build Operate and Transfer (“BOT”) a parking lot in Tel Aviv (“Givon Parking”) for approximately 1,000 parking spaces adjacent to the Wholesale Market Project. In August 2010, BSRE joined Gindi in this project as a 50% joint venture partner. The Givon Parking lot was opened for operations in April 2015.
- The completion of the construction of an additional floor and the upgrade of Hadar Mall in Jerusalem (in which BSRE holds 50% of the rights) with an area of 33,000 square meters (of which 12,000 square meters are for commercial purposes and the remaining area is for parking).
- The completion of the construction of a 28,000 square meter logistic center in Kibbutz Eyal in June 2014. The logistic center was established by a company jointly controlled by BSRE and a third party, each of which holds 50%. At the beginning of July 2014 Mega Retail Ltd. commenced the operation of the logistic center.

In our Other segment:

- The sale of 65 percent of the Company’s holdings in Kfar Hasha’shuim for NIS 13 million. For further information see “Item 5. Operating and Financial Review and Prospects – General – Other Activities.”

Capital Expenditures

In 2014, we invested approximately NIS 422.6 million, or \$108.7 million, in property and equipment, intangible assets and investment property, a 28.7% increase from our 2013 investment of NIS 328.3 million. Of our investment in property, and equipment and investment property in 2014, we invested NIS 79.6 million, or \$20.5 million, in land and buildings, including land that we lease and investment property, as compared with NIS 88.8 million in 2013.

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

B. Business Overview.

General

We operate in four reporting segments. In our Supermarkets segment, we are the second largest food retailer in the State of Israel. In our Fueling and Commercial Sites segment, we operate a chain of filling stations and convenience stores in different formats in Israel. In our “Non-Food” segment, we sell “Non-Food” items both in our supermarkets and in standalone outlets. In our Real Estate segment, we own, lease and develop yield-generating commercial properties and residency projects.

Our activities are carried out via our consolidated subsidiaries, including Mega Retail, which has supermarket retail activities, Dor Alon, which operates a chain of filling stations and convenience stores, Bee Group, which conducts non-food activities, and BSRE, which owns and invests in yield-generating commercial real estate and projects. As of March 31, 2015, Alon Blue Square owned 100% of the outstanding shares of Mega Retail, 78.43% of the outstanding shares of Dor Alon, 100% of the outstanding shares of Bee Group, 63.71% of the outstanding shares of BSRE, 77.51% of the outstanding shares of Naaman and 49% of the outstanding shares of Diners Israel. The balance of BSRE shares, Dor Alon shares and Naaman shares is publicly held and traded on the Tel Aviv Stock Exchange.

As of December 31, 2014, Mega Retail and its direct subsidiaries were the owners of all 197 of our supermarkets divided into three main categories, Discount chains, Quality and Service chains, and Mega@Internet website. In order to meet the needs of our customers, both the Discount chains and Quality and Service chains have regional stores and local neighborhood stores. The Discount chains include the regional store brands “You” and “ZolBeShefa” and the local neighborhood store brand “You Neighborhood Store”. The Quality and Service chains include the regional store brand “Mega”, the local neighborhood store brand “Mega in Town” and the organic, natural and health product store brand “Eden Teva”. As of December 31, 2014, the consolidated assets of Mega Retail and its subsidiaries aggregated approximately NIS 1.2 billion, or \$323.0 million. Mega Retail’s assets constitute approximately 14.7% of our total consolidated assets at that date.

As of December 31, 2014, Dor Alon operated 208 filling stations, 215 convenience stores, including 169 convenience stores branded “Alonit” and “Super Alonit” (we refer to these stores as Alonit convenience stores), and 46 convenience stores operated by the AM:PM chain of stores. Four convenience stores were operated by third parties. As of December 31, 2014, the total consolidated assets of Dor Alon and its subsidiaries aggregated approximately NIS 2.5 billion, or \$639.3 million. Dor Alon’s assets constitute approximately 29% of our total consolidated assets at that date.

BSRE is the owner of most of our real estate properties, and its revenues are primarily derived from real estate lease payments received from Mega Retail and third parties. As of December 31, 2014, the consolidated assets of BSRE aggregated approximately NIS 3.0 billion, or \$780.1 million. BSRE’s assets constituted approximately 35% of our total consolidated assets at that date.

As of December 31, 2014, we were the owners, through our subsidiaries, of 101 of our Housware and textile stores, while the remaining 11 of our Housware and textile stores were owned and operated by franchisees. As of December 31, 2014, the consolidated assets of our Housware and textile segment (excluding the stores owned and operated by franchisees) aggregated approximately NIS 188.1 million, or \$48.4 million. Our Housware and textile’s assets constituted approximately 2% of our total consolidated assets at that date.

Our Strategies

Our strategy is to take advantage of our position as a leading retailer in Israel in order to offer a variety of products and services which meet our customers’ daily needs, while leveraging potential synergies within our group. To achieve this goal, we intend to pursue a number of operating and growth strategies, which include:

- continue growing our filling stations and convenience store operations, including expanding the variety of products and services offered within the stores and identifying new areas of operation that are synergetic to our fueling operations;
- expanding the marketing of natural gas for industry and maintaining operation in the private electricity sector while examining the development of additional projects and expanding the marketing of Dor Alon’s private brand in the lubricant oil sector, “Dor Oil”;
- maintaining and strengthening our market positioning within the supermarket segment by rebranding our store formats, renovating and improving existing stores, evaluating the strategic positioning of some of our stores, adjusting the format of some of our stores all in order to meet the needs of our customers;

- increasing operational efficiency, including by reviewing and taking concrete steps to improve our distribution and supply capabilities, including self distribution and the launch of a new distribution center, implementation of a cost reduction plan, and the successful implementation of the self-arrangement of shelves in our supermarkets;
- developing and expanding of the real estate segment by developing and improving of the existing real estate properties, maximizing of leasings, increasing building rights, and purchasing additional commercial real estate in Israel;
- cautiously examining the possibility of expanding our activities outside of Israel;
- increasing our market share of “Non-Food” and “Near-Food” products and capitalizing on potential operating synergies between the food and Non-Food segments of the Company and the other subsidiaries of the Company, including by increasing of the sale of products of “Naaman” in Mega Retail’s supermarkets;
- strengthening and increasing of our market share in the organic products market and the health food in order to preserve our position as a leading company in the organic and health food market in Israel;
- improving the status of Diners credit cards by launching attractive loyalty plans with third parties and increasing the acceptance of these credit cards by Israeli merchants; and
- expanding and improving our You loyalty plan offering, increasing the number of You club members who hold the “You” credit card and the number of customers of our Alon Cellular MVNO offering, and increasing cooperation with Diners Israel to add additional You loyalty club members.

Supermarkets

General

Through our supermarkets, which are operated mostly through Mega Retail, we offer a wide range of food and beverage products and “Non-Food” items, such as houseware, small electrical appliances, cellular phones and cellular phones accessories and entertainment products and textile products (called “Non-Food” in this Annual Report), and “Near-Food” products, such as health and beauty aids, baby and young children products, cosmetics and hygiene products (called “Near-Food” in this Annual Report).

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

	No. of Stores	Store Space (square meters)
As of December 31, 2010	206	366,000
As of December 31, 2011	211	377,650
As of December 31, 2012	212	369,000
As of December 31, 2013	213	360,000
As of December 31, 2014	197	303,000

The following table sets forth the selected operating data of our supermarket stores as of the date indicated:

Selected Operating Data:	For the year ended December 31,			2014 U.S. Dollars (in thousands)
	2012	2013	2014	
	NIS (in thousands)			
Number of supermarket stores (at year end)	212	213	197	-
Increase (decrease) in same store sales(1)	(2.6)%	(1)%	(3.6)%	-
Total square meters (at year end)(2)	369,000	360,000	303,000	-
Supermarket sales per square meter (in NIS)	17,180	18,171	19,017	4,890
Supermarket sales per employee (in thousands)	910	812	864	222

(1) The percentage change in same store sales is the percentage change in sales of those stores that operated continuously during the entire reporting period of both the current year and that preceding it. Stores are not deemed to have operated continuously (and therefore not included as "same stores") if such stores were permanently closed during the reporting period or the preceding period, were resized significantly during the period or were significantly renovated or expanded during the period. Store resizing is considered significant if it exceeds 5% or more of the store's original size. The comparative figures include the results of branches whose operations we resolved to cease.

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

Our supermarket stores are divided into three main categories: Discount chains, Quality and Service chains, and Mega@Internet website. In order to meet the needs of our customers, both the Discount chains and Quality and Service chains have regional stores and local neighborhood stores. The Discount chains include the regional store brands "You" and "ZolBeShefa" and the local neighborhood store brand "You Neighborhood Store". The Quality and Service chains include the regional store brand "Mega", the local neighborhood store brand "Mega in Town" and the organic, natural and health product store brand "Eden Teva".

In Our Discount chain, “You” chain stores are regional hard discount stores designed to provide customers with name brand quality at everyday affordable prices. The “You Neighborhood Store” chain comprises hard discount stores located in urban areas. Our “ZolBeShefa” chain stores are low-priced stores oriented towards Israel’s growing ultra-orthodox Jewish population. In our Quality and Service chain, “Mega” chain is comprised of large supermarkets with a variety of food and non food products designed to be a “one stop shop” for our customers. The “Mega in Town” chain stores, located primarily in urban areas and city centers, combine reasonable prices with convenience for neighborhood shoppers. “Mega in Town” stores offer fresh food, a large variety of items in residential areas. In our “Eden Teva” stores, we focus on offering organic, natural and health food products together with offering many of the items sold in our other supermarket stores. The “Eden Teva” stores are divided into 12 stand alone stores and 10 stores which are inside our “Mega” stores under the concept of a store within a store. As of December 31, 2014, we operated a total of 197 stores consisting of approximately 303,000 square meters space.

Our Mega@Internet website allows customers to place orders via the Internet 24 hours a day and to have the products in our stores delivered to their homes from a nearby store within a few hours.

We launched our “You” and “You Neighborhood Store” supermarket formats in November 2013. The initiative included the conversion of a number of our “Mega Bool” stores to the new “You” brand. As of March 31, 2015, we are no longer selling under the "Mega Bool" brand, and all remaining branches were converted to the "You" brand.

We are also the holder of 51% of the outstanding shares of Eden Briut Teva Market Ltd. (“Eden Teva”). Eden Teva incurred operating losses in 2014 and requires financing in order to meet its operating needs. We have commercial disagreements with the minority shareholder of Eden Teva, who also serves as the CEO of Eden Teva, with respect to the responsibility of the shareholders to finance the operations of Eden Teva. We believe that resolution of said disagreement and reduction of operating expenses at Eden Teva will improve the financial status of Eden Teva.

Our supermarkets offer a wide selection of supermarket goods. The mix of products of each supermarket format varies to address the preferences of its target customers. Many of our supermarkets offer specialty departments such as full service bakeries, delicatessens, fresh meat and prepared food departments; certain supermarkets also contain franchise operations, which sell a variety of goods. In addition, we offer a range of “Non-Food” and “Near-Food” items and operate several houseware departments within most of our large stores. Furthermore, our supermarkets sell and market our “Mega” line of private label goods, including “Mega Home”. Private label products provide customers with an attractive alternative selection of products that are comparable in quality to name brand products. We believe that our private label products enhance customer loyalty, differentiate our stores from those of our competitors and provide a competitive product to those offered by our suppliers. In addition, usually the average gross profit from private label products is higher than the average gross profit from other products. During December 2014, the products that we sold under the “Mega” private label constituted approximately 10.4% of our supermarket sales.

During 2014, we closed 19 branches with a total area of approximately 50,000 square meters and reduced store space with a total area of 14,300 square meters as part of our strategy. All of our supermarket stores operations are owned by Mega Retail and its subsidiaries, and Mega Retail leases the real estate underlying the stores that it operates from BSRE and third parties.

Industry Overview

We estimate that retail sales of food, beverages and tobacco in Israel were approximately NIS 68 to 69 billion, or \$17 to \$18 billion, in 2014. This estimate is based on the data published by the Israeli Central Bureau of Statistics of the retail sales of food, drinks and tobacco in Israel in 2012 (2013-2014 has not yet been published) and the growth of expenditure of 3.5% in each of 2013 and 2014 for the consumption of food, beverages and tobacco of households in Israel at current prices.

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

Based on data published by the Israeli Central Bureau of Statistics of the retail sales of food, drinks and tobacco in Israel, we estimate that approximately 29.7% of the total retail sales of food, beverages and tobacco in Israel in 2014 was made by the two largest chains and approximately 29.5% of the estimated retail sales made by supermarkets, groceries and mini-markets in Israel in 2014 was made by the two largest chains.

Competition

The Israeli food retailing industry is highly competitive and is characterized by high turnover and narrow operating margins. We compete with the largest supermarket chain, Shufersal, growing low-priced supermarket chains, such as Rami Levy, Bitan, Victory, and Osher Ad, independent grocers, open-air markets, and other retailers selling supermarket goods. Competitive pressures increase as the supermarket sector in Israel approaches higher saturation levels and will continue to increase in the event that our competitors expand their operations. Because there are few barriers to entry, new companies continue to enter the market with hard discount formats throughout the country, increasing available store space in an already saturated market.

According to Nielsen, our market share in 2014 was 12.2% of the total retail market of food, beverages and tobacco. The market share of our largest competitor, Shufersal, based on its financial reports, was approximately 20% in 2014. This market share is based on revenue as a percent of the retail market for food, beverages and tobacco in accordance with the definition of the Central Bureau of Statistics for 2012 and market growth of approximately 3.5% in each of 2013 and 2014. The difference in market share may give Shufersal a greater competitive advantage in its dealings with customers, suppliers and other third parties.

In recent years, we and our competitors have established or expanded low-price and hard discount store formats. In 2013, we began rebranding “Mega Bool” stores as “You” stores. We completed converting a number of “Mega Bool” stores into “You” stores. As of March 31, 2015, we no longer sell under the “Mega Bool” brand, and all remaining branches were converted to the “You” brand, which had a total of 37 branches as of March 31, 2015. Additionally, we decreased the size of some of our supermarkets, re-deployed the stores, and adjusted prices and product diversity. Other supermarket chains in recent years continued to aggressively increase their market share and expanded their presence in locations throughout Israel, often geographically beyond their original locations. The low barriers of entry, including the relatively low cost of establishing new smaller supermarket chains, have contributed to the increase in number and expansion of smaller supermarket chains in recent years and the corresponding decrease in the number of branches held by Mega and Shufersal.

Shufersal, the largest supermarket chain, has taken numerous initiatives in the last few years to improve its competitive position. The competitive position of Shufersal, together with the expansion of smaller supermarket chains in recent years, has contributed to the intensified competition we experienced in recent years, particularly with our larger stores.

Fourth Chain Company Ltd., consisting of a number of smaller supermarket chains which previously operated on a local geographic level, such as such as Rami Levy Rami Levy, Bitan, Victory, and Osher Ad, market a private label brand and jointly negotiate with suppliers. Possible similar mergers and combinations of other smaller supermarket chains in the future, may generate the efficiencies of a major nationally-spread chain and enable them to compete more efficiently with us and adversely affect our competitive position.

In January 2013, Bitan Wines Ltd. and the Zim Direct Marketing Ltd. chain of discount supermarkets merged. This merger, and possible similar mergers in the future, could adversely affect our competitive position.

Mega Retail signed an agreement under which it transferred eight branches with a total area of 25,000 sq. meters, to a new competitor in the fourth quarter of 2014. Under the agreement, the purchaser will have the option to use the purchasing and supply services of Mega for the branches in respect of the transferred activity, and Mega has the option to repurchase these branches at the end of the period defined in the agreement. In addition, other store branches sold by Mega Retail in 2014 increased the market share of a number of its competitors.

Based on an approval from the Commissioner of the Israeli Antitrust Authority, the Fourth Chain entered into certain arrangements with certain smaller supermarket chains. This approval was granted subject to certain conditions and has since been extended until June 10, 2015. The Fourth Chain combines a number of other supermarket chains (the "Members") which operate in locations throughout Israel and its purpose is to develop a private label and to jointly negotiate with suppliers. Pursuant to the approved extended arrangement, the Fourth Chain is permitted to negotiate with suppliers regarding the private label brand. The aforesaid arrangement, and possible similar combinations of other supermarket chains, may generate some of the efficiencies of a major nationally-spread chain and therefore enable them to compete more efficiently with the major chains.

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

Operations

The following table provides certain information regarding our supermarket stores as of December 31, 2014:

Properties		Number	Square meters
Stores(*)	Leased from BSRE	86	132,000
	Leased	111	171,000
Stores In Development	Leased	-	-
Offices	Leased from BSRE	2	8,220
Warehouses	Leased from BSRE	2	40,000
	Leased	1	14,000
Warehouses in Development	Leased from BSRE and others	-	-
Car park	Leased from BSRE		14,260
Total		202	379,480

(*) Includes nine Eden stores within Mega.

Purchasing and Distribution

We purchase products for our supermarkets through a central purchasing office that selects products for all of our supermarkets (as well as a number of the products sold in Alonit/SuperAlonit and AM:PM stores, and not including Eden Teva) and negotiates prices, promotions and terms of payment with individual suppliers on a company-wide basis. We believe that the large volume of our purchases and our ability to offer chain-wide exposure for our suppliers' products and promotions, enable us to avail ourselves of attractive volume-buying opportunities and manufacturers' discounts.

Through our distribution center in Rishon Letzion, we can distribute products from suppliers, manufacturers and importers, thus reducing prices and broadening the range of available products. The distribution center was sold on December 31, 2014, and we lease approximately 14,000 square meters at this site, of which approximately 7,000 square meters are operated as warehouse space and supply of fruits and vegetables. We conduct the administration of the warehouse and distribution by means of a computerized system that consolidates orders from all the stores and other stores while giving consideration to inventory levels, store requests and company planning. In addition, the Company signed a development agreement to build an additional distribution center which was completed in June of 2014, for which a building permit has been received. Mega Retail Ltd. commenced the operation of the logistics center in July of 2014. This new distribution center will have approximately 28,000 square meters. For more information, see “Item 4. Information on the Company – B. Business Overview – Real Estate – Description of Real Estate Properties – Warehouses and Logistics Areas – Kibbutz Eyal.”

We purchase products for our supermarkets from approximately 530 suppliers, including manufacturers, importers and distributors. In 2014, approximately 81.5% of our grocery items and 97.4% of our meat and fish were delivered directly by suppliers to our stores. For certain other items, including 94.4% (in 2014) of fruits and vegetables, we provide distribution to our supermarkets through our distribution center. For the year ended December 31, 2014, approximately 32% of our supermarket purchases were of products distributed from our distribution center.

We actively seek to diversify our suppliers. However, we still purchase most of our dairy, fresh produce and poultry products from the Tnuva Corporation, which holds a leading position in the domestic dairy and poultry markets. In 2014, Tnuva’s products accounted for approximately 12.9% of all the products sold at our supermarkets. For more information on our arrangements with Tnuva, see “Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon and Alon Blue Square’s Subsidiaries – Arrangements with Tnuva.” In addition, the Strauss group, an Israeli food manufacturer, accounted for approximately 7.7% of all products sold at our supermarkets in 2014, and the Osem-Nestle group accounted for approximately 6.9% of all products sold at our supermarkets in 2014. We are a leading food retailer in Israel, as a result of which we are able to offer wide exposure on a national level to these suppliers’ products, and we maintain a long-standing relationship with Tnuva, Strauss group and Osem. However, we do not have a written contract with Tnuva, Strauss group or Osem obligating them to supply products to us. In addition, in recent years, there has been a process of consolidation among our suppliers. As a result, our largest suppliers now account for a larger percentage of our product sales. The ten largest suppliers for our supermarkets accounted for approximately 55.4% of our product purchases in 2014.

Marketing

During the Jewish New Year and Passover seasons, we run gift certificates programs, under which we issue and sell gift certificates and prepaid cards to institutions, companies and individuals. The gift certificates and the prepaid cards can be used in our stores as well as other stores with which we entered into collaboration agreements. We also participate in tenders in connection with the sale of our gift certificates and prepaid cards. From time to time, we also operate joint marketing promotions with other entities. For risks relating to the issuance of gift cards, see “Item 3. Key Information – D. Risk Factors – Risks Related to Our Supermarkets – We are exposed to risks of fraud and theft with regard to our gift certificates which may cause a loss of revenue and non-recoverable expenses” and “Item 4. Information on the Company – B. Business Overview – General Government Regulation – Costumer Protection Laws.”

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

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

The goal of our Loyalty Plan, which we established together with Dor Alon and which offers to our customers credit cards (Diners and Mastercard) bearing the name "You", or a membership card, is to promote customer loyalty to the Company and Dor Alon by, among other things, granting exclusive benefits to the Loyalty Plan members, including providing discounts and benefits at other businesses that joined the Loyalty Plan, such as a monthly refund to the customer's YouPhone account based on the aggregate purchases made in Mega supermarkets, Alonit convenience stores or at Dor Alon filling stations. In addition, through the Loyalty Plan the Company may provide other services such as personal finance, insurance products and tourism packages. The benefits are advertised and disseminated each month via e-mail to the members of the Loyalty Plan.

In June 2014, the Company launched the "YouCoins" program which allows its customers to accumulate virtual coins in purchases made in Mega supermarkets, Alonit convenience stores or at Dor Alon filling stations, Naaman, and Vardinon stores, which can then be exchanged for actual store credit.

In June 2014, Diners Israel and YOU club entered into an agreement with El Al Israel Airlines Ltd. (El Al) to issue a credit card of the "FLY CARD" brand, see "Item 4. Information on the Company – B. Business Overview – Additional Business Information Relating to our "Other" Segment – Related Business – Diners Israel."

The Loyalty Plan also owns a 50% share in the Israeli Hebrew-language free daily newspaper, Israel Post, distributed mainly in establishments such as Mega Retail supermarkets, AM:PM convenience stores, Dor Alon filling stations and third parties establishments. A majority of the revenue from this newspaper comes from selling advertisement space. Mega Retail believes that the partnership in this newspaper provides it with a marketing platform for Mega Retail's network.

Government Regulation

Supermarkets

Our operation of stores in Israel requires permits from municipal authorities, which are conditioned on the prior approval of various agencies, including the health ministry, the police and fire departments. If we are unable to obtain or maintain one or more required permits, we may be required to close one or more stores or to take other remedial action to obtain or maintain these permits.

Price Control

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

Environmental

Our supermarkets are subject to environmental laws, including:

- The Packaging Management Law, 5771-2011, which became effective on July 1, 2011, determines arrangements for manufacturing and packaging waste treatment. We are required under the law to report regarding, and pay in accordance with, our private label packaging weights. We have engaged with T.M.I.R corporation in connection with packaging treatment.
- The Law of Deposits for Drink Containers, 5759-1999, which became effective October 1, 2001, in order to improve public cleanliness and reduce the amount of buried waste. According to the law, we accept up to 50 drink containers per customer per day. We are engaged with ELA recycling corporation for the purpose of collection and treatment of the drink containers we collect from our customers.
- Water and Sewerage Corporation Rules (Plants Wastewater Discharged into the Sewerage System), 5771- 2011, permits water corporations to conduct sampling tests on plants and imposes on factories the cost of sampling and testing. The water corporations consider supermarkets as plants. Accordingly, we receive payment demands from different water corporations relating to sampling and testing costs.

In March 2014, the Knesset adopted new legislation in favor of “Promoting Competition in the Food Industry” (the "Food Law"). The Food Law is divided into three (3) main topics: (i) regulation of operations of suppliers and retailers; (ii) geographic competition of retailers; and (iii) transparency of prices. The Food Law is already in effect, excluding the transparency of prices aspect which will become effective May 20, 2015.

- *Regulation of operations of suppliers and retailers.* The Food Law states a list of required actions and prohibited actions regarding the relationship between suppliers and retailers, such as: (a) a retailer may not dictate or recommend to a supplier or interfere in any way with regard to the consumer price charged by other retailers for a product or the terms under which other retailers sell products to consumers; (b) a supplier may not dictate or recommend to a retailer or interfere in any way with regard to the consumer price charged by the retailer for a product provided by another supplier or the terms under which the retailer sells the product of another supplier; (c) a Large Supplier (a supplier with total sales exceeding NIS 300 million per year or a monopoly) may not arrange products at a Large Retailer (a retailer with at least three stores and total sales exceeding NIS 250 million per year) and may not dictate, recommend, or interfere in any way with the arrangements of its products (excluding guidance required to keep the quality and safety of its products); (d) a Large Supplier may not be a party to an arrangement with a Large Retailer under which products are sold to retailer in a lower price than the marginal cost of supplying the product to retailer; (e) a sale of a certain product to the retailer by a Large Supplier may not be a condition for the sale of another product by such supplier; (f) a supplier may not grant bonuses to a Large Retailer; (g) the Commissioner may instruct a Large Retailer, which sells a product of a Large Supplier, with regard to the steps that should be taken in relation with same product or a substitute product in order to prevent reduction of competition or to increase competition. In addition, the Commissioner may issue instructions with respect to the shelf space assigned to a specific product and substitute products and the payments for such shelf spaces; (h) a Large Retailer may not assign shelf space to a Very Large Supplier (a supplier with total sales exceeding NIS 1 billion per year) exceeding 50% of the shelf space in each of the retailer's big stores. The remaining shelf space must be assigned to suppliers which are not Very Large Suppliers; and (i) the Commissioner was granted the authority to issue instructions to a Large Retailer in case its actions with respect to its private label may reduce competition or harm the public.

- Geographic competition of retailers.* The following issues will apply to Large Retailers and retailers with at least one store with sales exceeding NIS 100 million per year with regard to Big Stores (stores with sale space exceeding 250 square meters): (a) the Commissioner will define for each Big Store its geographical area based on statistical information, such as distance from consumers, store size and store area, whether it is in an urban area or other; (b) with respect to each Big Store, the Commissioner will define its competition group which will include all the stores which compete for the same consumers; (c) the Commissioner will calculate for each Big Store its share of the competition group according to the ratio between its total sales compared to the total sales of the competition group; (d) once every two years, the Commissioner will notify each Large Retailer with regards to the demand areas in which its Big Stores' share in the competition group exceed 30% and 50%. Opening a new store in such demand areas will require the Commissioner's prior approval. Such request will not be approved unless the Commissioner determines that there is no reasonable doubt that opening a new store will adversely affect the competition in the relevant demand area. A request to open a new store in a demand area of which the retailer's share compared to the competition group exceeds 50% will not be approved, unless the Commissioner determines there is near certainty that opening a new store will not adversely affect the competition in the relevant demand area. The Commissioner's decision will be granted within 90 days and may be appealed; (e) the Commissioner must publish the demand areas within six months from publication of the Food Law; (f) the court, upon the Commissioner's request, may order that a Large Retailer that owns a store, which its share compared to the competition group exceeds 50% in a certain demand area, cease the store's operation, transfer its right in such store to another party, sell its rights in the store or take any other appropriate measure in order to increase the competition in the demand area; (g) a Large Retailer that received a notification from the Commissioner as described in section (d) above may not enter into an agreement which will limit other retailers from entering into similar agreements in the demand area; and (h) once a year, each Large Retailer is required to report to the Commissioner with respect to each of its Big Stores: the store location, the date of opening and the total sales of each store.
- Transparency of Prices.* The Food Law provides for the following, among others, with regard to the transparency of prices: (a) a Large Retailer which owns stores with an average selling space exceeding 120 square meters will publicize via the internet, with respect to each of its stores, the updated price of each product sold in each store, such that a comparison between Large Retailers may be conducted; (b) the publication will include the list of all products sold in each store, their prices, including prices for different consumers, special sales, deals and discounts, terms and date of expiration; (c) the price of each product must be updated within an hour from the moment it is updated in the store; and (d) failure to comply with sections (a) to (c) above may lead to criminal and monetary penalties.

Seasonality

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

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

Supermarkets Strategies

Our strategy in our retail activities is to maintain our position as a leading food retailer in Israel and to expand our market presence in the existing food retail market. To achieve these goals, we continue to pursue a number of operating and growth strategies, which include:

- maintaining and strengthening the market positioning of our store formats, continuing the renovating and improving of existing stores, evaluating the strategic positioning of some of our stores, adjusting the format and the size of some of our stores, all in order to meet the needs of our customers;
- increasing operational efficiency, including by improving our distribution and supply capabilities, including self distribution and the distribution by our suppliers directly to our new distribution center instead of directly to retail stores, reduction of store space or the number of stores and the successful implementation of the self-arrangement of shelves in our supermarkets;
- adjust our expenses to fit the changing conditions in the market resulting from our inability to raise our retail product prices;
- new operating model focused on our customers' needs by implementing policies and an organizational structure to suit customers' needs.
- increasing our market share of "Non-Food" and "Near-Food" products and capitalizing on potential operating synergies between the food and Non-Food operations of "Naaman" and Mega Retail's supermarkets;
- expanding and improving our You loyalty plan offering, and increasing the number of You club members who hold the "You" membership and credit card customers, as well as increasing the number of FLY CARD credit card brand holders;
- expanding sales through our internet sale site, Mega@internet website; and
- solidifying our market share in the organic/health food market with the goal of establishing Alon Blue Square as a leader of Israel's emerging organic/health food market.

Fueling and Commercial Sites

General

We operate filling stations and convenience stores and market petroleum products in Israel through Dor Alon, our direct subsidiary in which we held 78.43% as of March 31, 2015. Dor Alon's activity includes three primary fields of activity:

- **Filling Stations and Convenience Stores** - Dor Alon develops, constructs and operates a network of public filling stations operating under the "Dor Alon" and "Alonit" brand, most of which include convenience stores, and markets and supplies gasoline and other products through travel centers (commercial centers that include a gasoline service station operating under the "Alonit" and "Super Alonit" brands) and internal filling stations.
- **Direct Marketing** - Dor Alon supplies fuel oil and other petroleum products, including Liquefied Petroleum Gas ("LPG"), directly to residential and commercial customers as well as governmental entities.
- **Marketing of Jet Fuel** - Dor Alon supplies jet fuel to commercial airlines.
- **Others** – in addition to the three primary fields of activity described above, Dor Alon is active in the building, development, and operation of independent convenient stores under the "AM:PM", "Super Alonit", "Alonit Ba'Moshav", and "Alonit Ba'Kibbutz" brands.

In addition, Dor Alon is in the process of establishing through a subsidiary, a power plant in Sugat's industrial area in Kiryat Gat, Israel to which such subsidiary began supplying steam in the second half of 2014.

Filling Stations, Convenience Stores, and Others

As of December 31, 2014, Dor Alon supplied motor fuels, motor oil and other petroleum products to a network of 208 filling stations operating under the "Dor Alon" brand. Integrated into most of Dor Alon's public filling stations are Diesel Fueling Centers ("DFC") that sell diesel fuel for large vehicles such as trucks and buses at preferential terms. Dor Alon also supplies ARAL lubricants and Texaco lubricants in Israel.

As of December 31, 2014, Dor Alon operated 215 convenience stores, including 169 convenience stores branded "Alonit" (we refer to these stores as Alonit convenience stores) mostly located adjacent to our filling stations (29 stand alone stores), and 46 standalone convenience stores operated by the AM:PM chain of stores. 211 convenience stores are operated by the Alon Group, and 4 convenience stores are operated by third parties. All the stand alone convenience stores are leased for different periods.

The Dor Alon filling stations and convenience stores network is divided into complexes owned by Dor Alon, complexes in which Dor Alon has a long term lease (most of which are jointly owned or leased in equal shares with third parties) and complexes owned by third parties. As of December 31, 2014, Dor Alon (either solely or through joint companies or partnerships) owned or held under lease and operating agreements 178 commercial and filling sites. The other 31 filling stations and convenience stores are operated by third parties, under the Dor Alon brand, who have entered into supply agreements with Dor Alon for petroleum products. The filling stations and convenience stores include four travel centers along the Cross-Israel Highway (Israel's first toll road); Dor Alon has the exclusive rights to operate these travel centers for a 30-year period beginning in June 1999.

The filling stations and convenience stores sector demands substantial capital investment (the cost of establishing a refueling and commercial complex is estimated at NIS 4-6 million, not including the cost of land) and competition is fierce. Most of the competition relates to the acquisition of rights to establish new commercial refueling complexes and around obtaining commitments from existing filling stations. In the last few years, there have been a number of developments in this sector, including:

- intensified competition in marketing products to end users, such as price competition, reduction of credit terms to customers, improvement of the quality of service and the diversity of the products and services;
- an increase in the investments necessary to build a new filling station due to higher building standards of filling stations and due to planning and regulatory strict requirements regarding environmental protection and safety imposed by the Israel Ministry of Environmental Protection;
- an expansion of retail activity in convenience stores apart from the filling stations; and
- imposition of price control on LPG and diesel oil.
- Increase in the minimum wage (see "Item 3. Key Information – D. Risk Factors – Risks Related to Our Business as a Whole – Increase in employee minimum wage in Israel may adversely affect our operating results").
- Adoption of the Food Law (see "Item 3. Key Information – D. Risk Factors – Risks Related to Our Supermarket Segment – The enactment of new laws and regulations, including the legislation in favor of "Promoting Competition in the Food Industry", may materially adversely affect our sales and profits, including limiting our ability to purchase additional stores or obligate us to sell some of our stores").

Dor Alon adds filling stations to its network by either developing new commercial and/or filling stations or, less frequently, entering into an agreement with the owners of existing filling stations and convenience stores whose supply contract with another fuel company has expired. Developing new commercial and filling stations often takes several years and requires compliance with numerous laws and regulations.

Dor Alon anticipates opening and operating an additional 8-10 filling stations during 2015 and 2016. Dor Alon has plans and agreements to plan, establish, and operate additional filling stations, and these stations are currently in different stages of authorization and establishment.

Dor Alon has a cooperation agreement with a third party to establish through a joint company a nationwide chain of Si “espresso-bars” to be located in Dor Alon’s filling stations. As of December 31, 2014, Dor Alon’s filling stations included 15 Si cafes that were operated by a joint company, three of which are located outside of Dor Alon’s filling stations. The cafes sell products under the “Si” brand as well as other products. In addition, most of the Alonit convenience stores include a small coffee bar.

Customers of Dor Alon’s filling stations and convenience stores consist of the public at-large and, to a lesser degree, drivers of fleet vehicles (referred to as fleet customers). Fleet customers use electronic fueling cards or vehicle mounted devices to refuel their vehicles, with payment for the fuel products to be made at a later date, on a consolidated basis. The electronic fueling cards are also offered to private customers. Customers utilizing electronic fueling cards enjoy preferential fuel prices and terms of payment, which Dor Alon believes leads to concentrated buying by fleet customers from Dor Alon.

Internal Filling Stations (fleet stations)

As of December 31, 2014, Dor Alon supplied motor fuels to 160 internal filling stations operating under the Dor Alon brand, including 95 fleet stations operated by a joint company described below. Internal filling stations are stations in Israel located on the premises of kibbutzim and moshavim, as well as some DFCs that are not integrated with filling stations. Fuel products sold in internal filling stations are designated for a defined group of customers, such as inhabitants of the kibbutzim and moshavim, who receive preferential fuel prices and payment terms.

Dor Alon also holds 50% of a joint company together with a certain third party (50%) which operates internal stations located in moshavim. Dor Alon supplies this jointly held company with motor fuels and other petroleum products. As of December 31, 2014, this joint company operated and supplied motor fuels and other petroleum products to 95 internal filling stations operating in moshavim.

Direct Marketing

Dor Alon and Dorgas (a wholly owned subsidiary of Dor Alon) distribute petroleum products, including fuel oil, diesel, LPG, kerosene, naphtha and bitumen as well as natural gas directly to commercial, industrial, institutional and residential customers as well as governmental entities. They also supply, install and maintain customer end-user equipment, such as fuel tanks and LPG balloons, related to the petroleum products they supply. The direct marketing of LPG is coordinated solely by Dorgas.

Most engagements with industrial and commercial customers include installation of end equipment at the customer's site, including the conversion of the customer's plants into natural gas generated plants. The engagement period is affected, *inter alia*, by the volume of investment in equipment provided to the customer. Commercial customers include customers in the fields of industry, transportation, earthwork, agriculture, infrastructure and marine works, among others. Institutional customers include municipalities and cooperatives for public transportation. The majority of Dor Alon's communications with institutional clients are commenced following a public bidding process, are for a defined period and are based on terms of exclusivity.

Private sector clients are mostly domestic customers and small businesses that use refined oil for heating and cooking, private homes, apartment buildings and small businesses. As of December 31, 2014, Dor Alon had approximately 111,000 LPG customers. Agreements with domestic customers are for fixed periods, with the agreement renewing automatically at the end of each period, with no need for any further notice.

Dorgas also coordinates the marketing of the Company's natural gas operations. Dorgas manages a marketing and engineering network which offers its customers services related to the conversion of customer plants into natural gas generated plants and the supply of natural gas to such plants. During the course of the reporting period, Dorgas entered into several agreements for the conversion of customer plants into natural gas generated plants and the subsequent supply of natural gas. Dorgas hires and trains professional engineering personnel to manage and handle this highly regulated sector. In order to enable the plant conversions described above, Dorgas enters into agreements with engineering and project development companies.

Marketing of Jet Fuel

Dor Alon's jet fuel marketing operations include marketing and sale of jet fuel to Israeli civilian airlines and foreign airlines which land at Ben Gurion airport. In connection with this operation, Dor Alon has an agreement with Chevron. For additional information, see "Item 4. Information on the Company – B. Business Overview – Fueling and Commercial Sites – Industry Overview – Marketing of Jet Fuel."

Industry Overview

Recent Developments in the Israeli Fuel Market

In September 2011, the Trachtenburg Committee published its recommendations regarding competition in the filling stations sector and the promotion of competition in the LPG market. The Committee made the following recommendations, among others: (i) supervision on the refinery gate price and the consumer prices; and (ii) reform in the accessibility to gas bulks in order to increase competition, including the implementation of free access to different suppliers and protecting the small gas suppliers.

In December 2011, the Government adopted the committee's recommendations, and ordered the relevant government offices to consider implementing such recommendations.

In June 2013, regulations promulgated under the Supervision on Products and Services - 2010 became effective. Pursuant to these regulations, fueling companies in the LPG market will be required to report their earnings and prices on an annual basis. Additional regulations became effective in February 2015 pursuant to which Dorgas would be required to publish on its website a list of prices charged to its private customers per municipality. We estimate that the adoption of the recommendations may have an adverse effect on the Dor Alon's business results. At this point we cannot assess the impact of the recommendations.

Competition

Competition in the Israeli energy industry is intense. Dor Alon's major competitors are large fuel companies in Israel and natural gas marketing companies: Paz, Delek and Sonol in the filling stations field of activity. Dor Alon is the fourth largest fuel company in Israel based on the number of filling stations. The principal competitive factors affecting the retail fuel and natural gas marketing business are location of filling stations, brand identity, product price, the variety of related services offered to customers, the level of service, financial strength allowing the establishment of new filling stations, procurement of petroleum products at competitive prices and the terms of agreement offered to fleet customers, real estate owners and/or owners of filling stations. With respect to its direct marketing operations, Dor Alon expects to face competition from Paz, Delek and Sonol Pazgas, Amisragas, Supergas, Oil Refineries Ltd., or ORL, and tens of additional small and medium size fuel marketing companies as well as small LPG companies, which are mostly local companies that operate in a limited geographic area. The principal competitive factors in the direct marketing business are product price, credit terms and levels of service. Moreover, a portion of the customers in the direct marketing sector require professional support in installation of equipment and continuous maintenance. These direct marketing customers view the significance in the quality of the petroleum distillate. Increases in competition may adversely affect the earnings and profitability of Dor Alon.

Purchasing and Distribution

Motor Fuel and Other Petroleum Products

Dor Alon, like other fuel companies in Israel, is dependent on Oil Refineries Ashdod ("ORA") and ORL for the supply of refined petroleum products. As of 2014, Dor Alon had significantly increased the purchase from ORA on account of ORL. If the oil refineries fail to supply refined petroleum products or supply them at noncompetitive prices, Dor Alon would have to increase the amount of refined petroleum products it imports. There is no certainty regarding the ability of Dor Alon to purchase these products at competitive prices.

Dor Alon purchases motor oils marketed by it from various suppliers, such as ARAL Lubricants GmbH and SA Texaco N.V. In addition, Dor Alon purchases motor oils from local manufacturers and markets them under the private label brand name "Dor Oil." Dorgas purchases natural gas directly from the Tamar Partnership. See "Item 4. Information on the Company – B. Business Overview – Fueling and Commercial Sites – Industry Overview – Marketing – Natural Gas Purchase Agreements."

Convenience Store Products

Dor Alon purchases most of the food and non-food products sold in its convenience stores from our subsidiaries. Pursuant to an agreement with Mega Retail, a subsidiary of Dor Alon pays that subsidiary the price of the products plus a 2% margin for the direct supply of products by the suppliers to the convenience stores, and a 2.75% margin plus distribution costs for the supply of products from that subsidiary's central warehouse. The agreement also provides that if Alon Blue Square's income from the agreed margin, less additional expenses incurred by it as a result of the performance of the agreement, falls below a minimum amount of NIS 1 million a year, Dor Alon's subsidiary will pay our subsidiary the difference up to NIS 1 million. The agreement, dated May 1, 2004, has an initial five year term and automatically renews for additional one-year terms unless terminated by either party upon 90 days notice prior to the end of the term. The convenience stores that are not operated directly by Dor Alon have also joined this agreement and they pay our subsidiary an additional profit margin. For further information on this agreement, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements with Alon Blue Square's Subsidiaries – Procurement Agreement with Dor Alon Management."

When Alon acquired Alon Blue Square, the Anti-Trust Commissioner prescribed that it may direct Dor Alon and Alon Blue Square to fully separate the purchasing activities of Dor Alon from those of Alon Blue Square if it deems that current market conditions, the purchasing power of Alon Blue Square, or the state of competition so require.

Marketing

Direct Marketing

Dor Alon and Dorgas' marketing and sales personnel or its distributors are responsible for entering into agreements with customers in this field of operations. Products are transported directly to the customer's facilities. Dor Alon has a marketing, service and support apparatus for customers in this field of operations.

LPG marketing (for use of homes and small businesses) is done partly by independent distributors. The agreements with the independent distributors include a mutual exclusivity provision for a defined geographical area and are for an unlimited period. The distributors are responsible for the marketing, payment collection and equipment maintenance as required by applicable law. For this purpose, Dorgas established engineering and marketing system offering services, which include conversion to gas infrastructure in enterprises and supply of natural gas.

Marketing of Jet Fuel

Dor Alon's jet fuel marketing operations include the marketing of jet fuel to civilian airlines, which are conducted through a joint venture with Chevron to market and supply jet fuel to commercial airlines at Ben Gurion International Airport. Each party refers customers to the joint venture, with Chevron referring its customers, foreign airlines, with whom it operates abroad. The term of the joint venture expires in mid-2019. All fuel companies marketing jet fuel are obligated to purchase refueling services for aircrafts at Ben Gurion International Airport from two companies - Paz Aviation Services Ltd. and Mercury Aviation (Israel) Ltd., a company in which Dor Alon holds a 31.25% interest. Mercury Aviation (Israel) Ltd. provides the customer refueling services to the joint venture of Dor Alon and Chevron. As of the date of this Annual Report, Paz Aviation Assets Ltd. is the only company that provides jet fuel storage services, though this company's activities are regulated and it is obligated to provide storage services at regulated prices. Dor Alon is dependent on this joint venture as a material customer in the marketing of jet fuel.

Marketing and Distribution

In the filling stations and convenience stores sector, Dor Alon markets and promotes its products using the following methods:

- increasing the attractiveness of the refueling and commercial compounds by diversifying its products and services;
- conducting sales and promotions in the filling stations and convenience stores. Some of the sales campaigns are conducted jointly with Alon Blue Square;
- improving Dor Alon's brand name recognition and image through public relations;
- marketing of fuel products to fleet customers along with discounts on fuel prices and preferential payment terms via electronic fueling cards or vehicle mounted devices;
- strengthening Dor Alon's relationship with its customers, and promoting customer loyalty to the filling stations and to the services provided by Dor Alon, through the Loyalty Plan established by Dor Alon and Mega Retail in order to promote Dor Alon's and Mega Retail's marketing operations, including by entering into a services agreement with Diners Israel. For more information on the Loyalty Plan, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon Blue Square and its Subsidiaries – Transactions with Dor Alon in Connection with Establishment of a Joint Loyalty Plan"; and
- As of July 2009, a joint company established by the You Loyalty Plan and a third party, began publishing and distributing a free daily newspaper called "Israel Post", which is distributed in Dor Alon's filling stations, AM:PM stores, Mega Retail stores and third parties. A majority of the revenue from this newspaper comes from selling advertisement space. Dor Alon believes that the partnership in this newspaper provides it with a marketing platform.

In the direct marketing sector, Dor Alon markets its oil distillates using Dor Alon sales personnel and independent distributors. The marketing of some of the LPG (for use in private residences and small businesses) is performed by independent distributors. The distribution agreements with distributors are on a mutually exclusive basis for marketing LPG to private residences and retail customers and are for an unlimited time. The distributors are responsible for marketing the LPG, collecting payments and maintaining the LPG equipment as required by law. Consumers who purchase LPG from the distributors are customers of Dorgas.

Marketing and distribution in the jet fuel sector is done through the joint venture with Chevron (as mentioned above).

Other Activities

Establishment of a Power Plant

In February 2012, Dor Alon Energy Centers, a limited partnership under the control of a subsidiary of Dor Alon (55%) and a third party (45%) (the "Partnership"), entered into an agreement with Sugat Sugar Refineries Ltd. ("Sugat"), according to which the Partnership will plan, finance, establish, maintain, and operate a power plant in Sugat's industrial area in Kiryat Gat, Israel, consisting of an energy output of up to 124 megawatts. In the first stage, the energy output of the plant is to be 64 megawatts.

The Partnership is to provide Sugat's energy requirements for a period of 24 years and 11 months. Sugat has the option to extend the term of the agreement following the first stage of the agreement. The Partnership began supplying steam to Sugat in the second half of 2014.

The Partnership will be authorized to sell electricity and steam manufactured at the facility also to third parties.

According to the agreement with Sugat, prior to commencement of the first stage, the Partnership will connect to the Israel Natural Gas Lines and will convert the current Sugat power plant into a dual usage plant, providing both natural gas and mazut. On March 1, 2012, the Partnership entered into an agreement with Israel Natural Gas Lines Ltd., or Natgaz, in order to connect the Sugat power plant to the Israel Natural Gas Lines, and to provide natural gas conduit services. The Partnership completed conversion of the Sugat power plant on June 22, 2014. The agreement is in effect until July 31, 2029 with an option to extend for an additional five years.

Under the agreement with Natgaz, the Partnership is responsible for payment on account of the connection to the natural gas lines, estimated at NIS 15 million, as well as immaterial ongoing annual payments for conduit services, regardless of whether the Partnership uses such services or not.

Natural Gas Purchase Agreements

On December 9, 2012, the Partnership signed a natural gas purchase agreement with the partners of Tamar Partnership for the operation of existing facilities and the power plant, if established, aimed to provide Sugat's energy requirements. Pursuant to the agreement, Tamar Partnership is to supply the Partnership with natural gas in the amount of up to 1.68 BCM (billion cubic meters) (the "Total Agreed Quantity"). In addition, the Partnership has the right to reduce the quantities purchased in the event that it does not establish the abovementioned power plant.

The agreement was effective from June 2014 until the earlier of approximately 15 years or upon the Partnership's consummation of the Total Agreed Quantity, with an option of both parties to extend for an additional two years or upon the consummation of the Total Agreed Quantity, whichever is earlier.

The Partnership has committed to acquire or pay (Take or Pay) a minimum annual quantity of gas in accordance with the mechanism set in the Supply Agreement.

In November 2013, New Dorgas Ltd., a subsidiary of Dor Alon ("Dorgas"), signed a natural gas purchase agreement with the partners of Tamar Partnership in the amount of US\$ 85 million. According to the agreement, Tamar Partnership is to supply Dorgas with natural gas in the amount of up to 0.36 BCM (billion cubic meters) (the "Total Agreed Quantity"). Dorgas began supplying under the agreement in the fourth quarter of 2013 and the agreement is effective until the earlier of seven years or upon the consummation by the purchaser of the Total Agreed Quantity. The purchaser has committed to acquire or pay (Take or Pay) a minimum annual quantity of gas in accordance with the mechanism set in the agreement. It was further agreed that during an interim period until the enlargement of the supply capacity abilities of Tamar, if applicable, the natural gas supply will be subject to the availability of the natural gas quantities, after supply to other third parties, to whom there are prior commitments.

The agreement is subject to obtaining an approval from the Antitrust Authority.

Government Regulation

Environmental regulation

In its filling stations and convenience stores business, Dor Alon is subject to various laws and regulations aimed at preventing damage to the environment (mainly air, water and soil contamination), including the following laws and regulations:

- The Water Law, 5719-1959, or the Water Law, provides for the protection of all water resources in Israel and imposes liability on those who, by action or lack thereof have caused and/or may cause contamination of water sources. The law gives the authorities broad powers, including the authority to require whoever caused the damage to do everything necessary to stop the contamination, restore the status quo ante and fined for violating the order.

- The Water Regulations (Prevention of Contamination) (Filling Stations), 5757-1997, promulgated under the Water Law, or the Water Regulations, which provides regulations for the construction of filling stations, and directives issued by the Commissioner (as defined under the Water Regulations) concerning the planning, construction and operation of filling stations, including the insulation and protection of fuel tanks.
- Public Health Regulations (Wastewater Quality Standards and Rules for Sewage Treatment), 5770-2010, and the Water and Sewage Rules (Factories Wastewaters Discharged into the Sewage System), 5771-2011, published during 2010-2011 aim to protect the public health, prevent water pollution from wastewater and sewage, protect the environment including the ecosystems, land and crops, by regulating discharge of wastewater from factories (including filling stations) to prevent damage to the sewage system by imposing penalties and by sampling. As of the date of this Report, some of the water corporations have begun sampling pursuant to the rules and regulations. Dor Alon estimates that the costs for the sampling are insignificant.
- The Environmental Protection Regulation, 5768-2008, which increases the penalties determined in other environmental laws.
- The Dangerous Goods Law, 5753-1993, which imposes an obligation to obtain a permit to handle dangerous substances.
- Business Permits. In order to obtain business permits to operate filling stations, Dor Alon must install devices at some of its stations. In addition, the regulations state the manner in which storage fuel and how to obtain the associated licenses.
- Our natural gas operations are subject to the Natural Gas Industry Law, 2002-5762, which regulates the natural gas sector in Israel. The law determines, among others, that one must not engage in the construction and operation of a transmission system or part of it, the establishment and operation of a distribution network or part of it, the construction and operation of a LNG facility and the construction and operation of the storage facility, without a license issued by the Minister of National Infrastructure (hereinafter in this section “Minister”) and in accordance with its terms. In addition, the Natural Gas Industry Law states that the following shall not engage in the sale and marketing of natural gas: (a) a transmission system licensee, (b) an electric power provider, and anyone who is involved with oil refining at a rate exceeding ten percent (10%) of the oil refined in Israel. According to the Natural Gas Industry Law, the sale and marketing of natural gas does not require a license, provided however, that the Minister, in his sole discretion, under the conditions stipulated by law and the consent of the Minister of Finance and the approval of the Knesset Finance Committee, may determine that for a period to be determined, the marketing of natural gas will require a license.
- The Planning and Building Regulations (Licensing of Natural Gas Facilities) Law, 2003-5763, lists the requirements of the permit application to be submitted for the construction of a gas facility by an applicant requesting to construct a gas facility.

Dor Alon is aware of environmental law proposals including, *inter alia* the *Bill for Preventing Land Contamination and Treatment of Contaminated Lands, 5772-2012* which, among others, defines the term “Contaminated Land”, prohibits contamination of lands and disposal of contaminate materials, establishes a fund for rehabilitation of contaminate lands, authorizes a commissioner and defines its governance enforcement authority, including monetary sanctions, and establishes a criminal offense for breaching the law. These law proposals may influence Dor Alon’s financial results if the laws are approved.

Dor Alon expects to invest approximately NIS 10 million in 2015 in order to satisfy the environmental laws and regulations. Dor Alon currently expects that the costs of environmental restoration and implementation of the environmental laws and regulations in the upcoming years are expected to be similar to those in 2015. These amounts may vary depending on the actual costs of the required restoration work and the planning and construction of new facilities and whether new laws, regulations and other requirements will be imposed for which additional expenses will be incurred.

Dor Alon reached an arrangement with the Israeli Ministry of Environmental Protection regarding the execution of an eight year plan for identifying and treating contaminations at 54 filling stations operated by Dor Alon built before 1997. In addition, Dor Alon reached an understanding with the Ministry of Environmental Protection concerning a vapor recovery system (referred to as Stage 2) in fuel stations located in residential areas. Pursuant to the understanding, Dor Alon has installed Stage 2 in fuel stations located within 40 meters of residential areas.

Additionally, and without derogating from Dor Alon’s obligations above, in September 2011 and in January 2012, the Ministry of Environmental Protection issued directives pursuant to which Dor Alon would be required to install vapor recovery systems in each of its fuel stations located within 80 meters of residential areas by the end of 2013; and in all other fuel stations by the end of 2015. Pursuant to the aforementioned directives, by the end of 2014 Dor Alon installed the vapor recovery system in 134 filling stations and is expected to install vapor recovery systems in an additional 75 filling stations by the end of 2015.

In its direct marketing business, Dor Alon is also subject to various laws and regulations, including laws and regulations that:

- Impose duties of licensing and of obtaining various permits, such as permits to operate as a gas supplier and licenses to operate and deal with LPG and LPG’s storage;
- Impose provisions related to safety in connection with the marketing and supplying of gas; and
- Impose provisions related to the marketing of LPG, such as standards for gas containers, gas systems and installation of central gas systems.

In its jet fuel business, Dor Alon is subject also to other laws and regulations. Dor Alon’s activity as a provider of infrastructure services for jet fueling and jet fueling services for jets at Ben Gurion International Airport are subject to regulation.

Legislation in favor of Promoting Competition in the Food Industry

In March 2014, the Knesset adopted new legislation in favor of “Promoting Competition in the Food Industry”. For further information see, “Item 4. Information on the Company – B. Business Overview – Supermarkets – Government Regulation - Legislation in favor of Promoting Competition in the Food Industry.”

Other Government Regulation

Dor Alon, as a fuel company, is subject to various other laws and regulations, including laws and regulations that:

- provide that any use of property must be done in accordance with the designated purpose of the property as per The Planning and Building Law, 5725-1965, or the Planning and Building Law. Often, the permit for establishing filling stations involves changing the designated purpose of the property;
- impose duties of licensing and obligations to obtain various permits from various governmental authorities, including the police, the Ministry of Environmental Protection, the Ministry of Industry, Trade and Labor, the fire department and the relevant zoning committees. As of the date of this Annual Report, there are a few indictments or sentences pending against Dor Alon and its subsidiaries regarding the operation of filling stations and/or convenience stores without permits. A number of indictments are pending against Dor Alon and its subsidiaries with respect to filling stations and convenience stores concerning the operation of filling station and convenience stores without permits. With respect to 1 filling station a closure order has been issued. This closure order has been suspended for a short period of time in order to obtain the appropriate permits;
- establish the duty of fuel companies to maintain an inventory of fuels for emergency purposes, the expenses of which are paid by the Israeli Fuel and Gas Administration, and to maintain, at their own expense, a supply of diesel fuel that is not an emergency supply;
- impose an excise tax on the supply of fuel from ORL and on the release of fuel from customs;
- prescribe a maximum consumer price for 95 octane gasoline;
- impose anti-trust prohibitions under the Antitrust Law, including with respect to price setting and exclusive long term (over three years) supply agreements between gas supply companies, such as Dor Alon, and filling stations (which are not owned by such companies);

- impose restrictions on the operation of filling stations and convenience stores on the Jewish Sabbath (Saturday) and requiring a permit to be obtained in order to employ Jewish workers on Saturday. Dor Alon does not possess such a permit. Most of Dor Alon's filling stations and convenience stores are open during the Jewish Sabbath. Under Israeli law, employment of workers in violation of the law is subject to a fine or imprisonment of up to a month, or both. The convenience stores in the AM:PM chain of stores also operate during the night and on Saturdays. On the basis of information obtained from Dor Alon, in the cities in which AM:PM operates there are municipal regulations restricting their activity during the night and on Saturdays. Most of the AM:PM stores have obtained permits to operate at night; and
- set provisions pertaining to safety in the marketing and supply of fuel and LPG.
- the "Fuel Industry Advancement of Competition Law (Installation of Automatic Fueling Device) – 2010" requires fueling companies to install automatic and universally compatible fueling devices (the "**Devices**") which allow filling from all fueling companies with whom customers entered into a services agreement. Using the Devices, customers can purchase gasoline without the need for an alternative method of payment at the filling station. Rather, the filling pump automatically detects the Device and provides fuel automatically. In the past, automatic fueling device were not universal, and as such, could only be used by customers of the fueling companies who installed the fueling devices and entered into services agreements with such customers. Under this legislation, fueling companies are only permitted to sell gasoline through universally compatible devices, regardless of which fueling company the device belongs to or who installed the device, and are restricted from selling not universally compatible devices. In addition, fueling companies are restricted from refusing, without reason, to enter into a services agreement with a customer for the installation of a universally compatible fueling device, or from selling gasoline through such devices.

This legislation will become effective after the Fuel Administration at the Ministry of National Infrastructure approves product specifications for the Devices. On October 20, 2014, the Fuel Administration published relevant specifications and deadlines for compliance. As of December 31, 2014, no fueling company had received lab approval for their Devices. A third party developer is working on developing the Devices for lab approval and Dor Alon expects to incur additional expenses an account of this product development. Dor Alon cannot currently estimate the effect of the Devices on its business operations.

In July 2012, a draft proposed law entitled the “Fuel Industry Law - 2012” was circulated. The proposed law stipulates, among other things, the following: requirement of a license from the Fuel and Gas Administration for a period of three years which must be extended at the end of each term; prohibition on the possession of more than one refinement license by one company or its controlling shareholders; restriction on the possession of refinement licenses together with marketing licenses under the same license; imposition of fees and additional payments as a condition for granting a license; limitations on transferring or pledging the license and the rights thereunder without prior consent of the Fuel and Gas Administration; obligation to hold operational and emergency inventory; prohibition on running a public filling station without registering with the filling station registrar and the requirement for both a valid business license and building permit for the filling station; broad criminal liability, including personal liability of officers and a monetary sanctions; and prohibition on unreasonable refusal to provide

Fueling and Commercial Sites Strategies

Our strategies in our filling station and convenience stores segment are to continuously expand our filling station coverage in Israel and expand our convenience stores, both as part of our filling stations and on a standalone basis. To achieve this goal, we intend to pursue a number of operation and growth strategies, which include:

- expanding our national presence of filling stations and commercial retail centers, while giving preference to developing filling complexes and public filling stations in urban areas (including small stations);
- strengthening and expanding the various services and products offered to customers in the filling and commerce complexes, as well as improve the quality of those services and observing environmental regulations;
- increasing sales in the convenience store sector in order to increase its relative market share in this sector by expanding convenience store chain in the existing filling and commerce complexes, in new complexes, and through independent convenience stores (under the brands AM:PM, Alonit in kibbutzim, and Alonit in moshavim);
- initially operating a few of our convenience stores and "Si" coffee shops by franchises, and if such action will succeed, to operate additional convenience stores by franchises;
- expanding our national presence in our stand alone convenience stores mainly in city centers;

- combining parallel activity of building and operating convenience stores in turban, village, and roadside complexes in order to provide Dor Alon the basis for a national chain in the Fueling and Commercial Sites segment;
- expanding the fleet customers base;
- preserving and nurturing the Dor Alon brand as a leader in the fueling sector;
- preserving Dor Alon's status as a leader in the computerized fueling sector for drivers of heavy vehicles, by various road services which are given to these customers in the filling stations and commercial sites, such as resting areas, showers, and more;
- broadening Dor Alon's presence and activities of the "YOU" club in its filling stations and commercial retail centers;
- in the direct marketing sector, maintaining Dor Alon's growth in the scope of sales, subject to maintaining profitability and proper diversification of its types of customers;
- diversifying Dor Alon's fuel supply sources, including the importation of fuels;
- expanding the marketing of Dor Alon's private brand in the lubricant oil sector – "Doroil", while at the same time leveraging its international brands ("Texaco", "Chevron" and "Aral") in order to increase its market share in the oils marketing sector;
- continuing to take part in tenders for the supply of petroleum distillates, which are mostly published by institutional bodies, subject to specific economic examination of each tender;
- expanding Dor Alon's fuel distribution suppliers in additional terminals;
- expanding the marketing of natural gas for industry sector, which is subject to establishment of distribution systems by local franchises; In addition, the company will monitor the possibility of using natural gas for transportation and will prepare accordingly;
- maintaining the joint operation with the international company Chevron in the jet fuel sector along with its continuing operations with Ben Gurion International Airport;
- in the power plants sector, maintaining operation in the private electricity sector and examining development of additional projects;
- evaluating options to expand operations in the chemistry field together with partners in Israel and worldwide. and
- continuing to invest in human resources while encouraging innovation, devotion, teamwork and improvement of administrative abilities.

The following table provides certain information regarding our filling stations and convenience stores in the Fueling and Commercial Sites segment as of December 31, 2014:

Filling stations	Owned (including leases exceeding 25 years)	34
	Leased (leases of up to 25 years)	143
	Supply agreements	31
		208
	Internal stations (1)	160
Convenience Stores (2)	Operated	211
	Franchised	4
		215
	Sites In Development	42

(1) Typically, our stations are in Kibbutzim and Moshavim used by defined populations

(2) Convenience Stores: 169 Alonit stores are adjacent to filling stations and 29 Alonit stores and 46 AM:PM stores are stand alone stores.

Houseware and Textile

General

Through our wholly owned subsidiary, Bee Group Retail Ltd. (“Bee Group”), we operate in the Houseware and Textile segment, concentrated in our Naaman and Vardinon stores and wholesale sales. The chain operates under two different brand names: (i) “Naaman”, which sells houseware products; and (ii) “Vardinon”, which sells home textile products and accompanying accessories. The stores of our “Naaman” and “Vardinon” chains are primarily owned and operated by us. In addition to these stores, we have established houseware departments within most of our large supermarket stores. As of December 31, 2014, we operated, through our subsidiaries and franchisees, a total of 112 houseware and textile stores under the Naaman and Vardinon chains, of which 11 stores were owned and operated by franchisees.

As of December 31, 2014, Bee Group owned approximately 77.51% of the outstanding shares of Naaman Group (N.V.) Ltd., a company traded on the Tel Aviv Stock Exchange. Naaman is one of Israel’s major branded houseware retailers which imports and markets various houseware products, such as kitchen utensils, cutlery and dinner sets. As of December 31, 2014, Naaman had its own chain of 64 houseware stores and approximately 180 sale points within our supermarkets. Naaman also sells its products to wholesale customers, including privately owned stores, retail chains, institutional customers, employee committees and sales promotion companies.

Vardinon products are distributed by its chain of retail stores (48 stores as of December 31, 2014) and by wholesale to customers that include other wholesalers, retail chains, employee committees and catalogues.

Industry Overview

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

There are also many companies and distributors that market and sell home textile products to wholesale customers. We do not have any formal information about the size of the home textile market and the market share of the various competitors in this market; however, we estimate that our "Vardinon" chain is one of the leading retailers in the mid to premium home textile market.

Competition

In addition, due to our sale of other "Near-Food" and "Non-Food" products in our supermarkets and in our stand alone non-food stores, and our controlling interests of "Non-Food" chains, Vardinon and Naaman, we also face increased competition in the Houseware and Textile market. In recent years, this competition has increased primarily due to the entry of retail chains and stores outside the food industry, such as Office Depot, do-it-yourself chains such as Home Center and ACE (a franchisee of Ace Hardware), household stores, home textile stores, such as Golf & Co. Ltd. (competes with both Vardinon and Naaman), Ahim Fried Feathers Industry (1977) Ltd. (competes with Vardinon), Fox Home and Kitan Textile Industries Ltd., houseware stores, electricity appliances stores, and also due to the expansion of the houseware and home textile departments in supermarkets. In 2014, Kitan Textiles Ltd. merged with Golf & Co. Ltd. This increased competition affects the sales prices of our products and our sales. Increased competition may adversely affect our sales and our profitability.

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

The merchandise we sell in our Houseware and Textile business is varied, and we therefore compete in several different markets.

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

The home textile and accompanying accessories market in Israel in which our “Vardinon” stores compete is highly competitive. Vardinon’s competitors in this market include home textile departments in large chains, department stores and privately owned stores and new competitors, such as Ahim Fried Feathers Industry (1977) Ltd., Fox Home and Kitan Textile. In addition, there are also many companies and distributors that market and sell home textile products to wholesale customers.

This market can be divided into two main categories: (i) brand name companies such as Kitan Textile Industries Ltd., Golf & Co. Ltd., Fox Home which operate in the home textile market and Ahim Fried Feathers Industry (1977) Ltd. which operates primarily in the bedding market. Brand name companies generally manufacture high quality products which are on average more expensive than non- brand name products; (ii) Non – brand name companies which sell lower quality and less expensive products. We do not have any formal information about the size of the home textile market and the market share of the various competitors in this market, however, we estimate that our “Vardinon” chain is one of the leading retailers in the mid to premium home textile market.

Houseware and Textile Operations

The following table provides certain information regarding our Houseware and Textile stores as of December 31, 2014:

Non-Food Properties		Number	Square meters
Stores	Leased	95	11,943
	Leased from BSRE	2	214
	Franchise operated	4	-
	Franchises	11	-
Offices	Leased	1	2,682
Total		113	14,839

Purchasing and Distribution

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

Marketing

Our main marketing channels for our Houseware and Textile products are (i) the Houseware and Textile stores operating under various brand name chains, (ii) Houseware and Textile departments in our supermarkets and (iii) direct sales to wholesalers and institutional customers.

Our Naaman chain markets its products to privately owned stores, retail chains, institutional customers, employee committees and sales promotion companies. Our Vardinon chain markets its products through stores that are owned and operated by Vardinon that are located primarily in shopping centers, as well as to other customers, including wholesalers, retail chains, employee committees and catalogues. Our marketing activities include advertisements for the media, such as television and newspaper.

Government Regulation

Houseware and Textile

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

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

Houseware Products

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

Business Permits

As of March 31, 2015, the aggregate floor space for all Naaman and Vardinon retail stores is less than 800 square meters, most of which are located in malls operated by management companies. As such, the Naaman is not required to obtain a business permit for such retail stores under the *Business Permits Law, 1968*. Naaman does not estimate that it will be liable under such law, but cannot ascertain such statement due to unforeseeable regulatory changes.

For additional information regarding government regulations relating to our Non-Food segment, please see “General Government Regulation” below.

Seasonality

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

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

Houseware and Textile Strategies

Please see “Item 4. Information on the Company – B. Business Overview – Our Strategies” and “Item 4. Information on the Company – B. Business Overview – Supermarkets Strategies” above for a description of our strategies in our Houseware and Textile segment.

Real Estate

As of December 31, 2014, through our 63.71% subsidiary, BSRE¹, we were the legal owner (including through long-term leases from the Israel Land Authority and the Municipality of Tel Aviv) of 115 yield generating real estate properties (including properties owned in connection with our Supermarkets and Houseware and Textile segments, which includes offices), totaling approximately 280,000 square meters, and approximately 103,000 square meters of unutilized building rights. In addition, we engaged in the development of one project totaling approximately 16,400 square meters. In addition, BSRE operated in the area of residential real estate promotion and planning.

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

¹ The following data is presented in the aggregate with respect to all of the investment property of BSRE, investment property of BSRE’s subsidiaries and the proportionate share of BSRE in jointly controlled parties.

Description of Real Estate Properties

Most of our real estate is owned by BSRE and includes commercial areas, distribution centers and offices which are mainly designated for the use of our supermarket segment and our non-food segment, a 50% holding in Hadar Mall and Kiryat Hasharon, small commercial sites, office buildings, logistics sites, our holdings in the Wholesale Market Companies and additional undeveloped properties for use as commercial areas, office buildings, and logistics centers.

As of December 31, 2014, the total square meters of developed property that we (including jointly controlled entities) owned was approximately 280,000 square meters, the total square meters of property in development that we owned was approximately 16,385 and the total square meters of unutilized building rights that we owned was approximately 103,000 square meters. In addition, BSRE has the building rights for 3,000 apartments in Point Wells and 722 apartments in the Wholesale Market Project.

The following table provides certain details regarding our real estate properties held for use or rent of which we are the legal owner (including through long-term leases from the Israel Land Authority), as of December 31, 2014:

	Number of properties for use or rent	Area in square meter for leasing (property space)	Occupancy rate
Commercial areas, including supermarket stores	107	190,500	97.8%
Warehouses and Logistics Centers	6	57,800	99.1%
Offices(1)	6	31,700	96%
Total Developed property(2)	119	280,000	N/A
Total property in development-commercial areas, logistics centers and the Wholesale Market Project	1	16,385	
Total unutilized building rights		103,000	

(1) Not including an area of 14,000 square meters of an office building in Petah Tikva, which was held for sale and the sale agreement for which was canceled in the first quarter of 2014.

(2) Not including an area of 42,000 square meters of parking lots adjacent to commercial and office areas and 16,000 square meters of parking lots adjacent to BSRE's yield generating assets.

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

Commercial areas, including supermarket stores

The properties designated for supermarkets are individual units or integrated units in buildings in industrial, residential or commercial areas. Some of the properties have parking lots and operational areas that are not included in the square meters calculated for lease. The majority of the supermarkets properties are leased to Mega Retail. For more information, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon Blue Square and its Subsidiaries." Below are additional commercial areas not designated for supermarkets that BSRE owns:

- **Rechasim** – During the fourth quarter of 2013, BSRE completed the construction of a neighborhood commercial center for trade and clinics in Rechasim in an area of approximately 2,600 square meters.
- **Hadar Shopping Mall** - BSRE owns 50% of the property, which is located in the Talpiot industrial area in Jerusalem, and the other 50% is held by a third party. The lease from the Israel Land Authority ends in 2021 with an option to extend the lease for an additional 49 years, subject to a fee. The mall includes 25,606 square meters of commercial space. In addition, there are 1,064 parking spaces at the mall. The space is leased to third parties. As of March 31, 2015, the occupancy rate of the mall is 98.9%. The property is managed by a joint management company.

On June 5, 2012, BSRE entered into a loan agreement with a group of institutional companies to finance the building of an addition to the Hadar Mall, which has since been completed. The lenders extended an amount of NIS 125 million over a period of 10 years during which an aggregate of NIS 42.5 million will be repaid in 17 bi-annual payments commencing on the 18th month subsequent to the date of the loan, and the remaining sum will be repaid in a one-time payment at the end of the loan term. BSRE has the option to obtain an additional loan of NIS 40 million upon the completion of the construction. The loan is linked to the CPI and bears annual interest of 4.1%. As collateral for the repayment of the loan, BSRE placed a charge on its rights in the Hadar Mall.

Offices

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

Comverse Building, Ra'anana – BSRE has completed construction of a 23,000 square-meter office building on real property it owns in Ra'anana and a 3,500 square-meter basement and 900 parking spaces (the "structure"), most of which has been leased to Comverse for a period of 10 years with projected monthly lease payments in the first period of NIS 1.8 million, with a renewal option for an additional 5 years, during which the rental fees would increase by 7.5% (the "Comverse Building Project"). In addition, BSRE has undertaken to erect a surrounding structure at an estimated cost of NIS 200 million and to perform all of the finishing work, if requested by the third party leasing the structure (the "Lessee"), which is estimated at a cost of NIS 75 million, and BSRE will be entitled to receive 7.5% of the cost in addition to the rental fees. BSRE completed construction of the shell and transferred usage rights to the Lessee during the fourth quarter of 2014. Following a request by the Lessee to minimize the leased property, the initial monthly lease payments are approximately NIS 1.8 million (BSRE is entitled to NIS 0.9 million).

On January 21, 2013, BSRE and several subsidiaries of Harel Insurance Investments & Financial Services Ltd. (collectively, "Harel Investments") entered into an agreement pursuant to which Harel Investments acquired half of the BSRE's rights in the Ra'anana property and the Comverse Building Project in consideration for approximately NIS 51 million (including Harel Investments' portion of the Comverse Building Project's establishment expenses). Pursuant to the agreement, BSRE will be entitled to additional consideration for the additional 2,500 square-meter building rights that have yet to be used by BSRE within the Comverse Building Project's framework. Pursuant to the agreement, BSRE will have sole ownership of any future additional building rights granted on the property, and Harel Investment will have the option to purchase half of such future rights at a consideration to be determined according to the value of the rights.

On March 31, 2014, BSRE entered into an agreement with Harel for obtaining a credit of up to NIS 105 million to finance BSRE's share in the establishment of the Ra'anana property. The amounts used from the credit line will be considered as a loan and will bear variable interest linked to the prime rate. The loan principal is payable in 15 years effective from May 2015. To secure the loan, BSRE pledged its rights in the office building including related rights. The agreement prescribed terms allowing the lenders to put up the loan for immediate repayment, including financial covenants with respect to the project. As of March 31, 2015, BSRE had not drawn down any amounts from the credit line.

Warehouses and Logistics Areas

Below is a short description of the logistics areas owned by BSRE:

Kibbutz Eyal - BSRE and Eyal Microgal Ltd. ("Eyal Microgal") signed an agreement for the development of a 57 dunam property for storage and logistics usage. Pursuant to the agreement, BSRE and Eyal Microgal jointly hold in equal parts a new company, Eyal Baribua Ltd. ("Eyal Baribua"), to which Kibbutz Eyal transferred the property in February 2011. In addition, pursuant to this agreement in February 2011, BSRE transferred to Eyal Baribua an amount based on the purchasing costs, development costs and an additional cost. Upon these transfers, the parties entered into a statement of work for the development project, pursuant to which, among other things, BSRE was issued 200 shares in the new company, which as of March 31, 2015 represented 50% of the issued and outstanding shares of Eyal Baribua. The Israel Land Authority has approved the allocation of only 41.5 dunam for Eyal Baribua. A building permit has been obtained, and the joint company is in the process of constructing the logistics center in an area of 28,000 square meters. In June 2014, the construction of the logistics was completed, with Mega Retail commencing operations of the logistics center in July of 2014 according to the lease agreements between BSRE and Mega Retail.

BSRE and Mega Retail are party to a lease agreement, pursuant to which BSRE is constructing the logistics center in Kibbutz Eyal to be leased by Mega Retail. The lease is for a period of 15 years from the beginning of use of the property with an option to renew for additional three year periods (but not to exceed a total renewal period of 24 years) for an annual payment equal to 8.7% to 9% of the total investment made by Eyal Baribua in acquiring and building the logistic center, according to the calculation mechanism and orders provided for in the lease agreement.

Eyal Baribua has a credit facility from a bank in the amount of approximately 97.5 million. Eyal Baribua created liens in favor of the bank, including a lien on all of its rights in the land, a floating charge on the project, a pledge and assignment by way of pledge of BSRE's rights under the lease agreement with Mega Retail.

Property in development

- **Wholesale Market Company** - On May 31, 2012, BSRE, Gindi Investments 1 Ltd. and an additional entity controlled by Moshe and Yigal Gindi completed the purchase of long term lease rights to a property in the wholesale market site in Tel Aviv (the "Wholesale Market Project") for the purpose of building and marketing on the property an apartment building complex and a shopping mall from the municipality of Tel Aviv and the Wholesale Market for Agricultural Produce in Tel Aviv Company Ltd. (the "Wholesale Market Company"). As of December 31, 2014, BSRE owned 49.5% of the company that owns the residential building rights and 50% of the company that owns the commercial building rights. The property consists of building rights of approximately 97,460 square meters, of which approximately 62,640 square meters are designated for residential use, approximately 10,320 square meters are designated for mixed use (including for residential, office and/or retirement home use), and approximately 24,500 square meters are designated for commercial use, part of which would be located on the ground floor of the residential buildings. Within the framework of the approved plan, the Wholesale Market Project will include 11 buildings, each consisting of 14 floors. The Wholesale Market Project includes 722 residential units for sale and 54 units which will be leased in accordance with certain criteria determined by the Municipality of Tel Aviv and the Purchasers. It is contemplated that the Wholesale Market Project will contain approximately 33,000 square meters leased space for commercial use. Building permits for all the residential units had been granted as well as permits for the commercial space.

On June 26, 2013, the Residence Company and the Mall Company entered into a financing agreement with banks pursuant to which the banks would extend financing and credit facilities to the Residence Company in the amount of NIS 2 billion for granting guarantees and financing and credit lines of up to NIS 450 million to the Mall Company for completing the construction of the mall basements and foundation. The credit lines are payable on March 31, 2016 (the final payment date). The Mall Company may repay the entire credit by an early payment subject to the conditions stated in the financing agreement. To secure the liability of the Residence Company, BSRE provided a constant guarantee of NIS 25 million, and to secure the liability of the Mall Company, BSRE provided a constant guarantee of NIS 50 million. On August 8, 2013, the financing agreements became effective, and the Residence Company repaid a loan provided by the bank against release to the Residence Company of advances which had been received from apartment purchasers in an amount equal to the full amount of the loans and were held in deposits until effectiveness of the financing agreement. In March 2014, the Mall Company and the banks amended the financing agreement pursuant to which the banks will provide an additional NIS 50 million to the existing credit line until September 2014 (subsequently extended to April 2015). Following this amendment, the Mall Company and the banks entered into an additional amendment to the financing agreement for a NIS 50 million addition to the credit line, bringing the total credit line to NIS 550 million. As of December 31, 2014, the Mall Company had utilized NIS 540 million from the total credit line. During 2014, the Mall Company estimated that it would not complete the project within the agreed timeline and budget as determined in the financing agreement from June 26, 2013 and the loan was classified as a short-term loan until December 31, 2014. As of March 31, 2015, the Mall Company and the banks entered into an additional amendment of the financing agreement in order to revise the timeline and budget, and the banks agreed in principle to extend the loan amount up to an aggregate NIS 1 billion. The parties have yet to execute an agreement to that effect.

On August 31, 2014 City Core entered into an agreement with a construction contractor for the construction of four residential buildings, comprising a total of 276 housing units for consideration of NIS 150 million. The construction period under the agreement is 19 months commencing on the date the construction site is received by the contractor. The agreement includes provisions for provision of bank guarantees to City Core, bonus payment and late penalty payment mechanisms.

On November 10, 2014 City Core entered into an agreement with an additional construction contractor for the construction of three residential buildings, comprising a total of 223 housing units for consideration of NIS 127.2 million. The construction period under the agreement is 20 months (with a three month grace period) on the date the construction site is received by the contractor. The agreement requires the contractor to undertake to provide bank guarantees to City Core and includes mechanisms for bonus payments and late penalty payments.

On November 11, 2014 City Core entered into an additional agreement with a construction contractor for the construction of three residential buildings, comprising a total of 223 housing units for consideration of NIS 127.2 million.

- As of March 16, 2015, City Core entered into commitments for 696 sale agreements with apartment purchases for NIS 1,740 million (including VAT) and received advances of NIS 1,167 million (including VAT). Down payments for such apartments reached 67% of the aggregate consideration amount for the purchased apartments.

Properties with development potential

As of December 31, 2014, BSRE had rights to build a total of 103,000 square meters (80,000 square meters mainly for commercial purposes and 23,000 square meters for residential purposes). Because the utilization of building rights is dependent on economic feasibility, satisfaction of various conditions, payment of costs and other factors, it is not clear if and when BSRE will utilize these building rights

Point Wells, Washington

On June 1, 2010, BSRE completed the acquisition of an approximately 240-dunam parcel (approximately 59 acres) of property in Point Wells, near Seattle, Washington, which serves primarily as a plant for storage and distribution of fuel and oils. BSRE purchased the property through a special purpose entity established in the United States, BSRE Point Wells, LP, which entered into a purchase agreement, dated May 7, 2010, with Paramount of Washington LLC (“POW”) for the property and into a development agreement, dated June 1, 2010, with POW and Paramount Petroleum Corporation (“PPC”). PPC leases the property from POW and operates and maintains it. POW and PPC are wholly owned subsidiaries of Alon USA Energy Inc., a public company whose shares are traded on the NYSE (“Alon USA”) and is controlled by our indirect controlling shareholder, Alon.

Upon the closing of the transaction, BSRE Point Wells, LP granted to POW and PPC a right of use of the property, for a consideration of approximately \$440 thousand per quarter commencing July 1, 2010, for a period commencing on June 2, 2010 and terminating upon the earlier of: (i) June 2, 2020 or (ii) the time of sale of the property, after the enhancement thereof, to a third party in accordance with the development agreement (the “License Period”). In the event BSRE sells the land, POW will have the right to participate in the consideration net of costs as defined in the agreement.

The present land use designation of the property was changed to urban center zoning from its original land use designation, which was heavy industrial. On May 12, 2010, the local Snohomish County Council (the "Local Council") adopted (a) an ordinance approving the new Urban Center Code and (b) an ordinance to change the zoning designation of Point Wells to Urban Center, both of which became effective on May 29, 2010. In March 2011, BSRE, through BSRE Point Wells, LP, submitted a detailed plan to the Local Council, which included plans for the building of three residential areas, including approximately 3,000 residential units, and public areas as well as development plans (the "Plan"), and in November 2011, the court determined that a building permit will be provided only after completion of all the required adjustments pursuant to the local law and the aforementioned ordinances. BSRE is working to give legal effect to the detailed plan. Based on a report submitted by BSRE Point Wells, the Local Council approved new regulations pursuant to which the land use designation was defined as urban village and approved the plans for 2,700 residential units. On January 7, 2013, the court of appeals determined that BSRE Point Wells is permitted to continue with the development of the property despite the new regulations. Opponents to the detailed plan appealed to the Supreme Court of the State of Washington to allow a further hearing regarding the court of appeals decision. Such hearing occurred on October 24, 2013, in the Washington State Supreme Court.

On April 10, 2014, the State of Washington Supreme Court upheld that BSRE has a vested right to the development of the land under the designation of "urban center", which shall include the construction of 3,000 housing units, public areas and development programs. As of the date of this report, the Company is unable to estimate the exact duration of time it will take to receive the approval of the competent authorities for exercising the construction rights under the plan which determined the designation of land as an "urban center".

According to the development agreement signed between the parties, BSRE Point Wells, LP will take action to initiate a detailed plan for approving the construction of at least 2,000 residential units on the property. All of the expenses connected with the approval of the change of zoning, including the initiation and preparation of a detailed plan, will be borne by BSRE Point Wells, LP. BSRE assesses that these expenses will amount to approximately \$7.4 million (which is \$5.5 million capitalized). If the detailed plan is not approved and/or if it does not contain at least 2,000 residential units, BSRE Point Wells, LP will bear no responsibility to POW and/or PPC. In consideration for PPC's right to participate in the development of the property and in the proceeds that will be received from the sale of the property to a third party after the enhancement thereof, PPC will pay BSRE Point Wells, LP quarterly participation fees in a sum of \$440,000, which will be paid commencing from July 1, 2010 and throughout the entire License Period.

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

Givon Parking

In July 2010, Gindi was awarded a tender to Build Operate and Transfer (“BOT”) a parking lot in Tel Aviv (“Givon Parking”) for approximately 1,000 parking spaces adjacent to the Wholesale Market Project. In August 2010, BSRE joined Gindi in this project as a 50% joint venture partner. On October 11, 2011, BSRE received a notice from Tel Aviv municipality that all of the conditions to approve the BOT agreement of “Givon Parking” in Tel Aviv had been satisfied. In return for constructing the parking lot, BSRE and its partners will be entitled to operate and collect rental fees for parking for a period of 23 years from delivering the authority for use of property. On November 13, 2011 BSRE received the right to use the property for constructions work. Construction of the parking lot was completed in September of 2014. Development of the public area on the roof of the parking lot is planned for completion by the end of the second quarter of 2015. The parking lot obtained a Form 4 prior to operation and BSRE is working towards obtaining final approval to operate the parking lot. The total cost for establishing the parking lot, including related costs, is estimated at NIS 144 million (\$37 million), and the share of BSRE is approximately NIS 72 million (\$18.5 million). On December 12, 2011, BSRE and its partners signed an agreement with the bank for the funding of approximately 80% of the parking lot construction’s costs, and the credit lines provided for financing the project were in the aggregate amount of NIS 115 million (approximately US \$33 million). As of December 31, 2014, BSRE and its partners had utilized NIS 94 million (approximately US \$24 million) of the credit line. BSRE and its partners determined material issues regarding the construction and the management of the parking lot in which an unanimously decision is required, and principles regarding dilution of each of the parties’ rights in the event that one of the parties will not invest the amounts that such party obligated to invest. The parking lot was opened for use in April of 2015.

During 2014, BSRE invested a total amount of NIS 80 million, including investments in rental offices and areas used for commercial and industrial development. Additionally, BSRE jointly controlled entities which invested NIS 104 million during 2014.

Industry Overview

The yield-generating real estate market in Israel includes the development, promotion, planning, construction, marketing and operating of real estate properties intended for leasing primarily for the purpose of commercial, industrial, office space, parking and warehouse use. The yield-generating real estate market is affected by the growth or slowdown in the Israeli economy, and by changes in the demand and the available supply of commercial areas, as well as the construction of additional commercial areas. The real estate market is also affected by governmental, municipal and tax authority policies regarding planning, building, marketing and taxation of land.

A slowdown in the Israeli yield-generating real estate market as occurred in Israel beginning in the fourth quarter of 2008 and until 2010, could adversely affect our real estate business. In addition, a continuation of the public protest which began in July 2011 with regard to high housing costs in Israel could lead to a slowdown in the Israeli yield-generating real estate market and cause a decline in the demand for real estate due to the anticipation that real estate prices will decrease as a result of the public protest. If the economic conditions in Israel were to deteriorate, there may be a decline in demand for commercial real estate, a reduction in rental fees, a decline in the fair value of our real estate assets and an increase in the cost and availability of financing from Israeli banks, which could adversely affect our real estate business. In addition, we can identify greater caution on behalf of companies and potential investors to new projects which has resulted, among others, from directives of The Bank of Israel with respect to the amount of leverage permitted in the real estate market and requirements from banks to a higher occupancy rate prior to construction. As a result, we estimate that the availability of yield generating properties will be reduced or remain stable due to lack of new projects or their delay.

In addition, it is expected that there will be an increase in the supply of office space in Israel in the short and medium term, reflecting the increase in the number of building starts and their anticipated completion in the upcoming years, which may result in a slight decline in occupancy rates in offices in the medium term. In shopping centers, the occupancy rate is high and even rose in 2014.

With respect to the residential building sector in Israel, a recession may cause a decrease in the scope of marketing and sales and a decrease in the prices of apartments. In addition, government policies may affect the availability and value of real estate designated for building and may also affect the prices of apartments. Moreover, since 2010, we entered the field of promotion and planning of residential real estate. There are different risks in this sector including: exposure to changes in the demand for residential properties as a result of changes in the economy, especially as a result of a recession or a significant deterioration in the economy; the speed at which local planning authorities and cities approve the building projects; changes in and increases to the stringency of building and planning laws and regulations, which may require the Company to incur additional expenses; lack of human resources in the building sector, as a result of the government's policy for employing foreign workers, or 'closures' for security reasons as well as delays or continuing lack of raw materials, for example as a result of the closure of Israel's ports, that may affect the Company's ability to meet the original timetables as well as its originally contemplated costs; and changes in the government's policies for the granting of mortgages, which affect the level of demand for residential properties.

Competition

The yield-generating real estate market in Israel is highly competitive and is characterized by a large number of competitors. The main factor affecting competition in this market is geographic location of property. There are properties in close proximity to some of our properties that are similar in purpose and use, which has the effect of increasing competition for the leasing of those properties as well as reducing the rental rates for those properties. Other factors affecting competition are the leasing price, the physical condition of the properties, the finishing of the properties and the level of the management services provided to tenants. Furthermore, economic and financial conditions may further increase competition, leading to a reduction of rental fees and a decline in demand for properties. BSRE's portion in the office space rental market is small, and we are therefore only slightly affected by the trends and changes in the competition of this specific field. In the commercial centers sector, there was a consistent increase in rental fees during the last three years. In addition, many mergers and acquisitions occurred in the sector of shopping malls sector in recent years, creating centralization and control by a limited number of companies, reducing the competition in the yield-generating real estate market, and affecting rental and management fees.

Government Regulation

Environmental Laws Related to Real Estate

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

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

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

Planning and Construction Law, 1965

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

In addition, the field of residential construction and selling of residential units is subject to the *Sale (Apartments) Law, 5733-1973* and to the *Sale (Apartments) (Assurance of Investments of Persons Acquiring Apartments) Law, 5735-1974*, and the regulations promulgated thereunder. In June 2008, these laws were respectively amended to obligate a seller, among other things, to keep a dedicated project bank account for each project, as well as providing a guarantee to the buyer for payments already received by the seller for the residential unit (without which a buyer will not be obligated to pay any amount above 7% of the price for the unit). In March 2011, these laws were additionally amended to broaden the sellers' responsibilities toward the buyers, among others, regarding the examination period and its terms, compensation in the event of late delivering of the occupancy on the apartment, and obligations to register a house as condominium.

Regulations for Equal Rights for Persons with Disabilities (accommodations for accessibility in a public place which is an existing building)

On November 3, 2011, the Regulations for Equal Rights for Persons with Disabilities (accommodations for accessibility in a public place which is an existing building), 2011 was approved and published. For additional information, see “Item 4. Information on the Company – B. Business Overview – General Government Regulation.”

BSRE’s Strategies

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

- management and lease of rental properties, development and improvement of existing properties and building rights. BSRE’s rental properties are leased to companies in Alon Blue Square group and to third parties;
- locating and initiating real estate investments in Israel and abroad while expanding and diversifying BSRE’s asset portfolio;
- rental of properties owned by BSRE;
- cautiously examining the expansion of activities abroad;
- focusing on rental property designated as trading, logistics and offices; and
- submitting requests for approvals from municipalities in order to add usage rights, re-categorize land rights, and add building rights to its properties.

Additional Business Information Relating to our "Other" Segment

Related Businesses

Diners Israel

We own 49% (36.75% Alon Blue Square and 12.25% Dor Alon Financing Ltd.) of the shares of capital stock of Diners Club Israel Ltd. (“Diners Israel”), a privately held Israeli company established in 1957 which develops payment solutions and financing tools. The remaining 51% is owned by Credit Card for Israel Ltd (“CAL”), a credit card company in Israel which itself is a subsidiary of Israel Discount Bank Ltd. Diners Israel is an Auxiliary Corporation under the Israeli Banking (Licensing) Law, 5741-1981.

Diners Israel's income is comprised mainly of commission received for managing credit card transactions, providing payment solutions to its customers, and financing from credit paid by its customers. Diners Israel controls Diners (Financing) Ltd., through which it provides part of its services. Diners Israel directly issues, markets and operates the "Diners" brand credit cards, valid both in and outside of Israel, and is party to issuance agreements with certain banks. By virtue of its exclusive license granted by Diners Club International, Diners Israel operates as both a credit card issuer and transaction acquirer.

Credit Card Issuance

Diners Israel issues credit cards to its customers who use them to purchase goods and services from various businesses. Credit card holders are charged various fees for ongoing management of the card. Diners Israel issues two types of credit cards (i) bank cards, which are issued to customers of various banks with which Diners Israel entered into agreements, and (ii) non – bank cards, which are issued directly by Diners Israel to its customers.

In addition, Diners Israel offers its customers different types of loans and debt repayment schemes (such as deferred debt, credit, credit rolling, fixed monthly payments, and varying monthly payments for Cal Choice customers).

It mainly receives income in the credit card issuance sector from the following sources:

- commission payable by card holders, such as card fees, deferred payment commission and currency exchange commission for foreign currency transactions; and
- financing income on account of credit granted to its customers.

The main expenses in this sector include operational expenses related to the issuance of the credit cards, selling, marketing, and advertisement expenses, promotional and expenses, expenses related to credit losses, and payments to the issuing banks.

Diners Israel's competitors in this sector are Isracard Group, controlled by Bank Hapoalim, and Leumi Card, controlled by Bank Leumi.

Acquisition of Credit Card Transactions

In this sector, the credit card company assures the businesses using its services that, subject to the agreement in place, it will cover payments businesses (which were approved and verified by the issuing company) made by credit card holders purchasing goods and services from such businesses.

This sector includes businesses in various sectors that entered into credit card transaction acquisition agreements with Diners Israel, including national chains which accept "Diners" credit cards. Pursuant to the credit card transaction acquisition agreements, Diners Israel clears transactions made using credit cards issued by Diners Israel. Businesses are charged a commission which is deducted from the aggregate transaction amount once it is received from the card holder.

Diners Israel mainly receives income in the acquisition of credit card transactions sector from the following sources:

- service commissions, such as joining fee, information verification fee, and management fee; and
- income on account of withholding and upfront payments granted to businesses.

The main expenses in this sector include, customer recruitment and retention expenses joint marketing expenses with the businesses, printing and mailing expenses related to payment notices, recycling fees, and operational payments made to the banks and ATMs.

The acquisition of credit card transaction sector is characterized by high levels of competition among credit card companies. Diners Israel's main competitors are the Isracard group, which clears transactions for "Isracard", "Mastercard", "Visa", and "American Express", and Leumi Card, which clears transactions for "Isracard", "Mastercard", and "Visa".

Diners Israel's operations in both sectors have been characterized in recent years by frequent technological changes, such as the use of "smart cards". Within the framework of Diners Club International's efforts to minimize credit card related crimes and fraud, it has taken steps to improve the security features on "Diners" branded credit cards. Among other measures, members of the Diners Club International network were requested to transition to the use of smart cards which make unauthorized credit card use and credit card fraud difficult. To this end, Diners Israel began issuing "Diners" smart cards in February 2015.

Under the original agreement with CAL from 2005, Alon 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 their respective ownership interests in Diners Israel, and a share of the net income of Diners Israel in connection with the activities of the credit cards not bearing the "You" name based on certain thresholds set in the original agreement. In addition, Diners signed an agreement with CAL pursuant to which Loyalty Plan members are to be issued Mastercard "You" credit cards in addition to Diners "You" credit cards. On May 25, 2011, our management agreed to an amendment to the agreement of principles between CAL, Diners Israel, Alon Blue Square, Dor Alon, and the Alon Blue Square-Dor Alon Joint Loyalty Plan Partnership, and in July 2011, all conditions precedent set forth in the agreement were completed, and the amendment to the agreement became effective. Pursuant to the amendment, Alon Blue Square and Dor Alon 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 is allocated to the parties per their respective holdings from July 1st, 2011). Alon Blue Square and Dor Alon repaid the non-recourse loan granted to them by CAL for the purchase of the shares, in the amount of NIS 36 million (the amount includes accrued interest). The amendment also includes a calculation method for the purchase of the 49% of Diners owned by us and by Dor Alon in the event the agreement between Diners and the Loyalty club will not be extended. Additionally, the amendment sets the terms as to the business relationship between the parties and extends the agreement until December 31, 2015, which was subsequently extended until 2019 based on approved changes to the agreement made on September 23, 2014. These approved changes included the following: (i) CAL will have a call option to buy the Company's share, when, upon renewal of the club agreement, if the Company opt not to do so, or when the agreement is cancelled as a result of a breach caused by the Company; the Company will not be able to exercise its put option, in any of these circumstances, (ii) the cost for exercising either CAL's call option, or the Company's put option, will be based on the fair value of Diners at that time, as determined by an agreed upon evaluator. The distribution of dividends will continue to follow the original agreement. Consequently, until the repayment of certain earnings amounting to approximately NIS 75 million (prior earnings that did not arise from the "YOU" club activities), CAL will receive 75.5% and the Company will receive 24.5% of any such distribution. As at December 31, 2014, the balance of such earnings was approximately NIS 25 million.

As of December 31, 2014, the total number of credit cards issued by Diners Israel was approximately 290,000.

In June 2014, Diners entered into an agreement with El Al Israel Airlines Ltd. (El Al) to issue credit card of the "FLY CARD" brand. The credit cards will confer on the card holders unique benefits which include among others, accumulating frequent flyer points of El Al for making transactions using the FLY CARD credit cards. In addition, an agreement was signed between YOU club and El Al under which FLY CARD holders of Diners will be members of the YOU club and will enjoy an accelerated points accumulation for their purchases in most of the group's points of sale such as: YOU, Mega, Na'aman, and Vardinon.

See "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions" for more information on the agreement with El Al, CAL and Diners Israel.

Alon Cellular

In March 2011, Alon Cellular received a MVNO license from the Israeli Ministry of Communications, which enabled Alon Cellular to add cellular services to the services that the Company offers to its customers. In December 2011, Alon Cellular entered into an agreement with Partner Communications Ltd. for launching cellular services in an MVNO model. The Company launched its cellular activity in 2012. In December 2013, Alon Cellular entered into an agreement with Pelephone Communications Ltd. for the use of its cellular network, and currently has approximately 100,000 users. Allon Cellular launched its fourth generation mobile network and is considering penetrating auxillary markets, such as internet provision and cellular accessories. The cellular market is characterised by heavy competition and price decreases such that even more established cellular companies are experiencing a decrease in their profits. For additional information, see "Item 4. Information on the Company – A. History and Development of Alon Blue Square."

Dr. Baby – which sells baby and young children accessories operates 13 stores, and through other wholesale channels. The Company is evaluating its continued operation in this industry with its main competitors being *store chains "Motzezim" and "Shilav"*.

Distribution and Logistics Center - Our distribution and logistics center in Beer Tuvia, which is 100% held by BSRE and operated by the Bee Group, is used for storage and distribution of Non-Food and Near-Food products for our Non-Food chains and our supermarket stores, and to third parties. The distribution center is operated on an approximately 24,000 square meter site and is currently leased to Bee Group by BSRE. As of March 31, 2015, the distribution center was not fully occupied, and therefore was not operating in full effectiveness. The Bee Group has secured a number of third party tenants for the distribution center is currently searching for additional tenants.

General Government Regulation

The Law for Increasing the Enforcement of Labor Law, 5771-2011

The law establishes a mechanism of enforcement and warning, both in the criminal and civil levels, imposes direct liability to execute legal requirements even on the Chief Executive Officer, and provides the Israel Industry, Trade and Employment Office the authority to impose sanctions towards companies which receive services from contractors in three different industries: (i) security services; (ii) cleaning services; and (iii) food supply. The law became effective on June 19, 2012. The law may affect the manner of hiring employees and also may impose on the Company great liability towards independent contractors providing these services.

Consumer Protection Laws

We are obligated to label prices on our products on the basis of The *Consumer Protection Law, 1981*. Contravention of the law constitutes a criminal offense. In 2009, new regulations under the Consumer Protection Law became effective under which we are obligated to indicate on the shelf the price per measurement unit with respect to most of our products. Said regulations impose additional costs and could increase the risk for discrepancies between the prices that appear on the products, the prices that appear on the shelf and the prices charged by the cash register. Claims regarding violation of the *Consumer Protection Law* are filed against the Company from time to time. These claims are usually settled in plea bargain proceedings. In addition, the Company may be subject to criminal liability in connection with future claims under the *Consumer Protection Law*. These discrepancies are the result of human error by personnel responsible for labeling our products and circumstances beyond the Company's control. We are making efforts to minimize these errors, including directing store management to charge the lower price in situations where a discrepancy is found between the price on a product and the price appearing at the cash register.

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

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

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

Regulations under the *Consumer Protection Law* also regulate the warranty and post-sale services of certain electrical appliances. Under the regulations, sellers of new electrical appliances (priced in excess of NIS 400) to the end user consumer are required to assume the responsibilities of the manufacturer(s) of the appliances in the event such manufacturer cannot be located. In addition, sellers must deliver to consumers a manufacturer warranty certificate with the delivery of the products.

On December 14, 2010, the *Regulations of Consumer Protection (Abolition of Transaction)*, came into effect pursuant to which a consumer is allowed to cancel purchase agreements of certain goods and receive a full refund on condition that the consumer returns the goods unused and undamaged. These regulations apply to certain goods over the price of NIS 50.

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

In addition, *A Bill for the Consumer Protection Law (Amendment no. 35) (Redeeming Gift Cards), 5772-2012* was adopted on January 2014, and will become effective July 1, 2014. The new law establishes a minimum mandatory validity period of a gift card of five years, and that the amount stated in the gift card must be uniform to all businesses subscribing to the gift card. In addition, the new law grants the Minister of Economy the right to enact additional regulations prohibiting the limit of use of the gift certificates. This legislation may adversely affect our profitability from gift certificates, by increasing their cost and increasing competition in the market.

Product Liability

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

Regulations for Equal Rights for Persons with Disabilities

On November 3, 2011, the Regulations for Equal Rights for Persons with Disabilities (accommodations for accessibility in a public place which is an existing building), 2011, were approved and published. The regulations require that until November 1, 2017 public service providers to make necessary modifications at their own expense to ensure that their services are accessible to people with disabilities. The provision of public services is defined, among other things, as services provided in a public place. According to the Equal Rights for Persons with Disabilities Law, 1998, supermarkets are considered public places. The regulations include various requirements to increase accessibility for people with disabilities in public places to be implemented within the timeframe provided in the proposed regulations, such as modifying passages between fixtures in public places, modifying procedures, proceedings and customs, modifying signposts and public address and loudspeaker systems, installing aids and accessories to ensure accessibility and to provide services to aid in ensuring the accessibility of services for people with disabilities, publicizing the accommodations made to ensure accessibility of, appointment of a coordinator to ensure accessibility, among others.

In April 2013, the Regulations for Equal Rights for Persons with Disabilities (improving access to service), 2013, were approved and published. Under these regulations, any entity that provides a public service must adapt its practices to ensure the provision of independent and safe service to people with disabilities. The regulations provide for gradual adjustments to be completed until November 1, 2017.

Manufacturing and Import Standards

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

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

Banking and Credit Card Regulations

On February 12, 2014 the Anti – Trust Authority published draft regulations for public comment which dealt with increased efficiency and competition in the credit card industry. After reviewing market failures, it recommended solutions in the following areas (i) debit transactions, (ii) advancing time of payment between card issuers to credit card transaction acquisition companies in deferment transactions, and (iii) development of various advanced payment mechanisms. On February 10, 2015, the regulatory authority published a notification, which, among other things, obligates banks to offer their customers with savings accounts the possibility to use debit cards. Diners Israel is required to comply with such regulatory requirements and cannot evaluate whether they will have a material effect on their operations.

Committee for Limiting Use of Cash

On July 17, 2014 a report was published by the Committee for Limiting Use of Cash in the Israeli Market pursuant to which (i) transactions made in cash will be initially limited to an amount of NIS 10,000, with subsequent potential decreases to NIS 5,000, (ii) limit on cash transaction between individuals to NIS 15,000, and (iii) limit on use of checks which have previously been issued. The committee also advanced platforms for use of advanced electronic payment methods. Draft legislation adopting the Committee's recommendations was approved by the government in February 2015.

Banking Law (Licensing) (Credit Acquisition Transactions)

On August 15, 2011 the Banking Law (Licensing) (Credit Acquisition Transactions) - 2011 was published. The law addresses four main topics: (i) regulating the credit card transaction acquisition market by granting acquisition permits by the Bank of Israel, (ii) opening the card issuance market for increased competition, (iii) opening the credit card transaction acquisition market for increased competition, and (iv) regulating of the withholding market. The Bank of Israel published regulatory requirements regarding this law in May of 2013.

Law for Enhancement of Competition and Reduction of Concentration

The "Law for Enhancement of Competition and Reduction of Concentration" – 2013, or (the "Concentration Law") established, among other matters, that when granting any national rights, permits and licenses to use national resources ("Rights"), the applicable regulating agency must take into account, in addition to all other matters, the advancement of competition in that specific sector and anti - concentration in the economy as a whole. Under the Concentration Law, certain companies, such as Dor Alon, are considered "concentration groups" as they relate to the petroleum industry, LPG, or industries where a natural gas marketing permit is required

C. Organizational Structure

We operate our Fueling and Commercial Sites segment through our 78.43% subsidiary, Dor Alon, which is listed on the TASE. Dor Alon is one of the four largest fuel retail companies in Israel based on the number of filling stations and a leader in the field of convenience stores. Dor Alon operates a chain of 208 filling stations and 215 convenience stores in different formats in Israel.

We operate 185 of our supermarkets through our wholly-owned subsidiary, Mega Retail and 12 supermarkets are owned and operated by our 51% subsidiary, Eden Teva. Mega Retail leases from BSRE and third parties the real estate underlying the stores that it operates.

We operate all of our "Housing and Textile" outlets through our wholly owned subsidiary Bee Group, which in turn held, as of March 31, 2015, approximately 77.51% of the outstanding shares of Naaman Group (N.V.) Ltd. The shares of Naaman are traded on the Tel Aviv Stock Exchange.

We operate our Real Estate segment through our TASE traded 63.71% subsidiary, BSRE, which owns, leases and develops yield generating commercial properties and projects. Below is a chart indicating our holdings in our material subsidiaries as of March 31, 2015:



* Listed on the Tel Aviv Stock Exchange.

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

Alon Blue Square owned all of the outstanding shares of Mega Retail as of March 31, 2015. Mega Retail, in turn is the owner of our interests in a number of its other subsidiaries and affiliates.

Alon Blue Square owned 63.71% of the outstanding shares of BSRE as of March 31, 2015. The balance of BSRE's outstanding shares is publicly held and traded on the Tel Aviv Stock Exchange. Alon Blue Square receives fees from BSRE as payment for the management services it provides to BSRE for the Chairman of the board of directors services, financial and accounting management services (including bookkeeping), computer management and maintenance service, legal consulting and corporate secretary services, office space and related office services, and internal audit services.

Alon Blue Square owned 78.43% of the outstanding shares of Dor Alon as of March 31, 2015.

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

Set forth below is a list of our significant holdings as of March 31, 2015. The companies marked with an asterisk (*) are not consolidated in our financial statements.

Company ⁽¹⁾	Operations	% Ownership Held by Alon Blue Square
Mega Retail Ltd.(2)	Supermarkets and baby and young children products	100
Bee Group Retail Ltd.(3)	Retail and wholesale of houseware and home textile and leisure	100
Dor Alon Energy in Israel (1988) Ltd.	Filling stations and convenience stores	78.43
Blue Square Real Estate Ltd.(4)	Real estate	63.71
Diners Club Israel Ltd.* (5)	Credit cards	49

(1) All companies are incorporated under Israeli law.

(2) As of March 31, 2015, Mega Retail Ltd., held approximately 51% of the outstanding shares of Eden Briut Teva Market Ltd. and 100% of Dr. Baby.

(3) In October 2010, we increased our holding in Bee Group Retail Ltd. to 100%. As of March 31, 2015, Bee Group Retail Ltd., held approximately 77.51% of the outstanding shares of Naaman Group (N.V.) Ltd., which is traded on the Tel Aviv Stock Exchange.

(4) As of March 31, 2015, BSRE held approximately 50% of the outstanding shares of Tel Aviv City Mall Ltd., and 49.5% of the outstanding shares of Tel Aviv Towers Ltd. The remaining shares of BSRE are held by the public and institutional investors and traded on the Tel Aviv Stock Exchange.

(5) The remaining shares of Diners Club Israel Ltd are held by Credit Cards for Israel Ltd. (51%), a subsidiary of Israel Discount Bank Ltd. See “Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions” for information with respect to our rights as a shareholder of Diners Israel.

D. Property, Plants and Equipment.

For details regarding the properties that we and our subsidiaries own and/or lease, see “Item 4. Information on the Company – B. Business Overview – Supermarkets –Operations,” “Item 4. Information on the Company – B. Business Overview – Fueling and Commercial Sites – Our Strategies,” “Item 4. Information on the Company – B. Business Overview – Houseware and Textile,” and “Item 4. Information on the Company – B. Business Overview – Real Estate.”

In 2014, Mega Retail closed 19 supermarkets with a total area of 50,000 square meters and also opened approximately three supermarkets with a total area of 4,300 square meters of store space in localities whose populations are currently under-served by supermarkets or in localities in which we do not have sufficient market presence. In 2014, we reduced 14,300 square meters of store space.

During 2014, we spent more than NIS 100 million (or \$25.7 million at the exchange rate as of December 31, 2014) on the acquisition and development of new store branches and the remodeling of our existing supermarkets.

In July 2014, a lot constituting a part of the logistic center in Rishon Lezion was sold for NIS 35 million. In December 2014, the logistic center was sold for NIS 95 million. A total of NIS 65 million were deposited in trust and were transferred on January 4, 2015. The remaining consideration is secured by a financial guarantee of the purchasers and will be paid until the end of March 2015. Exclusive possession of the logistic center was delivered in favor of the purchasers on December 31, 2014. The profit from the sale amounted to NIS 57.0 million before taxes, of which NIS 29 million was recorded in other gains in the fourth quarter of 2014.

During 2014, six branches were reclassified as investment property as a result of closing such branches.

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

In 2015 and 2016, we plan to open approximately eight to ten additional filling stations. For additional information, see “Item 4. Information on the Company – B. Business Overview – Fueling and Commercial Sites.”

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

General

Most of our activities are located and operated in Israel. We operate in four reporting segments. As of December 31, 2014, we were the largest retail company in Israel based on the number of stores. In our Supermarkets segment, we are the second largest food retailer in the State of Israel. In our Fueling and Commercial Sites segment, we operate a chain of filling stations and convenience stores in different formats in Israel, and we are considered to be one of the four major gas companies in Israel. In our Non-Food segment, we sell “Houseware and Textile” items both in standalone retail outlets and in our supermarkets. In our Real Estate segment, we own, lease and develop yield-generating commercial properties and projects. Activities that do not meet quantitative thresholds in order to constitute a separate segment consist of, Dr. Baby, the cellular activity and the Company’s share in Diners Club Israel (issuance and acquisition of credit card transactions) and are presented under Other Activities. Virtually all of the Company’s activities are located in Israel.

We are exposed to trends and developments in the Israeli economy in general, and in the food and non-food products, fuel and real estate industries in Israel in particular. An economic slowdown could cause a decline in demand for our products, impacting negatively on our profitability and exposing us to customer credit risks. According to the Central Bureau of Statistics and The Bank of Israel, from the second quarter of 2012, the Israeli economy displayed signs of a slowdown, among others, due to the global financial crisis, especially in Europe. In 2014, the economic growth in Israel was approximately 2.8% compared to 3.3% in 2013. We cannot predict the duration of the uncertainty in the global economy in general, and particularly in regards to Israel.

As a result of continued increased awareness of the high cost of living in Israel, it is expected that reducing the cost of living in Israel will be high on the legislative agenda of the Knesset. These developments may have a material impact on the Israeli economy in general as well as the industries in which we compete. See “Item 3. Key Information – D. Risk Factors – Risks Related To Our Supermarkets – The enactment of new laws and regulations, including the legislation in favor of “Promoting Competition in the Food Industry”, may materially adversely affect our sales and profits, including limiting our ability to purchase additional stores or obligate us to sell some of our stores”, and “Item 3. Key Information – D. Risks Related – Risks Related To Fueling and Commercial Sites – Dor Alon is exposed to risks associated with the reduction of the marketing margin of petroleum products, which may influence the financial results of Dor Alon” for more information.

Supermarket Segment

In 2014, a slowdown in the growth of the Israeli economy affected consumer confidence. According to Nielsen, the quantity of food, beverages, home products and near food products purchased by consumers in Israel declined by 1.4% in 2014 as compared to 2013. This trend has continued in the beginning of 2015 according to a report by Nielsen issued in March 2015. In addition, supermarket chains of our competitors have continued to expand. Other supermarket chains have continued to aggressively increase their market share and expanded their presence in locations throughout Israel, often geographically beyond their original locations, increasing competition in an already difficult market. The low barriers of entry, including the relatively low cost of establishing a new smaller supermarket has contributed to the increase in number and expansion of smaller supermarket chains in recent years. In addition, in recent years other supermarket chains have transitioned from competing only in the local neighborhood markets to competing on a national scale with a joint private label which competes with the private labels of the large supermarket chains. The increased competition and the decline in consumer spending in the food retailing business in Israel affected our sales and profitability in the supermarket segment in 2014, and Mega incurred significant losses during 2014, including an operating loss of approximately NIS 277 million, or \$71 million.

To address these issues, Mega Retail's management has developed a plan with respect to Mega and its subsidiaries, which was approved by the bPoard of directors, including, among other things, (i) streamlining and layoffs; (ii) reduction of advertising and other discretionary expenditures not essential for on-going operations; (iii) reduction of inventory; (iv) minimizing capital investments to not more than necessary to maintain the proper operation of equipment and facilities; and (v) disposal of operations of stores. In addition to the measures included in the Plan, the Company has committed to provide additional funding to support Mega Retail in an aggregate amount not to exceed NIS 240 million, or \$62 million, to assist Mega Retail if peak temporary liquidity needs arise and if the disposal of the operations of stores is not effectuated in accordance with the schedule provided in the Plan.

We own approximately 51% of the holdings of Eden Teva, which operates organic/health food supermarkets and cater to the growing local demand for organic, natural and health food. By the end of 2014, we operated 22 Eden Teva stores, 10 of them in Mega stores, with Alon Blue Square the clear leader of Israel's organic/health food sector. Eden Teva incurred operating losses in 2014 and requires financing in order to meet its operating needs. We have commercial disagreements with the minority shareholder of Eden Teva, who also serves as the CEO of Eden Teva, with respect to the responsibility of the shareholders to finance the operations of Eden Teva. We believe that resolution of said disagreement and reduction of operating expenses at Eden Teva will improve the financial status of Eden Teva.

We are maintaining and strengthening our market position by rebranding our store formats, renovating and improving existing stores, evaluating the strategic positioning of some of our stores, adjusting the format of some of our stores, all in order to meet the needs of our customers. Our new operating model focuses on our customers' needs by implementing policies and an organizational structure to suit customers' needs.

We currently operate our supermarket stores under three main categories: Discount chains, Quality and Service chains and Mega@Internet website. In order to meet the needs of our customers, both the Discount chains and Quality and Service chains have regional stores and local neighborhood stores. The Discount chains include the regional store brands "You" and "ZolBeShefa" and the local neighborhood store brand "You Neighborhood Store". The Quality and Service chains include the regional store brand "Mega", the local neighborhood store brand "Mega in Town" and the organic, natural and health product store brand "Eden Teva". In planning the mix of our stores, we have taken a regional view, with the goal of bringing our store brands within the shopping range of every Israeli consumer.

As part of our strategy to improve our competitive position, during 2014, we continued working to increase sales of our “Mega” line of private label goods that are sold in our supermarkets. Private label products provide customers with an attractive alternative selection of products that are comparable in quality to name brand products. We believe that our private label products enhance customer loyalty, differentiate our stores from those of our competitors and provide a competitive product to those offered by our suppliers. In addition, usually average gross profit from private label products is higher than the average gross profit from other products.

Fueling and Commercial Sites Segment

Dor Alon is one of the four largest fuel retail companies in Israel based on the number of filling stations and is a leader in the convenience stores sector. In recent years, the Fueling and Commercial Sites segment has been characterized by fierce competition. This competition is reflected in price wars, improvement in credit terms in direct marketing, and improvement in the quality of services offered at fueling sites.

In an effort to improve our competitive position in this segment, we anticipate opening and operating approximately eight to ten additional filling stations during 2015 and 2016 as well as investing additional capital to renovate our existing filling stations and convenience stores. In addition, we intend to expand the chain of convenience stores outside of our filling stations, as well as the activities of our countryside stores.

Houseware and Textile Segment

As of March 31, 2015, through Bee Group Retail Ltd. (“Bee Group”), we held approximately 77.51% of the outstanding shares of Naaman Group (N.V) Ltd. (“Naaman”), one of Israel’s major branded houseware retailers and wholesalers, which imports and markets various houseware products, such as kitchen utensils, cutlery and dinner sets.

Real Estate Segment

Through our subsidiary BSRE, we are engaged in generating yield from commercial centers, logistics centers and offices, land for capital appreciation and deriving long-term yield as well as developing projects, which include tens of thousands of square meters of construction rights in different stages of design and construction, such as a partnership in a mall (50% ownership), residential (49.5% ownership) and parking lot (50% ownership) projects in the wholesale market complex in Tel Aviv, expanding the Hadar Shopping Mall (50% ownership) and property designated for a offices in Ra’anana (50% ownership), and the purchase of property in Point Wells, Washington while changing the land use designation from a heavy industrial area to a residential area. As of December 31, 2014, BSRE had rights to build a total of 103,000 square meters at different stages of construction (including the projects mentioned above).

We are currently in the process of examining acquisitions of additional commercial real estate and yield-generating assets in Israel in light of market conditions, while diversifying our real estate property base.

Other activities

Alon Cellular

Our subsidiary, Alon Cellular (100% ownership), operates our cellular activity as an MVNO in Israel under the brand name YouPhone. As part of our work to capitalize on potential synergies, we are marketing and selling our cellular services in our supermarkets and convenience stores and offer those customers who purchase in our supermarkets and filling stations the opportunity to enjoy our cellular services at discount prices or free of charge.

Diners

We hold 49% of Diners Club Israel Ltd., which engages in issuing and acquiring Diners credit cards in Israel. Diners Club Israel Ltd. is a franchisee of Diners Club International until 2017. In addition, we are offering our clients credit cards for the You customer loyalty program.

As December 31, 2014, we had Non-Food outlets operated by Kfar Hasha'ashuim under the brand names "Kfar Hasha'ashuim" and "All For A Dollar". In February 2014, we completed the sale of 65 percent of our holdings in Kfar Hasha'ashuim, and we currently hold 35% of Kfar Hasha'ashuim.

Additionally, we operate under the "Dr. Baby" brand – which sells baby and young children accessories.

Operating Results

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

	<u>2013</u>	<u>2014</u>
	%	%
Continuing Operations		
Sales	100.00	100.00
Gross profit	21.7	21.9
Selling, general and administrative expenses	20.8	22.2
Operating profit	1.3	0.5
Taxes on income	(0.1)	2.0
Net income for the year from continuing operation	(0.7)	(3.4)
Discontinued Operations		
Net loss from discontinued operation	(0.3)	0.0

Year Ended December 31, 2014 compared with year ended December 31, 2013

The statements of income, including comparative figures, have been restated to separate the results of discontinued operations from continuing operations and presented them separately after the income from continued operations. The statements of income, including comparative figures of Supermarkets segment, have been restated to separate the results of branches which were resolved to cease their operations. Operating segment reporting presents the segments' results from continued operations before taxes.

Gross revenues. Revenues (including government levies) for 2014 amounted to NIS 14,048.0 million (U.S. \$3,612.2 million) as compared to revenues of NIS 14,860.9 million in the comparable period last year, a decrease of 5.5% mainly in the Supermarkets segment and Fueling and commercial sites segment.

Net revenues. Net revenues amounted to NIS 11,060.9 (US\$ 2,844.2) compared to revenues of NIS 11,886.3 million in 2013, a decrease of 6.9%.

Revenues of the Fueling and Commercial Sites segment – amounted in 2014 to NIS 4,859.6 million (U.S. \$1,249.6 million) as compared to NIS 5,140.5 million in the corresponding period last year, a decrease of 5.5%. The main decrease was due to decrease in fuel prices.

Revenues of the Supermarkets segment – amounted this year to NIS 5,442.9 million (U.S. \$1,399.6 million) as compared to NIS 5,773.6 million in the corresponding period last year, a decrease of 5.7%. The main decrease in sales mainly derived from decrease in consumption, increased competition, price reduction and from the conversion of 27 branches to YOU chain, which sells at lower prices, which were closed during their conversion period.

Revenues of the Houseware and Textile segment – amounted this year to NIS 300.2 million (U.S. \$77.2 million) as compared to NIS 300.6 million in the corresponding period last year.

Revenues of the Real Estate segment – amounted this year to NIS 51.2 million (U.S. \$13.2 million) compared to NIS 38.4 million in 2013, an increase of 33.3%. The increase in revenues derives from increase in rented spaces to external parties.

Gross profit. Gross profit in 2014 amounted to NIS 2,420.0 million (U.S. \$622.3 million) (21.9% of revenues) as compared to gross profit of NIS 2,573.5 million (21.7% of revenues) in 2013, a decrease of 6.0%. The decrease in the gross profit compared to the corresponding period last year was mainly due to the decrease in the gross profit in the Supermarkets segment.

In the Fueling and Commercial sites segment, gross profit amounted to NIS 791.7 million (U.S. \$203.6 million), (16.3% of revenues) compared to NIS 788.6 million in the comparable period last year (15.3% of revenues), increase of 0.4%.

In the Supermarkets segment, gross profit amounted to NIS 1,353.1 million (U.S. \$347.9 million), (24.9% of revenues) compared to NIS 1,481.7 million in the comparable period last year (25.7% of revenues), a decrease of 8.7%. The decrease in gross profit mainly derives from decrease in sales, as aforesaid.

In the Houseware and Textile segment, gross profit amounted to NIS 166.6 million (U.S. \$42.8 million), (59.3% of revenues) compared to NIS 158.2 million in 2013 (57.9% of revenues), an increase of 5.3%, which derives from increase in gross profit rate.

Selling, general and administrative expenses. Selling, general, and administrative expenses in 2014 amounted to NIS 2,459.7 million (U.S. \$632.5 million) (22.2% of revenues), compared to expenses of NIS 2,472.9 million (20.8% of revenues) in 2013, a decrease of 0.5%, for the reasons described below.

In the Fueling and Commercial sites segment, selling, general and administrative expenses in 2014 amounted to NIS 670.8 million (U.S. \$172.5 million) compared to NIS 653.8 million in the comparable period last year, an increase of 2.6%, mainly from opening new sites and from increase in the provision for doubtful accounts in 2014.

In the Supermarkets segment, selling, general and administrative expenses amounted to NIS 1,367.0 million (U.S. \$351.5 million) compared to NIS 1,373.1 million in the comparable period last year, a decrease of 0.4% that mainly derives from decrease in selling spaces and from efficiency measures and were partially offset from additional costs from the launch of the YOU chain and other real price increases.

In the Houseware and Textile segment, selling, general and administrative expenses amounted to NIS 155.2 million (U.S. \$39.9 million) compared to NIS 159.2 million in the comparable period last year, a decrease of 2.5%.

In the Real Estate segment, selling, general and administrative expenses amounted to NIS 20.6 million (U.S. \$5.3 million) compared to NIS 19.8 million in the comparable period last year, an increase of 4%.

Changes in fair value of investment property, in 2014, the Company recorded a profit in the amount of NIS 50.3 million (U.S. \$12.9 million) from valuation of investment property compared to a profit of NIS 47.6 million in 2013.

Other income (expenses), net other income, net in 2014, amounted to NIS 7.7 million (U.S. \$2.0 million) and included mainly profits from asset realization and exiting losing branches, offset by amortization of goodwill in the fourth quarter of 2014 of NIS 21.0 million (U.S. \$5.4 million) and a provision made for investing in Kfar Hasha'shuim in amount of NIS 35.0 million (U.S. \$9.0 million) compared to other expenses, net of NIS 21.5 million in 2013.

Share in gains of associates in 2014, amounted to NIS 38.0 million (U.S. \$9.8 million) compared to a share in gains of NIS 27.2 million in 2013.

Operating profit in 2014, amounted to NIS 56.2 million (U.S. \$14.5 million) (0.5% of revenues) as compared to operating profit of NIS 153.9 million (1.3% of revenues) in 2013, a decrease of 63.5%.

In the Fueling and Commercial sites segment, operating profit in 2014 amounted to NIS 140.5 million (U.S. \$36.1 million) (2.9% of revenues) as compared to operating profit of NIS 138.6 million in 2013, an increase of 1.4%. The main increase in operating profit derived from increase in the company's share in gains of associates and increase in other income.

In the Supermarkets segment, operating profit amounted to NIS 39.3 million (U.S. \$10.1 million) (0.7% of revenues) as compared to operating profit of NIS 99.2 million in 2013, a decrease of 60.4%, that mainly derived from decrease in sales and gross profit.

In the Houseware and textile segment, operating profit amounted to NIS 11.5 million (U.S. \$3.0 million) (4.1% of revenues) as compared to operating loss of NIS 2.0 million in 2013. The transition into operating profit derives from increase in gross profit and decrease in selling, general and administrative expenses.

In the Real Estate segment, operating profit amounted to NIS 102.6 million (U.S. \$26.4 million) (200.6% of revenues) as compared to operating profit of NIS 75.0 million in the 2013, an increase of 36.8%, deriving from increase in revenues and higher revaluation profits compared to 2013.

Finance costs, net in 2014, amounted to NIS 211.3 million (U.S. \$54.3 million) as compared to net finance costs of NIS 254.0 million in 2013. The decrease in finance costs, net derives from the effect of the CPI on the Company's financial liabilities, part of which are linked to the CPI (in this period the CPI decreased at 0.1% compared to an increase of 1.90% in the comparable period last year), raising debt at lower interest rates and was partly offset from increase in the dollar exchange rate.

Taxes on income tax expenses in 2014 amounted to NIS 219.9 million (U.S. \$56.5 million) as compared to tax benefit of NIS 12.7 million in 2013. In the fourth quarter of 2014, the Company amortized the full tax asset in respect of losses carried forward in subsidiaries which have losses for tax purposes more than three years. The impact on tax expenses in 2014 amounted to NIS 132.0 million (U.S. \$33.9 million).

Loss from continuing operations amounted in 2014 to NIS 374.9 million (U.S. \$96.4 million) compared to a loss of NIS 87.4 million in 2013. The loss from continued operations in this period attributed to the Company's shareholders amounted to NIS 428.7 million (U.S. \$110.2 million) or NIS 6.50 per share (U.S. \$1.7) and the income from continued operations attributed to non-controlling interests amounted to NIS 53.8 million (U.S. \$13.8 million).

Net loss from discontinued operations attributed to the Company's shareholders amounted in 2014 to NIS 3.1 million (U.S. \$0.8 million) or NIS 0.05 per share (U.S. \$0.01) compared to a loss of NIS 30.0 million in 2013.

Segment Information Analysis

Segment Information Analysis for the year 2014

Fueling and Commercial Sites segment

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2014	2013		2014
	NIS in millions			U.S. \$
Segment Revenues	4,860	5,140	(5.5)%	1,250
Segment operating profit	140.5	138.6	1.4%	36.1
Segment operating profit as a percentage of segment revenues	2.9%	2.7%		

The operating profit for the Fueling and Commercial Sites segment in the year 2014 amounted to NIS 140.5 million (US\$ 36.1 million) (2.9% of segment revenues) compared to the segment operating profit of NIS 138.6 million (2.7% of segment revenues) in the corresponding period in 2013. The main increase in operating profit derived from increase in the company's share in gains of associates and increase in other income.

Supermarkets Segment*

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2014	2013		2014
	NIS in millions			U.S. \$
Segment Revenues	5,443	5,774	(5.7)%	1,400
Segment operating profit	39.3	99.2	(60.4)%	10.1
Segment operating profit as a percentage of segment revenues	0.7%	1.7%		

	For the year ended December 31		Convenience translation for the year ended December 31
	2014	2013	2014
	NIS		U.S. \$
	(Unaudited)		
Decrease in same store sales**	(3.6)%	(1.0)%	
Number of stores at end of period	197	213	
Stores opened during the period	3	4	
Stores closed during the period	19	3	
Total square meters at end of period	303,000	360,000	
Square meters added during the period, net	(56,576)	(8,549)	
Sales per square meter	19,017	18,171	4,890
Sales per employee (in thousands)	864	812	222

* Segment revenues do not include branches which were resolved to cease their operations and therefore are not included in the segment. Comparative figures were adjusted accordingly.

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

Operating profit for the Supermarkets segment in the year 2014 decreased by 60.4% to NIS 39.9 million (US\$ 10.1 million) (0.7% of segment revenues) compared to the segment operating profit of NIS 99.2 million (1.7% of segment revenues) in the corresponding period last year. The decrease in operating profit mainly derived from decrease in sales and gross profit.

Housware and textile Segment

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2014	2013		2014
	NIS in millions			U.S. \$
Segment Revenues	300	300	0%	72
Segment operating profit (loss)	11.5	(2.0)	N/A	3.0
Segment profit (loss) as a percentage of segment revenues	4.1%	(0.7)%		

The operating profit for the Housware and textile segment in the year 2014 amounted to NIS 11.5 million (US\$ 3.0 million) (4.1% of segment revenues) compared to the segment operating loss of NIS 2.0 million (0.7% of segment revenues) in the corresponding period in 2013. The transition into operating profit derives from increase in gross profit and decrease in selling, general and administrative expenses.

Real Estate Segment

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2014	2013		2014
	NIS in millions			U.S. \$
Segment Revenues	51	38	33%	13
Appreciation of Investment Property	50	48	6%	13
Segment operating profit	103	75	37%	26
Segment operating profit as a percentage of segment revenues	201%	196%		

In the year 2014, the Real Estate segment recorded a profit in the amount of NIS 50.3 million (U.S. \$12.9 million) from valuation of investment property compared to a profit of NIS 47.6 million in 2013.

Operating profit for the Real Estate segment in the year 2014 increased by 37% to NIS 103 million (U.S. \$75 million) compared to the segment operating profit of NIS 75 million in the corresponding period. The increase in the segment operating profit was due to increase in revenues and higher revaluation profits compared to 2013.

Discontinued Operations

The following are the operating results of discontinued operations for the years ended December 31, 2014 and 2013:

	Operating results until the transaction completion date	Year ended December 31
	2014	2013
NIS in millions		
Revenues	22.1	114.8
Gross profit	3.3	21.8
Operating loss	(2.1)	(10.4)
Net loss from discontinued operations	(3.1)	(29.9)

Year Ended December 31, 2013 compared with year ended December 31, 2012

The statements of income, including comparative figures, have been restated to separate the results of discontinued operations from continuing operations and presented them separately after the income from continued operations. In addition, branches which were resolved to cease their operations are separated from supermarkets segment. Operating segment reporting presents the segments' results from continued operations before taxes.

Gross revenues. Revenues (including government levies) amounted to NIS 14,860.9 million (US\$ 4,281.4 million) in 2013 as compared to revenues of NIS 15,640.3 million in 2012, a decrease of 5.0% mainly from decrease in fuel prices in the Commercial and Fueling sites segment.

Net revenues. Net revenues amounted to NIS 11,886.3 million (US\$ 3,424.5 million) compared to revenues of NIS 12,685.2 million in 2012, a decrease of 6.3%.

Revenues of the Fueling and Commercial Sites segment – amounted in 2013 to NIS 5,140.5 million (US\$ 1,481.0 million) as compared to NIS 5,773.4 million in the corresponding period last year, a decrease of 11.0%. The main decrease was due to decrease in fuel prices and discontinued sales to the Palestinian Authority as a result of a decision of the Palestinian Authority to discontinue its commitment with the Company with regarding to the supply of fuel to Gaza strip.

Revenues of the Supermarkets segment – amounted in 2013 to NIS 5,773.6 million (US\$ 1,663.4 million) as compared to NIS 5,967.5 million in the corresponding period last year. The decrease in sales derived from a 4% decline in store space as a result of closing branches and from a decrease of 1.0% in the same store sales (SSS) as compared to the corresponding period last year.

Revenues of the Houseware and Textile segment – amounted this year to NIS 300.5 million (US\$ 86.6 million) compared to NIS 290.5 million in 2012, an increase of 3.4%. The increase in revenues was mainly due to an increase in sales in the home activity as a result of the transition from franchise to self-operation in Sheshet stores and their conversion to Naaman stores.

Revenues of the Real Estate segment – amounted this year to NIS 38.4 million (US\$ 11.1 million) compared to NIS 30.6 million in 2012. The increase in rental income in this period mainly derived from an increase in rented spaces to external parties.

Gross profit. Gross profit in 2013 amounted to NIS 2,573.5 million (US\$ 741.2 million) (21.7% of revenues) as compared to gross profit of NIS 2,724.5 million (21.5% of revenues) in 2012. The decrease in the gross profit was mainly due to the decrease in the gross profit in the Supermarkets segment.

In the Fueling and Commercial sites segment, gross profit amounted to NIS 788.6 million (US\$ 227.2 million), (15.3% of revenues) compared to NIS 797.0 million in 2012 (13.8% of revenues). The decrease in the gross profit mainly derived from discontinued sales to the Palestinian Authority and increased competition in the fueling and commercial site segment and was partly offset from the increased profitability of the convenience stores.

In the Supermarkets segment, gross profit amounted to NIS 1,481.7 million (U.S. \$426.9 million), (25.7% of revenues) compared to NIS 1,622.1 million in 2012 (27.2% of revenues), a decrease of 8.6%. The decrease in the gross profit was due to the actions taken by the Company to reduce prices and retain market share and from a decrease in store space.

In the Houseware and Textile segment, gross profit amounted to NIS 158.2 million (U.S. \$45.6 million), (52.6% of revenues) compared to NIS 155.0 million in 2012 (53.3% of revenues), an increase of 1.9% that mainly derived from an increase in sales and was partly offset from a reduction of the gross profit margin resulting from low margin sales intended to decrease Sheshet inventory and from a decrease in sales in Vardinon stores.

Selling, general and administrative expenses. Selling, general, and administrative expenses amounted to NIS 2,472.9 million (U.S. \$712.4 million), (20.8% of revenues) in 2013, net of NIS 22 million (US\$ 6.3 million), a one-time amount received by the Company in 2013 as a result of a legal claim for reimbursement and compensation for costs incurred by the Company in previous years, compared to expenses of NIS 2,548.8 million (20.1% of revenues) in 2012.

In the Fueling and Commercial sites segment, selling, general and administrative expenses amounted to NIS 653.9 million (US\$ 188.4 million) compared to NIS 651.5 million in 2012, an increase of 0.4%.

In the Supermarkets segment, selling, general and administrative expenses amounted to NIS 1,373.1 million (US\$ 395.6 million) compared to expenses of NIS 1,447.4 million in the corresponding period, a decrease of 5.1% in expenses that mainly derived from efficiency measures and a decrease in selling spaces.

In the Houseware and Textile segment, selling, general and administrative expenses amounted to NIS 159.4 million (US\$ 45.9 million) compared to NIS 148.4 million in 2012, an increase of 7.4%, which mainly derived from the transition from franchise stores to self-operated stores and from an increase in marketing and advertising expenses and was partly offset by efficiency measures.

In the Real Estate segment, selling, general and administrative expenses amounted to NIS 19.8 million (US\$ 5.7 million) compared to NIS 13.4 million in 2012 principally resulted from an increase in activities of the segment.

Changes in fair value of investment property, in 2013, the Company recorded a profit in the amount of NIS 47.6 million (US\$ 13.7 million) compared to a profit of NIS 16.9 million in 2012. The main change in value was recorded in projects in development promoted by the Company.

Other income (expenses), net other expenses in 2013 amounted to NIS 21.5 million (US\$ 6.2 million) compared to other income of NIS 4.3 million in 2012. Other expenses in the current period mainly derived from closing branches and reducing of our store space in our Supermarkets segment following the implementation of Mega Retail's strategic plan.

Share in gains of associates this year amounted to NIS 27.2 million (US\$ 7.8 million) compared to NIS 87.1 million in 2012. The decrease in gains compared to 2012, derived from the revaluation of the Tel Aviv Mall in 2012 upon the completion of the real estate purchase.

Operating profit in 2013 amounted to NIS 153.9 million (US\$ 44.3 million) (1.3% of revenues) as compared to operating profit of NIS 283.8 million (2.2% of revenues) in 2012, a decrease of 45.77%.

In the Fueling and Commercial sites segment, operating profit this year amounted to NIS 138.6 million (US\$ 39.9 million) compared to operating profit of NIS 149.5 million in 2012, a decrease of 7.3%. The decrease in operating profit mainly derived from an increased competition in the Fueling and Commercial Sites.

In the Supermarkets segment, operating profit in 2013 amounted to NIS 99.2 million (US\$ 28.6 million) compared to operating profit of NIS 173.0 million in 2012, a decrease of 42.6%. The decrease in operating profit derived from actions taken by the Company to reduce prices and retain market share and from a decrease in sales and was partly offset from decrease in selling, general and administrative expenses.

In the Houseware and Textile segment, operating loss amounted to NIS 2.0 million (US\$ 0.6 million), as compared to an operating profit of NIS 7.2 million in 2012.

In the Real Estate segment, the operating profit in 2013 amounted to NIS 75.0 million (US\$ 21.6 million) compared to NIS 99.3 million in 2012, a decrease of 24.5%.

Finance costs, net in 2013 amounted to NIS 254.0 million (US\$ 73.2 million) compared to finance costs of NIS 241.9 million in 2012, an increase of 5% principally as a result of an increase in the Israeli consumer price index.

Taxes on income tax benefit in 2013 amounted to NIS 12.7 million (US\$ 3.7 million) as compared to tax benefit of NIS 2.9 million in 2012 due to increase of our loss before taxes.

Income (loss) from continuing operations in this period loss amounted to NIS 87.4 million (US\$ 25.2 million) compared to an income of NIS 44.8 million in 2012. The loss from continuing operations in 2013 attributed to the Company's shareholders amounted to NIS 115.7 million (US\$ 33.3 million) or NIS 1.75 per share (US\$ 0.50) and the income from continuing operations attributed to non-controlling interests amounted to NIS 28.3 million (US\$ 8.2 million) principally due to the decrease of our operating profit in the supermarket segment.

Net loss from discontinued operations in this period amounted to NIS 30.0 million (US\$ 8.6 million) or NIS 0.45 per share (US\$ 0.13) compared to a loss of NIS 22.5 million in 2012, which attributed in its entirety to the Company's shareholders. This increase is principally due to a goodwill impairment of NIS 14 million related to our investment in Kfar Hasha'asum.

Segment Information Analysis

Segment Information Analysis for the year 2013

Fueling and Commercial Sites segment

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2013	2012		2013
	NIS in millions			U.S. \$
Segment Revenues	5,140	5,773	(11)%	1,481
Segment operating profit	138.6	149.5	(7)%	39.9
Segment operating profit as a percentage of segment revenues	2.7%	2.6%		

The operating profit for the Fueling and Commercial Sites segment in the year 2013 amounted to NIS 138.6 million (US\$ 39.9 million) (2.7% of segment revenues) compared to the segment operating profit of NIS 149.5 million (2.6% of segment revenues) in the corresponding period in 2012. The decrease in operating profit mainly derived from increased competition in the Fueling and Commercial Sites and discontinued sales to the Palestinian Authority.

Supermarkets Segment*

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2013	2012		2013
	NIS in millions			U.S. \$
Segment Revenues	5,774	5,967	(3.2)%	1,663
Segment operating profit	99	173	(42.6)%	28
Segment operating profit as a percentage of segment revenues	1.7%	2.9%		

*Segment revenues do not include the operations of branches which the Company resolved to cease and therefore are not included in the segment. Comparative figures were adjusted accordingly.

	For the year ended December 31		Convenience translation for the year ended December 31
	2013	2012	2013
	NIS		U.S. \$
	(Unaudited)		
Decrease in same store sales**	(1.0)%	(2.6)%	
Number of stores at end of period	213	212	
Stores opened during the period	4	10	
Stores closed during the period	3	9	
Total square meters at end of period	360,000	369,000	
Square meters added during the period, net	(8,549)	(7,090)	
Sales per square meter	16,038	16,170	4,620
Sales per employee (in thousands)	741	879	213

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

Operating profit for the Supermarkets segment in the year 2013 decreased by 42.6% to NIS 99 million (US\$ 28 million) (1.7% of segment revenues) compared to the segment operating profit of NIS 173 million (2.9% of segment revenues) in the corresponding period last year. The decrease in operating profit derived from actions taken by the Company to reduce prices and retain market share and from a decrease in sales and was partly offset from decrease in selling, general and administrative expenses.

Houseware and Textile Segment

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2013	2012		2013
	NIS in millions			U.S. \$
Segment Revenues	300	290	3.4%	86
Segment operating profit (loss)	(2)	7	N/A	(0.6)
Segment profit (loss) as a percentage of segment revenues	(0.6)%	2.4%		

The operating loss for the Housware and textile segment in the year 2013 amounted to NIS 2 million (US\$ 0.6 million) (0.6% of segment revenues) compared to the segment operating profit of NIS 7 million (2.4% of segment revenues) in the corresponding period in 2012.

Real Estate Segment

	For the year ended December 31		% Change	Convenience translation for the year ended December 31
	2013	2012		2013
	NIS in millions			U.S. \$
Segment Revenues	38	31	26%	11
Appreciation of Investment Property	48	17	182%	14
Segment operating profit	75	99	(24)%	22
Segment operating profit as a percentage of segment revenues	196%	325%		

In the year 2013, the Real Estate segment recorded a profit in the amount of NIS 47.6 million (U.S. \$13.7 million) compared to a profit of NIS 16.9 million in 2012. The main change in value was recorded in projects in development promoted by the Company.

Operating profit for the Real Estate segment in the year 2013 decreased by 24% to NIS 75 million (U.S. \$22 million) compared to the segment operating profit of NIS 99 million in the corresponding period. The decrease in the segment operating profit was due to an increase in selling, general and administrative expenses.

Discontinued Operations

The following are the operating results of discontinued operations for the years ended December 31, 2013 and 2012:

	Year ended December 31	
	2013	2012
	NIS in millions	
Revenues	114.8	115.2
Gross profit	23.8	23.3
Operating loss	(8.4)	(11.5)
Net loss from discontinued operations	(29.9)	(22.5)

Quarterly Fluctuations

Our business is subject to fluctuations in quarterly sales and profits. These fluctuations are primarily attributable to increased sales and higher operating income in the holiday seasons occurring in different quarters from year to year. Thus, for example, in our supermarkets and in our “Naaman” and “Vardinon” chains increased sales attributable to Passover, which occurs in either March or April, may be realized in either the first or the second quarter, and sales attributable to the Jewish New Year, which occurs in either September or October, may be realized in either the third or the fourth quarter. In our filling stations, there is an increase in activity during vacations and holidays.

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

The following table sets forth certain quarterly information.

	Net revenues		Operating profit	
	NIS (In thousands)	Percentage of Full Year	NIS (In thousands)	Percentage of Full Year
2014	11,060,957	100%	56,211	100%
First quarter	2,714,871	24.5%	10,506	18.7%
Second quarter	2,886,850	26.1%	40,554	72.1%
Third quarter	2,887,451	26.1%	80,075	142.5%
Fourth quarter	2,571,785	23.3%	(74,924)	(133.3)%
2013	11,886,340	100.0%	153,935	100%
First quarter	3,089,268	26.0%	19,264	12.5%
Second quarter	2,950,099	24.8%	18,156	11.8%
Third quarter	3,010,031	25.3%	52,501	34.1%
Fourth quarter	2,836,942	23.9%	64,014	41.6%

Exchange Rates

At December 31, 2014, the representative rate of exchange of the NIS to the dollar, as published by The Bank of Israel, was NIS 3.89 = \$1.00. On March 31, 2015, the representative rate of exchange of the NIS to the dollar, as published by The Bank of Israel, was NIS 3.98 = \$1.00. The table below sets forth, for the periods and dates indicated, certain information concerning the representative exchange rate of the NIS to the dollar, as published by The Bank of Israel for the years ended December 31, 2010 through 2014:

Year Ended December 31,	Period End	Average Rate ⁽¹⁾ (NIS per \$1.00)	High	Low
2010	3.55 ⁽²⁾	3.73	3.89	3.55
2011	3.82 ⁽²⁾	3.58	3.82	3.36
2012	3.73 ⁽²⁾	3.86	4.08	3.70
2013	3.47 ⁽²⁾	3.61	3.79	3.47
2014	3.89 ⁽²⁾	3.58	3.99	3.40

(1) The average of the daily exchange rates in each year.

(2) During 2010, 2011, 2012, 2013 and 2014, the US dollar depreciated in value vis-à-vis the NIS by 6%, (7.6%), 2.3%, 7.0%, and 12.0%, respectively.

The following table sets forth certain information concerning the representative exchange rate of the NIS to the dollar, as published for the months October 2014 through March 2015:

<u>Month</u>	<u>Period End</u>	<u>Average Rate⁽¹⁾</u> <u>(NIS per \$1.00)</u>	<u>High</u>	<u>Low</u>
October	3.78	3.74	3.79	3.64
November	3.89	3.83	3.89	3.78
December	3.89	3.93	3.99	3.89
January	3.92	3.95	4.0	3.90
February	3.97	3.89	3.97	3.84
March	3.98	4.0	4.05	3.93

(1) The average of the daily exchange rates.

Impact of Inflation and Currency Fluctuations

Inflation in Israel increases some of our expenses, which, because of competitive pressures, are generally not offset, fully or as quickly, by increases in our selling prices and revenues. See “Item 3. Key Information – D. Risk Factors – Risks Related To Our Business As A Whole – Fluctuations of inflation may adversely affect our financial expenses and operating income” and “Item 3. Key Information – D. Risk Factors – Risks Related To Our Business As A Whole – Related to Our Business As A Whole – Currency fluctuations might affect our operating results and translation of operating results.”

Dor Alon is exposed to fluctuations in the US dollar - NIS exchange rate due to credit that Dor Alon obtains from its suppliers (mostly from Oil Refineries Ltd., which is linked to the US dollar). In addition, any devaluation of the NIS against various non-Israeli currencies in which we or our suppliers pay for imported goods has the effect of increasing the selling price of those products which we sell in Israel in NIS and affects our operating results. In particular, a devaluation of the NIS against the Chinese currency could significantly increase the cost of production of our Houseware and Textile products at our Bee Group stores and the selling price of those products to our customers. An increase in price of imported goods by our suppliers can usually be offset by an increase in the consumer price of such goods. This devaluation would have a greater effect on our Houseware and Textile retail business because a higher proportion of the goods that we sell in our Bee Group stores is acquired from suppliers overseas. This devaluation would also cause an increase in our expenses as recorded in our NIS denominated financial results even though the expenses denominated in non-Israeli currencies will remain unchanged. Changes in interest rates, in the Israeli consumer price index and in the US dollar - NIS exchange rate could materially adversely affect our financial results. In addition, we have loans and debentures in NIS, some of which are subject to floating interest rates and some are linked to the Israeli consumer price index. Due to these loans and to the consumer price index linked debentures issued by us, we are exposed to changes in bank interest rates and in the Israeli consumer price index. We also have rent expenses and other operating expenses which are linked to the Israeli consumer price index. Due to these expenses, we are exposed to the changes in the Israeli consumer price index.

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

Political Conditions

We and all of our subsidiaries are incorporated under Israeli law and our principal offices and operations are located in the State of Israel. Political, economic, security and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying from time to time, in intensity and degree, has led to security and economic problems for Israel. Israel signed a peace treaty with Egypt in 1979 and a peace treaty with Jordan in 1994. Israel has not entered into any peace agreements with Syria and Lebanon. In the last few years, the establishment of a Hamas government in Gaza has created additional unrest and uncertainty in the region and has increased hostilities between Israel and the Palestinians. These hostilities have included terrorist acts in Israel and military operations in the West Bank and Gaza. During the last decade, there has been a high level of violence between Israel and the Palestinians, including missile strikes by Hamas against Israel. For example, on July 8, 2014, the State of Israel launched an almost two month military operation in the Hamas-controlled Gaza strip.

The future of Israel's relations with its Arab neighbors and the Palestinians is uncertain and several countries, companies and organizations continue to restrict business with Israel and with Israeli companies. We believe that in the past, these practices have not had a material adverse effect on us. However, we could be adversely affected by adverse developments in Israel's relationships with its Arab neighbors and the Palestinians, or by restrictive laws, policies or practices directed towards Israel or Israeli businesses. In addition, ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on the Israeli economy, in general, and on our business, financial condition or results of operations. In particular, in recent conflicts, missile attacks have occurred on civilian areas, which could cause substantial damage to our infrastructure network, reducing our ability to continue serving our customers as well as our overall network capacity. In addition, in the event recent political unrest and instability in the Middle East, including changes in some of the governments in the region, causes investor concerns in a reduction in the value of the NIS, our expenses in non-NIS currencies may increase, with a material adverse affect on our financial results.

Most of the Houseware and Textile's imports during 2013 and 2014 were from suppliers located in the Far East. Because most of the products sold by the Bee Group are manufactured overseas and imported from China, its activity may be affected by changes in the political and economic conditions in China. In addition, because the Bee Group acquires most of its products from suppliers outside of Israel, and most of its products are imported via the sea, a prolonged general strike, shutdown or a disruption of any of the Israeli ports for an extended period of time, including as a result of a military conflict, would affect our ability to import such products or increase their prices. In addition, since the peak selling season of some of our Bee Group stores is during the holidays, disruptions in the ports during or adjacent to such holiday seasons may adversely affect our sales and financial results.

Economic Conditions

All of our supermarket sales are made in Israel and we acquire a substantial majority of the goods that we sell from Israeli suppliers. Consequently, our financial performance is dependent to a significant extent on the economy of Israel. During 2012 and 2013, Israel's Gross Domestic Product rose by 3.4% and 3.3%, respectively. Reports of the Israeli Central Bureau of Statistics indicate that during 2014 Israel's Gross Domestic Product rose by 2.6%. We believe that, despite the economic growth in 2013 and in 2014, our customers continue to be cautious in their buying patterns and continue to choose to make their purchases at low-price and hard discount stores, which have a lower profit margin. As a result, we have continued to expand our low-price and hard discount store formats. According to Nielsen "Summary year 2014 in the consumption of goods market in Israel", the quantity of food, beverages, home products and near food products purchased by consumers in Israel declined by 1.4% in 2014 as compared to 2013. This trend changed in the beginning of 2015 according to a report by Nielsen issued in March 2015.

Trade Agreements

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

Corporate Tax Rate

We and our subsidiaries are subject to corporate tax in Israel at a flat rate of 26.5% in 2015.

For further tax information, see "Item 10. Additional Information – E. Taxation –Israeli Tax Considerations."

Critical Accounting Policies and Estimates

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial position, and we apply those accounting policies in a consistent manner. Our significant accounting policies are summarized in Note 4 to the Consolidated Financial Statements.

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

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

Impairment of non financial assets

We review at each 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, we evaluate whether the carrying value of the asset in our accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, record an impairment provision necessary 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.

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

We evaluate impairment separately for each store or the cash-generating unit to which the store belongs when the cash inflows of one store are dependent on the cash inflows of another store in the same geographic area. In evaluating impairment, we consider corporate assets relating to the stores or other cash-generating units as well as indirect costs that are directly attributable, or that can be reasonably and consistently allocated, to the stores or cash generating units.

The recoverable amount of an asset is the higher of the net selling price of the asset's fair value less cost to sell and its value in use. These calculations require the use of estimates. In calculating the impairment for the reported years, based on discounted expected future cash flows, we used a discount rate before tax for each cash-generating unit (CGU). For discount rates used by the Company, see note 17 to the Consolidated Financial Statements.

In 2014, we recorded impairment provisions resulting in the net amount of NIS 21.0. In 2013, we recorded impairment provisions resulting in the net amount of NIS 4.5 million. In 2012, there were no impairment provisions. Impairment provisions or the reversal of such provisions are included in the income statement within Other gains or losses.

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

Goodwill

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

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

Goodwill is allocated to six identified groups of cash-generating units ("CGUs"). Those groups of CGUs are embedded within three reportable segments – Supermarkets (1 group of CGUs), Houseware and Textile Retail and Wholesale (two groups of CGUs), and Fueling and Commercial Sites (three CGUs).

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

	December 31	
	2013	2014
	NIS in thousands	
Supermarkets	159,113	158,113
Houseware and Textile:		
Houseware	106,679	85,679
Fueling and Commercial Sites:		
Filling Stations and Convenience Stores	500,065	500,065
Direct Marketing	18,000	18,000
Jet Fuel	14,000	14,000
	<u>797,587</u>	<u>775,857</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:

Segment CGU	Supermarkets	Houseware and Textile retail and wholesale
	Supermarkets	Houseware
	%	
December 31, 2014:		
Expected gross margin	26.5	55.0
Growth rate (1)	0.0	1.3
Discount rate (2)	10.1	13.1
December 31, 2013:		
Expected gross margin	26.9	58.0
Growth rate (1)	0	1.3
Discount rate (2)	10.3	14.8

Segment CGU	Fueling and commercial sites		
	Filling and convenience sites	Direct marketing	Jet fuel
	%	%	%
December 31, 2014:			
Expected operating profit	3	4	1
Growth rate (1)	1.9	2.0	1.0
Discount rate (2)	9.6	10.1	17.5
December 31, 2013:			
Expected operating profit	3	4	1
Growth rate (1)	2	2.7	2
Discount rate (2)	9.5	9.8	17.2

- (1) Weighted average growth rate used to extrapolate cash flows beyond the budget management estimates covering a five-year period.
(2) Pre-tax discount rate applied to cash flow projections.

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

The key assumptions used for the sensitivity analysis regarding the impairment testing were the discount rate, utilizing the weighted average cost of capital (WACC) and the growth rate of the CGU. The WACC for each CGU was determined based on the data derived from a number of public Israeli companies that are active in those fields (fuel selling, supermarkets and Houseware and Textile) including the cost of capital and debt-raising relevant for each kind of activity. The growth rate was determined based on historical growth rate within the industries and based on the Company's own history, taking into account the growth of the Israeli population.

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

We performed a sensitivity analysis for the key assumption used in our annual goodwill impairment test and determined that an increase in the pre-tax discount rate of 1.0% and a 1.0% decrease in the growth rate would result in the estimated recoverable amount of Houseware CGU falling below its carrying amount by NIS 24 million and NIS 17 million, respectively, beyond an impairment of NIS 21 million included in our results.

We performed a sensitivity analysis for the key assumption used in our annual goodwill impairment test and determined that an increase in the pre-tax discount rate of 0.5% and a 0.5% decrease in the growth rate would result in the estimated recoverable amount of Filling and Commercial Stations CGU falling below its carrying amount by NIS 53 million and NIS 40 million, respectively.

The recoverable amount of our other CGUs is substantially higher than the carrying value.

Investment property and investment property under development

Under IAS 40 "Investment Property," investment property is initially valued at cost, including costs directly attributable to the acquisition. Thereafter, IAS 40 allows us to measure the value of our investment property (i) at cost less depreciation and impairment or (ii) at fair value. We measure the value of investment property at fair value. Gains or losses arising from changes in fair value of our investment property are recognized in profit or loss when they arise. Accordingly, such changes can have a significant impact on our profit or loss. Investment properties are not systematically depreciated.

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 various assumptions; judgments and estimates are required for cash flows projections that are expected during the remaining economic life of the asset, in accordance with the lease terms during the lease period and, after such period, based on suitable rentals that are determined on the basis of market surveys for similar assets with similar location and terms, using adjustments and discount rates that reflect the current market assessments as to uncertainties prevailing with respect to cash flow amounts and timing.

In some cases, mainly building rights or assets under development, the residual value approach is used to determine fair value. The evaluation of the asset's fair value is based on the value of the completed asset, less estimated constructor's profit and construction costs to complete.

As of December 31, 2014, substantially all of our investment property under development was measured at fair value. Changes in the assumptions that are used to measure the investment property may lead to a change in the fair value. See Note 4(2) to our audited consolidated financial statements included elsewhere in this Annual Report for a sensitivity analysis regarding changes in the discount rates used in our fair value estimates.

Provisions for claims

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

Our assessments are based on the Company's history in these cases, on the stage of these claims and on the experience of the Company's legal advisers. The outcome of the legal cases in court could be different from our assessments.

Income taxes and deferred taxes

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

In addition, we recognize deferred tax assets and tax liabilities based on the difference between the carrying value of such assets and liabilities and their amount for tax purposes. We continually assess the recoverability of deferred tax assets based on historical taxable income, expected taxable income, the expected timing of the reversals of temporary differences and the application of tax planning strategies taking into account market expectations, the duration of successive tax losses and their magnitude. When we, as a result of these assessments, reduce deferred tax assets (or increase deferred tax liabilities), our effective tax rate will increase and negatively affect our results.

Property, plant and equipment

Property, plant and equipment also represent a significant proportion of our total assets. Therefore the estimates and assumptions made to determine their carrying value and related depreciation are critical to our financial position and performance.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the income statement.

The useful lives of our assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.

Recently issued accounting pronouncements

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

Liquidity and Capital Resources

Sources and Uses of Cash

Sources.

Our principal source of liquidity is the cash generated by our operations. Historically, both Alon Blue Square and its significant subsidiaries have generally generated sufficient cash from their operations to satisfy their respective operating requirements. This continued in 2014, except with respect to Mega Retail, which required bank financing to satisfy its cash needs. This trend will continue in 2015 during which Mega Retail will need financing to satisfy its operating requirements. In the first quarter of 2015, Alon Blue Square provided financing to Mega Retail to satisfy its operating requirements, and Alon Blue Square has committed to provide additional funding to support Mega Retail in an aggregate amount not to exceed NIS 240 million, or \$62 million, to assist Mega Retail if peak temporary liquidity needs arise and if the disposal of the operations of stores by Retail is not effectuated in accordance with the schedule provided in Mega Retail's plan. See " – General – Supermarket Segment."

The available cash resources of Dor Alon, Bee Group and their subsidiaries were used in 2014, and are expected to continue to be used, to finance the expansion of these companies. In 2014, Mega Retail used its available cash resources and bank financing to finance the implementation of its strategic plan, and BSRE used its available cash resources and bank financing and debentures to finance the expansion of its activities. We believe our working capital and other available sources of financing are sufficient for our present requirements.

Cash generated by operations was approximately NIS 505.9 million, or \$130.1 million, in 2014, a decrease of 16.3% compared with approximately NIS 604.7 million in 2013. The main decrease derived from decrease in profit and from tax refunds of NIS 44.2 million that were received last year compared to tax payments of NIS 18.0 million (U.S. \$4.6 million) this year.

In 2014, approximately 34% of our sales were paid for with cash, checks and gift certificates issued by the Company at the point-of-sale, and approximately 66% of our sales were paid for with credit cards.

During 2014, the average time period that we held inventory was 21 days and the average time period within which our accounts receivable were paid was 31 days. By contrast, as of such date the average time period for payment of our accounts payable was 47 days. Accordingly, increased capital resources are not required to support an increase in our receivables or inventories because we generally sell our products before we pay our suppliers, except with respect to Mega Retail, whose outstanding trade payables as of December 31, 2014 (approximately NIS 746 million, or \$192 million) exceeded its outstanding trade receivables as of such date (approximately NIS 267 million, or \$69 million), which requires additional capital resources, such as bank financing or intercompany loans, in order to finance its operations.

Other sources of liquidity are long-term and short-term borrowing from banks, issuance of debentures and others. During 2014, we received long-term loans from banks in the amount of NIS 768.3 million, or \$197.6 million and issuance of debentures of NIS 158.1 million or \$40.6 million. For information regarding outstanding balances and repayment information see “Item 5. Operating and Financial Review and Prospects – Business Combinations – Long-Term Loans from Banks and other Financial Institutions” and “Item 5. Operating and Financial Review and Prospects – Business Combinations– Debentures.”

The principle sources of liquidity of Alon Blue Square are dividends from subsidiaries and inter-company balances with subsidiaries, management fees received from subsidiaries in consideration for management services performed by Alon Blue Square, long-term and short-term borrowing from banks, issuance of debentures, sales of subsidiary shares and others. The Board of Directors of Alon Blue Square has also resolved to increase the shareholders equity of Alon Blue Square through private or public issuances of securities although no decision has been made regarding the type or amount of financing to be raised. During 2014, Alon Blue Square issued debentures in the amount of NIS 151.1 million, or \$38.8 million.

Uses.

During 2014, we repaid long-term loans in the amount of NIS 586.4 million, or \$150.8 million, debentures in the amount of NIS 536.2 million, or \$137.9 million, short-term borrowing from banks in the amount of NIS 45.8 million or \$11.8 million and interest in the amount of NIS 220.7 million, or \$56.7 million.

In recent years, we funded our renovation, remodeling and expansion programs primarily from cash generated by our operations and from long and short-term loans from banks, issuance of debentures, sales of subsidiary shares, and others. During 2014, we invested approximately NIS 323.8 million, or \$83.3 million, in property and equipment, intangible assets, investment property and payments on account of real estate, a 32.9% increase from our 2013 investment of NIS 243.6 million. Of our investment in property and equipment, intangible assets and investment property in 2014, we invested NIS 79.6 million, or \$20.5 million, in land and buildings, including land that we leased and investment property, as compared with NIS 88.8 million in 2013. During 2015 and 2016, we intend to open approximately 8 to 10 filling stations at a cost of approximately NIS 4 million to NIS 6 million per filling station. We intend to finance our store development, renovation, modeling, expansion and acquisitions mainly from cash generated by our operations, from borrowings from banks and others and sales of subsidiary shares.

If Mega Retail continues to incur significant losses, it may materially adversely affect our liquidity. It could also cause further reductions in the credit rating of Alon Blue Square and its commercial paper, requiring Alon Blue Square to redeem its commercial paper, repay bank loans and loans received from BSRE under the Deposit of Cash Balances Agreement, and impair Alon Blue Square's ability to raise additional funds on favorable terms, or at all. See “Item 3. Key Information – D. Risk Factors – Risks Related To Our Business As A Whole – Mega Retail incurred significant losses in 2014. If Mega Retail continues to incur significant losses, it could have a material adverse impact on our liquidity” and “Item 3. Key Information – D. Risk Factors – Risks Related To Our Supermarkets – A decrease in our credit rating may require us to repay some of our bank loans.”

Business combinations

In October 2010, we acquired approximately 80% of the outstanding shares of Dor Alon in exchange for the issuance of 20,327,710 ordinary shares. For further information, see “Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon and Alon Blue Square – Acquisition of Controlling Share in Dor-Alon Energy In Israel (1988) LTD.”

In November 2011, Bee Group issued a full tender offer to purchase 4.8 million shares of Naaman that were not held by the group for NIS 6.53 (\$1.8) per share. Bee Group received acceptance notices for 1.48 million shares (10.2%) for NIS 9.7 million (\$2.6 million). As of March 31, 2015, Bee Group held approximately 77.51% of the outstanding shares of Na'aman.

Dividends

The following table sets forth dividends paid by the Company from January 1, 2010 until the date of this Annual Report:

<u>Date of payment</u>	<u>Amount per share</u>	<u>Total amount⁽¹⁾</u>
December 29, 2011	NIS 1.13 (\$0.30)	NIS 75 million (approximately \$20.2 million)
October 18, 2010	NIS 12.31 (\$3.39)	NIS 800 million (approximately \$220.5 million)
February 25, 2010	NIS 1.70 (\$0.45)	NIS 75 million (approximately \$19.8 million)

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

Pursuant to the Israeli Companies Law, dividend distributions are limited to the greater of retained earnings or earnings generated over the previous two years, according to our then last reviewed or audited financial statements, provided that the date of the financial statements is not more than six months prior to the date of the distribution, or we may distribute dividends that do not meet such criteria only with court approval. As of December 31, 2014, the Company does not have any earnings to distribute as dividends.

The financial covenants in our subsidiaries' loan agreements do not restrict our subsidiaries from transferring funds to Alon Blue Square in the form of cash dividends, loans or advances, subject to any legal limitations, except for Bee Group, which is restricted from transferring funds to the Company in the form of dividends; however Bee Group is not a significant subsidiary. As of December 31, 2014, we did not have any earnings to distribute as a dividend.

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

In March 2011, the Board of Directors approved a decision to adopt a policy, which has recently been extended for the years 2015 and 2016, according to which BSRE will distribute dividends in the amount of no less than 25% and not higher than 75% of the net profits of BSRE in each year, without taking into account revisions in the net fair value of real estate for investment. Such distributions are subject to the “profit test” under the Israeli Companies Law at the relevant dates and to other decisions of BSRE’s board of directors, including decisions designating a different use of BSRE’s profits and/or a change in the BSRE dividend policy. In December 2014, the Board of Directors approved the extension of the dividend policy for the years 2015 and 2016.

The following table sets forth dividends paid by BSRE from January 1, 2009 until the date of this Annual Report

Date of payment	Amount per share	Total amount^{(1) (2)}
April 15, 2015	NIS 2.59 (\$0.6)	NIS 30 million (approximately \$7.5 million)
December 8, 2014	NIS 4.32 (\$1.1)	NIS 50 million (approximately \$12.5 million)
October 28, 2013	NIS 3.18 (\$0.9)	NIS 40 million (approximately \$11.3 million)
April 23, 2013	NIS 3.98 (\$1.1)	NIS 50 million (approximately \$13.8 million)
December 25, 2011	NIS 2.71 (\$0.71)	NIS 34 million (approximately \$9.0 million)
April 13, 2011	NIS 3.82 (\$1.1)	NIS 47.8 million (approximately \$14.0 million)
March 31, 2010	NIS 4.6 (\$1.3)	NIS 57.6 million (approximately \$15.5 million)
April 20, 2009	NIS 1.35 (\$0.32)	NIS 16.8 million (approximately \$4.0 million)

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

(2) Alon Blue Square’s share in the distribution of the dividends was approximately between 63.71% - 80%.

Buy Back by BSRE

In February 23, 2014, BSRE completed a buyback by way of tender offer on a pro rata basis of an aggregate 979,220 of its ordinary shares, representing 7.8% of the outstanding shares and voting rights in BSRE for an aggregate amount of NIS 160 million. The tender offer was responded by shareholders holding 99.2% of BSRE shares, including the Company. The Company’s share in the purchase offer’s consideration was NIS 120 million.

Dividends paid by Dor Alon since the time Alon Blue Square acquired Dor Alon and until the date of this Annual Report:

Date of payment	Amount per share	Total amount^{(1) (2)}
December 9, 2014	NIS 2.08 (\$0.53)	NIS 30 million (approximately \$7.6 million)
October 28, 2013	NIS 1.74 (\$0.49)	NIS 25 million (approximately \$7.1 million)
April 9, 2013	NIS 1.39 (\$0.38)	NIS 20 million (approximately \$5.5 million)
December 19, 2011	NIS 2.08 (\$0.55)	NIS 30 million (approximately \$7.9 million)
April 14, 2011	NIS 1.73 (\$0.5)	NIS 25.0 million (approximately \$7.2 million)

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

(2) Alon Blue Square’s share in the distribution of the dividends was approximately 78%.

Short-Term Credit from Banks and Others

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

	December 31	
	2013	2014
	NIS in thousands	
Bank overdrafts	12,605	5,490
Bank loans	696,804	657,939
Commercial paper	120,403	111,197
Current maturities of long-term loans	251,089	283,342
	<u>1,080,901</u>	<u>1,057,968</u>

The short term credit described in the table above includes NIS 215.3 million of short term credit undertaken by the Alon Blue Square in the aggregate amount of NIS 233.0 million as of December 31, 2014 and NIS 288.1 million as of December 31, 2013.

Long-Term Loans from Banks and other Financial Institutions

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

	December 31		Annual Interest Rate (1) %
	2013	2014	
	NIS in thousands		
In Israeli currency:			
Linked to the Israeli CPI bearing a fixed interest rate	607,586	694,861	3.59
Linked to the Israeli CPI bearing a variable interest rate	197,513	-	-
Unlinked and bearing a fixed interest rate	38,054	28,483	7.75
Unlinked and bearing a variable interest rate	681,507	974,605	3.01
Total	<u>1,524,660</u>	<u>1,697,949</u>	
Less - current maturities	<u>251,089</u>	<u>283,342</u>	
	<u><u>1,273,571</u></u>	<u><u>1,414,607</u></u>	

⁽¹⁾ Weighted average rate as of December 31, 2014.

The loans described in the table above include loans undertaken by Alon Blue Square in the aggregate amount of approximately NIS 141.8 million. The loan agreements contain undertakings by Bee Group and its subsidiaries, Dor Alon and its subsidiaries and BSRE to meet certain financial covenants. The financial covenants in Bee Group's loan agreements include a limitation on Bee Group and its subsidiaries' ability to distribute dividends to Alon Blue Square. As of December 31, 2014, Bee Group has short and long term loans with totaling NIS 115.5 million as of December 31, 2014, pursuant to which Bee Group has undertaken to meet certain financial covenants. As at December 31, 2014 Bee Group met the covenants for loans in the amount of NIS 78 million and received a waiver for the remaining amount. These financial covenants include a limitation on the distribution of dividends to the Company. BSRE has a loan with a total balance of NIS 197.3 million, whereby BSRE has undertaken to meet certain financial covenants. As of December 31, 2014, BSRE met the above mentioned covenants. BSRE has a loan totaling approximately NIS 120 million as at December 31, 2014, with a group of institutional investors to finance the building of the addition to the Hadar Mall, for which BSRE has undertaken to meet certain financial covenants. As of December 31, 2014, BSRE met the above mentioned covenants. A loan agreement in the amount of NIS 82.5 million with a subsidiary of Dor Alon includes financial covenants. As of December 31, 2014, such subsidiary of Dor Alon had met the financial covenants contained in its loan agreements.

Debentures

The following table summarizes debentures outstanding as of December 31, 2013 and 2014 issued by (i) the Company, (ii) BSRE, of which we owned 63.71% of the shares as of March 31, 2015, and (iii) Dor Alon, of which we owned 78.43% of the shares as of March 31, 2015:

	December 31	
	2013	2014
	NIS in thousands	
Convertible debentures:		
Issued by BSRE	91,201	60,425
Less - current maturities	<u>29,715</u>	<u>29,686</u>
	<u>61,486</u>	<u>30,739</u>
Non-convertible debentures:		
Issued by the Company	306,563	342,416
Issued by BSRE	1,800,983	1,642,512
Issued by Dor Alon	<u>681,321</u>	<u>464,320</u>
	2,788,867	2,449,248
Less - current maturities	<u>580,639</u>	<u>437,249</u>
	<u>2,208,228</u>	<u>2,011,999</u>

Alon Blue Square Series A Debentures

In August 2003, we issued to institutional investors NIS 200 million in aggregate principal amount of unsecured 5.9% debentures. The debentures were linked (principal and interest) to the Israeli CPI, but in the event the Israeli CPI is less than the base index (index known at date of issuance), the amount of the debentures will not be adjusted below the base index. The principal was repayable in three equal annual installments, the last of which was on August 5, 2014.

Alon Blue Square Series C Debentures

In November 2010, we issued NIS 100 million in aggregate principal amount of Series C 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. All the debentures are linked (principal and interest) to the Israeli CPI, but in the event the Israeli CPI is less than the base index (index known at date of issuance), the amount of the debentures will not be adjusted below the base index.

On April 11, 2012, we issued additional Series C debentures in the framework of a private placement in the aggregate amount of NIS 35 million for an aggregate amount of NIS 31.3 million.

On July 10, 2013, we issued additional Series C debentures in the framework of a private placement in the aggregate amount of NIS 100 million for an aggregate amount of NIS 99.3 million.

On November 15, 2013, we issued additional Series C debentures in the framework of a private placement in the aggregate amount of NIS 62 million for an aggregate amount of NIS 63.9 million.

On April 3, 2014, the Series C debentures series was expanded by a private offering of NIS 150 million for an aggregate amount of NIS 151.9 million.

Ratings of Alon Blue Square Debentures

In March 2015, Midroog, an Israeli rating agency and 51% subsidiary of Moody's Investors Services Inc., decreased the rating of Series C Debentures from "A3/Negative" rating to "Baa1/Neutral-Negative".

BSRE Debentures

In August 2006, BSRE issued 2.5 million BRSE ordinary shares of NIS 1 par value each, together with NIS 100 million par value of registered BRSE Series A debentures, which are convertible into BSRE ordinary shares, and NIS 650 million par value of registered BSRE Series B debentures. In September 2008, BSRE completed the issuance of an additional NIS 125 million in principal amount of unsecured non-convertible (Series B) debentures to institutional investors. The terms of these debentures are identical to the terms of the non-convertible (Series B) debentures issued by BSRE in August 2006. Pursuant to a partial exchange tender offer, on January 27, 2014, BSRE completed the exchange of NIS 200 million par value of debentures (Series B) against the issuance of NIS 265.5 million par value of marketable debentures (Series E), which was effected as an expansion of Series E, with the same terms. The carrying amount of the liability relating to the exchanged debentures (series B) was NIS 238 million. The exchange is not considered substantive change in the terms of the debentures and therefore had no effect on the statement of income. In October 2009, BSRE issued NIS 300 million par value of registered Series C debentures. In July 2010, BSRE issued NIS 110 million par value of registered BSRE Series D debentures. During 2012 and 2013, the debentures (Series D) were expanded by several private offerings to institutional investors amounting to NIS 276 million and NIS 309 par value, respectively. Total net consideration received from such offerings, net of commissions to the institutional investors and distributors, amounted to NIS 439 million in 2013 and NIS 308 million in 2012. The annual effective interest rate payable on Series D debentures, taking into account the expansions and issuance expenses as above is 4.3%. On October 30, 2013, BSRE issued new Series E Debentures in the aggregate face amount of NIS 120 million for aggregate consideration of NIS 121.7 million.

BSRE Series A Debentures

The BSRE Series A debentures are to be redeemed in four equal annual installments on August 31 of each of the years 2013 to 2016. The Series A debentures are linked (principal and interest) to the known Israeli CPI and bear interest at an annual rate of 6.25%, which is payable semi-annually. The Series A debentures are convertible into BSRE ordinary shares from the date that they are first listed for trade on the stock exchange through August 16, 2016, except during the periods from August 17 through August 31 in each of the years 2013 to 2015. The conversion rate is subject to adjustments in the event of distribution of cash dividends. Until August 31, 2008, the conversion was effected at the rate of NIS 96.83 par value of registered Series A debentures (following adjustments due to distributions of cash dividends) for each ordinary share of NIS 1 par value; through August 16, 2016, the conversion rate is NIS 225.59 par value of registered Series A debentures (following adjustments due to distributions of cash dividends) for each ordinary share of NIS 1 par value.

BSRE Series B Debentures

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

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

BSRE Series C Debentures

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

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

BSRE Series D Debentures

The BSRE Series D Debentures are linked (principal and interest) to the Israeli CPI and bear fixed interest of 4.5%. The Debenture principal is to be redeemed in four equal annual payments, on June 30 in each of the years 2017 to 2020 (inclusive). The Debenture interest is payable 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 or another rating agency were to reduce the Company's rating to A3, the annual interest rate will increase by 0.35%. If the rating were to be reduced further, then the annual interest rate will increased by 0.35% multiplied by the number of notches that the Company's rating is reduced below A3.

BSRE Series E Debentures

The BSRE Series E debentures are to be redeemed in six non-equal annual installments on May 31 of each of the years 2018 to 2023, of which four installments each in the amount of 7.5% of the debentures' principal amount are to be redeemed on May 31 of each of the years 2018 to 2021, and two installments each in the amount of 35% of the debentures' principal amount are to be redeemed on May 31 of each of the years 2022 to 2023. The Series E debentures are linked (principal and interest) to the Israeli CPI and bear fixed interest of 3.3% which is payable semi-annually on May 31 and November 31 of each of the years 2014 to 2023. BSRE has committed not to create a current charge on its entire assets in favor of any third party to secure any debt or liability unless a consent of the Series E Debenture holders is obtained or provided that a current charge, of the same ranking is created on its entire assets in favor of the Series E Debenture Holders.

Rating of BSRE Debentures

On December 26, 2013, Midroog ratified the A1 rating on the debentures (series A to E) issued by BSRE, while maintaining the outlook at stable. On February 18, 2014, Midroog inserted BSRE Debentures into credit review with negative implications.

Dor Alon Debentures

In October 2004 a subsidiary of Dor Alon, Dor Energy Debenture Issue 1 Ltd. ("Dor Debenture"), issued debentures with a principal amount of NIS 74 million to institutional investors at their par value. In May 2005, a subsidiary of Dor Alon, Dorgas Batuchot Ltd. issued debentures with a par value of NIS 98 million. During 2005, Dor Alon issued approximately NIS 325 million principal amount of Series A convertible debentures (redeemed in full in May 2011) and NIS 200 million principal amount of Series B debentures. During 2006, Dor Alon issued an additional issuance of NIS 385 million principal amount of Series B debentures, which represented an increase of the Series B issue, and its terms are identical to the terms of the original Series B issue listed on the Tel Aviv stock exchange. In September 2009, Dor Alon completed a public issuance of a principal amount of NIS 81 million (before issuance costs) of Series C debentures and of a principal amount of NIS 139 million (before issuance costs) of Series D debentures.

On February 15, 2012, Dor Alon completed the issuance of an additional NIS 119.9 million in principal amount of Series D debentures to institutional investors in Israel in consideration for 100.95% of its par value, reflecting proceeds of 6.9%. On August 20, 2012, Dor Alon completed the issuance of an additional NIS 46 million in principal amount of Series D debentures to institutional investors in Israel in consideration for 101.08% of its par value, reflecting proceeds of 6.9%. On January 31, 2013, Dor Alon completed the issuance of an additional NIS 129 million in principal amount of Series D debentures to institutional investors in Israel, in consideration for 103.8% of its par value, reflecting proceeds of 5.2%. The terms of all these debentures are identical to the terms of the Series D debentures issued by Dor Alon in September 2009. On January 31, 2013, Dor Alon completed the issuance of an additional NIS 21 million in principal amount of Series C debentures to institutional investors in Israel, in consideration for 97.95% of its par value, reflecting proceeds of 5.3%. The terms of these debentures are identical to the terms of the Series C debentures issued by Dor Alon in September 2009.

Dor Alon Series B Debentures

The Dor Alon Series B Debentures 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 difference between the consideration that was related to the liability component at the time of issue, after the reduction of issue costs and the principal amount of the issue, reflecting the discount, is amortized over the term of the debentures using the effective interest rate basis. The total issue costs for the debentures amounted to NIS 8,034 thousand. The effective interest rate of the debentures, taking the above issue costs into account, is an annual rate of 6.65%.

Dor Alon Series C Debentures

The Dor Alon Series C Debentures bear the interest rate of Israeli government bonds (No. 817) plus 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.

Dor Alon Series D Debentures

Dor Alon Series D 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.

Dorgas Batuchot Ltd. Debentures

These debentures with a par value at the date of issue of NIS 96 million are linked (principal and interest to the Israeli CPI). The debentures bear a fixed rate of annual interest of 4.95%. The interest and principal is repayable in quarterly installments up to June 2020. Dorgas Batuchot debentures include a financial covenant requiring that the ratio between adjusted net income over the last 12 months from the liquefied petroleum gas activity and the quarterly payments of principal and interest on the debentures will be less than 1.05. As of December 31, 2014, Dor Debentures Dorgas Batuchot met the financial covenants relating to these debentures.

Dor Debentures

Dor Debentures issued two series of debentures to institutional investors:

Series 1 with a par value at the date of issue of NIS 13 million, which are linked (principal and interest) to the Israeli CPI. The debentures bear a fixed rate of annual interest of 6.45%. The interest and principal repaid in semi-annual equal payments on April 20 and October 20 up to 2016 (inclusive). As of December 31, 2014, Dor Debentures met the financial covenants relating to the series 1 debenture.

Series 2 with a par value at the date of issue of NIS 62 million are linked (principal and interest) to the Israeli CPI. The debentures bear a fixed rate of annual interest of 6.45% for a period of 15 years, of which NIS 27 million in principal amount is payable in 15 annual payments on April 20 in the years 2005 to 2019 (inclusive) and the balance of NIS 35 million in principal amount is payable in one payment on October 20, 2019. The interest on the principal amount of NIS 27 million is payable annually in the years 2005 to 2019 (inclusive) on April 20, and interest on the principal amount of NIS 35 million is payable semi-annually on April 20 and October 20 for the years 2005 to 2019 (inclusive).

Dor Debentures series 1 and series 2 debentures include financial covenants requiring that (i) the ratio between the EBITDA of 17 joint ventures and their financial expenses will not be less than 1.1, (ii) the ratio between adjusted net cash flow of 17 filling stations held by joint ventures and the financial expenses on loans from parent companies will not be less than 1.2, and (iii) the ratio between income of the Dor Debentures and the annual payments of principal and interest on the debentures will not be less than 1.09. As of December 31, 2014, Dor Debentures met the financial covenants relating to the series 1 and series 2 debentures.

Rating of Dor Alon Debentures

As of December 31, 2014, Dor Alon's Series B Debentures were unrated and Series C and D Debentures were rated A2 with a stable outlook, Dorgas Batuchot Debentures were rated Aa2, and the Dor Debentures were rated A2 with a stable outlook.

For additional information on charges pertaining to the collateralized long-term loans, see note 35 to our consolidated financial statements.

Commitments for Capital Expenditures

As of December 31, 2014, we had entered into agreements for investments in real estate, investment property, land and buildings, constructions work, fixtures, equipment and leasehold improvements in the total amount of approximately NIS 383.2 million, or \$98.5 million. We intend to finance these investments from cash generated by our operations and from loans from banks or other financial institutions.

C. Research and Development, Patents and Licenses.

Not applicable.

D. Trend Information.

Supermarkets

Based on data published by the Israeli Central Bureau of Statistics of the retail sales of food, drinks and tobacco in Israel, we estimate that approximately 29.7% of the total retail sales of food, beverages and tobacco in Israel in 2014 was made by the two large chains and approximately 29.5% of the estimated retail sales made by supermarkets, groceries and mini-markets in Israel in 2014 was made by the two large chains.

The food retailing industry has been subject to increased competition in recent years. We estimate that our market share of the total retail market of food, beverages and tobacco decreased to 10.2% in 2014 from 11.4% in 2013. The market share of our largest competitor, Shufersal, based on its financial reports, was approximately 19.5% of the total retail market of food, beverages, and tobacco in 2014, compared to 20.1% in 2013 (this calculation is based on the estimate of the Central Bureau of Statistics of the total retail market for food, beverages and tobacco, and our estimate for market growth of 3.5% in 2014). In 2014, very low-priced other supermarket chains continued to aggressively increase their market share and expand their presence in locations throughout Israel, often geographically beyond their original location. The increased competition has led to increased downward pressure on prices.

Additionally, according to Nielsen, the quantity of food, beverages, home products and near food products purchased by consumers in Israel declined by 1.4% in 2014 as compared to 2013. This trend has continued in the beginning of 2015 according to a report by Nielsen issued in March 2015. If Mega Retail continues to generate significant losses due to the difficult market conditions, it could have a material adverse impact on our liquidity.

In 2014, we opened three new supermarket stores to compete in selective areas in which we did not believe we had sufficient market presence. In addition, as part of our efficiency strategy, during 2014, we reduced by approximately 64,300 square meters our supermarket store space as a result of stores sold to third parties and the reduction of store space.

In recent years we have witnessed a global trend of supermarkets specializing in organic and health products. We own approximately 51% of the holdings of Eden Teva, which operates organic/health food supermarkets and caters to the growing local demand for organic, natural and health food.

Commercial and Fueling Sites

Dor Alon is the fourth leading company in Israel for the distribution of petroleum products, with 208 filling stations. The three largest companies in Israel distributing petroleum products have an aggregate of 755 filling stations. In addition, there are 140 filling stations operated by other smaller companies.

Dor Alon anticipates opening and operating an additional eight to ten commercial and filling stations during 2015 and 2016. Dor Alon has plans and agreements to plan, establish and operate additional filling stations, and these stations are currently in different stages of authorization and establishment.

Dor Alon intends to expand its market share as a supplier to natural gas industry. Dor Alon has entered into an agreement to purchase natural gas from Tamar Partnership in order to provide the energy requirements of Sugat. For further information see "Item 4. Information on the Company – B. Business Overview – Fueling and commercial sites – Other Activities." In addition, Dor Alon plans to expand its independent convenience stores chain outside of the filling stations.

Real Estate

The shopping centers industry is more moderately affected by macroeconomic changes, but is not immune to changes in the dynamic environment. There is currently a high demand for existing space in malls and shopping centers; however a slowdown in the economic growth and an increase in living costs may reduce the demand for new commercial space. In addition, shopping centers are considered to be immune because they have a large dispersion of tenants, are a preferred alternative for recreation and leisure time for families and there is a low impact of the store income on rent payments therefore there is stability in proceeds.

The average occupancy in shopping centers in 2014 was over 95% in the Tel Aviv area. New shopping centers are expected to open in 2015, such as "Sharona Market" in Tel-Aviv, expansion of the Ayalon Mall in Ramat Gan, and other shopping malls in the Tel-Aviv area, including the fashion mall being built by BSRE and Gindi in the Wholesale Market in Tel Aviv for which BSRE is pre-marketing store space for international brands.

The change in the tenant mix in shopping centers which is characterized by the exit of food chains and entry of international fashion chains lead to an increase in the operating profit, while maintaining high occupancy rates.

Beginning as of the last quarter of 2012 and through 2014, there was an increase in shopping centers, resulting in a downward pressure on prices. Additionally, there is an increase in the rate of building starts, especially in the periphery of Israel and not only in the center of Israel. In the coming years, a number of new shopping malls are planned to be opened, which will enhance competition. Moreover, new neighborhood commercial centers are expected to be built and serve as an anchor for local commercial activities. BSRE expects that the sturdiness of the shopping centers sector will remain strong compared to a relative weakness in the offices industry.

E. Off-Balance Sheet Arrangements.

None.

F. Tabular Disclosure of Contractual Obligations.

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

	2015	2016	2017	2018	2019	2020	2021 and thereafter	Total
Long term loans from banks (1)	283,342	359,018	271,356	142,704	87,925	131,849	259,414	1,535,609
Non Convertible Debentures issued by the Company (2)	45,123	45,123	45,123	45,123	45,123	45,123	90,245	360,983
Non-Convertible Debentures issued by BSRE (3)	175,325	175,325	277,007	306,049	216,507	216,507	300,099	1,666,819
Convertible Debentures issued by BSRE (3)	29,686	30,738	-	-	-	-	-	60,424
Non-Convertible Debentures issued by Dor Alon (4)	213,238	141,272	31,216	11,151	56,357	4,840	-	458,074
Loan from related party	-	-	-	-	-	-	2,870	2,870
Loan from others	-	-	-	31,944	31,944	31,944	63,638	159,470
Short term credit from banks (5)	663,428	-	-	-	-	-	-	663,428
Commercial paper (6)	111,198	-	-	-	-	-	-	111,198
Purchase Obligations	1,795	-	-	-	-	-	-	1,795
Non-cancelable Long term leases (7)	392,164	347,005	318,572	265,271	203,835	139,412	481,263	2,147,521
Total contractual cash obligations	1,915,296	1,098,480	943,275	802,244	641,691	569,677	1,197,529	7,168,192

- (1) The table above does not include payments of interest on our long-term loans because the actual interest payments on most of the loans are dependent on variable parameters, such as changes in the Israeli CPI, or variable interest rates which cannot be predicted at the date of this report. Without taking into account any changes in the Israeli CPI or changes in foreign currency rates and assuming the relevant variable interest rate will remain at its level as it was as of December 31, 2014 (3.65% per annum), interest payments on the long term loans (in thousands) would be, NIS 55,985 in 2015, NIS 46,188 in 2016, NIS 34,050 in 2017, NIS 24,808 in 2018, NIS 19,159 in 2019, NIS 15,401 in 2020 and NIS 10,409 in 2021 and beyond.
- (2) These debentures bear interest at an annual rate of 2.5% and are linked (principal and interest) to the Israeli CPI but in the event the Israeli CPI is less than the base index (index known at the date of issuance), the amount of debentures will not be adjusted below the base index. Without taking into account any changes to the Israeli CPI, interest payments on the Non-Convertible Debentures (in thousands) would be NIS 9,025 in 2015, NIS 7,896 in 2016, NIS 6,768 in 2017, NIS 5,640 in 2018, NIS 4,512 in 2019, NIS 3,384 in 2020 and NIS 6,768 in 2021 and beyond. The table above does not include payments of interest on our debentures because the actual interest payments on these debentures will depend on changes in the Israeli CPI, which cannot be predicted at the time of this report. The principal is repayable in twelve equal annual installments on November 4 of each of the years 2011 to 2022 (inclusive)
- (3) The Non-Convertible Debentures and the Convertible Debentures (Series A, Series B Series C, Series D and E) bear interest at an annual rate of 6.25%, 4.7%, 4.2%, 4.5 % and 3.3%, respectively, and are linked (principal and interest) to the Israeli CPI, but in the event the Israeli CPI is less than the base index (index known at date of issuance), the amount of debentures will not be adjusted below the base index. Without taking into account any changes to the Israeli CPI, interest payments on the Non-Convertible Debentures (in thousands) would be NIS 70,280 in 2015, NIS 62,162 in 2016, NIS 54,044 in 2017, NIS 41,847 in 2018, NIS 28,692 in 2019, NIS 19,298 in 2020 and NIS 9,903 in 2021 and beyond. Without taking into account any changes to the Israeli CPI, based on the principal amount of the Convertible Debentures as of December 31, 2014 and assuming no additional conversion of debentures, interest payments on the Convertible Debentures (in thousands) would be NIS 3,777 in 2015, and NIS 1,921 in 2016. The table above does not include payments of interest on our debentures because the actual interest payments on these debentures will depend on changes in the Israeli CPI, which cannot be predicted at the time of this report.

- (4) The Non-Convertible Debentures and the Convertible Debentures (Series B, Series C, Series D, DorGas and Dor Debentures) bear interest at an annual rate of 5%, 2.5%, 6.65%, 4.95% and 6.45%, respectively, and Series B linked (principal and interest) to the Israeli CPI, but in the event the Israeli CPI is less than the base index (index known at date of issuance), the amount of debentures will not be adjusted below the base index and Series C bears interest of government bonds+2.25%. Without taking into account any changes to the Israeli CPI and interest of government bonds, interest payments on the Non-Convertible Debentures (in thousands) would be NIS 25,836 in 2015, NIS 13,840 in 2016, NIS 5,438 in 2017, NIS 4,352 in 2018, NIS 3,754 in 2019, NIS 240 in 2020 and NIS 0 in 2020 beyond.
- (5) The table above does not include interest on our short term credit from banks (2014: 3.5%- per year).
- (6) On June 30, 2009, the Company issued commercial paper to institutional investors in an amount of NIS 40 million for a period of four years. The commercial paper bears annual interest at a variable rate equal to the Bank of Israel Interest Rate plus 1.5%, payable semi-annually beginning on December 30, 2009. The commercial paper was redeemed in full in July, 2013. In August 2012 the Company issued commercial paper to institutional investors in an amount of NIS 71 million for a period of five years. The commercial paper bears annual interest at a variable rate equal to the Bank of Israel Interest Rate plus 1.85%, payable quarter-annually beginning on November 2012. The average annual interest rate for the three months ended December 31, 2014 was 2.4%. Therefore, the table above does not include the amount of interest on commercial paper. The principal of the commercial paper is redeemable every three months at the demand of one of the parties, but in any event, the last redemption date of the principal was July 2012. In addition, in June 2013 the Company issued commercial paper to institutional investors in an amount of NIS 45 million for a period of five years. The commercial paper bears annual interest at a variable rate equal to the Bank of Israel Interest Rate plus 1.80%, payable quarter-annually beginning on November 2012. The average annual interest rate for the three months ended December 31, 2014 was 2.4%. Therefore, the table above does not include the amount of interest on commercial paper. The principal of the commercial paper is redeemable every three months at the demand of one of the parties, but in any event, the last redemption date of the principal will be July 2017.
- (7) Includes mainly apartment lease arrangements.
- * The table above does not include severance payment obligations because the actual severance payments will depend on the dates of payment, which cannot be predicted at the time of this report. As of December 31, 2014, the Company had severance payment obligations in an amount of NIS 517 million and a severance payment fund in an amount of NIS 458 million.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management.

The following table lists the name, age and position of the directors and senior management of Alon Blue Square and four officers of our subsidiaries as of March 31, 2015.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Amit Ben Itzhak	52	Chairman of the Board of Directors and Director
Avigdor Kaplan	75	Chief Executive Officer and director
David Wiessman	61	Director
David Alphandary (1) (2)	79	Director
Uzi Baram (1) (2) (3)	77	Director
Avraham Meron (1) (3)	75	Director
Mordehay Ventura	60	Director
Mr. Tal Yeshua	57	Director
Dr. Dan Weiss	52	Director
Yonel Cohen	55	Director
Avshalom Haran	57	Alternate Director
Dana Shlezinger	42	Director
Yehuda van der Walde	43	Chief Financial Officer
Ortal Klein	46	Corporate Secretary & Legal Counsel
Daniel Garabagi	51	Head of Information Technology Division
Motti Keren	51	Chief Executive Officer of Mega Retail
Zeév Stein	61	Chief Executive Officer of Blue Square Real Estate Ltd.
Israel Yaniv	68	Chief Executive Officer of Dor Alon
Oded Blum	50	co – Chief Executive Officer of Dor Alon
Raviv Brookmayer	58	Chief Executive Officer of Naaman Group

(1) Member of the Compensation Committee, Audit Committee and Compliance Committee.

(2) External director.

(3) Member of the Corporate Governance Committee.

Amit Ben Itzhak has served as our Chairman of the Board since December 2014. He currently serves as Acting Chairman of the Granot Corporation and as Chairman of Hamashbir Agriculture Ltd. ("Hamashbir"), an Israeli agricultural supply company. From 2008 -2013, Mr. Ben Itzhak served as Chief Executive Officer of Hamashbir. From 2005 – 2008, Mr. Ben Itzhak served as Chief Financial Officer of Tnuva Corporation, a leading food group in Israel, and from 2002 to 2005, Mr. Ben Itzhak served as Chief Executive Officer of Granot. Mr. Ben Itzhak was also Co – Founder, Chief Executive Officer, and Chairman of Zap Computing Ltd. from 2001 to 2005. Mr. Ben Itzhak has a B.A in Economics and Business Administration from the Ruppin Academic Center and an M.B.A (with honors) from the Hebrew University of Jerusalem.

Avigdor Kaplan has served as a member of the board of directors of the Company since February of 2015 and as CEO of the Company since March 29, 2015. Mr. Kaplan has also served as CEO of Alon Israel Oil Company Ltd. since January 2015. From June 2013 to June 2014, he served as the Director General of Hadassah Medical Organization. From June 2008 to May 2013, Mr. Kaplan served as the Chairman of the Board of Clal Insurance Group, and from May 1997 to May 2008, he served as CEO of the Clal Insurance Group. Mr. Kaplan holds a B.A. in Economics and Statistics from The Hebrew University, a Diploma in Business Administration from The Hebrew University, an M.sc in Industrial Engineering from Technion, and a PhD in Health Sciences from Ben Gurion University.

David Wiessman has served as our director since 2003. Mr. Wiessman served as our Executive Chairman of the Board of Directors from November 2005 until January 2013, and served as our Chief Executive Officer and Chief Operating Decision Maker until mid-March 2015. Mr. Wiessman is also the Chairman of the board of directors of BSRE since December 21, 2005 and serves as a director in Mega Retail, Alon Israel Oil Company Ltd., as well as in other companies within the Alon Group. In addition, Mr. Wiessman is currently the Chief Executive Officer of Bielsol Investments (1987) Ltd., Executive Chairman of Alon U.S.A. Energy, Inc. and Alon USA Partners GP, LLC. In addition, Mr. Wiessman also serves as a director in other companies not affiliated with Alon Israel Oil Company Ltd., or with Alon USA Inc.

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

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

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

Mordehay Ventura has served as our director since March 22, 2012. Mr. Ventura has served as Chief Executive Officer of the Mishkey Hadarom Aguda Haklait Shitufit Ltd. (Mishkey Hadarom) since 2004, and currently serves as a director in Oil Holdings (Founded by the Kibbutzim Organizations) Ltd., Alon Israel Oil Company Ltd., Dor Alon Energy in Israel (1988) Ltd., Dor Alon Retail Sites Management Ltd., Gan Smuel Mazon Ltd., Ganir (1992) Ltd., Hadarey Nitzanim Aguda Haklait Shitufit Ltd., Sivey Hadarom (S.D.) Ltd., Hanegev Aguda Haklait Shitufit Transport Company Ltd., Megadley Drom Yehuda Aguda Haklait Shitufit Ltd., Shkedey Drom Yehuda Aguda Haklait Shitufit Ltd., Zeitey Drom Yehuda Aguda Haklait Shitufit Ltd., Hazera (1939) Ltd., Megadley Zraim Ltd., the Egg and Poultry Board, Amal Darom Aguda Haklait Shitufit Ltd., Marbek Services and assets (2002) Ltd., Mishkey Dan Partnership, Dana Finance Services Ltd., Amber Machon Letaarovet Aguda Haklait Shitufit Merkazit Ltd., Alon USA Partners LP and Tnuva Holdings. Mr. Ventura holds a B.A. degree in Economics and Business Administration from the Rupin Academic Center in the Hefer Valley in Israel.

Tal Yeshua has served as our director since February 11, 2015. He has served as the Chairman of Mishkey Emek Hayarden & Zemach Mifalim, a concern of various kibbutzim, since last year, and since 2007 has been an owner and Chairman of Travelers Hotels Ltd., a chain organizing accommodations for travelers. Mr. Yeshua also serves as a director of Alon Israel Oil Company Ltd. From 2007 to 2014, Mr. Yeshua served as Chairman of Amiad Water Systems, a global producer of filtration systems traded on AIM, the international market of the London Stock Exchange for smaller growing companies, and from 2002 and to 2010, Mr. Yeshua served as Chairman of Termokir Ltd., a factory owned by Kibbutz Horshim in the dry mixtures business for the building industry. From 2006 to 2008, Mr. Yeshua served as Chairman of Asiv Textile Industries Ltd., owned by Kibbutz Afek in the knit fabrics business for the garment and home textile industries. Mr. Yeshua has an Executive MBA from Tel Aviv University, a B.A. in Society and Management from the Open University and a dia in Practical Computer Engineering from Ruppim College.

Dan Weiss has served as our director since August 2014. Mr. Weiss has been a faculty member of the Recanati Business School at the Tel Aviv University, since 2003. Mr. Weiss also serves as a director in Alon Israel Oil Company Ltd and Mega Retail. Mr. Weiss is a certified CPA, holds a B.Sc.I.E in Industrial Engineering and Management from the Technion – Israel Institute of Technology, an MBA from the Tel Aviv University, and a PhD in Managerial Economics from the Tel Aviv University.

Yonel Cohen has served as our director since August 2014. Mr. Cohen is the chairman of the Board of Directors of Bielsol Investments (1987) Ltd., which is the largest shareholder of Alon Israel Oil Company Ltd. . Mr. Cohen serves as a director in various companies within the Alon Israel group, including Alon Israel Oil Company Ltd., and Alon Natural Gas Explorations Ltd. Mr. Cohen also serves as the Chairman of the Board of Directors of Golden House Ltd., a company traded on the Tel Aviv Stock Exchange, Tamir Fishman Investment House and as a director in several other private companies. Mr. Cohen has served as the Chief Executive Officer of Migdal Group from 2008 to 2013, which is the largest insurance group in Israel. Mr. Cohen holds a bachelor of Sciences in Mathematics and Computer Sciences from the Tel Aviv University.

Avshalom Haran has served as the CEO of Mishkei Hakibutzim, which concentrates the purchasing power of the kibbutz movement in Israel via a number of independent companies owned by the group since 2012, and from 2006 to 2012, he served as CEO of Meser, which competes with the Israel Postal Company in the distribution of business mail. From 2006 to 2009, Mr. Haran served as Chairman of Kibbutz Be'eri and from 2003 to 2006, he served as CEO of Kibbutz Be'eri. Mr. Haran has a B.A. in Agriculture Economy from the Hebrew University and an Executive MBA from the Tel Aviv University. Mr. Haran was chosen Mr. Rubenstein as his alternative director in accordance with Israeli law due to Mr. Rubenstein's hospitalization.

Dana Shlezinger has served as our director since March 29, 2015. Since 2012, Ms. Shlezinger has served as a Director in the Management Committee of Dshen Ha'zafon Fertilizers Ltd. since 2012. Since 2009, Ms. Shlezinger has served as Chief Financial Officer (Head of Finance and Trade) of Mishkei Hamifratz Central Agricultural Cooperative, Ltd. ("Milouot"), and since 2011, Ms. Shlezinger has served as an External Director and Chairperson of the Financial Statements Committee, as well as a member of both the Audit Committee and Strategic Planning Committee of TASE-traded Golan Plastic Products Ltd. From 2004 to 2009, Ms. Shlezinger served as the Chief Financial Officer of Friedrich Plastic Industry Ltd., and from 2003 to 2004 she worked at Ernst& Young Israel, as an External Auditor. Ms. Shlezinger is a certified CPA (ISR) from the Ruppin Academic Center, Israel, and holds a BA in Economics from Ruppin Academic Center, Israel.

Yehuda van der Walde has served as our Chief Financial Officer since November 2013. Mr. van der Walde has also served as the Chief Accounting Officer from June 2012 to November 2013. From December 2007 until June 2012, Mr. van der Walde has served as controller of the Company and Mega Retail. Mr. van der Walde holds a B.A degree in Accounting and Economy and an M.A in Accounting, both from Bar Ilan University and is a Certified Public Accountant in Israel.

Ortal Klein, Adv. has served as our Corporate Secretary since March 2011. Ms. Klein has also served as the General Counsel and Corporate Secretary of Alon Israel Oil Company since May 1997 and the General Counsel and Corporate Secretary of Dor Alon and its subsidiaries since 2000. Ms. Klein holds a LLB from Tel Aviv University and a LLM in commercial Law from Bar Ilan University. Ms. Klein tendered her resignation to the Company on April 19, 2015, effective as of May 31, 2015.

Daniel Garabagi has served as our Vice President and head of the Information Technology Division since April 2012. Mr. Garabagi served as Vice President of Information Technology in Strauss Group, one of the largest food companies in Israel, from 2004 to 2012. Prior to that, he served as manager of Information Technology in Strauss Group from 2000 to 2004. Mr. Garabagi holds a B.A. in Mathematics and Computer Science from the Haifa University.

Motti Keren has served as the Chief Executive Officer of Mega Retail since January 2013. From 2011 to 2012, Mr. Keren served as the President of Unilever Central Europe. From 2005 to 2010, Mr. Keren served as the CEO and Chairman of Unilever Israel, and from 2001 to 2004 Mr. Keren served as the Supply VP of Unilever Israel. Mr. Keren holds a BA in Economics and an MBA from Tel Aviv University in marketing and finance.

Ze'ev Stein has served as the Chief Executive Officer of BSRE, since July 2006. Mr. Stein also serves as a director in various companies affiliated with Alon Group. Mr. Stein holds a B.Sc. degree in Civil Engineering and a degree in Architecture and Urban Design Planning from the Technion (Israel Institute of Technology) in Haifa.

Israel Yaniv has served as the Chief Executive Officer of Dor Alon since 2000. Mr. Yaniv holds a BSc and MSc in Chemical Engineering from the Technion in Haifa.

Oded Blum has served as co-Chief Executive Officer of Dor Alon since June 2014. Mr. Blum previously served as Chief Executive Officer of Dor Alon Retail Sites Management Ltd. He holds a B.A in Economics and Accounting from the Hebrew University in Jerusalem, and is a Certified Public Accountant in Israel.

Raviv Brookmayer has served as the Chief Executive Officer of Naaman Group since, September 2012. Mr. Brookmayer served as Chief Executive Officer of Home Center (DIY) Ltd. Prior to that, he served as Chief Executive Officer of Ten Petroleum Company Ltd. from 2007-2009. Mr. Brookmayer holds a B.A. in Business and Administration and an MBA from Derby University.

Termination of Office

Itzhak Bader served as our Chairman of the Board until the second half of 2014. Limor Ganot served as our Co- CEO until December 24, 2014. David Wiessman served as our CEO and CODM until March 2015, and Mr. Shlomo Even served as a member of our Board of Directors until March 2015. Diana Bogoslavsky served as a member of our Board of Directors until February 2015.

Arrangements for the Election of Directors

As of March 31, 2015, Alon, directly and indirectly through Alon Retail, owned approximately 72.71% of our outstanding ordinary shares. So long as Alon continues to own beneficially more than 50% of our outstanding ordinary shares and voting power, it will be able to control the outcome of matters requiring shareholder approval that do not require a special majority, including the election of all our directors, other than our two external directors. The election of the external directors requires that at least a majority of the votes of the shareholders who are not controlling shareholders and do not have a personal interest in the appointment (excluding a personal interest which did not result from the shareholder's relationship with the controlling shareholder) who participate in the vote, vote for their nomination (without taking into account abstentions), or that the total number of shares voted against the proposal by shareholders who are not controlling shareholders and do not have a personal interest does not exceed two percent of the aggregate voting rights in the Company.

B. Compensation

The table and summary below outline the compensation granted to our five highest compensated directors and officers during the year ended December 31, 2014. The compensation detailed in the table below refers to actual compensation granted or paid to the director or officer during the year 2014.

Name and Position of director or Officer	Salary or Other Payment (1)	Value of Social benefits (2)	Bonuses	Value of Equity Based Compensation Granted (3)	All Other Compensation (4)	Total
Amounts in \$US dollars are based on representative U.S. dollar – NIS rate of exchange on December 31, 2014						
Israel Yaniv (6)	381,562	54,632	181,558			617,752
Zeév Stein (6)	382,688	57,148	138,796			578,632
Motti Keren (6)	465,309	78,992	-			544,301
Raviv Brookmayer (6)	311,177	70,377	-			381,554
Oded Blum (6)	231,112	37,847	70,969			339,928

- (1) "Salary or Other Payment" means the aggregate yearly gross monthly salaries or other payments with respect to the Company's Executive Officers and members of the Board of Directors for the year 2014.
- (2) "Social Benefits" include payments to the National Insurance Institute, advanced education funds, managers' insurance and pension funds; vacation pay; and recuperation pay as mandated by Israeli law.
- (3) Consists of the fair value of the equity-based compensation granted during 2014 in exchange for the directors and officers services recognized as an expense in profit or loss and is carried to accumulated deficit under equity. The total amount recognized as an expense over the vesting period of the options.
- (4) "All Other Compensation" includes, among other things, car-related expenses (including tax gross-up), communication expenses, basic health insurance, and holiday presents.
- (5) See below for more information regarding terms of employment.

The following table sets forth the aggregate compensation we paid or accrued on behalf of all persons who served as our directors or senior management for services they rendered us and our subsidiaries, for the year ended December 31, 2014. The table also includes compensation to individuals who ceased to serve as directors or executive officers during the year.

	<u>Salaries, fees, expenses, directors' fees, commissions and bonuses</u>	<u>Pension, retirement and similar benefits</u>
	(in millions)	(in millions)
All directors, senior management and Acting Chairman as a group	\$ 4.9 (NIS 19.1)	\$ 0.4 (NIS 1.7)

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

We also agreed to pay David Wiessman, a director and our former Chief Executive Officer, a monthly payment of NIS 42,456 plus VAT commencing from November 15, 2005, the date Mr. Wiessman became Executive Chairman of the board of directors. The compensation is linked to changes in Israel's CPI since November 2005, and is updated every three months (therefore the currently monthly amount is NIS 50,943). No additional fees are paid to Mr. Wiessman for attending meetings of the board of directors or any committee of the board of directors. Mr. Wiessman is also entitled to reimbursement of actual expenses (upon submission of receipts) incurred by him in connection with his service as Chief Executive Officer and Chief Operating Decision Maker. In September 2013 the shareholders re-approved this arrangement following the approval of our compensation committee and board of directors. Since his departure in mid-March 2015, the Company no longer pays Mr. Wiessman the compensation mentioned above.

BSRE incurred compensation costs of approximately NIS 1,831,000 for its CEO, Mr. Zeev Stein, for the year 2014 plus an annual bonus of NIS 612,000 to be paid subject to shareholder approval. Under his employment agreement, Mr. Stein is entitled to a salary and customary fringe benefits, including a car lease and social benefits. In addition, Mr. Stein is entitled to severance compensation in excess of that which is required under law (200% of required severance in the case of dismissal and 175% of required severance in case of voluntary termination by Mr. Stein). Mr. Stein holds 0.22% of BSRE's issued and outstanding shares, following the exercise of options granted to him under BSRE's option plan.

Mega Retail incurred compensation costs of approximately NIS 2,117,000 for its CEO, Mr. Motti Keren, for the year 2014. Mr. Keren is entitled to an annual bonus of between four and 12 monthly salaries. In 2015, Mr. Keren received four monthly salaries for each of the years 2013 and 2014. His employment is for three years commencing January 2013, and the agreement is automatically for one years period unless either party provides six months' notice to the other. Under his employment agreement, Mr. Keren is entitled to a salary and customary fringe benefits, including a car lease and social benefits. In the event of termination, Mr. Keren is entitled to a notice period of six months, severance compensation in excess of that which is required under law (200% of required severance in the case of dismissal and 175% of required severance in case of voluntary termination by Mr. Keren) and "garden leave" (12 months in case of dismissal or six months in case of voluntary termination by Mr. Keren following appointment of new chairman of the board of Mega Retail). An election by Mega Retail not to renew Mr. Keren's employment following expiration of the agreement is deemed to be dismissal.

Dor Alon incurred compensation costs of approximately NIS 1,757,000 for its CEO, Mr. Israel Yaniv, for the year 2014 plus an annual bonus of NIS 706,000 on account of 2013. Under his employment agreement, Mr. Yaniv is entitled to an annual bonus equal to no more than eight monthly salaries, at the discretion of Dor Alon's board of directors. Subject to approval of Dor Alon's shareholders, Mr. Yaniv is entitled to an annual bonus of NIS 630,000 for the year 2014. In the event of termination of Mr. Yaniv's employment with Dor Alon, he is entitled to a notice period of 10 months and to a severance package equal to one and a half months' salaries for every year of employment, other than in those situations where Dor Alon would not be required to pay severance under the law.

Dor Alon appointed Mr. Oded Blum to serve as co – CEO effective June 1, 2014. Mr. Blum has been employed by Dor Alon pursuant to an employment agreement dated September 1999, as amended. This employment agreement can be terminated by either party upon provision of a 120 day prior notice. Under his employment agreement, Mr. Blum is entitled to a monthly salary of NIS 66,300, and is covered by the Company's professional insurance coverage and indemnification undertakings. Subject to approval of Dor Alon's shareholders, Mr. Blum is entitled to an annual bonus of NIS 276,000 for the year 2014.

Naaman Group agreed to pay its CEO, Mr. Raviv Brookmayer a monthly payment of NIS 84,000 plus an extra monthly salary. Under his employment agreement, Mr. Brookmayer is entitled to a salary and customary fringe benefits, including a car lease, cell phone, a home phone line at the expense of Naaman Group up to a cap set in the employment agreement, social benefits and reimbursement of actual expenses incurred by him in connection with his service as CEO. Mr. Brookmayer will also be entitled as of 2013 to an annual bonus of up to NIS 850,000 for every calendar year of employment and subject to Naaman Group financial results targets. Mr Brookmayer's bonus for the fiscal year 2014 was NIS 109,000. In the event of termination of employment, Mr. Brookmayer's is entitled advance notice of 90 days, severance pay as required by law, and three to six months of "garden leave," subject to the terms and conditions set forth in his employment agreement.

During 2010, our controlling shareholder, Alon, granted an option to D.B.W Investments Ltd. a company controlled by Mr. David Wiessman, our former Chief Executive Officer and Chief Operating Decision Maker, and our former Executive Chairman of the Board and one of our current directors, to purchase 1,308,808 of our shares held by Alon. The option is exercisable in five equal portions at the end of each calendar year from 2010 until 2014 and for a period of 18 months from the time each portion vests. In addition, Alon granted Mr. Wiessman an option to convert his direct holdings in Alon (2.71% of outstanding shares) into 1.06% of the outstanding ordinary shares of Alon Blue Square. In December 2012, Mr. Wiessman exercised the option, pursuant to which he held approximately 1.06% of the outstanding shares of Alon Blue Square. Mr. Wiessman sold in an off-market transaction on December 17, 2014, an aggregate number of 699,100 of our ordinary shares, at a price of NIS 10.37 per share, for an aggregate consideration of NIS 7,249,667.

On September 30, 2013, our shareholders approved the adoption of a compensation policy applicable to Company officers and directors. For further information, see "Item 10. Additional Information – B. Memorandum and Articles of Association – Compensation Policy."

C. Board Practices

Appointment of Directors and Terms of Officers

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

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

Under the Israeli Companies Law, the entering by a public company into a contract with a non-controlling director as to the terms of his or her office, including exculpation, indemnification or insurance, requires the approval of the compensation committee, the board of directors and the shareholders of the Company.

The appointment and terms of office of all our officers, other than directors and the general manager (Chief Executive Officer), are determined by the general manager, subject to the approval of our board of directors and our compensation committee and subject to our Compensation Policy approved by our shareholders.

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

Substitute Directors

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

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

Independent and External Directors

Israeli Companies Law Requirements

We are subject to the provisions of the Israeli Companies Law. The Israeli Minister of Justice has adopted regulations exempting companies, like Alon Blue Square, whose shares are traded outside of Israel, from some provisions of the Israeli Companies Law.

Under the Israeli Companies Law, companies incorporated under the laws of Israel whose shares are either (i) listed for trading on a stock exchange or (ii) have been offered to the public in or outside of Israel, and are held by the public (Public Company) are required to appoint at least two external directors. The Israeli Companies Law provides that a person may not be appointed as an external director if the person is a relative of the controlling shareholder or if the person or the person's relative, partner, employer, someone to whom he or she is subordinated directly or indirectly or any entity under the person's control, has, as of the date of the person's appointment to serve as external director, or had, during the two years preceding that date, any affiliation with us, our controlling shareholder, any relative of our controlling shareholder, as of the date of the person's appointment to serve as external director, or any entity in which, currently or within the two years preceding the appointment date, the controlling shareholder was the company or the company's controlling shareholder; and in a company without a controlling shareholder or without a shareholder holding 25% or more of the voting rights in the company – any affiliation to the chairman of the board of directors, to the general manager (Chief Executive Officer), to a shareholder holding 5% or more of the company's shares or voting rights, or to the chief officer in the financial field as of the date of the person's appointment. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and

- service as an office holder, other than service as a director who was appointed in order to serve as an external director of a company when such company was about to make an initial public offering.

Under the Israeli Companies Law, an “office holder” is defined as a general manager, chief business manager, deputy general manager, vice-general manager, any person filing any of these positions in a company even if he or she holds a different title, director or any manager directly subordinate to the general manager.

Without derogating from the above, a person may not serve as an external director if the person or the person’s relative, partner, employer, someone to whom he or she is subordinated directly or indirectly or any entity under the person’s control has business or professional relationship with an entity with which an affiliation is prohibited as detailed above, even if such relationship is not on a regular basis (excluding negligible relationship). In addition, a person who received compensation other than the compensation permitted by the Israeli Companies Law may not serve as an external director.

Regulations under the Israeli Companies Law provide for various instances and kinds of relationships in which an external director will not be deemed to have an “affiliation” with the public company for which he or she serves.

No person can serve as an external director if the person’s positions or other businesses create, or may create, a conflict of interests with the person’s responsibilities as a director or may impair his or her ability to serve as a director. In addition, a person who is a director of a company may not be elected as an external director of another company if, at that time, a director of the other company is acting as an external director of the first company. Until the lapse of two years from termination of office, a company, its controlling shareholder, or a company controlled by its controlling shareholder may not engage an external director, or his spouse, or his child to serve as an office holder in the company or in any entity controlled by the controlling shareholder and cannot employ or receive professional services for consideration from that person, and may not grant such person any benefit either directly or indirectly, including through a corporation controlled by that person. The same restrictions above apply to relatives other than a spouse or a child, but such limitations shall only apply for one year from the date such external director ceased to be engaged in such capacity. In addition, if at the time an external director is appointed all the current members of the board of directors, who are neither controlling shareholders nor relatives of controlling shareholders, are of the same gender, then the external director to be appointed must be of the other gender.

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

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

External directors are to be elected by a majority vote at a shareholders’ meeting, provided that either (1) the majority of shares voted at the meeting, including at least a majority of the votes of the shareholders who are not controlling shareholders (as defined in the Israeli Companies Law) and do not have a personal interest in the appointment (excluding a personal interest which did not result from the shareholder’s relationship with the controlling shareholder), vote in favor of the election of the director without taking abstentions into account; or (2) the total number of shares of the abovementioned shareholders voted against the election of the external director does not exceed two percent of the aggregate voting rights in the company.

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

An external director is entitled to compensation and reimbursement of expenses in accordance with regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with serving as a director except for certain exculpation, indemnification and insurance provided by the company.

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

New York Stock Exchange Requirements

See below “Item 6. Directors, Senior Management And Employees – C. Board Practices – Audit Committees – New York Stock Exchange Requirements” for a description of the independence requirements for audit committee members under applicable NYSE rules.

Audit Committees

Israeli Companies Law Requirements

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

The majority of the members of the audit committee, as well as the majority of members present at audit committee meetings, must be “independent” (as such term is defined below) and the chairman of the audit committee must be an external director. In addition, the following are disqualified from serving as members of the audit committee: the chairman of the board of directors, the controlling shareholder and his relatives, any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, a director who regularly provides services to the company or to its controlling shareholder or to an entity controlled by the controlling shareholder, and any director who derives most of their income from the controlling shareholder.

An “Independent Director” is defined as an external director or a director who meets the following conditions: (i) satisfies certain conditions for appointment as an external director (as described above) and the audit committee has determined that such conditions have been met and (ii) he or she has not served as a director of the company for more than nine consecutive years, with any interruption of up to two years in his or her service not being deemed a disruption in the continuity of such service.

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

Additional functions to be performed by the audit committee include, among others, the following: determination whether certain related party actions and transactions are “material” or “extraordinary” for purposes of the requisite approval procedures; to assess the scope of work and compensation of the company’s independent accountant; to assess the company’s internal audit system and the performance of its internal auditor and if the necessary resources have been made available to the internal auditor considering the company’s needs and size; to determine arrangements for handling complaints of employees in relation to flaws in the business management of the company and the protection for such employees; and to determine whether certain related party actions and transactions are “material” or “extraordinary” for the purpose of the requisite approval procedures under the Companies Law, whether certain transactions with a controlling shareholder will be subject to a competitive procedure (regardless of whether or not such transactions are deemed extraordinary transactions) and to set forth the approval process for transactions that are “non-negligible” (i.e. transactions with a controlling shareholder that are classified by the audit committee as non-negligible, even though they are not deemed extraordinary transactions), as well as determining which types of transactions would require the approval of the audit committee, optionally based on criteria which may be determined annually in advance by the audit committee.

New York Stock Exchange Requirements

Under New York Stock Exchange rules, we are required to maintain an audit committee consisting only of independent directors.

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

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

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

Corporate Governance Practices

Internal Auditor

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

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

Fiduciary Duties of Office Holders

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

- The duty of care includes a duty to use reasonable means to obtain information on the appropriateness of a given action brought for their approval or performed by them by virtue of their position and all other important information pertaining to the previous actions.
- The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, and includes a duty to: (i) refrain from any action involving conflict of interest between the performance of their duties in the company and their personal affairs; (ii) refrain from any activity that is competitive with the company's business; (iii) refrain from usurping any business opportunity of the company to receive a personal gain for themselves or others; and (iv) disclose to the company any information or documents relating to a company's affairs which the office holder has received due to his position as an office holder.

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

The Israeli Companies Law requires that an office holder of a company promptly and, in any event, not later than the first board meeting at which the transaction is discussed, disclose any personal interest that they may have and all related material fact or document known to them, in connection with any existing or proposed transaction by the company. A personal interest of an office holder includes a personal interest of their relative, of a company in which the office holder or their relative is, a shareholder which holds 5% or more of company's share capital or its voting rights, a director or a general manager, or in which he or she has the right to appoint at least one director or the general manager. A personal interest also includes a personal interest of a person who votes according to a proxy of another person, even if the other person has no personal interest, and a personal interest of a person who gave a proxy to another person to vote on their behalf – all whether the discretion of how to vote lies with the person voting or not. In the case of an extraordinary transaction, the office holder's duty to disclose applies also to a personal interest of the office holder's relative.

Under Israeli law, an extraordinary transaction is a transaction which is not in the ordinary course of business, not on market terms or which is likely to have a material impact on the company's profitability, assets or liabilities.

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

If the transaction is an extraordinary transaction, both the audit committee and the board of directors, in that order, must approve the transaction. Under specific circumstances, shareholders approval may also be required. Whoever has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter. However, if the chairman of the board of directors or the chairman of the audit committee has determined that the presence of such person is required to present a matter to the meeting, such officer holder may be present at the meeting. Notwithstanding the foregoing, if the majority of the directors have a personal interest in a matter, a director who has the personal interest in this matter may be present at this meeting or vote on this matter, but the board of directors' decision requires shareholder approval.

Controlling Shareholder Transactions and Actions

Under the Israeli Companies Law, the disclosure requirements which apply to an office holder also apply to a controlling shareholder of a public company and to a person who would become a controlling shareholder as a result of a private placement. A controlling shareholder includes a person who has the ability to direct the activities of a company, other than if this power is derived solely from his/her position on the board of directors or any other position with the company. In addition, for such purposes a controlling shareholder includes a shareholder that holds 25% or more of the voting rights in a public company if no other shareholder owns more than 50% of the voting rights in the company.

Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest; and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or his or her relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services, and if such controlling shareholder is also an office holder of the company or an employee, regarding his or her terms of office and employment, require the approval of the audit committee or the compensation committee (in case of terms of employment), the board of directors and the shareholders of the company, in that order. The shareholders approval must include either:

- a majority of the shareholders who have no personal interest in the transaction and who are participating in the voting, in person, by proxy or by written ballot, at the meeting (votes abstaining shall not be taken into account); or
- the total number of shares voted against the proposal by shareholders without a personal interest does not exceed two percent (2%) of the aggregate voting rights in the Company.

In addition, any such transaction whose term is more than three years, requires the abovementioned approval every three years, unless (with respect to transactions not involving receiving of services or compensation) the audit committee approves that a longer term is reasonable under the circumstances.

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

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

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

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

The Israeli Companies Law further provides that a shareholder has a duty to act in good faith towards the company and other shareholders when exercising their rights and duties and shall refrain from oppressing other shareholders, including in connection with the voting at a shareholders' meeting on: (i) any amendment to the articles of association; (ii) an increase in the company's authorized share capital; (iii) a merger; or (iv) approval of certain transactions with control persons and other related parties, which require shareholder approval. In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's Articles of Association, has the power to appoint or prevent the appointment of an office holder in the company, or has any other power over the company, is under a duty to act with fairness towards the company. Under the Companies Law, the laws that apply to a breach of a contract will generally also apply to a breach of duty of fairness.

Exemption, Insurance and Indemnification of Directors and Officers

Office Holder Exemption

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

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

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

Office Holder Insurance

The Israeli Companies Law and our Articles of Association provide that, subject to the provisions of the Israeli Companies Law, we may enter into a contract for the insurance of the liability of any of our Office Holders for any act performed by him in his capacity as an Office Holder with respect to any of the following:

- a breach of such Office Holder's duty of care to the Company or to another person;

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

Pursuant to resolutions adopted by our shareholders in March 2011, we participate in a directors' and officers' liability insurance policy acquired by Alon. The extension of the directors' and officers' liability insurance was approved for each of the years 2012, 2013, 2014, and 2015 by our Audit Committee and by the Board of directors. As extended, the insurance policy is for a period beginning on January 1, 2015, and ending on December 31, 2015 covering the Company and affiliated entities, including Dor Alon and its subsidiaries, BSRE and its subsidiaries, Naaman and its subsidiaries and Alon and its subsidiaries (collectively, the "Group"). Such policy would cover a total liability of US \$50 million (for each claim and in the aggregate) for the Company, including legal fees, and US \$30 million (for each claim and in the aggregate), including legal fees, for each of the other members of the Group, excluding the Company, provided that in any event the maximum aggregate coverage of liability for the entire Group would be US \$50 million. Our audit committee, board of directors and shareholders have also approved any renewal of the insurance policy or the participation by the Company in future directors' and officers' liability insurance policies covering the Company and all or some members of the Group, under substantially the same terms and conditions as the original insurance, upon its expiration, for a period of up to an additional four years from the end of the term of the original insurance policy. The participation in any future insurance policies would be subject to the following conditions: (i) the determination by the audit committee and board of directors that there will be no substantive changes between the original insurance policy and the future insurance policies; a change to the scope of coverage under the future insurance policies will not be deemed to be substantive so long as the premium paid by the Group for such future insurance policies will be as described in section (ii) below; and (ii) the premium paid for the future insurance policies will not increase by more than the greater of (A) 25% over the cost of the premium paid for the insurance policy of the previous year; or (B) 25% over the cost of the premium paid for the original insurance policy (in each case plus the rate of depreciation of the NIS in relation to the US dollar, to the extent such a depreciation occurred).

Indemnification of Office Holders

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

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

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

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

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

Limitations on Insurance, Exemption and Indemnification

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

- a breach by the Office Holder of their duty of loyalty, except for insurance and indemnification where the Office Holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the Office Holder of their duty of care if the breach was done intentionally or recklessly (except if the breach was solely as a result of negligence);
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine, civil fine, monetary sanctions, or forfeit imposed on the Office Holder.

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

Letters of Indemnification

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

Under the indemnification letters, the Company undertook to indemnify its directors and officers for obligations or expenses that may be imposed on them as a result of their actions in their capacity as an Office Holder in the Company or as a result of actions in their capacity as an Office Holder or the holder of any other position in another company in which the Company holds rights or is an interested party therein (unless fulfilling the position in the other company is not in connection with their function in the Company or at its request), as permitted by the Company's Articles of Association. For further information, see above "Item 6. Directors, Senior Management And Employees – C. Board Practices – Exemption, Insurance and Indemnification of Directors and Officers Indemnification of Office Holders".

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

- Issue of securities, including, an offering of securities to the public pursuant to a prospectus, private placement, tender offer or offering of securities in any other manner;
- An event connected with the making of an investment by the Company before, during and after the effecting of the investment, in the course of negotiations, contractual arrangement, signature, development and monitoring the investment, including actions performed on behalf of the Company as an officer, employee or observer in the corporation in which the investment is made;
- A transaction or arrangement, including a transfer, sale or purchase of assets or liabilities, and including, goods, real estate, securities, or rights, or the giving or receiving of a right in any one of them and any action connected, directly or indirectly with such transaction, and including a tender offer of any sort and another transaction in securities which the Company has issued, whether or not the Company is a party thereto;
- A report or notice filed or submitted according to any law, including, an event arising from the fact of the Company being a public company or arising from the fact of its securities having been offered to the public, or arising from the fact of its securities being traded on a stock exchange, and including, a report or notice in accordance with the Companies Law - 1999 or the Securities Law - 1968, or the tax laws including regulations or directives made pursuant thereto, or in accordance with laws or provisions that apply outside of Israel or a report or notice lodged or submitted in accordance with rules, directives or instructions customarily practiced on the stock exchange in Israel or abroad and/or failure to submit such report or notice;
- An act in connection with voting rights in investee companies;
- An act in connection with the management of market risks.
- A change in the structure of the Company or its reorganization or any resolution relating thereto, including, a merger, split, alteration of the capital of the Company, setting up of subsidiaries, winding-up or sale thereof.
- Action connected directly or indirectly with employer-employee relationships in the Company and/or the commercial relations of the Company, including employees, external contractors, customers, suppliers and service providers, including negotiations, entering into and implementation of personal employment agreements or collective bargaining agreements, benefits to employees, including the issue of securities to employees.

- An act in connection, directly or indirectly, with the sale of products, purchase of products, import of products, operation of stores and sites of the Company, safeguarding of public health and safety instructions and provisions.
- An act in connection with the issue or non-issue of licenses and permits for the Company's activities.
- The preparation and approval of financial statements, including the approval of resolutions regarding the application of accounting standards and restatement in the financial statements.
- An act in connection with a distribution, including, for a repurchase by the Company of its own securities.
- The transfer of information that is required or permissible for transfer according to law between the Company and/or the other companies and interested parties in any of them.
- Remarks, statements including the expression of a position or opinion made in good faith by the officer in the course of performing his function and by virtue of his function, and including in the framework of meetings of the board of directors or any of its committees.
- An act or deed on matters of planning and building, work safety, the environment and recycling, public health, consumer protection.

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

Committees

Our board of directors has established an audit committee, a compensation committee, a Compliance Committee and a Corporate Governance Committee.

Compensation Committee

Under a recent amendment to the Companies Law, the board of directors of a public company must establish a compensation committee consisting of at least three directors and including all of the external directors. The remaining members must be qualified to serve on the audit committee, pursuant to Companies Law requirements described above. The compensation committee chairman shall be an external director. Any persons disqualified from serving as a member of the compensation committee may not be present at the compensation committee meetings, unless the chairman of the compensation committee has determined that the presence of such person is required to present a matter to the meeting or if such person qualifies under an available exemption in the Companies Law.

The provisions of the Companies Law that govern the compensation and reimbursement terms of external directors also apply to members of the compensation committee who are not external directors. Under New York Stock Exchange rules, listed companies must maintain a compensation consisting of only independent directors. The role of the compensation committee for New York Stock Exchange purposes includes making recommendations to the board with respect to executive officer compensation and incentive-compensation and equity-based plans that are subject to board approval. Our compensation committee, which consists of Uzi Baram, David Alphantary and Avraham Meron, administers issues relating to employee compensation for senior management.

Audit Committee

Our audit committee, which consists of David Alphantary, Uzi Baram and Avraham Meron, has the powers as described above. The audit committee also assists the board of directors in overseeing the quality and integrity of our accounting, auditing and reporting practices and in the approval of our financial statements. For more information regarding the role of our audit committee see also “Item 6. Directors, Senior Management And Employees – C. Board Practices – Audit Committees.”

Compliance Committee

Our Compliance Committee, which consists of David Alphantary, Avraham Meron, and Uzi Baram convenes semi-annually to examine the internal compliance plan of the Company and the management’s compliance with the plan. In case of a significant breach of the Company’s internal compliance plan, the Compliance Committee will convene.

Corporate Governance Committee

Our Corporate Governance Committee, which consists of Uzi Baram and Avraham Meron, convenes periodically to discuss the improvement of corporate governance in the Company, including with regard to regulatory, environmental protection, marketing, labor and other issues.

D. Employees.

As of December 31, 2014, Mega employed 6,716 employees (including employees of Eden Teva), counting multiple employees sharing a single position as a single employee, including 2,304 temporary employees. 609 of our employees were employed in central management and administration and in our logistics center and 5,311 in our stores. As of December 31, 2013, Mega employed 7,454 employees (including employees of Eden Teva), counting multiple employees sharing a single position as a single employee, including 1,477 temporary employees. 849 of our employees were employed in central management and administration and in our logistics center and 6,605 in our stores. As of December 31, 2012, Mega employed 7,240 employees (including employees of Eden Teva), counting multiple employees sharing a single position as a single employee, including 1,780 temporary employees.

As of December 31, 2014, Dor Alon employed 2,763 employees, 103 of Dor Alon's employees were employed in central management and administration and in Dor Alon's logistics center and 2,660 in Dor Alon's direct marketing sector and filling stations and convenience stores. As of December 31, 2013, Dor Alon employed 2,713 employees, 108 of Dor Alon's employees were employed in central management and administration and in Dor Alon's logistics center and 2,605 in Dor Alon's direct marketing sector and filling stations and convenience stores. As of December 31, 2012, Dor Alon employed 2,628 employees, 107 of Dor Alon's employees were employed in central management and administration and in Dor Alon's logistics center and 2,521 in Dor Alon's direct marketing sector and filling stations and convenience stores.

As of December 31, 2014, our Houseware and Textile segment employed 615 employees, 50 of our Houseware and Textile segment's employees were employed in central management and administration and 565 in our Houseware and Textile stores. As of December 31, 2013, our Houseware and Textile segment employed 511 employees, 56 of our non-food segment's employees were employed in central management and administration and in its logistics center and 455 in our Houseware and Textile segment's stores.

As of December 31, 2014, BSRE employed ten employees, not including six members of BSRE's senior management and other employees who provide services to the Company under the services agreement with the Company and not including employees employed by entities held 50% or less by BSRE. See "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Agreements between Alon Blue Square and its Subsidiaries." As of December 31, 2012, BSRE employed ten employees. As of December 31, 2012, BSRE employed ten employees.

As of December 31, 2014, Alon Cellular employed 40 employees. As of December 31, 2013, Alon Cellular employed 35 employees. As of December 31, 2012, Alon Cellular employed 33 employees

As of December 31, 2014 our logistics center employed 92 employees. As of December 31, 2013 our logistic center employed 136 employees.

As of December 31, 2014 Dr. Baby employed 88 employees. As of of December 31, 2013 Dr. Baby employed 97 employees.

We are subject to labor laws and regulations in Israel. Most of Mega Retail's employees are subject to collective bargaining labor agreements. Under a Special Collective Bargaining Agreement, referred to as the Special Agreement, from May 1996, among the Co-Op, Alon Blue Square, the Histadrut (General Federation of Labor in Israel) (Histadrut), the National Committee of the Co-Op Union Employees and the Co-Op Union, all the Co-Op employees became employees of Alon Blue Square. The collective bargaining agreements in effect as of that date apply to Alon Blue Square as if Alon Blue Square and these employees were originally parties to these agreements. Alon Blue Square became responsible for the payment of all employee benefits that had been accrued in respect of these employees during the term of employment of these employees with the Co-Op, to the extent these benefits were recorded on the Co-Op's records. Since 1996, we entered into new labor agreements with the Histadrut and the Co-Op union, which determine our employees' wages structure, the employment conditions of new employees and a wage increase to the existing employees. The above applies to Mega Retail employees. On January 1, 2011, substantially all of the employees of Alon Blue Square assigned to Mega Retail's supermarkets were transferred to Mega Retail.

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

E. Share Ownership.

As of March 31, 2015 other than indirect ownership through Alon or Alon Retail, none of our directors or officers owned more than 1% of our outstanding equity securities.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders.

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 31, 2015, by each person or entity known to own beneficially 5% or more of our outstanding ordinary shares based on information provided to us by the holders or disclosed in public filings with the Securities and Exchange Commission. Our major shareholders do not have voting rights different from the voting rights of our other shareholders.

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Outstanding Ordinary Shares ⁽¹⁾
Alon Israel Oil Company Ltd.(2)	49,957,264	72.71%
Alon Retail Ltd.(3)	17,352,961	26.3%
Menorah Mivtachim Holdings Ltd.(4)	5,636,103	8.55%

- (1) The percentage of outstanding ordinary shares is based on 65,954,427 ordinary shares outstanding as of March 31, 2015 (excluding 207,433 ordinary shares held by Alon Blue Square as treasury shares).
- (2) Alon may be deemed to beneficially own all of the shares held directly and indirectly by Alon Retail Ltd. due to the ownership structure of Alon Retail described in footnote (3); accordingly, the number of shares listed as owned by Alon includes all the shares that are listed as owned by Alon Retail Ltd.
- (3) Alon Retail Ltd. is a wholly owned subsidiary of Nissan Alon Retail Holdings Ltd., which is a wholly owned subsidiary of the Nissan Dor Chains Ltd., which is a wholly owned subsidiary of Dor Food Chains Holdings Ltd., a wholly owned subsidiary of Alon. To the Company's best knowledge, Alon is owned approximately 48.21% (excluding shares held by Alon as treasury shares) by eight collective acquisition entities of kibbutzim in Israel and approximately 51.79% (excluding shares held by Alon as treasury shares) are held by Bielsol Investments (1987) Ltd. To the Company's best knowledge, the shareholders of Bielsol Investments (1987) Ltd. consist of Shibag Ltd. (whose shareholders are Advocate Shraga Biran, and Gara, Boaz and Iftah Biran, and which is controlled by Advocate Shraga Biran who holds all of the voting rights in Shibag Ltd. through a direct holding in 85% of the shares that grant voting rights in Shibag Ltd. ("Voting Shares in Shibag") and through a power of attorney relating to voting rights for the other 15% of the Voting Rights in Shibag held by Mr. Boaz Biran), holding 79.4% of the capital and voting rights of Bielsol Investments (and is the controlling shareholder of Bielsol Investments, and Advocate Shraga Biran is the controlling shareholder of Shibag Ltd.); D.B.W Investments Ltd. (a company owned and controlled by Mr. David Wiessman), holding 19.8% of the capital and voting rights of Bielsol Investments; Shibago Ltd. (whose partners are Shibag Ltd. (75%) and a company owned and controlled by David Wiessman (25%)), holding 0.8% of the capital and voting rights of Bielsol Investments.
- (4) The shares are held by subsidiaries of Menora Mivtachim Holdings Ltd. ("Menora Holdings"), as follows: Menora Mivtachim Insurance Ltd., Menora Mivtachim Pensions and Gemel Ltd., Shomera Insurance Company Ltd, and Menora Mivtachim Mutual Funds Ltd. To the Company's best knowledge, Menora Holdings is a publicly traded Israeli company (listed on the Tel Aviv Stock Exchange). Approximately 61.9% of Menora Holdings outstanding shares are held by Najaden Establishment and Palamas Establishment, foreign corporations, incorporated in Vaduz, Liechtenstein. These corporations are held in trust, and the heirs by will of the deceased Mr. Menachem Gurevitch are the sole beneficiaries. The remaining of the outstanding shares is held by the public. Menora Mivtachim Insurance Ltd., Menora Mivtachim Pensions and Gemel Ltd., Menora Mivtachim Finance Ltd. and Shomera Insurance Company Ltd. are wholly owned subsidiaries of Menora Holdings. Menora Mivtachim Mutual Funds Ltd. is a wholly owned subsidiary of Menora Mivtachim Finance Ltd. (which is wholly owned by Menora Holdings). Part of the shares reported as owned by Menora Holdings via Menora Mivtachim Insurance Ltd., Menora Mivtachim Pensions Ltd., Menora Mivtachim Gemel Ltd. and Menora Mutual Funds Ltd. are held on behalf of members of the public (customers on behalf of whom the above-mentioned companies invest) through various financial instruments, such as, among others - provident funds, mutual funds, pension funds and insurance policies. Each of the above-mentioned companies makes independent voting and investment decisions. As of March 31, 2015, the ordinary shares beneficially held by Menora are held through the following: (i) Pension and Provident Funds – 4,237,507 ordinary shares; (ii) Insurance Policies – 1,347,714 ordinary shares, and (iii) ordinary shares held by Menors for its own account (Nostro account) – 50,882 ordinary shares.

As of March 31, 2015, Alon Blue Square had approximately 42 shareholders of record with a United States address. As of March 31, 2015, these United States record holders held approximately 1,119,595 ordinary shares in the form of ADSs, representing approximately 1.7% of our then outstanding share capital.

B. Related Party Transactions.

Agreements between Alon and Alon Blue Square

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

Alon Blue Square and Alon, Alon Blue Square's controlling shareholder, entered into a Share Purchase Agreement, which was completed on October 3, 2010, that provided for the acquisition by Alon Blue Square of Alon's entire equity interest in Dor Alon (constituting approximately 80% of the outstanding shares of Dor Alon (not including treasury shares)), or the Transferred Shares, at the closing of the Acquisition. These shares constituted approximately 73.5% of the outstanding Dor Alon ordinary shares on a fully diluted basis as of the closing date of the acquisition.

In consideration for each share held by Alon in Dor Alon, Alon Blue Square issued to Alon 1.8 ordinary shares of Alon Blue Square, and in exchange for all the Transferred Shares, Alon Blue Square issued to Alon 20,327,710 ordinary shares of Alon Blue Square, or the Issued Shares. Immediately following the Acquisition, Alon beneficially owned in the aggregate, directly and indirectly, approximately 78.44% of the outstanding ordinary shares of Alon Blue Square. Upon completion of the Acquisition, Dor Alon became a majority-owned subsidiary of Alon Blue Square and its shares have continued to trade on the TASE.

As a condition to the closing of the Share Purchase Agreement, Alon Blue Square paid to its shareholders on October 18, 2010 an aggregate cash dividend of NIS 800 million, or approximately US \$223.4 million (based on the representative rate of exchange on October 18, 2010), which represented a dividend of approximately NIS 12.31, or approximately US \$3.44 (based on the representative rate of exchange on October 18, 2010), per Alon Blue Square ordinary share (after taking into account the shares to be issued to Alon in the acquisition, or the Dividend Distribution. The Dividend Distribution was made following the issuance of Alon Blue Square ordinary shares to Alon pursuant to the Share Purchase Agreement and was conditioned thereon. The Dividend Distribution was approved by the Israeli District Court.

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

In connection with the proposed acquisition, Alon and Alon Blue Square 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 Alon Blue Square 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 Alon Blue Square that, in connection with the payment of tax at the time of any future sale by Alon Blue Square 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).

Directors and Officers Insurance

We participate in a directors' and officers' liability insurance policy acquired by Alon. For further information see "Item 6. Directors, Senior Management And Employees – C. Board Practices – Exemption, Insurance and Indemnification of Directors and Officers – Office Holder Insurance."

Agreements between Alon Blue Square and its Subsidiaries

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

On November 29, 2005, Alon Blue Square entered into the following agreements with Dor-Alon:

(i) an agreement establishing a joint loyalty plan for the benefit of Alon Blue Square' and Dor Alon's customers, formed as a partnership to be held 75% by Alon Blue Square (now held by Mega Retail) and 25% by Dor Alon (the "Loyalty Plan"). The agreement established, among other things, the formation of the partnership, its management and the arrangements for providing the benefits to the Loyalty Plan customers;

(ii) an agreement under which Alon Blue Square and Dor Alon purchased 49% (36.75% Alon Blue Square and 12.25% Dor Alon) of the shares of capital stock of Diners Israel from CAL for a total consideration of NIS 21.3 million (of which NIS 15.6 million was paid by Alon Blue Square). The consideration was funded through a non-recourse loan granted by CAL to Alon Blue Square and Dor Alon.

On May 25, 2011, we agreed to an amendment to the agreement of principles between CAL, Diners Israel, Alon Blue Square, Dor Alon, and the Alon Blue Square-Dor Alon Joint Loyalty Plan Partnership, and in July 2011, all suspending conditions set forth in the agreement were completed, the amendment to the agreement came into effect. Pursuant to the amendment, Alon Blue Square and Dor Alon would have the right to the profits of Diners Israel Ltd. in accordance with their holdings (49% 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. Additionally, the amendment sets the terms as to the business relationship between the parties, including cancellation mechanism in the event the Loyalty Plan is cancelled by the purchasers and specific provisions regarding distribution of dividends, and the ongoing relationship between Diners and the Loyalty Club and Diners management. During July 2011, the Company and Dor Alon exercised their option to purchase the shares and repaid the loan to CAL. On September 23, 2014, the Company, Diners and CAL approved changes in the agreement for the purchase of Diners shares from CAL under the conditions of YOU club agreement which include, among others, extending the club agreement until 2019 and modifications for the determining the value of Diners' share if CAL will repurchase such shares in certain cases as detailed in the agreement.

Procurement Agreement with Dor Alon Management

Dor Alon Retail Sites Management Ltd., a subsidiary of Dor-Alon (hereinafter: "Dor Alon Management"), operates convenience stores in fuel service stations and also in a number of cities in Israel that sell various food and "Non-Food" products. Under the terms of the procurement agreement between Alon Blue Square and Dor Alon Management (the "Procurement Agreement"), in consideration of the procurement of products to be supplied to convenience stores (both independent and within filling stations), Dor Alon Management has agreed to pay Alon Blue Square (i) for products sent directly from suppliers to convenience stores, an amount equal to the cost of such products plus 2%, and (ii) for products sent from Alon Blue Square's distribution center, an amount equal to the cost of such products plus 2.75% and distribution costs. The Procurement Agreement provides for compensation to Alon Blue Square in the event that Alon Blue Square's income generated from the Procurement Agreement minus related expenses from the sale of products to Dor Alon Management is less than NIS 1 million, Dor Alon Management will pay Alon Blue Square such amounts necessary in order that Alon Blue Square's income from such year will reach such NIS 1 million amount.

The term of the Procurement Agreement is for five years commencing from May 1, 2004, and is automatically extended for additional one-year periods unless either party gives notice to the other party of its desire to terminate the Procurement Agreement 90 days prior to the expiration of the term of the Procurement Agreement. Within the framework of Alon Blue Square's acquisition by Alon, the Israeli Anti Trust Authority determined that it can issue an order to the parties, in its sole discretion, based upon market conditions, Alon Blue Square's purchasing power, and market competition, that Alon Blue Square's operations should be completely separated from those of Alon as such relate to operation of the "Alonit" stores and to the purchase of products for the "Alonit" stores. In addition, the Anti Trust Authority is authorized to order that there will be no cooperation or arrangement dealing with purchasing products for Alon Blue Square and the "Alonit" stores. As of March 31, 2015, the Anti Trust Authority has not issued such orders.

Arrangements between Alon Blue Square and BSRE

Agreements with Respect to Supermarket Stores

On June 23, 2006, the Company entered into a lease agreement with Mega Retail pursuant to the lease agreement provisions of the general services framework and expenses allotment agreement which the Company entered into with Mega Retail on October 11, 2005 (the "Lease Agreement"). The Company assigned to BSRE all of its rights and obligations under the Lease Agreement. The underlying properties (21 supermarket stores as of December 31, 2014) were also transferred by the Company to BSRE. See below – "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions – Arrangements between Alon blue square and various subsidiaries -Transfer of Real Estate Assets from Mega Retail to BSRE."

The Lease Agreement provided that the annual rent for property used for stores is to be equal to the higher of 2% of the annual turnover of that store or 9% of the amount invested in that store (as calculated in accordance with the agreement), which amount is linked to changes in Israel's consumer price index from the date of such investment. The annual rent for property not used for stores is 9% of the amount invested by the Company which amount is linked to changes in Israel's consumer price index from the date of such investment. The term of the agreement is until March 2019, and rent payments are charged on a quarterly basis.

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

The forgoing lease agreements are “net lease” that is, the lessee pays all applicable payments and charges for the possession of the leased property and the usage during the lease period excluding payments and charges which apply to a lessor in accordance with applicable law and/or local practice.

The Company and BSRE entered into a lease agreement on August 13, 2006 (effective as of January 1, 2006) with respect to the 52 supermarket stores that were operated directly by the Company prior to December 31, 2005 (plus one property for offices purposes). As of December 31, 2014, 49 supermarket stores operate under this lease. Under this agreement, the Company leases from BSRE these properties for an initial period of at least 10 years beginning as of January 1, 2006. The agreement will automatically be extended for an additional five-year term unless terminated by the Company no less than 24 months prior to the end of the initial term. The annual rent for the initial period will be equal to the higher of 2% of the annual turnover of that store or 9% of the amount invested in that store by the Company (as calculated in accordance with the agreement), which amount is linked to changes in Israel’s consumer price index from the date of such investment. The agreement provides for these additional provisions:

- Upon 12 months’ notice, at the time of the extension of the agreement the Company may reduce the number of the leased properties, provided that the rental payments for such properties (according to the average rental payments for the two years preceding the extension date) does not exceed 15% of the total rent payments for all leased properties on average for the two years preceding the extension date.
- Additional properties may be leased by the Company under the same terms and conditions under the lease agreement provided that (i) the audit committee and the board of directors will approve each new lease agreement, (ii) the term of any such new lease agreement entered into during the initial ten-year period commencing on January 1, 2006 will be for up to 10 years from the date such new leased property is open for business to the public, and (iii) the aggregate properties that BSRE leases to the Company may not exceed 60,000 square meters. Additional properties added may not be included in the leased properties reduced in the manner described in the preceding paragraph.
- The Company may terminate the lease of some of the leased properties prior to the end of the lease term by giving 12 months’ prior notice; however, such termination is limited to a number of leased properties which have an aggregate area of no more than 5% of the total area of the properties that were leased as of January 1, 2006.
- BSRE may shorten or temporarily stop (suspend) the lease of three specific properties identified in the agreement to the extent required to develop or build on the land where such properties are located by giving 12 months’ prior notice and subject to obtaining a building permit for such development or building at the time the Company must vacate the premises.

- BSRE may shorten or temporarily stop (suspend) the lease of any seven additional properties (five during the lease term and two during the extension term) to the extent required to develop or build on the land where such properties are located by giving 12 months' prior notice and subject to obtaining a building permit for such development or building at the time the Company must vacate the premises and on the condition that BSRE must bear the costs of vacating the premises and provide a substitute store at the location with similar characteristics at its own expense within 24 months of the Company vacating the premises.

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

As a result of the transfer by Mega Retail of the real estate that it holds to BSRE, the lease agreement was extended to a term of up to ten years commencing on March 31, 2009. In addition, at the end of the term there is an option to extend for an additional term of five years under the same terms. Due to an amendment to the Companies Law, on November 16, 2011, the audit committee of BSRE determined that the period of the lease agreement, which exceeds three years, is reasonable under circumstances and in light of the nature of the transaction.

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

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

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

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

Management Services Agreement

Pursuant to an agreement renewed in January 1, 2014, replacing an agreement entered in August 2006 and extended on December 27, 2010, the Company provides to BSRE (directly or through its subsidiaries) the following services: Chairman of the board of directors services, financial and accounting management services (including bookkeeping), guidance concerning financing and fundraising, payments and collection, guarantees and collateral management, computer management and maintenance service, legal consulting and corporate secretary services, office space and related office services, internal audit services, consulting services with regards to the capital market, management consulting services regarding strategic moves, human resource services, payroll accounting services, car fleet management and security consulting. In consideration for these services, BSRE will pay the Company an annual amount of NIS 5 million. The consideration was based on an estimate of the Company total costs for these services attributable to BSRE. The consideration is linked to changes to the Israeli CPI (since December 2013) plus VAT. In addition, BSRE may have request maintenance services subject to additional consideration for such services in the amount of the direct costs to the Company plus 2%.

This agreement replaced a substantially similar agreement entered in August 2006, effective as of January 1, 2006, and extended on December 27, 2010, effective as of January 1, 2011. In consideration for these services, BSRE paid the Company an annual amount of NIS 4.2 million. In addition, BSRE may have requested maintenance services for additional consideration equal to amount of the direct costs to the Company plus 2%.

Under the previous agreement, the consideration was based on an estimate of the Company total costs for these services attributable to BSRE. The consideration was linked to changes to the Israeli CPI (since December 2005). The consideration is increased each year by an amount equal to 0.2% of the difference between (x) the cost of BSRE assets (prior to depreciation and amortization) ("BSRE Asset Cost") which are classified as yield-generating real estate in accordance with BSRE's consolidated financial statements at the end of the preceding year and (y) the BSRE Asset Cost as of the end of the preceding year, linked to changes to the Israeli CPI plus VAT. In 2014, the Company received approximately NIS 5.0 million for the services under the new agreement.

Agreement with respect to the Allocation of Various Insurance Expenses

Pursuant to an agreement entered into on August 13, 2006, insurances obtained by BSRE, such as: elementary insurance including, structure insurance, insurance for independent contractors, funds insurance, third party liability insurance and employers liability insurance will be obtained within the group policy of the Alon Blue Square group. The insurance costs and expenses are allocated between the parties in accordance with different ratios determined by the parties depending on the insurance involved. Pursuant to an amendment to the Israeli Companies Law, on December 13, 2011, the audit committee of the Company determined that this agreement is not an extraordinary agreement, is on market terms and in the ordinary course of business, and does not have a material influence on the Company's profitability, assets, or obligations, and therefore reapproved this agreement for additional three years. The audit committee also resolved to receive an annual update regarding BSRE's insurance allocations. On December 15, 2014, BSRE's board of directors, following audit committee approval, resolved to extend the insurance expenses allocation agreement for an additional three years, as a non-extraordinary agreement and to receive an annual update regarding BSRE's insurance allocations.

Deposit of Cash Balances Agreement

Pursuant to an agreement effective February 28, 2014, extending an agreement entered in August 2006, BSRE may, with the Company's consent from time to time, deposit funds with the Company and receive in return funds on ON CALL terms (on an on-demand basis). The amount of funds lent from each party to the other party may not exceed NIS 150 million at any time, and if the Series C Debenture is lowered by more than 3 credit rating levels, the amount lent from each party to the other may not exceed NIS 50 million. In case BSRE shall deposit funds with the Company as an ON CALL deposit, the Company shall grant collateral to BSRE which shall be comprised of BSRE shares in a market value which is to be examined each quarter in order that the Company retains a 2:1 ratio between the market value of the collateral and the amounts deposited by BSRE with the Company. The interest paid by each party for funds received according to this arrangement will be at a rate equivalent to the rate that the Company is charged by banks in such month for ON CALL credit (short-term loans) on a monthly weighted average basis. The deposits will be deposited for periods of not exceeding one year and will be renewed from time to time. The agreement was renewed for a period of three years from February 28, 2014. The agreement may be terminated by either party upon seven days' prior notice. Prior to the extension the amount of funds to be lent from each party to the other party may have not exceeded NIS 200 million at any time and no collateral was granted in exchange for deposited funds.

In addition, the Company and BSRE entered into an agreement with respect to transfer of employees from the Company to BSRE.

Agreements between Alon and Alon Blue Square's Subsidiaries

Management Services Agreement with Alon

In March 2014, Alon and Dor Alon renewed their management services agreement, dated as of December 2010 ("Management Services Agreement"), for an additional period of three (3) years effective from January 1, 2014, by which Alon shall provide the following services and rights to Dor Alon (the "Services"): (i) various management services, including those related to the chairman of the board and president of Dor Alon, day to day management of Dor Alon, strategy and business development, financial management, supplementary legal counsel, corporate secretary services provided by Alon's in-house counsel, and (ii) the right to use the "Alon" and "Alonit" brand names.

In consideration for the Services, since 2011, the quarterly management fees paid by Dor Alon to Alon equaled to the aggregate of 3% of Dor Alon's EBITDA profits according to Dor Alon's quarterly consolidated financial statements, but not more than NIS 1,250 thousand on a quarterly basis, linked to the consumer price index dated December 2004. Beginning as of January 1, 2014, the quarterly management fees to be paid by Dor Alon to Alon shall equal the aggregate of 3% of Dor Alon's EBITDA profits according to Dor Alon's quarterly consolidated financial statements, but not more than NIS 1,375 thousand on a quarterly basis, linked to the consumer price index published on January 2014. In 2013 and 2014, Alon received approximately NIS 6.0 million and NIS 5.4 million, respectively for the Services.

Dor Alon Deposit of Cash Balances Agreement

Pursuant to the agreement entered into in May 2005, and subsequently extended on January 6, 2011 until January 2016, such extension re-approved by Dor Alon's audit committee on December 22, 2013, Dor Alon may, from time to time, deposit funds with Alon and receive in return funds on ON CALL terms (on an on-demand basis). The amount of funds lent from each party to the other party may not exceed NIS 150 million at any time (linked to the prime 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. Either party may terminate the agreement by providing three-month prior written notice.

Agreement with the Wholesale Market Company

On June 3, 2010, BSRE, Gindi Investments 1 Ltd. and an additional entity controlled by Moshe and Yigal Gindi (together with Gindi Investments 1 Ltd., "Gindi") (the "Purchasers") signed agreements with the Municipality of Tel Aviv and the Wholesale Market Company (collectively, the "Sellers") to acquire rights to a long term lease of property in the wholesale market site in Tel Aviv (the "Property"). As of December 31, 2014, BSRE owned 49.5% of the company that owns the residential building rights and 50% of the company that owns the commercial building rights. One of the Sellers was Tnuva, and to our knowledge, some of the collective acquisition entities of kibbutzim in Israel that hold shares of Alon, our controlling shareholder, hold 23% of the shares of Tnuva. On June 2, 2010, the shareholders of BSRE approved the signing of the final agreements. The agreements were approved by the Israeli Minister of the Interior in July 2010.

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

The Purchasers were required to pay the Sellers a purchase price of NIS 950 million payable in three installments. In addition to the purchase price, the Sellers may be entitled to additional consideration calculated as a percentage of the sale price of apartments that are sold in the apartment buildings complex, as described in the agreement. On May 31, 2012, the Purchasers completed the purchase of the Property and paid the Sellers the balance of the consideration in the aggregate amount of approximately NIS 730 million plus VAT.

The Purchasers plan to build (i) 10 buildings, each building consisting of 14 floors, (ii) 722 residential units for sale and 54 units which will be leased in accordance with certain criteria determined by the Municipality of Tel Aviv and the Purchasers, and (iii) 33,000 square meters leased space for commercial use. As of January 7, 2014, the building permits for all 722 of the residential units have been granted as well as permits for the commercial space. The Sellers are to bear the expense of building buildings for public use, such as sport center, school and other neighborhood public facilities, and are to pay the Purchasers a fee (linked to the Building Index) calculated as cost plus 10% plus VAT, based on certain milestones detailed in the agreement, up to a maximum of approximately NIS 84 to 102 million. Any expenses that exceed this limit are to be borne by the Purchasers. The Purchasers also committed to build an additional 40 parking spaces and to develop, at their own expense, an open public space within the area of the Wholesale Market Project on an area of nine dunam, which would remain under the exclusive ownership of the municipality of Tel Aviv.

Gindi is to provide management services for the Wholesale Market Project in exchange for a management fee to be paid by the Purchasers and calculated as 16% of the profits from the Wholesale Market Project, all subject to various terms of the agreement of principles between the parties. In addition, they determined material issues regarding the construction and the management of the parking lot in which an unanimously decision is required, and principles regarding dilution of each of the parties' rights in the event that one of the parties will not invest the amounts that such party obligated to invest.

In order to pay the balance of the consideration, the Purchasers received loans in the amount of NIS 730 million from a bank at an annual interest rate of prime plus 2% for a 18 month term. The principal is due in one sum at the end of the term and interest is payable quarterly. The bank also provided the Purchasers with a two-month loan in the amount of NIS 120 million to pay the VAT (which has since been repaid). To secure the loan BSRE granted a lien to the bank on its shares in the Purchasers, and the lien was charged in favor of the bank.

During the third quarter of 2012, the excavation and reinforcement works in the Wholesale Market Project were completed and the performance of skeleton work commenced. As of March 31, 2015, a work order was given for all buildings on the residential project.

As of March 16, 2015, 696 sale agreements had been signed and advance payments in the aggregate amount of NIS 1,167 (including vat) had been received from the purchasers. For more information on the loan, see “Item 4. Information on the Company – A. History and Development of Alon Blue Square - Our Real Estate Segment.”

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

On June 1, 2010, BSRE completed the acquisition of an approximately 240-dunam parcel (approximately 59 acres) of property in Point Wells, near Seattle, Washington, which serves primarily as a plant for storage and distribution of fuel and oils. For more information on the purchase and development agreements, see “Item 4. Information on the Company – B. Business Overview – Real Estate.”

Arrangements with Tnuva

We purchase most of our dairy, fresh produce and poultry products from the Tnuva corporation, which holds a leading position in the domestic dairy and poultry markets. To our knowledge, some of the collective acquisition entities of kibbutzim in Israel that hold shares of Alon, our controlling shareholder, hold 23% of the shares of Tnuva. In 2014, Tnuva’s products accounted for approximately 12.9 % of all the products sold at our supermarkets. These arrangements are in the ordinary course of our business, and the terms and conditions of these arrangements are at “arm’s-length”.

Agreements between Alon Blue Square's Subsidiaries

Supply Agreement with Bee Group

Mega Retail is a party to a supply agreement with Naaman through January 2, 2018. Pursuant to the agreement, Mega Retail purchases Naaman’s products and markets them in its stores. Naaman sells its products to Mega Retail at an agreed upon price. Pursuant to an amendment to the Israeli Companies Law, on November 10, 2011, the audit committee of Naaman determined that the period of this agreement (ten years from January 3, 2005 to January 2, 2015) is reasonable under the specific circumstances.

Kibbutz Eyal

BSRE and Eyal Microgal Ltd. (“Eyal Microgal”) signed an agreement for the development of a 57 dunam property for storage and logistics usage. Pursuant to the agreement, BSRE and Eyal Microgal jointly hold in equal parts a new company, Eyal Baribua Ltd. (“Eyal Baribua”), to which Kibbutz Eyal transferred the property. In addition, pursuant to this agreement BSRE transferred to Eyal Baribua an amount based on the purchasing costs, development costs and an additional cost. In the event that the costs exceed \$100,000 per dunam, BSRE will have the right to terminate the Agreement. On July 11, 2011, following the approval of BSRE’s audit committee and board of directors, BSRE’s shareholders approved entering into a lease agreement with Mega Retail, pursuant to which BSRE will construct the logistics center in Kibbutz Eyal to be leased by Mega Retail. The construction of the logistics center was completed in June 2014, with Mega Retail commencing operations in July 2014. For more information, see “Item 4. Information on the Company – B. Business Overview – Real Estate – Warehouses and Logistics Areas.”

As part of the Real Estate Transfer, all of the real estate property used by Mega Retail prior to the Real Estate Transfer is leased back by BSRE to Mega Retail for Mega Retail's retail activities under terms similar to existing lease agreements between BSRE and Mega Retail and existing lease agreements between BSRE and Alon Blue Square that were previously transferred to Mega Retail.

Pursuant to the agreement, as of December 31, 2014 Mega Retail leases from BSRE 13 supermarket stores, the Company's distribution and logistics center and warehouses in Rishon Letzion, which was sold in December 2014, and an office building used by the Company, which includes one supermarket store (the "Properties"). Mega Retail leases the Properties for an initial period (the "Initial Lease Period") of at least 10 years commencing on March 31, 2009. The agreement will automatically be extended for an additional five-year term unless terminated by written notice, by Mega Retail, no less than 24 months prior to the end of the Initial Lease Period. Due to the recent amendment to the Companies Law, on November 16, 2011, the audit committee of BSRE determined that the period of the lease agreement, which exceeds three years, is reasonable under circumstances and in light of the nature of the transaction. The annual rent for the Initial Lease Period of the supermarkets will be equal to the higher of 2% of the annual turnover of that store or 9% of the amount invested in that store by BSRE (as calculated in accordance with the agreement) (the "Amount of the Investment"), which amount will be linked to changes in Israel's consumer price index. The annual rent during the Initial Lease Period for assets that are not used for supermarkets will be 9% of the amount invested in the property by BSRE which amount will be linked to changes in Israel's consumer price index.

The agreement provides for these additional provisions:

- Upon 12 months' notice, at the time of the extension of the agreement, Mega Retail may reduce the number of the Properties subject to the agreement, provided that the rental payments for such properties (according to the average rental payments for the two years preceding the extension date) does not exceed 15% of the total rent payments for all leased properties.
- Upon 12 months' notice, Mega Retail may terminate the lease of some of the leased properties prior to the end of the Initial Lease Period, provided that the aggregate area of such properties does not exceed 5% of the total area of the properties that were leased to Mega Retail as of the beginning of the Initial Lease Period. At the end of 2014, BSRE sold the rights to the logistics and distribution center in Rishon Letzion.
- Upon 12 months' prior notice, BSRE may shorten or temporarily suspend the lease of certain Properties (specified in the agreement) to the extent required to develop or build on the land on which such Properties are located, or to the extent required to sell the land on which such Properties are located. Such right to shorten or temporarily suspend the lease of such Properties is subject to the condition that, as of the date on which Mega Retail must vacate the premises, BSRE must have obtained a building permit for such development or building and/or BSRE must have signed an agreement to sell such property, as the case may be.

- Upon 12 months' prior notice, BSRE may shorten or temporarily suspend the lease of any four Properties (three during the Initial Lease Period and one during the extension term) to the extent required to develop or build on the land on which such Properties are located, subject to the conditions that (i) as of the date on which Mega Retail must vacate the premises, BSRE must have obtained a building permit for such development or building, and that (ii) BSRE must bear the costs of vacating the premises and provide a substitute store, at the same location, with similar characteristics at its own expense within 24 months of Mega Retail vacating the premises.
- Mega Retail will be entitled to sub-lease any of the Properties, subject to the condition that Mega Retail will remain liable for the fulfillment of all the provisions of the agreement, jointly and severally with the substitute tenant.
- BSRE is entitled to add building areas on each of the Properties to the extent permitted by the town planning schemes which apply and/or may apply in the future. In the event that, pursuant to this provision, in the event that BSRE adds buildings to the property on which the Company's offices in Rosh Ha'ayin are located, then, upon six months' notice from the date on which it receives notice from BSRE about BSRE's intention to build on such property, Mega Retail may notify BSRE of Mega Retail's intention to lease the additional buildings under the same terms as the existing lease agreement, with the ten year term beginning on the date on which the new buildings are transferred to Mega Retail's possession.
- Mega Retail is solely responsible for obtaining any permits or licenses required under law to operate the Properties.
- Unless otherwise agreed by the parties, the lease agreement will be a "net lease" such that Mega Retail shall bear any and all payments and costs that arise in connection with the possession and use of the Properties during the lease period.

On December 31, 2010, a BSRE subsidiary had a loan in an amount of NIS 74.5 million to finance the establishment of a logistics center in Beer Tuvia. A first ranking lien on the property and the accompanying rights was registered in favor of the bank. As of December 31, 2014, the loan amounted to NIS 67 million.

Arrangements between Bee Group and Naaman

On August 15, 2011, Naaman and Vardinon entered into a Supply and Consignment Agreement (the "Supply Agreement") with Bee Group, pursuant to which Naaman and Vardinon will supply to Bee Group several products (the "Products") to be sold on a future website to be established by Bee Group. Under the Supply Agreement, Bee Group will pay Vardinon and/or Naaman, as applicable, for the Products to be sold by Bee Group based on Naaman's and/or Vardinon's price list, as applicable, previously approved between the parties. The term of the Supply Agreement is for a period of three years, until August 14, 2017. The Supply Agreement will be extended for additional three year periods, subject to the required approvals under applicable law. Each party may terminate the Supply Agreement by the delivery of a three months prior written notice to the other party. Following the merger between Naaman and Vardinon on December 30, 2012, all rights and obligation of Vardinon under the Supply Agreement, were transferred to Naaman.

Arrangements between Mega Retail and Eden Teva

Mega has arrangements with Eden Teva, according to which Eden Teva sells its products in certain Mega stores (store in store format), and Mega receives a certain percentage of the sales of Eden Teva products.

Ordinary Course Transactions

From time to time, Alon Blue Square, or its subsidiaries, enter into agreements and engage in transactions in the ordinary course of business with its subsidiaries and affiliates, such as for the purchases of merchandise, gasoline purchase agreements, including in connection with the operation of our gasoline station(s) and gas supply agreements with the Alon Group, joint sales and marketing promotions and legal consulting. Some subsidiaries enter into agreements and engage in transactions with other subsidiaries and affiliates of Alon Blue Square.

The terms and conditions of all of these agreements and transactions are at “arm’s-length.” We intend to enter into similar agreements and to engage in similar transactions in the future. In addition to ordinary course agreements and transactions, Alon Blue Square and certain of its affiliates have entered into other agreements and transactions.

Arrangements with David Wiessman, our Chief Executive Officer

See “Item 6. Directors, Senior Management and Employees – B. Compensation.”

Employment Agreement with Moran Wiessman

Beginning in January 2009, Ms. Moran Wiessman was employed by Bee Group and is employed currently by Mega Retail. She currently acts as the manager of the web site of Mega Retail and the Bee Group, "Alon Digital". Ms. Wiessman is the daughter of Mr. David Wiessman, one of our directors. As of December 31, 2014, Ms. Wiessman receives a monthly salary of NIS 21,000, a cell phone at the expense of Mega Retail, and Mega Retail assigned a car to Ms. Wiessman as is customary in Mega Retail for employees at the same level. In addition, Ms. Wiessman is entitled to standard social allocations by Mega Retail (5% for provident fund, 8.33% for severance payments and 1% for disability insurance) and other social benefits that are standard for an employee in her position.

Salary increases or bonuses shall be granted as is customary in Mega based on Ms. Wiessman's professional performance. Ms. Wiessman's monthly salary may be increased up to 20% annually. Mega management is entitled to grant Ms. Wiessman an annual bonus as is customary in Mega of only up to six monthly salaries a year. The grant requires the approval of our audit committee that that the bonus was given according to the grant's policy in Mega.

Arrangement between Dor Alon and Alon

Natural gas purchase agreement between the partners of Tamar Partnership and a subsidiary of Dor Alon

On December 9, 2012, Dor Alon Energy Centers, a limited partnership under the control of a subsidiary of Dor Alon (55%) and a third party (45%) (the "Partnership") signed a natural gas purchase agreement with the partners of Tamar Partnership, for the operation of existing facilities and a power plant, if established, aimed to provide Sugat's energy requirements. Alon is the indirect holder of 4% of shares in Tamar Partnership. Pursuant to the agreement, Tamar Partnership is to supply the Partnership with natural gas in the amount of up to 1.68 BCM in accordance with the terms of the Supply Agreement. For more information, see "Item 4. Information on the Company – B. Business Overview – Fueling and Commercial Sites – Marketing – Establishment of a Power Plant."

On November 19, 2013, Dor Alon entered into an agreement, through a subsidiary, for purchasing natural gas from the partners in Tamar partnership in the amount of U.S. \$85 million (0.36 BCM) over seven years while committing to a minimum annual quantity. The agreement is subject to the approval of the anti-trust authority, see note 34.g to the financial statements.

C. Interests of Experts and Counsel.

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

The financial statements required by this item are found at the end of this Annual Report, beginning on page F-1.

Board Resolution on Dividend Distributions

Alon Blue Square's board of directors has resolved that Alon Blue Square would not distribute dividends in any quarter if the ratio of our net financial obligations to EBITDA for any quarter exceeds 6.0. Alon Blue Square's board of directors also resolved that Alon Blue Square would not distribute dividends in any quarter if the ratio of the unencumbered fixed assets (net of depreciation) and investment property as set forth in our financial statements to financial obligations for any quarter is below 120%.

The ratio of net financial obligations to EBITDA is to be calculated by deducting from the net financial obligations Alon Blue Square's debt which is related by the company to real estate that is not in use by Alon Blue Square (which is equal to 75% of the investment property as recorded on the balance sheet). As of December 31, 2014, we did not have any earnings to distribute as a dividend.

Legal Proceedings

Governmental Proceedings

We are subject to legal proceedings in connection with tax assessments

In January 2012 the Company received a demand from the National Insurance for additional payments, related to certain benefits granted to employees in the Company's branches in the amount of NIS 27.5 million for the years 2001-2004. The Company's appeal was rejected by the National Insurance. In August 2013 the Company filed an appeal to the Labor Court.

In December 2013, the Company received a demand from the National Insurance for additional payments with respect to years 2005 – 2006 in the sum of approximately NIS 2 million, and in January 2014 the company filed an appeal with regard to this demand.

In the opinion of the Company, based on the opinion of its legal advisers, the chances that the Company's position will be accepted are higher than them of being rejected. Accordingly, the Company did not make any provision in its financial statements for the years 2001-2006.

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 8 million. Dor Alon appealed the Council's Municipal Tax claims. 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.

We are subject to legal proceedings in connection with business licenses

The operation of the Company's stores in Israel requires permits from several authorities including the Health Ministry and the Police and Fire Departments. 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 departments 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. 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 or departments. 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.

Legal Proceedings Related to our Supermarkets

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.

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. In September 2013 the court gave its judgment, according to which, Mega paid the plaintiff approximately NIS 3 million. Both sides have filed an appeal to the Supreme 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.

In October 2011, a letter of claim and a motion for approval of action as a class action was filed against the Company, alleging that the Company does not deduct the weight of the package in which it sells different products, such as various meat and poultry products, fruit and vegetables. If the claim is approved as a class action, the approximate claim is estimated by the plaintiff at approximately NIS 181 million. In April 2014 the court approved the plaintiff's request to withdraw the claim.

In March 2013, a letter of claim and motion for approval as a class action was filed against Mega. The Plaintiff alleges that Mega overcharged certain dairy products which are subject to price control regulation. The claim does not state the amount sought if it is approved as a class action. In December 2014, the court approved the Plaintiff's request to withdraw the claim.

In July 2013 a claim and a request to recognize it as a class action was filed against Mega and other supermarket chains, in the sum of NIS 42 million. The claim alleges that a certain cheese named “Gush Chalav” should have been sold for the same price as a cheese named “Emek”, which is subject to price control regulation, since practically, as alleged, they are the same product. 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.

In July 2013 a claim and a request to recognize it as a class action was filed against Mega, Kfar Hash'ashuim Toy Stores Chain and other store chains, with regard to special sales that offer reduced prices for the second item bought. It is claimed that when purchasing 4 items (1+1 and 1+1), the reduction is always made from the lowest prices of all four. The claim does not state the amount sought if it is approved as a class action. 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.

In September 2013 a claim and a request to recognize it as a class action was filed against Mega, in the sum of NIS 110 million, alleging that Mega failed to mark prices per measurement unit in its supermarkets. The claim was recognized as a class action in March 2015. The Company is currently reviewing the Claim and denying all 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.

In December 2013 a claim, and a request to recognize the claim as a class action, was filed against Mega, in the sum of approx. NIS 161 million. The claim alleges that Mega failed to comply with regulation requirements with respect to verifying the accuracy of weighing instruments in its supermarkets. In January 2015 the court approved the plaintiff's request to withdraw the claim.

In January 2014, a claim, and a request to recognize the claim as a class action, was filed against the Company and Mega, in the sum of approx. NIS 70 million. The claim is with respect to purchase vouchers, which are exercised in "Mega" supermarkets for 90% of their value, and which are can not be exercised in "You" supermarkets. 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.

In January 2014, a claim, and a request to recognize the claim as a class action, was filed against Mega, in the sum of approx. NIS 29.4 million. The claim is with respect to the alleged lack of chilled drinking water facilities in the company's supermarkets, as required by law. 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.

In March 2014, a claim and a request to recognize it as a class action was filed against Mega and other defendants, in the sum of NIS 124 million. The claim is with regard to the alleged lack of marking of expiry date, ingredients and nutritional facts on delicate food products. 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.

In March 2014, a claim and a request to recognize it as a class action was filed against Mega and other defendants, in the total sum of NIS 657 million, with regard to the alleged breach of price control regulation in the sale of certain salt products. 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.

In May 2014, a claim and a request to recognize the claim as a class action were filed against Mega and another defendant, in the sum of NIS 30 million referred to Mega. The claim is with regard to alleged misleading in the conduction of special sales. 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.

In June 2014, a claim and a request to recognize the claim as a class action were filed against Mega, in the sum of NIS 50 million. The claim is with regard to the use of camera tracking in supermarket stores, without proper notification. 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.

In August 2014, a claim and a request to recognize the claim as a class action were filed against Mega and Shufersal. The claim is with respect to the alleged lack of price marking on certain ice cream products. The claim does not state the amount sought if it is approved as a class action, and requests quantitative data in order to assess such amount. 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.

In November 2014, a claim and a request to recognize the claim as a class action were filed against Mega, in the sum of approximately NIS 103 million. The claim is with regard to certain UHT milk products and the alleged false coordination of their prices; the sale for a price exceeding the maximum price imposed by price control regulations; and the charging of excessive prices. 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.

In January 2015, a claim and a request to recognize the claim as a class action were filed against Mega, in the sum of approximately NIS 27.7 million. The claim is with respect to certain salt products, including low sodium salt, and it is claimed among others that these products should be priced in accordance with price control regulations; that Mega misleads the public to think that low sodium salt can prevent disease or help people that suffer from high blood pressure etc., and other claims regarding the violation of product labeling obligations. 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.

In January 2015, a claim and a request to recognize the claim as a class action were filed against Mega, claiming that Mega sells products in large packaging that does not reflect the amount of contents. The claim does not state the amount sought if it is approved as a class action. 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.

In March 2015, a claim and a request to recognize the claim as a class action were filed against Mega, claiming that Mega is misleading the public by not informing buyers at its internet site of the basic qualities of products, such as ingredients, nutritional information, weight after filtering, etc. The claim is with respect to certain pickles and canned sardine fish products. The claim does not state the amount sought if it is approved as a class action, although it is mentioned that such sum is above NIS 3 million. The Company is currently reviewing the Claim and denying all 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.

In March 2015, a claim and a request to recognize the claim as a class action were filed against Mega and Eden Teva Market, claiming that Mega and Eden mislead the public by not charging the advertised price of certain products in special sales. The claim does not state the amount sought if it is approved as a class action. The Company is currently reviewing the Claim and denying all 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.

In July 2013 a claim and a request to recognize it as a class action was filed against Eden Teva Market, in the sum of NIS 35.7 million. The claim alleges that Eden charged higher prices than those that were marked on a certain product. In April 2014 the claim was rejected by the court.

In April 2015, a claim and a request to approve the claim as a class action was filed against Mega and another defendant, in the total sum of NIS 50 million. The claim is with respect to the alleged lack of marking of certain honey products with details as required by law. The Company is currently reviewing the Claim and denying all 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.

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.

We are subject to legal proceedings in connection with business licenses

The operation of the Company's supermarkets in Israel requires permits from several authorities including the Health Ministry 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 Mega Retail. 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.

Legal Proceedings related to our Fueling and Commercial Sites

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 Civil 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. However, the Court rejected the two compromise agreements and therefore the legal procedures continue. In any case, 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.

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 credit 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. The parties have reached a compromise that was rejected by court and the court asked the parties to file their pleadings before the compromise agreement is filed. In the event the parties will not reach a compromise agreement, the Company believes, 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.

On August 22, 2011, Dor Alon received a letter of claim and a motion for approval of action as class action against Dor Alon and the three other gasoline companies for a total of NIS 1 billion (of which Dor Alon's share is NIS 167 million). The claimants argue that the gasoline companies inflated the "marketing expense item" which is incorporated into the calculation of the maximum price of gasoline 95 octane by adding expenses unrelated to the sale of gasoline, thus misleading the regulator and enabling themselves to sell gasoline 95 octane at a higher price than the price that should be charged. The claimants assert that this is violation of legislated provisions in the Supervision Order on Goods and Services (Maximum Prices in Gasoline Stations) – 2002; the Consumer Protection Law – 1981; and the Damage Ordinance (new version) – 1968. 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.

On June 24, 2012, a letter of claim and motion for approval as a class action was filed against Dorgas, at an aggregate amount of approximately NIS 42 million. The plaintiff claims that Dorgas is in breach of the Arrangements in the State Economy Regulations that require that at the time of termination of a contract between a gas supplier and a client that the deposit payments be returned linked to the Israeli Consumer Prices Index. In August 2014 the court approved a settlement agreement between the parties.

On September 3, 2012, a letter of claim and motion for approval as a class action was filed against Dor Alon and a subsidiary of Dor Alon, for an aggregate amount of NIS 50 million. The plaintiff claims that Dor Alon failed to comply with law requirements regarding sanitarian standards of lavatories at its petrol stations, particularly cleaning requirements and intactness of facilities. In November 2014 the court approved the Plaintiff's request to withdraw the claim.

On September 6, 2012, a letter of claim and motion for approval as a class action was filed against Dor Alon, for an aggregate amount of NIS 43.2 million. The plaintiff claims that as a customer of the Dor Alon "Spidomat" arrangement for car fueling at reduced prices, she discovered that her reduction was less than the regular discount given to all other customers at the station. As result, the Plaintiff claims she suffered financial damages from being a member of the "Spidomat" arrangement. In October 2014, the court approved the claim as a class action, and Dor Alon made a proper provision for this claim in its financial statements.

On September 13, 2012, a letter of claim and motion for approval as a class action was filed against a subsidiary of Dor Alon and other defendants, for an aggregate amount of NIS 77 million. The letter of claim states that the defendants have breached the provisions of the product and service regulation order (maximum prices in gas stations – 2002 (herein, "the Order") as regards conditions for collection of extra charge on full service, nighttime service and rest days service, as well as the provisions of article 3(D) of the of the product and service regulation order (maximum prices in gas stations) (amendment) – 2006 (herein, "the Amended Order") as regards the signage of self-service fuelling pumps. The claimants argue that the order has set criteria for a minimum rate of self-service pumps in the gas stations out of the total number of pumps in the gas station, and that whenever the criterion is not met, it is prohibited to collect service fee in that station. The claimants further allege that according to the Amended order, whenever a pump is not marked in accordance with the Order, it cannot be regarded as a self-service pump. As a result, the Defendants did not meet the criterion stipulated in the Order in certain stations and are therefore prohibited from collecting service fee in those gas stations. 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.

In October 2013 a letter of claim and motion for approval as a class action was filed against a subsidiary of Dor Alon, together with other defendants including oil companies and credit card companies. It is claimed that there is an agreement between the oil companies and the credit card companies, according to which extra charging is made for a limited period of time, when paying with certain credit cards at gas filling stations, without prior notification to the client. In February 2015 the court approved a settlement agreement between the parties.

In November 2013 two letters of claim and motions for approval as a class action were filed against a subsidiary of Dor Alon, one in the sum of NIS 7 million, and the other in the amount of NIS 306 million. It is alleged in both claims that the subsidiary, Alon Intrade Coffee Shops Ltd., replaced labels of the production dates of sandwiches, in a way that appeared as if the sandwich had been produced no later than in the last 24 hours from the time it was bought. In the opinion of the Company, based on the opinion of its legal advisers, the chances that the claims will be rejected exceed 50%. Accordingly, the Company did not make any provision for these claims in its financial statements.

In July 2014, a letter of claim and motion for approval as a class action was filed against Dor Alon and a subsidiary of Dor Alon, in the sum of approx. NIS 256 million, with regard to the alleged failure to comply with provisions requiring verification and calibration of fuel pumps. In January 2015 the court approved the plaintiff's request to withdraw the claim.

In January 2015, a letter of claim and motion for approval as a class action in the sum of approx. NIS 94 million was filed against a subsidiary of Dor Alon. It is claimed that the subsidiary did not fulfill its commitment for a certain discount price, and that it failed to properly display prices of fuel and diesel at its filling stations. The Company is currently reviewing the Claims and denying all 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.

In March 2015 a letter of claim and motion for approval as a class action in the sum of approx. NIS 71 million was filed against Dor Alon and a subsidiary of Dor Alon. It is claimed that Dor Alon and its subsidiary charge higher prices for diesel purchased at self service pumps than diesel purchased at full service pumps, and that they fail to comply with statutory requirements regarding the display of prices at filling stations. The Company is currently reviewing the Claims and denying all 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.

In April 2015 a letter of claim and motion for approval as a class action in the sum of NIS 55 million was filed against Dor Alon and a subsidiary of Dor Alon. The claim is with regard to video shooting and sound recording made in convenience stores without proper notice and consent of the customers. The Company is currently reviewing the Claims and denying all 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 continues to develop.

Several bills of indictment and verdicts are pending against Dor Alon and its subsidiaries for operating fueling stations or convenience stores without a business license and non-compliance with permits. In addition, closing orders have been issued regarding public fueling 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 the Company, 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.

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.

Legal Proceedings related to our Houseware and Textile Segment

In July 2013 a claim and a request to recognize it as a class action was filed against Mega, Kfar Hash'ashuim Toy Stores Chain and other store chains, with regard to special sales that offer reduced prices for the second item bought. It is claimed that when purchasing 4 items (1+1 and 1+1), the reduction is always made from the lowest prices of all four. The claim does not state the amount sought if it is approved as a class action. 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.

General

We are involved in various other legal or other proceedings incidental to the ordinary course of our business. We do not believe that any of these proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial position or operating results.

Independent Accountants

Our auditors, Kesselman & Kesselman have no relationship with us or with any affiliate of us, except as auditors.

B. Significant Changes.

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2014.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details.

ADSs

The following table sets forth the annual high and low closing prices for Alon Blue Square ADSs for the five most recent full financial years as reported by the New York Stock Exchange.

<u>Year</u>	<u>High</u>	<u>Low</u>
2010	\$14.9	\$8.1
2011	\$10.6	\$4.0
2012	\$4.3	\$1.8
2013	\$4.7	\$3.7
2014	\$4.3	\$2.4

The following table sets forth the quarterly high and low closing prices for Alon Blue Square ADSs for each quarter of the two most recent full financial years and the subsequent quarterly period, as reported by the New York Stock Exchange.

<u>Year</u>	<u>High</u>	<u>Low</u>
2013		
First quarter	\$3.2	\$2.5
Second quarter	\$4.0	\$3.0
Third quarter	\$4.0	\$3.3
Fourth quarter	\$4.7	\$3.8
2014		
First quarter	\$4.3	\$3.7
Second quarter	\$4.0	\$3.2
Third quarter	\$3.3	\$2.9
Fourth quarter	\$3.0	\$2.4
2015		
First quarter	\$3.1	\$2.3

The following table sets forth the monthly high and low closing prices for Alon Blue Square ADSs for the last six months, as reported by the New York Stock Exchange.

<u>2014</u>	<u>High</u>	<u>Low</u>
October	\$3.0	\$2.6
November	\$2.6	\$2.4
December	\$2.8	\$2.5

2015	High	Low
January	\$2.6	\$2.3
February	\$3.0	\$2.5
March	\$3.1	\$2.7

Ordinary Shares

The following table sets forth the annual high and low closing prices for Alon Blue Square's ordinary shares for the years 2010 to 2014 as reported by the Tel Aviv Stock Exchange. Shares are traded on the Tel Aviv Stock Exchange in NIS, and the translation of the NIS to dollars has been made at the representative exchange rate of exchange on the last day of each period, as published by The Bank of Israel.

Year	High		Low	
	NIS	\$	NIS	\$
2010	50.1	14.1	29.8	8.4
2011	36.5	9.6	15.5	4.1
2012	16.2	4.3	7.0	1.9
2013	16.7	4.8	9.3	2.7
2014	14.9	3.8	9.3	2.4

The following table sets forth the quarterly high and low closing price for Alon Blue Square's ordinary shares for the quarters set forth below, as reported by the Tel Aviv Stock Exchange. The translation into dollars has been made at the representative rate of exchange on the last day of each period, as published by The Bank of Israel.

	High		Low	
	NIS	\$	NIS	\$
2013				
First Quarter	11.6	3.2	9.3	2.6
Second Quarter	15.0	3.7	11.8	2.9
Third Quarter	14.6	4.1	12.1	3.4
Fourth Quarter	16.7	4.8	13.7	3.9
2014				
First Quarter	14.9	4.3	13.2	3.8
Second Quarter	13.8	4.0	11.2	3.3
Third Quarter	11.6	3.1	10.3	2.8
Fourth Quarter	11.2	2.9	9.3	2.4
2015				
First Quarter	12.4	3.1	9.3	2.3

The following table sets forth the monthly high and low closing prices for Alon Blue Square ordinary shares for the last six months, as reported by the Tel Aviv Stock Exchange. The translation into dollars is based on the representative rate of exchange on the last day of each period, as published by The Bank of Israel.

2014	High		Low	
	NIS	\$	NIS	\$
October	11.0	2.9	10.2	2.7
November	10.3	2.6	9.3	2.4
December	11.2	2.9	9.8	2.5

2015	High		Low	
	NIS	\$	NIS	\$
January	10.4	2.7	9.3	2.4
February	11.8	3.0	9.9	2.5
March	12.4	3.0	11.2	2.8

For additional information on our ordinary shares, see “Item 10. Additional Information – B. Memorandum and Articles of Association – Description of Securities – Ordinary Shares.”

B. Plan of Distribution.

Not applicable.

C. Markets.

Our ADSs, each representing one ordinary share and evidenced by an American depositary receipt, or ADR, have been traded on the New York Stock Exchange, Inc. under the symbol “BSI” since July 1996. The ADRs were issued pursuant to a Depositary Agreement Alon Blue Square entered into with The Bank of New York.

On November 2000, our ordinary shares began trading also on the Tel Aviv Stock Exchange.

D. Selling Shareholders.

Not applicable.

E. Expenses of the Issue.

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital.

Not applicable.

B. Memorandum and Articles of Association.

Securities Registers

Our transfer agent and register is The Bank of New York Mellon (f/k/a The Bank of New York) and its address is 1 Wall Street, New York, New York 10286.

Objects and Purposes

According to Section 4 of our Articles of Association the company shall engage in any legal business. Article 3 of our Articles of Association provides that our purpose is to act pursuant to business consideration to make profit. The company may contribute a reasonable amount for an appropriate object even if the contribution is not within the said business considerations.

Private Placements

Under Alon Blue Square's Articles of Association, resolutions of the board of directors regarding a private placement of Alon Blue Square's shares constituting, or securities convertible into, more than ten percent of our outstanding share capital require the approval of Alon Blue Square's shareholders. With respect to the aforesaid, securities convertible or exercisable into shares are deemed to have been converted or exercised on the date of their issue.

Under the Israeli Companies Law, if (i) as a result of a private placement a person would become a controlling shareholder or (ii) a private placement will entitle 20% or more of the voting rights of a company before the placement, and all or part of the private placement consideration is not in cash or in publicly traded securities or is not on market terms and if as a result of the private placement the holdings of a substantial shareholder shall increase or as a result of it a person shall become a substantial shareholder, then in either case, the allotment must be approved by the board of directors and by the shareholders of the company. A "substantial shareholder" is defined as a shareholder that holds five percent or more of the company's outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person. In order for the private placement to be on "market terms" the board of directors has to determine, based on detailed explanations, that the private placement is on market terms, unless proven otherwise.

Board of Directors

Under Alon Blue Square's Articles of Association, resolutions by the board of directors shall be decided by a majority of votes of the directors present (or participating, in the case of voting by media) and voting, each director having one vote.

In addition, the Israeli Companies Law requires that certain transactions, actions and arrangements be approved as provided for in a company's articles of association and in certain circumstances by the audit or compensation committee and by the board of directors itself. Those transactions that require such approval pursuant to a company's articles of association must be approved by its board of directors. In certain circumstances, audit or compensation committee and shareholder approval is also required. The vote required by the audit or compensation committee and the board of directors for approval of such matters, in each case, is a majority of the directors participating in a duly convened meeting. For further information regarding the committees see "Item 6. Directors, Senior Management and Employees – C. Board Practices – Committees."

The Israeli Companies Law requires that a member of the board of directors or senior management of the company promptly and, in any event, not later than the first board meeting at which the transaction is discussed, disclose any personal interest that he or she may have, either directly or by way of any corporation in which he or she is, directly or indirectly, a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager, as well as all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction (that is, a transaction other than in the ordinary course of business, other than on market terms, or is likely to have a material impact on the company's profitability, assets or liabilities), the member of the board of directors or senior management must also disclose any personal interest held by his or her spouse, siblings, parents, grandparents, descendants, spouse's descendants, siblings and parents, and the spouses of any of the foregoing.

Once the member of the board of directors or senior management complies with the above disclosure requirement, a company may approve the transaction in accordance with the provisions of its articles of association. Further, under Alon Blue Square's Articles of Association, subject to the provisions of the Companies Law, (i) a transaction between us and an officer or a person that controls us or (ii) a transaction between us and another person in which an officer of ours or a person that controls us has a personal interest, which transaction is not in any such case extraordinary (Ordinary Interested Transactions), will be approved by us in the following manner:

By the board of directors, or by the audit committee, or by the Chief Executive Officer with two directors that have no personal interest in the transaction, or by another body authorized by the board of directors, whether such body is authorized by the board of directors by means of a specific resolution or by board practice, or whether such body is granted authority by means of a general authorization, an authorization for a particular type of transaction or an authorization for a particular transaction.

The approval of Ordinary Interested Transactions by the bodies or persons may be done by means of an approval of a particular type of transaction or an approval of a particular transaction. The approval must confirm that the transaction is not adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the Articles of Association, it also must be approved by the company's audit committee and then by the board of directors, and, under certain circumstances, by a meeting of the shareholders of the company. Under the provisions of the Israeli Companies Law, whoever has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter, unless it is not an extraordinary transaction as defined in the Israeli Companies Law. However, if the chairman of the board of directors or the chairman of the audit committee has determined that the presence of an office holder with a personal interest is required for the presentation of a matter, such officer holder may be present at the meeting. Notwithstanding the foregoing, if the majority of the directors have a personal interest in a matter, they shall be allowed to participate and vote on this matter, but an approval of the transaction by the shareholders in the general meeting shall be required.

Alon Blue Square's Articles of Association provide that, subject to the Israeli Companies Law, all actions executed in good faith by the board of directors or by a committee thereof or by any person acting as a director or a member of a committee of the board of directors will be deemed to be valid even if, after their execution, it is discovered that there was a flaw in the appointment of these persons or that any one of these persons was disqualified from serving at his or her office.

The Articles of Association provide that the board of directors may delegate its powers to such committees of the board of directors as it deems appropriate, subject to the provisions of the Israeli Companies Law, and they may from time to time widen, narrow or cancel the delegation of such power. The Israeli Companies Law provides that certain powers of the board of directors may not be delegated by the board of directors. See "Item 6. Directors, Senior Management and Employees – C. Board Practices - Committees."

According to the Israeli Companies Law, a contract between a company and its directors, regarding their conditions of service, including the grant to them of exemption from liability from certain actions, insurance, and indemnification as well as the company's contract with its directors regarding the conditions of their employment, in other capacities, require the approval of the audit or compensation committee, the board of directors, and the shareholders.

Compensation Policy

A recent amendment to the Companies Law requires that each public company must adopt a Compensation Policy by approval of its compensation committee, its board of directors and shareholders (by a majority of shareholders that does not include the controlling shareholders of the company and any shareholders interested in the approval of the Compensation Policy) and also that the terms of service and engagement of the chief executive officer, directors or controlling shareholders (or a relative thereof) receive the approval of the compensation committee, board of directors, and shareholders, subject to limited exceptions. Similarly, the terms of service and engagement of any officer other than the CEO must receive the approval of the compensation committee and board of directors. However, shareholder approval is only required if the compensation of such officer other than the CEO is not in accordance with the company's compensation policy. Under certain circumstances, the compensation committee and the board of directors may approve a Compensation Policy or terms of service even if rejected the shareholders meeting.

On September 30, 2013, our shareholders approved the adoption of a Compensation Policy applicable to Company officers and directors for a period of three years. Among other things, the Compensation Policy provides the manner and basis on which the terms of office and employment of the Company Office Holders will be established and approved. The Company's Compensation Policy takes into account, among other things, providing proper incentives to directors and officers, taking into account the risk management of the company, the officer's contribution to achieving corporate objectives and increasing profits, and the function of the officer or director. The Company's compensation policy was submitted to the SEC on Form 6-K on September 12, 2013.

Description of Securities

Ordinary Shares

The following is a description of our ordinary shares. Our authorized share capital is 100,000,000 ordinary shares, par value NIS 1.0 per share.

The ordinary shares do not have preemptive rights, preferred rights or any other right to purchase the company's security. Neither our Articles of Association nor the laws of the State of Israel restrict the ownership or voting of ordinary shares by non-residents of Israel, except for subjects of countries which are enemies of Israel.

Transfer of Shares. Fully paid ordinary shares are issued in registered form and may be freely transferred pursuant to our Articles of Association unless that transfer is restricted or prohibited by another instrument.

Notices. Under the Israeli Companies Law and our Articles of Association, we are required to publish notices in two Hebrew-language daily newspapers at least 14 calendar days' prior notice of a shareholders' meeting. However, under regulations promulgated under the Israeli Companies Law, we are required to publish notice in two daily newspapers at least 35 calendar days prior any shareholders' meeting in which the agenda includes matters which may be voted on by voting instruments. Regulations under the Israeli Companies Law exempt companies, like Alon Blue Square, whose shares are listed for trading both on a stock exchange in and outside of Israel, from some provisions of the Israeli Companies Law. An amendment to these regulations exempts us from the requirements of the Israeli proxy regulation, under certain circumstances.

According to the Israeli Companies Law and the regulations promulgated thereunder, for purposes of determining the shareholders entitled to notice and to vote at such meeting, the board of directors may fix the record date not more than 40 nor less than four calendar days prior to the date of the meeting, provided that an announcement regarding the general meeting shall be given prior to the record date.

Election of Directors. Our ordinary shares do not have cumulative voting rights in the election of directors. As a result, the holders of ordinary shares representing more than 50% of our ordinary shares and voting power have the power to elect all of our directors, other than our external directors, whose initial election requires, in addition to the vote of a majority of shareholders, that a majority of the votes of the shareholders who are not controlling shareholders and do not have a personal interest in the appointment (excluding a personal interest which did not result from the shareholder's relationship with the controlling shareholder) who participate in the vote, vote for their nomination (without taking into account abstentions), or that less than two percent of the disinterested shareholders vote against their nomination. Currently, Alon Retail has the power to elect all of our directors other than our two external directors. See "Item 3. Key Information – D. Risk Factors – Alon is able to control the outcome of matters requiring shareholder approval."

Dividend and Liquidation Rights. Our profits, in respect of which a resolution was passed to distribute them as dividend or bonus shares, shall be paid pro rata to the amount paid or credited as paid on account of the nominal value of shares held by the shareholders. In the event of Alon Blue Square's liquidation, the liquidator may, with the general meeting's approval, distribute parts of the company's property in specie among the shareholders and he or she may, with similar approval, deposit any part of the company's property with trustees in favor of the shareholders as the liquidator, when the approval mentioned above deems fit.

Voting, Shareholders' Meetings and Resolutions. Holders of ordinary shares are entitled to one vote for each ordinary share held on all matters submitted to a vote of shareholders. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present, in person or by proxy, or who has sent the company a voting instrument indicating the way in which he or she is voting, who hold or represent, in the aggregate, 50% or more of the voting rights of our outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as prescribed by the board of directors in a notice to the shareholders. At the reconvened meeting one shareholder at least, present in person or by proxy constitutes a quorum subject to the provisions of section 79 of the Israeli Companies Law.

With the agreement of a meeting at which a quorum is present, the chairman may, and on the demand of the meeting he must, adjourn the meeting from time to time and from place to place, as the meeting resolves.

Annual general meetings of shareholders are held once every year within a period of not more than 15 months after the last preceding annual general shareholders' meeting. The meeting shall be held at the company's registered offices, unless the board of directors has determined otherwise. The board of directors may call special general meetings of shareholders. The Israeli Companies Law provides that a special general meeting of shareholders may be called by the board of directors or by a request of two directors or 25% of the directors in office, whichever is the lower, or by shareholders holding at least 5% of the issued share capital of the company and at least 1% of the voting rights, or of shareholders holding at least 5% of the voting rights of the company.

An ordinary resolution requires approval by the holders of a majority of the voting rights present, in person or by proxy, at the meeting and voting on the resolution.

Modification of Class Rights. Under Alon Blue Square's Articles of Association, unless otherwise provided, the rights attached to any class may be varied after a resolution is passed by general meetings of the shareholders of each class of shares separately or after obtaining the written consent of the holders of all the classes of shares.

Allotment of Shares. Alon Blue Square's board of directors has the power to allot or to issue shares to any person, with restrictions and condition, for their nominal value or with a premium, as it deems fit.

Private Placements

For information on private placements, see "Item 10. Additional Information – B. Memorandum and Articles of Association – Private Placements."

C. Material Contracts.

For a summary of other material contracts, see "Item 4. Information on the Company – B. Business Overview – General", "Item 4. Information on the Company – B. Business Overview – Supermarkets," "Item 4. Information on the Company - B. Business Overview – Fueling and Commercial Sites," "Item 4. Information on the Company – B. Business Overview – Houseware and Textile," "Item 4. Information on the Company – B. Business Overview – Real Estate," "Item 4. Information on the Company – B. Business Overview – Related Businesses", "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Debentures", "Item 6. Directors, Senior Management and Employees – C. Board Practices – Exemption, Insurance and Indemnification of Directors and Officers – Limitations on Insurance, Exemption and Indemnification", "Item 6. Directors, Senior Management and Employees – D. Employees", "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions," and our consolidated financial statements and notes included elsewhere in this Annual Report.

D. Exchange Controls.

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new "general permit" was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under the law and enabled Israeli citizens to freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies.

Dividends, if any, paid to holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

E. Taxation

Israeli Tax Considerations

General

The following is a summary of the current tax regime of the State of Israel, which applies to us and to persons who hold our ordinary shares or ADSs (the “**Shares**”).

This discussion does not purport to constitute a complete analysis of all potential tax consequences applicable to investors upon purchasing, owning or disposing of our Shares. In particular, this discussion does not take into account the specific circumstances of any particular investor (such as tax-exempt entities, Financial Institutions, certain financial companies, broker-dealers, investors that own, directly or indirectly, 10% or more of our outstanding voting rights, or foreign companies, Israeli residents holding 25% or more of their shares or having the right to 25% or more of their income or profit, all of whom are subject to special tax regimes not covered under this discussion). To the extent that issues discussed herein are based on legislation which has yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of the Shares, including, in particular, the effect of any foreign, state or local taxes.

General Corporate Tax Structure in Israel

Israeli resident companies are generally subject to corporate tax, currently at the rate of 26.5% of a company’s taxable income.

TAXATION OF SHAREHOLDERS

Capital Gains

Capital gains tax is imposed on the disposal of capital assets by an Israeli resident, and on the disposal of such assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Income Tax Ordinance of 1961 (New Version) distinguishes between “Real Gain” and the “Inflationary Surplus”. Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli CPI between the date of purchase and the date of disposal. Inflationary Surplus is not subject to tax.

Real Gain accrued by individuals on the sale of the Shares will be taxed at the rate of 25%. However, if the individual shareholder is a “Controlling Shareholder” (i.e., a person who holds, directly or indirectly, alone or together with another, 10% or more of one of the Israeli resident company’s means of control) at the time of sale or at any time during the preceding 12 month period, such gain will be taxed at the rate of 30%. In addition, capital gains generated by an individual claiming deduction of financing expenses in respect of such gain will be taxed at the rate of 30%.

Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (26.5% in 2015 for corporations and a marginal tax rate of up to 50% in 2015 for individuals, including an additional 2% tax which would be levied on individuals whose taxable income from Israeli sources exceeds NIS 810,720 in 2015). Notwithstanding the foregoing, capital gains generated from the sale of our Shares by a non-Israeli shareholder may be exempt from Israeli tax under the Israeli Income Tax Ordinance provided that the following cumulative conditions are met: (i) the Shares were purchased upon or after the registration of the Shares on the stock exchange, (ii) the seller does not have a permanent establishment in Israel to which the generated capital gain is attributed, and (iii) if the seller is a corporation, less than 25% of its means of control or the rights to its profit or income are held by or attributed to Israeli resident shareholders. In addition, the sale of the Shares may be exempt from Israeli capital gains tax under the provisions of an applicable double tax treaty. For example, the U.S.-Israel Double Tax Treaty exempts a U.S. resident from Israeli capital gain tax in connection with the sale of the Shares, provided that: (i) the U.S. resident owned, directly or indirectly, less than 10% of the voting power of the company at any time within the 12 month period preceding such sale; (ii) the U.S. resident, being an individual, is present in Israel for a period or periods of less than 183 days during the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel (“U.S.-Israel Double Tax Treaty”).

Either the purchaser, the Israeli stockbroker or the financial institution through which the Shares are held are obligated, subject to the above mentioned exemptions, to withhold tax upon the sale of Shares from the Real Gain at the rate of 25% or 26.5% in respect of an individual or corporation, respectively..

Upon the sale of traded securities, a detailed return, including a computation of the tax due, must be filed and an advanced payment must be paid to the Israeli Tax Authority on January 31 and June 30 of every tax year in respect of sales of traded securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Israeli Income Tax Ordinance and regulations promulgated thereunder, such return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

Dividends

Dividends distributed by the Company to a shareholder who is Israeli resident individual will be generally subject to income tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a Controlling Shareholder, as defined above, at the time of distribution or at any time during the preceding 12 month period. If the recipient of the dividend is an Israeli resident corporation, such dividend will be generally exempt from Israeli income tax provided that the income, from which such dividend had been distributed, derived or accrued within Israel.

Dividends distributed by an Israeli resident company to a non-Israeli resident (either individual or corporation) is generally subject to tax on the receipt of such dividend at the rate of 25% (30% if the dividend recipient is a Controlling Shareholder at the time of distribution or at any time during the preceding 12 month period). These rates may be reduced under the provisions of an applicable double tax treaty. Thus, under the U.S.-Israel Double Tax Treaty, the following tax rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain types of interest or dividends the tax rate is 12.5%; (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income, which was entitled to a reduced tax rate applicable to a Privileged Enterprise under the Law for the Encouragement of Capital Investments, 1959 – the tax rate is 20% for dividends distributed from profits derived after January 1, 2014; (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the U.S.-Israel Double Tax Treaty will not apply if the dividend income is attributed to a permanent establishment of the U.S. resident in Israel.

The Company is obligated to withhold tax upon the distribution of dividends at the following withholding tax rates: (a) for securities registered and held by a clearing corporation: (i) Israeli resident corporations – 0%, (ii) Israeli resident individuals – 25%, and (iii) non-Israeli residents - 25%, unless reduced by applying the provisions of an applicable double tax treaty; (b) in all other cases: (i) Israeli resident corporations – 0%, (ii) Israeli resident individuals – 25%/30% (the 30% tax rate shall apply if the dividend recipient is a “Controlling Shareholder” (as defined above) at the time of the distribution or at any time during the preceding 12 months period)), and (iii) non-Israeli residents - 25%/30% as referred to above with respect to Israeli resident individuals, unless reduced by applying the provisions of an applicable double tax treaty.

Foreign Exchange Regulations

Non-residents of Israel who hold our Shares are able to receive any dividends, and any amounts payable upon the dissolution, liquidation and winding up of our affairs, repayable in non-Israeli currency at the rate of exchange prevailing at the time of conversion. However, Israeli income tax is generally required to have been paid or withheld on these amounts. In addition, the statutory framework for the potential imposition of currency exchange control has not been eliminated, and may be restored at any time by administrative action.

United States Federal Income Tax Considerations

The following is a summary of the material U.S. federal income tax consequences that apply to U.S. Holders who hold Alon Blue Square's ADSs or ordinary shares (together "Shares") as capital assets for tax purposes. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof and the U.S.-Israel income tax treaty, all of which are subject to change, possibly on a retroactive basis. This summary does not address all U.S. federal income tax matters that may be relevant to a particular perspective holder or all tax considerations that may be relevant with respect to an investment in Alon Blue Square's Shares.

This summary does not address tax considerations applicable to a holder of a Alon Blue Square Shares that may be subject to special tax rules including, without limitation, the following:

- dealers or traders in securities, currencies or notional principal contracts;
- financial institutions;
- insurance companies;
- real estate investment trusts;
- banks;
- investors subject to the alternative minimum tax;
- tax-exempt organizations;
- traders that have elected mark-to-market accounting;
- investors that hold Shares as part of a "straddle", "hedge", or "conversion transaction" with other investments;
- regulated investment companies;
- investors that actually or constructively own 10 percent or more of our voting shares;
- investors that are treated as partnerships or other pass through entities for U.S. federal income purposes and persons who hold the Shares through partnerships or other pass through entities;
- investors whose functional currency is not the US dollar; and
- expatriates or former long-term residents of the United States.

This summary does not address the effect of any U.S. federal taxation other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local, or foreign taxation or the indirect effects on the holders of equity interest in a holder of the Shares.

You are urged to consult your own tax advisor regarding the foreign and U.S. federal, state, and local and other tax consequences of an investment in the Shares.

- For purposes of this summary, a "U.S. Holder" means a beneficial owner of a Share that is for U.S. federal income tax purposes:
 - an individual who is a citizen or resident of the United States;

- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof;
 - an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
 - a trust (1) if (a) a court within the United States is able to exercise primary supervision over the administration of the trust; and (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; or (2) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.
- For purposes of this section, a “non-U.S. Holder” is any holder who is not a U.S. Holder.

If an entity that is classified as a partnership for U.S. federal tax purposes holds Shares, the U.S. federal tax treatment of its partners will generally depend upon the status of the partners and the activities of the partnership. Entities that are classified as partnerships for U.S. federal tax purposes and persons holding Shares through such entities should consult their own tax advisors.

In general, if you hold ADSs, you will be treated as the holder of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom Shares are released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of Shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. Holders. Accordingly, the analysis of the credibility of Israeli taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by parties to whom the Shares are released and the positions of the U.S. Treasury.

U.S. Taxation of Shares

Distributions

Subject to the discussion under “Passive Foreign Investment Companies” below, the gross amount of any distribution, including the amount of any Israeli taxes withheld from these distributions (see “Item 10. Additional Information – E. Taxation – Israeli Tax Considerations”), actually or constructively received by a U.S. Holder with respect to Shares, will be taxable to the U.S. Holder as a dividend to the extent of our current and accumulated earnings and profits as determined under U.S. federal income tax principles. The U.S. Holder will not, except as provided by Section 245 of the Code, be eligible for any dividends received deduction in respect of the dividend otherwise allowable to corporations. Distributions in excess of earnings and profits will be non-taxable to the U.S. Holder to the extent of, and will be applied against and reduce, the U.S. Holder’s adjusted tax basis in the Shares. Distributions in excess of such adjusted tax basis will generally be taxable to the U.S. Holder as capital gain from the sale or exchange of property. If we do not report to a U.S. Holder the portion of a distribution that exceeds earnings and profits, the distribution will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution.

Under the Code, certain dividends received by non-corporate U.S. Holders will be subject to a maximum income tax rate of 20%. This reduced income tax rate is only applicable to dividends paid by a “qualified foreign corporation” that is not a “passive foreign investment company” and only with respect to shares held by a qualified U.S. Holder (i.e., a non-corporate holder) for a minimum holding period (generally 61 days during the 121-day period beginning 60 days before the ex-dividend date). We should be considered a qualified foreign corporation because (i) we are eligible for the benefits of a comprehensive tax treaty between Israel and the U.S., which includes an exchange of information program, and (ii) the ADSs are readily tradeable on an established securities market in the U.S. In addition, based on our current business plans, we do not expect to be classified as a “passive foreign investment company” (see “Item 10. Additional Information – E. Taxation – Israeli Tax Considerations – Passive Foreign Investment Companies” below). Accordingly, dividends paid by us to individual U.S. Holders on shares held for the minimum holding period should be eligible for the reduced income tax rate. In addition to the income tax on dividends discussed above, certain non-corporate U.S. holders will also be subject to the 3.8% Medicare tax on dividends as discussed below under “Medicare Tax on Unearned Income”.

The amount of any distribution paid in a currency other than US dollars (a “foreign currency”) including the amount of any withholding tax thereon, will be included in the gross income of a U.S. Holder in an amount equal to the US dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date of the U.S. Holder’s (or, in the case of ADSs, the depository’s) receipt of the dividend, regardless of whether the foreign currency is converted into U.S. dollars. If the foreign currency is converted into US dollars on the date of receipt, a U.S. Holder generally should not be required to recognize a foreign currency gain or loss in respect of the dividend. If the foreign currency received in the distribution is not converted into US dollars on the date of receipt, a U.S. Holder will have a basis in the foreign currency equal to its US dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency will be treated as ordinary income or loss.

Dividends received by a U.S. Holder with respect to Shares generally will be treated as foreign source income for the purposes of calculating the holder’s foreign tax credit limitation. Subject to certain conditions and limitations, any Israeli taxes withheld on dividends at the rate provided by the U.S.-Israel income tax treaty may be deducted from taxable income or credited against a U.S. Holder’s U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to “passive” income and “general” income. The rules relating to foreign tax credits and the timing thereof are complex. U.S. Holders should consult their own tax advisors regarding the availability of a foreign tax credit under their particular situation (including, in the case of a U.S. corporation that owns 10 percent or more of our voting stock, the possible application of Section 902 of the Code).

Sale or Other Disposition of Shares

If a U.S. holder sells or otherwise disposes of its Shares, a gain or loss will be recognized for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and such holder's adjusted basis in the Shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be a capital gain or loss and will be a long-term capital gain or loss if the holder had held the Shares for more than one year at the time of the sale or other disposition. Long-term capital gains realized by individual U.S. Holders generally are subject to a lower marginal U.S. federal income tax rate (currently up to 20%) than ordinary income. A U.S. Holder's ability to deduct capital losses is subject to limitations. In addition to the income tax on gains discussed above, certain non-corporate U.S. holders will also be subject to the 3.8% Medicare tax on net gains as discussed below under "Medicare Tax on Unearned Income". Under most circumstances, any gain that a holder recognizes on the sale or other disposition of Shares will be U.S. source for purposes of the foreign tax credit limitation and any recognized losses will be allocated against U.S. source income.

If a U.S. Holder receives foreign currency upon a sale or exchange of Shares, a gain or loss will be recognized as described above and in addition, a gain or loss, if any, recognized on the subsequent sale, conversion, or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into US dollars on the date received by the U.S. Holder, the U.S. Holder generally should not be required to recognize any gain or loss on such conversion.

A U.S. Holder who holds Shares through an Israeli stockbroker or other Israeli intermediary may be subject to Israeli withholding tax on any capital gains recognized if the U.S. Holder does not obtain approval of an exemption from the Israeli Tax Authorities or claim any allowable refunds or reductions. U.S. Holders are advised that any Israeli tax paid under circumstances in which an exemption from (or a refund of or a reduction in) such tax was available will not give rise to a deduction or credit for foreign taxes paid for U.S. federal income tax purposes. U.S. Holders are advised to consult their Israeli stockbroker or intermediary regarding the procedures for obtaining an exemption or reduction.

Medicare Tax on Unearned Income

Certain U.S. Holders that are individuals, estates or trusts are required to pay an additional 3.8% tax on all or a portion of their "net investment income", which includes, among other things, dividends on, and net gains from the sale or other disposition of Shares (other than Shares held in a trade or business).

Passive Foreign Investment Companies

For U.S. federal income tax purposes, we will be considered a passive foreign investment company ("PFIC") for any taxable year in which either 75% or more of our gross income is passive income, or at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities, and the excess of gains over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning Shares.

Based on our estimated gross income, the average value of our gross assets, and the nature of our business, we do not believe that we will be classified as a PFIC in the current taxable year. Our status in any taxable year will depend on our assets and activities in each year and because this is a factual determination made annually at the end of each taxable year, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we determine that we have become a PFIC, we will notify our U.S. Holders and provide them with the information necessary to comply with the qualified electing fund rules (discussed below). If we are treated as a PFIC in any year during which a U.S. Holder owns Shares, certain adverse tax consequences could apply, as described below. Given our current business plans, however, we do not expect that we will be classified as a PFIC in future years.

If we are treated as a PFIC for any taxable year,

- a U.S. Holder would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of Shares ratably over its holding period for such Shares,
- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- the amount allocated to the year of the dividend payment or disposition would be taxable as ordinary income, and
- a U.S. Holder would be required to make an annual return on IRS Form 8621 regarding distributions received and gains realized with respect to the Shares. Additionally, recently promulgated regulations impose an additional annual filing requirement for U.S. Holders who are shareholders of a PFIC.

One method to avoid the aforementioned treatment is for a U.S. Holder to make an election to treat us as a qualified electing fund. A U.S. Holder that makes an election to treat us as a qualified electing fund (an “electing U.S. Holder”) is required for each taxable year to include in income a pro rata share of the ordinary earnings of the qualified electing fund as ordinary income and a pro rata share of the net capital gain of the qualified electing fund as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. A U.S. Holder may make a qualified electing fund election only if we furnish the U.S. Holder with certain tax information. We have agreed to supply an electing U.S. Holder with such information needed to report income and gain pursuant to a qualified election in the event Alon Blue Square is classified as a PFIC. Alternatively, another method to avoid the aforementioned treatment is for a U.S. Holder to make a timely mark-to-market election in respect of its Shares. If a U.S. Holder elects to mark-to-market its Shares, any excess of the fair market value of the Shares at the close of each tax year over the adjusted basis in such Shares will generally be included in income. If the fair market value of the Shares had depreciated below the adjusted basis at the close of the tax year, the U.S. Holder may generally deduct the excess of the adjusted basis of the Shares over their fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that were included in income by such holder with respect to Shares in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of Shares with respect to which the mark-to-market election is made, is treated as ordinary income or loss.

You are urged to consult your own tax advisor regarding the possibility of us being classified as a PFIC and the potential tax consequences arising from the ownership and disposition (directly or indirectly) of an interest in a PFIC.

Backup Withholding and Information Reporting

Payments of dividends with respect to Shares and the proceeds from the sale, retirement, or other disposition of Shares made by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. We, or an agent, a broker, or any paying agent, as the case may be, may be required to withhold tax (backup withholding), currently at the rate of 28%, if a non-corporate U.S. Holder that is not otherwise exempt fails to provide an accurate taxpayer identification number and comply with other IRS requirements concerning information reporting. Certain U.S. Holders (including, among others, corporations and tax-exempt organizations) are not subject to backup withholding. Any amount of backup withholding withheld may be used as a credit against your U.S. federal income tax liability provided that the required information is timely furnished to the IRS. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Certain U.S. Holders who are individuals may be required to report information relating to an interest in our ADSs on IRS Form 8938, subject to certain exceptions (including an exception for shares held in accounts maintained by financial institutions). U.S. Holders are encouraged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ADSs.

Backup Withholding and Information Reporting for non U.S. Holders

Non-U.S. Holders generally are not subject to information reporting or backup withholding with respect to dividends paid on, or upon the disposition of Shares, provided that the non-U.S. Holder certifies to its foreign status and certain other conditions are met, or otherwise establishes an exemption.

The amount of any backup withholding will be allowed as a credit against a non-U.S. Holder's United States federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS.

Non-U.S. Holders are urged to consult legal and tax advisors in the countries of their citizenship, residence and domicile to determine the possible tax consequences of holding and selling Shares under the laws of their respective jurisdictions in light of their own particular circumstances.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display.

Alon Blue Square is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfills the obligation with respect to these requirements by filing reports with the Securities and Exchange Commission (SEC). You may read and copy any document Alon Blue Square files with the SEC without charge at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of that material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Recent reports filed by Alon Blue Square with the SEC can also be accessed at the SEC's web site, www.sec.gov.

As a foreign private issuer, Alon Blue Square is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and its officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, Alon Blue Square is not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. A copy of each report submitted in accordance with applicable United States law is available for public review at Alon Blue Square's principal executive offices.

I. Subsidiary Information.

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

The Company is exposed to various market risks, most of them related to changes in interest rates and changes in the Israeli CPI. Loans and Debentures in the amount of approximately NIS 2,514.0 million and marketable securities in the amount of approximately NIS 320.1 million bear interest at fixed rates, and therefore changes in the interest rates will affect the fair value of such loans and marketable securities. Other loans set forth below bear interest at variable rates (as a result of changing interest rates or CPI linkage), and therefore a change in the CPI or the prime interest rate will affect future cash flow and interest expenses.

The table below provides information about our financial instruments as of December 31, 2014:

December 31, 2014 Expected maturity								
(NIS in thousands)								
	2015	2016	2017	2018	2019	2020	2021 and thereafter	Total
Long term loan from banks - linked:								
Linked to the Israeli CPI - 3.6% (weighted average rate as of December 31, 2014)	68,831	63,759	111,847	44,536	44,536	115,501	89,253	538,263
Long term loans from bank - unlinked:								
Fixed annual interest rate of 6.75%	7,595	7,761	7,940	2,318	-	-	-	25,614
Variable interest (average annual rate as of December 31, 2014 of 2.97%)	206,932	287,500	151,565	95,835	43,389	16,348	170,164	971,733
Long term loans from others - linked:								
Fixed interest (average annual rate as of December 31, 2014 of 3.75%)	-	-	-	31,944	31,944	31,944	63,638	159,470
Long term loans from others - unlinked:								
Fixed annual interest rate of 7%	-	-	-	-	-	-	2,868	2,868
	<u>285,358</u>	<u>359,020</u>	<u>271,352</u>	<u>174,633</u>	<u>119,869</u>	<u>163,793</u>	<u>325,923</u>	<u>1,697,948</u>
Debentures- Linked to the Israeli CPI:								
Issued by the Company - fixed rate 2.5%	45,123	45,123	45,123	45,123	45,123	45,123	90,245	360,983
Issued by BSRE - fixed rate 4.7%	150,904	150,904	-	-	-	-	-	301,808
Issued by BSRE - fixed rate 4.2%	24,420	24,420	89,541	89,541	-	-	-	227,922
Issued by BSRE - fixed rate 4.5%	-	-	187,466	187,466	187,466	187,466	-	749,864
Issued by BSRE - fixed rate 3.3%	-	-	-	29,042	29,042	29,042	300,100	387,226
Issued by Dor Alon - fixed rate 5%	72,246	-	-	-	-	-	-	72,246
Issued by Dor Alon - fixed rate 4.95%	8,066	8,066	8,066	8,066	8,066	4,840	-	45,170
Issued by Dor Alon - fixed rate 6.45% (weighted average rate as of December 31, 2014)	4,298	4,577	2,899	3,086	48,291	-	-	63,151
Debentures- unlinked:								
Issued by Dor Alon – variable interest (average annual rate as of December 31, 2014 of 2.47%)	20,253	20,253	20,253	-	-	-	-	60,759
Issued by Dor Alon - fixed rate 6.65%	108,375	108,375	-	-	-	-	-	216,750
Convertible Debentures Linked to the Israeli CPI: (1)								
Issued by BSRE - fixed rate 6.25%	29,686	30,738	-	-	-	-	-	60,424
	<u>463,371</u>	<u>392,456</u>	<u>353,348</u>	<u>362,324</u>	<u>317,988</u>	<u>266,471</u>	<u>390,345</u>	<u>2,546,303</u>
Marketable Securities - Linked to the Israeli CPI	138,776							138,776
Marketable Securities – unlinked in NIS	164,675							164,675
Marketable Securities – in other currencies	16,617							16,617
	<u>320,068</u>							<u>320,068</u>

(1) See also “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Debentures.”

For CPI-linked financial instruments as stipulated in the table above, a one percent increase (decrease) in the CPI would cause an approximately NIS 28.3 million decrease (increase) in net income for the next year.

Inflation Risks

The Company has an excess of Israeli CPI-linked liabilities over Israeli CPI-linked assets (mainly in respect of outstanding debentures). As a result, an increase in inflation would have the effect of increasing our financial expenses without any offsetting increase in our assets and revenues in our financial statements, leading to lower reported earnings and shareholders equity. The extent of this effect on our financial statements would be dependent on the rate of inflation in Israel.

The table below provides information about the changes of the CPI and the “known” CPI index:

	<u>CPI (1)</u>	<u>The “known” CPI index (2)</u>
2012	1.6%	1.4%
2013	1.8%	1.9%
2014	(0.02)%	(0.01)%

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

(2) Calculated based on published PI date (through November of end year).

The table below provides an analysis of monetary assets and liabilities by currency and linkage as of December 31, 2014:

	December 31, 2014					Total
	NIS linked to CPI	NIS unlinked	US dollar	Other currencies	Other	
	NIS in thousands					
Assets:						
Cash and cash equivalents	-	279,828	10,219	55	-	290,102
Short term bank deposit	-	26,379	67,928	-	-	94,307
Investment in securities	138,776	164,675	16,617	-	42,759	362,827
Trade receivables	-	1,006,613	23,754	-	-	1,030,367
Other accounts receivables	35,127	353,839	116	-	-	389,082
Income taxes receivable	16,020	-	-	-	-	16,020
Loan Receivable	28,207	156,854	18,753	-	-	203,814
Derivative financial instruments	589	-	4,504	-	-	5,093
Investment in equity securities	-	-	-	-	59,283	59,283
Other long-term receivables	89,445	-	-	-	-	89,445
Total assets	308,164	1,988,188	141,891	55	102,042	2,540,340
Liabilities:						
Credit and loans from banks and others	-	774,626	-	-	-	774,626
Trade payables	-	909,202	286,620	-	-	1,195,822
Other accounts payable and accrued expenses	16,553	387,772	4,669	-	-	408,994
Customer's deposits	28,212	-	-	-	-	28,212
Income tax payables	4,620	-	-	-	-	4,620
Provisions	5,370	40,137	-	-	-	45,507
Loans	694,891	1,003,058	-	-	-	1,697,949
Debentures	2,171,307	277,941	-	-	-	2,449,248
Convertible debentures	60,424	-	-	-	-	60,424
Other long-term liabilities	12,226	1,190	-	-	-	13,416
Derivative financial instruments	-	-	2,991	-	-	2,991
Total liabilities	2,993,603	3,393,926	294,280	-	-	6,681,809

For further information regarding market risks, see note 3 to our consolidated financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable

C. Other Securities

Not applicable

D. American Depositary Shares

Each of our American Depositary Shares, or ADSs, represents one of our ordinary shares. Our ADSs trade on the New York Stock Exchange.

Fees and Expenses

<i>Persons depositing or withdrawing shares or American Depositary Shares must pay:</i>	<i>For:</i>
\$5.00 (or less) per 100 American Depositary Shares (or portion of 100 American Depositary Shares)	<ul style="list-style-type: none"> • Execution and delivery of American Depositary Shares, including issuances resulting from a distribution of shares or rights or other property • Surrender of American Depositary Shares for the purpose of withdrawal, including if the deposit agreement terminates
\$.02 (or less) per American Depositary Share	<ul style="list-style-type: none"> • Any cash distribution to American Depositary Share holders
A fee equal to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of American Depositary Shares	<ul style="list-style-type: none"> • Distribution of securities or property (other than cash, shares or rights) distributed to holders of deposited securities which are distributed by the depositary to American Depositary Share holders
\$.02 (or less) per American Depositary Shares per annum (unless a fee was paid for that calendar year for cash distributions)	<ul style="list-style-type: none"> • Depositary services
Registration or transfer fees	<ul style="list-style-type: none"> • Transfer and registration of shares on our share register to or from the name of the depositary or its nominee when you deposit or withdraw shares
Expenses of the depositary	<ul style="list-style-type: none"> • Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) • converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any American Depositary Share or share underlying an American Depositary Share, for example, stock transfer taxes, stamp duty or withholding taxes	<ul style="list-style-type: none"> • As necessary
Any charges incurred by the depositary or its agents for servicing the shares or deposited securities	<ul style="list-style-type: none"> • As necessary

The depositary collects its fees for delivery and surrender of American Depositary Shares directly from investors depositing shares or surrendering American Depositary Shares for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. to E. Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. We performed an evaluation of the effectiveness of our disclosure controls and procedures that are designed to ensure that information required to be disclosed on Form 20-F and filed with the Securities and Exchange Commission is recorded, processed, summarized and reported timely within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within Alon Blue Square to disclose information otherwise required to be set forth in our reports. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based on our evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d) - 15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report are effective at such reasonable assurance level.

(b) Management's Annual Report on Internal Control over Financial Reporting. Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures are made only in accordance with authorizations of our management and board of directors (as appropriate); and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2014 based on the framework for Internal Control-Integrated Framework set forth by The Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013). Based on our assessment and this framework, our management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

(c) This Annual Report does not include an attestation report from our independent registered public accounting firm regarding our effectiveness of internal control over financial reporting. Management's report was not subject to an attestation report by our independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit us to only provide management's report in this Annual Report as we are a non-accelerated filer.

(d) Changes in internal controls over financial reporting. There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors has determined that Avraham Meron is an “audit committee financial expert” as defined in Item 16A of Form 20-F and is independent in accordance with the NYSE listing standards for audit committees applicable to Alon Blue Square.

ITEM 16B. CODE OF ETHICS

As of the date of this Annual Report, we have adopted a code of ethics that applies to our Chief Executive Officer, President, Chief Financial Officer, Corporate Controller and employees. This code of ethics is posted on our website, http://www.bsi.co.il/bsi/en/?page_id=119.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, served as our independent public accountants for the fiscal years ended December 31, 2013 and 2014, for which audited financial statements appear in this Annual Report on Form 20-F.

The following table presents the aggregate fees for professional services rendered by such accountants to us during their respective term as our principal accountants in 2013 and 2014.

	2014	2013
	(NIS in thousands)	(NIS in thousands)
Audit Fees (1)	4,719	4,837
Audit-Related fees (2)	-	137
Tax Fees (3)	176	213
All Other Fees (4)	280	114
TOTAL	5,175	5,301

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; attest services; assistance with and review of documents filed with the SEC and Sarbanes-Oxley Act compliance.

- (2) Audit-related services in connection with Alon Blue Square and BSRE's shelf prospectuses and in connection with reports delivered to the Company's controlling shareholder.
- (3) Tax fees were for services related to tax compliance, including the preparation of tax returns and claims for refund, and tax planning and tax advice, including assistance with tax audits and appeals, advice related to mergers, acquisitions, transfer pricing, and assistance with respect to requests for rulings from tax authorities.
- (4) Other Fees were for general guidance related to accounting issues and due diligence in connection with potential acquisitions.

Audit Committee Pre-Approval Policies and Procedures

One of our audit committee's main roles is to assist the board of directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company. The Audit Committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on the financial statements of the Company. Our audit committee has adopted a pre-approval policy for audit and non-audit services.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

NOT APPLICABLE

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Below is a summary of the significant differences between our corporate governance practices as a foreign private issuer and those required of U.S. domestic companies under New York Stock Exchange ("NYSE") listing standards.

Our corporate governance practices are derived from (i) the Israeli Companies Law, 1999 and the regulations promulgated thereunder, (ii) our Articles of Association and (iii) the rules of the NYSE applicable to foreign private issuers. As a foreign private issuer we are permitted to follow home country practice in lieu of certain provisions of Section 303A of the NYSE Corporate Governance Rules.

Majority of Independent Directors: Under NYSE Rule 303A.01, domestic listed companies must have a majority of independent directors. We do not have a majority of independent directors serving on our board of directors, although all of our audit committee members are independent directors.

Separate meetings of non-management directors: Under NYSE Rule 303A.03, the non-management directors of each domestic listed company must meet at regularly scheduled executive sessions without management. Our independent directors do not meet separately from directors who are not independent, other than in the context of audit committee meetings.

Nominating/corporate governance committee: Under NYSE Rule 303A.04, a domestic listed company must have a nominating/corporate governance committee composed entirely of independent directors. We do not have such a committee.

Compensation Committee Charter: Under NYSE Rule 303A.05, a domestic listed company must have a compensation committee charter that addresses the committees' purposes and responsibilities, including with respect to appointment and independence of compensation consultant, legal counsel or other advisor to the Compensation Committee. We do not have a compensation committee charter.

Audit Committee: Under NYSE Rule 303A.06, listed companies are required to have an audit committee that complies with the requirements of Rule 10A-3 of the Securities and Exchange Act of 1934. Rule 10A-3 requires the audit committee of a U.S. company to be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services, and that each such firm must report directly to the audit committee.

Pursuant to the Israeli Companies Law, our auditors are appointed by the shareholders at the annual meeting of shareholders. Our shareholders have delegated to the board of directors and audit committee the authority to determine the amount to be paid to our auditors. Our audit committee is responsible for recommending to the shareholders the appointment of our auditors and for assisting the board of directors in overseeing the work of our auditors. In addition, pursuant to the Israeli Companies Law, our financial statements must be approved by our board of directors.

Equity Compensation Plans: Under NYSE Rule 303A.08, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule.

We do not obtain shareholder approval of all our equity-compensation plans. Pursuant to the Israeli Companies Law, transactions with officers, directors, and controlling shareholders regarding the terms of their office and employment, including any compensation in securities, require special approval (including approval of the audit committee, the board of directors in the case of officers, and including approval of the board of directors and shareholders in the case of directors and controlling shareholders).

Corporate governance guidelines: Under NYSE Rule 303A.09, domestic listed companies must adopt and disclose their corporate governance guidelines. We have adopted a written Policy Regarding the Usage of Insider Information as well as Code of Ethics, although these do not satisfy the corporate governance guidelines referred to in Rule 303A.09.

PART III

ITEM 17. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this Annual Report, beginning on page F-1.

ITEM 18. FINANCIAL STATEMENTS

We have responded to Item 17 in lieu of this item.

ITEM 19. EXHIBITS

The exhibits filed with or incorporated into this Annual Report are listed in the index of exhibits below.

Exhibit No.	Description
1.1	Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form F-1 (File No. 333-05024)).
1.2	Articles of Association of the Registrant (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 Blue Square, 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)).
4.3	Form of Letter of Exemption and Indemnity adopted in February 2001 (incorporated by reference to Exhibit 4.13 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2000).
4.4	Form of Letter of Exemption and Indemnity (English translation accompanied by the Hebrew original) (incorporated by reference to Exhibit 4.14 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2001).
4.5	Form of Letter of Indemnity adopted in June 2008 (English translation) (incorporated by reference to Exhibit 4.11 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2008).
4.6	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)).
4.7	Special Collective Agreement made on the 3rd day of September 2000 between Alon Blue Square and The New Federation of Labor in Israel. The Federation of Clerical, Administrative and Services Employees / the Commercial Section Employees and the committee of Alon Blue Square employees. (English summary accompanied by the Hebrew original) (incorporated by reference to Exhibit 4.16 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2001).

Exhibit No.	Description
4.8	Collective Agreement, made on August 13, 2003, by and among Alon Blue Square 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 Blue Square Annual Report on Form 20-F for the year ended December 31, 2003).
4.9	Collective Agreement, made on October 15, 2003, by and among Alon Blue Square and The New Federation of Labor in Israel/The Federation of Clerical, Administrative and Services Employees and the National Workers Committee of Alon Blue Square (English translation) (incorporated by reference to Exhibit 4.16 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2003).
4.10	Special Collective Bargaining Agreement made on the 21 st day of January 2005 among Alon Blue Square, the Histadrut and the National Committee of Alon Blue Square. (English translation) (incorporated by reference to Exhibit 4.15 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2004).
4.11	Special Collective Bargaining Agreement made on April 26, 2006 among Alon Blue Square, the MAOF Histadrut and Blue Square -Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.16 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).
4.12	Special Collective Bargaining Agreement made on May 29, 2006 among Alon Blue Square, the MAOF Histadrut and Blue Square -Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.17 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).
4.13	Special Collective Bargaining Agreement made on July 16, 2007 among Alon Blue Square, the MAOF Histadrut and Blue Square -Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.19 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2007).
4.14	Special Collective Bargaining Agreement made on April 5, 2009 among Alon Blue Square, Blue Square Chain Investments & Properties Ltd., the MAOF Histadrut and Blue Square-Israel Employees' Union (English translation) (incorporated by reference to Exhibit 4.20 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2008).
4.15	Transfer Agreement, dated June 21, 2006, between Alon Blue Square and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.23 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).
4.16	Split Agreement, dated April 2, 2006, between Alon Blue Square and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.24 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).
4.17	Lease Agreement, dated August 13, 2006, between Alon Blue Square and Blue Square Real Estate Ltd. (English translation) (incorporated by reference to Exhibit 4.25 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).
4.18	Lease Agreement, dated June 23, 2006, between Alon Blue Square and Blue Square Chain Investments & Properties Ltd Blue Square Real Estate Ltd (assigned to BSRE) (English translation) (incorporated by reference to Exhibit 4.26 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).

Exhibit No.	Description
4.19	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2009).
4.20	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).
4.21	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2006).
4.22	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2009).
4.23	Deed of Trust (for Series C to G Debentures and Series H to J Debentures) dated February 18, 2010, between Alon Blue Square and Hermetic Trust (1975) Ltd., together with First Schedule - Debenture Certificate for Series C to G, First Schedule - Debenture Certificate for Series H to J, and second schedule (English translation) (incorporated by reference to Exhibit 4.38 to Alon Blue Square's Annual Report on Form 20-F for the year ended December 31, 2009).
4.24	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2009).
4.25	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2009).
4.26	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2009).
4.27	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 Blue Square's Annual Report on Form 20-F for the year ended December 31, 2009).
4.28	Share Purchase Agreement, dated May 17, 2010, between Alon Israel Oil Company Ltd. and Alon Blue Square (English translation) (incorporated by reference to Annex A to Alon Blue Square's report on Form 6-K, filed on May 27, 2010).
8.1	List of Subsidiaries.
12.(a).1	Certification by CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

Exhibit No.	Description
12.(a).2	Certification by CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.(a).1	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2014

TABLE OF CONTENTS

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-2
REPORT OF INDEPENDENT ACCOUNTANT for subsidiary of the Company, Eden Teva Market	F-3
REPORT OF INDEPENDENT ACCOUNTANT for associate of the Company, Diners Club Israel Ltd.	F-4
CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS OF NEW ISRAELI SHEKELS - NIS):	
Consolidated statements of financial position	F-5-F-6
Consolidated income statements	F-7-F-8
Consolidated statements of comprehensive income (loss)	F-9
Consolidated statements of changes in equity	F-10
Consolidated statements of cash flows	F-11-F-13
Notes to consolidated financial statements	F-14-F-110
APPENDIX A - DETAILS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES	F-108



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of
ALON BLUE SQUARE ISRAEL LTD.

We have audited the accompanying consolidated statements of financial position of Alon Blue Square Israel Ltd. and its subsidiaries (collectively - the "Company") as of December 31, 2014 and 2013 and the related consolidated income statements, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2014. 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 audits.

We did not audit the financial statements of a consolidated subsidiary as of December 31, 2014 and 2013, and for each of years ended on those dates, whose assets constitute approximately 1.6% and 2.0% of total consolidated assets as of December 31, 2014 and 2013, respectively and whose revenues constitute approximately 3.7% and 3.5% of total consolidated net revenues for the years ended December 31, 2014 and 2013, respectively. Also, we did not audit the financial statements of an equity method investee as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, the Company's interest in which, as reflected in the consolidated statements of financial position as of December 31, 2014 and 2013, is NIS 41.9 million and NIS 49.7 million, respectively, and the Company's share in its profit is NIS 16.7 million, NIS 20.1 million and NIS 19.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the consolidated subsidiary and the equity method investee, is based solely on the reports of the other auditors.

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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013 and the results of its operations, changes in equity and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Without qualifying our opinion, we draw attention to note 1 to the financial statements, which discloses the losses of Mega Retail Ltd. and its subsidiaries, which operate the Supermarket segment of the group. That note also presents the Plan developed by management to bring Mega back to a sound operational path.

Tel Aviv, Israel
April 30, 2015

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



APPENDIX D- Report of independent Accountant

Tel Aviv, 30 April, 2015

**Report of independent registered public accounting firm
to the shareholders of
Eden Teva Market Ltd**

We have audited the balance sheet of Eden Teva Market Ltd. ("Eden") as of December 31, 2014 and 2013 and the related statements of operations, changes in shareholders' deficit and cash flows for each of the three years ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of a material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Eden as of December 31, 2014 and 2013 and the results of its operations, changes in shareholders' deficit and cash flows for each of the three years ended December 31 2014, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Without qualifying our opinion, we call your attention to what is stated in Note 1 of the consolidated financial statements which discloses the Company's deficit in equity and in working capital of the Company and the plans of the Company's management and board of directors to deal with these matters. The Company board of directors and management are of the opinion that, in view of the projected cash flows that includes, inter alia, a projected exercise of assets, consolidation of frameworks and prevention of duplication with the parent company, other efficiency measures, and cash inflows by others, the Company will have sufficient resources for paying its obligations and continuing its operations.

Barzily & Co.
Certified Public Accountants
A Member of MSI Worldwide





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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Diners Club Israel Ltd.

We have audited the accompanying consolidated balance sheets of Diners Club Israel Ltd. and subsidiary as of December 31, 2014 and 2013, and the related consolidated statements of profit and loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 Diners Club Israel Ltd. and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

As described in Note 2 to the consolidated financial statements, a reconciliation of the Company's financial statements from the prepared basis described above to International Financial Reporting Standards as issued by the International Accounting Standards Board appears in Note 22 to the consolidated financial statements.

Somekh Chaikin

Certified Public Accountants (Isr.)

A Member Firm of KPMG International

April 20, 2015

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31		Convenience translation (note 2b) December 31, 2014
		2013	2014	U.S. dollars
		NIS		
In thousands				
<i>Assets</i>				
CURRENT ASSETS:				
Cash and cash equivalents	9a	322,579	290,102	74,596
Investment in securities	10	498,779	362,827	93,296
Short-term deposits	9b	93,803	94,307	24,250
Trade receivables	12	1,221,932	1,030,367	264,944
Other accounts receivable	13	286,661	430,707	110,750
Derivative financial instruments	11	792	395	102
Income taxes receivable		25,223	16,020	4,119
Inventories	14a	602,013	511,661	131,566
Assets of disposal group classified as held for sale	8	99,166	-	-
		<u>3,150,948</u>	<u>2,736,386</u>	<u>703,623</u>
NON-CURRENT ASSETS:				
Investments accounted for using equity method	7	962,767	977,028	251,229
Derivative financial instruments	11	5,517	4,698	1,208
Real estate inventories	14b	106,780	126,012	32,402
Investment in securities	10	60,259	59,283	15,244
Loans receivable, net of current maturities	18	166,926	135,171	34,757
Property and equipment, net	15	2,535,084	2,322,036	597,078
Investment property	16	770,490	982,619	252,666
Intangible assets, net	17	1,203,725	1,140,343	293,223
Other long-term receivables	19	32,612	52,740	13,561
Deferred taxes	31h	167,376	27,844	7,160
		<u>6,011,536</u>	<u>5,827,774</u>	<u>1,498,528</u>
Total assets		<u><u>9,162,484</u></u>	<u><u>8,564,160</u></u>	<u><u>2,202,151</u></u>

April 30, 2015

**Date of approval of the
financial statements**

**Avigdor Kaplan
Chief Executive Officer and Director**

**Yehuda van der Walde
Chief Financial Officer**

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31		Convenience translation (note 2b) December 31,
		2013	2014	2014
		NIS		U.S. dollars
In thousands				
Liabilities and equity				
CURRENT LIABILITIES:				
Credit and loans from banks and others	21	829,812	774,626	199,184
Current maturities of debentures and convertible debentures	21	610,354	466,935	120,066
Current maturities of long-term loans from banks	21	251,089	283,342	72,857
Trade payables		1,235,627	1,195,822	307,488
Other accounts payable and accrued expenses	20	637,258	723,274	185,980
Customers' deposits		28,469	28,212	7,254
Derivative financial instruments	11	6,484	1,060	273
Income taxes payable		3,199	24,393	6,272
Provisions for other liabilities	24	59,190	67,697	17,407
Liabilities of disposal group classified as held for sale	8	85,556	-	-
		<u>3,747,038</u>	<u>3,565,361</u>	<u>916,781</u>
NON CURRENT LIABILITIES:				
Long-term loans from banks and others, net of current maturities	21	1,273,571	1,414,607	363,746
Convertible debentures, net of current maturities	21	61,486	30,738	7,904
Debentures, net of current maturities	21	2,208,228	2,011,999	517,356
Other liabilities	22	129,292	106,267	27,325
Derivative financial instruments	11	2,847	1,931	497
Liabilities in respect of employee benefits, net of amounts funded	23	71,304	58,716	15,098
Deferred taxes	31h	183,703	232,752	59,849
		<u>3,930,431</u>	<u>3,857,010</u>	<u>991,775</u>
Total liabilities		<u>7,677,469</u>	<u>7,422,371</u>	<u>1,908,556</u>
EQUITY:				
Equity attributed to equity holders of the Company:				
Ordinary shares of NIS 1 par value	25	79,881	79,881	20,540
Additional paid-in capital	25	1,219,279	1,219,279	313,520
Other reserves	26	34,575	76,661	19,712
Accumulated deficit		(279,611)	(711,122)	(182,854)
		<u>1,054,124</u>	<u>664,699</u>	<u>170,918</u>
Non-controlling interests		430,891	477,090	122,677
Total equity		<u>1,485,015</u>	<u>1,141,789</u>	<u>293,595</u>
Total liabilities and equity		<u>9,162,484</u>	<u>8,564,160</u>	<u>2,202,151</u>

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED INCOME STATEMENTS

Continuing Operations	Note	Year ended December 31			Convenience translation (note 2b) for the year ended December 31, 2014
		2012	2013	2014	U.S. dollars
		NIS			
		In thousands (except per share data)			
Revenues		15,640,331	14,860,869	14,048,034	3,612,248
Less – government levies		2,955,154	2,974,529	2,987,077	768,084
Net revenues		12,685,177	11,886,340	11,060,957	2,844,164
Cost of sales	27	9,960,721	9,312,832	8,640,992	2,221,905
Gross profit		2,724,456	2,573,508	2,419,965	622,259
Selling, general and administrative expenses	27	2,548,770	2,472,855	2,459,701	632,477
Other gains	28	10,822	3,049	95,036	24,437
Other losses	28	(6,544)	(24,567)	(87,344)	(22,458)
Increase in fair value of investment property, net	16	16,874	47,589	50,258	12,923
Share of profit of investments accounted for using the equity method	7	87,060	27,211	37,997	9,770
Operating profit		283,898	153,935	56,211	14,454
Finance income	30	83,002	78,168	61,791	15,889
Finance expenses	30	(324,930)	(332,184)	(273,043)	(70,209)
Finance expenses, net		(241,928)	(254,016)	(211,252)	(54,320)
Income (loss) before taxes on income		41,970	(100,081)	(155,041)	(39,866)
Taxes on income (tax benefit)	31	(2,863)	(12,667)	219,855	56,531
Net income (loss) from continuing operation		44,833	(87,414)	(374,896)	(96,397)
Loss from discontinued operation	8	(22,468)	(29,994)	(3,065)	(789)
Net income (loss) for the year		22,365	(117,408)	(377,961)	(97,186)

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31			Convenience translation (note 2b) for the year ended December 31, 2014
	2012	2013	2014	U.S. dollars
	NIS			
In thousands (except per share data)				
Attributable to:				
Equity holders of the Company				
Continuing operation	4,561	(115,701)	(428,713)	(110,237)
Discontinued operation	(22,468)	(29,994)	(3,065)	(789)
	<u>(17,907)</u>	<u>(145,695)</u>	<u>(431,778)</u>	<u>(111,026)</u>
Non-controlling interests				
Continuing operation	40,272	28,287	53,817	13,840
Discontinued operation	-	-	-	-
	<u>40,272</u>	<u>28,287</u>	<u>53,817</u>	<u>13,840</u>
	<u>22,365</u>	<u>(117,408)</u>	<u>(377,961)</u>	<u>(97,186)</u>
Earnings (loss) per ordinary share or ADS attributable to equity holders of the Company				
	32			
Basic and diluted				
Continuing operations	0.07	(1.75)	(6.50)	(1.67)
Discontinued operation	(0.34)	(0.45)	(0.05)	(0.01)
	<u>(0.27)</u>	<u>(2.20)</u>	<u>(6.55)</u>	<u>(1.68)</u>
Weighted average number of shares or ADSs used for computation of earnings per share (in thousands):				
Basic and diluted	65,954	65,954	65,954	65,954

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31			Convenience translation (note 2b) year ended December 31 2014
		2012	2013	2014	U.S. dollars
		NIS			
In thousands					
Net income (loss) for the year		22,365	(117,408)	(377,961)	(97,186)
Other comprehensive income (loss) items, net of tax:					
Items that may be reclassified subsequently to profit or loss					
Available-for-sale financial assets:	10				
Revaluation		16,930	13,418	2,374	610
Gain from sales transferred to income statement		(2,196)	(2,218)	(4,386)	(1,128)
Currency translation differences		(2,147)	(6,286)	10,844	2,788
Total items that may be reclassified subsequently to profit or loss		12,587	4,914	8,832	2,270
Items that will not be reclassified to profit or loss:					
Revaluation reserve of fixed assets reclassified as investment property		12,352	1,347	23,426	6,024
Re-measurements of post-employment benefit obligations	23	(5,021)	(4,204)	(93)	(24)
Total items that will not be reclassified to profit or loss		7,331	(2,857)	23,333	6,000
Total – other comprehensive income		19,918	2,057	32,165	8,270
Total comprehensive income (loss) for the year		<u>42,283</u>	<u>(115,351)</u>	<u>(345,796)</u>	<u>(88,916)</u>
Attributable to:					
Equity holders of the Company		(3,215)	(144,889)	(407,103)	(104,681)
Non-controlling interests		45,498	29,538	61,307	15,765
		<u>42,283</u>	<u>(115,351)</u>	<u>(345,796)</u>	<u>(88,916)</u>
Total comprehensive income (loss) attributable to equity shareholders arises from:					
Continuing operations		19,253	(114,895)	(404,038)	(103,892)
Discontinuing operations		(22,468)	(29,994)	(3,065)	(789)
		<u>(3,215)</u>	<u>(144,889)</u>	<u>(407,103)</u>	<u>(104,681)</u>

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company				Total	Non controlling interests	Total equity
	Ordinary shares	Additional paid-in capital	Other reserves (note 26)	Accumulated deficit			
	NIS in thousands						
BALANCE AT JANUARY 1, 2012	79,881	1,219,279	(9,672)	(106,434)	1,183,054	363,172	1,546,226
Income (loss) for the period	-	-	-	(17,907)	(17,907)	40,272	22,365
Other comprehensive income	-	-	19,524	(4,832)	14,692	5,226	19,918
Total comprehensive income	-	-	19,524	(22,739)	(3,215)	45,498	42,283
Employee share-based payment	-	-	-	(493)	(493)	-	(493)
Transactions with non-controlling interests	-	-	(607)	-	(607)	140	(467)
BALANCE AT DECEMBER 31, 2012	<u>79,881</u>	<u>1,219,279</u>	<u>9,245</u>	<u>(129,666)</u>	<u>1,178,739</u>	<u>408,810</u>	<u>1,587,549</u>
Income (loss) for the period	-	-	-	(145,695)	(145,695)	28,287	(117,408)
Other comprehensive income	-	-	4,905	(4,099)	806	1,251	2,057
Total comprehensive income	-	-	4,905	(149,794)	(144,889)	29,538	(115,351)
Employee share-based payment	-	-	-	(151)	(151)	-	(151)
Transactions with non-controlling interests	-	-	20,425	-	20,425	23,266	43,691
Dividends distributed to non-controlling interests of subsidiaries	-	-	-	-	-	(30,723)	(30,723)
BALANCE AT DECEMBER 31, 2013	<u>79,881</u>	<u>1,219,279</u>	<u>34,575</u>	<u>(279,611)</u>	<u>1,054,124</u>	<u>430,891</u>	<u>1,485,015</u>
Income (loss) for the period	-	-	-	(431,778)	(431,778)	53,817	(377,961)
Other comprehensive income	-	-	24,408	267	24,675	7,490	32,165
Total comprehensive income	-	-	24,408	(431,511)	(407,103)	61,307	(345,796)
Transactions with non-controlling interests	-	-	17,678	-	17,678	44,272	61,950
Dividends distributed to non-controlling interests of subsidiaries	-	-	-	-	-	(59,380)	(59,380)
BALANCE AT DECEMBER 31, 2014	<u>79,881</u>	<u>1,219,279</u>	<u>76,661</u>	<u>(711,122)</u>	<u>664,699</u>	<u>477,090</u>	<u>1,141,789</u>
	Convenience translation into U.S. dollars in thousands (note 2b)						
BALANCE AT JANUARY 1, 2014	20,540	313,520	8,890	(71,897)	271,053	110,795	381,848
CHANGES DURING 2014:							
Income (loss) for the period	-	-	-	(111,026)	(111,026)	13,840	(97,186)
Other comprehensive income	-	-	6,276	69	6,345	1,925	8,270
Total comprehensive income	-	-	6,276	(110,957)	(104,681)	15,765	(88,916)
Transactions with non-controlling interests	-	-	4,546	-	4,546	11,384	15,930
Dividends distributed to non-controlling interests of subsidiaries	-	-	-	-	-	(15,267)	(15,267)
BALANCE AT DECEMBER 31, 2014	<u>20,540</u>	<u>313,520</u>	<u>19,712</u>	<u>(182,854)</u>	<u>170,918</u>	<u>122,677</u>	<u>293,595</u>

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31			Convenience translation (note 2b) year ended December 31
	2012	2013	2014	2014
	NIS			U.S dollars
	In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income (loss) before taxes on income from continuing operations	41,970	(100,081)	(155,041)	(39,866)
Loss before taxes from discontinued operation	(17,468)	(29,994)	(3,065)	(789)
Income tax (paid) received, net	18,714	44,258	(17,982)	(4,623)
Adjustments to net cash provided by operating activities (a)	458,957	690,511	682,006	175,365
Net cash provided by operating activities	<u>502,173</u>	<u>604,694</u>	<u>505,918</u>	<u>130,087</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(164,458)	(140,007)	(225,250)	(57,920)
Purchase of investment property	(64,546)	(91,041)	(72,379)	(18,611)
Purchase of intangible assets	(43,392)	(12,556)	(26,190)	(6,734)
Cash used in the sale of Kfar (note 8)				
Proceeds (investments) from collection of short-term deposits and other receivable, net	5,166	2,343	(504)	(130)
Proceeds from sale of property and equipment	20,139	21,186	100,940	25,955
Proceeds from sale of investment property	3,610	51,279	8,750	2,250
Investment in restricted deposit	-	-		
Proceeds from sale of marketable securities	197,604	220,264	378,491	97,323
Investment in marketable securities	(224,808)	(379,150)	(238,239)	(61,260)
Acquisition of an associated investee	-	-		
Loans and capital notes to investee companies, net	(124,879)	(36,685)	(7,341)	(1,888)
Grant of long term loans	(37,585)	(24,258)	(79,580)	(20,463)
Collection of long-term loans receivable	13,524	99,435	76,292	19,617
Discontinuance of consolidation (see note 8)	-	-	(2,089)	(537)
Interest received	24,349	18,923	12,361	3,178
Net cash used in investing activities	<u>(395,276)</u>	<u>(270,267)</u>	<u>(74,738)</u>	<u>(19,220)</u>

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (note 2b) for the year ended December 31,
	2012	2013	2014	2014
	NIS			U.S dollars
In thousands				
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividend paid to non-controlling interests	-	(30,723)	(59,380)	(15,267)
Issuance of debentures	504,136	732,185	158,103	40,654
Repayment of debentures	(209,321)	(601,147)	(536,259)	(137,891)
Transactions with non-controlling interests in subsidiary without loss of control	(467)	50,338	69,695	17,921
Receipt of long-term loans	226,478	392,000	768,319	197,562
Repayment of long-term loans	(342,314)	(263,151)	(586,396)	(150,783)
Short-term credit from banks and others, net	177,795	(301,789)	(45,790)	(11,774)
Settlement of forward contracts	(2,808)	(9,768)	(5,232)	(1,345)
Interest paid	(252,955)	(250,417)	(220,672)	(56,742)
Net cash provided by (used in) financing activities	100,544	(282,472)	(457,612)	(117,665)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS	207,441	51,955	(26,432)	(6,798)
Translation differences on cash and cash equivalents	(1)	(9)	53	14
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS AT BEGINNING OF YEAR (note 9a)	51,605	259,045	310,991	79,967
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF YEAR (note 9a)	259,045	310,991	284,612	73,183

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

ALON BLUE SQUARE ISRAEL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience Translation (note 2b) for the year ended December 31, 2014
	2012	2013	2014	U.S dollars
	NIS			
In thousands				
(a) Adjustments to net cash provided by operating activities:				
Adjustments for:				
Depreciation and amortization	278,514	269,141	278,526	71,619
Increase in fair value of investment property, net	(16,874)	(47,589)	(50,258)	(12,923)
Share of profit of investments accounted for using the equity method	(87,060)	(27,211)	(37,997)	(9,770)
Dividend received	41,544	10,030	38,000	9,771
Share based payment	(493)	(151)		
Loss (gain) from sale and disposal of property and equipment, net	(14,684)	(2,631)	(77,674)	(19,973)
Provision for impairment of property and equipment and intangible assets	-	20,912	22,000	5,657
Changes in fair value of derivative financial instruments, net	(1,437)	(8,675)	(4,775)	(1,228)
Linkage differences on monetary assets, debentures, loans and other long term liabilities	29,208	59,929	(2,367)	(609)
Employee benefit liability, net	2,246	(7,631)	(9,579)	(2,463)
Decrease (increase) in value of investment in securities, deposits and long-term receivables, net	1,622	(11,265)	(12,799)	(3,291)
Interest paid, net	227,186	224,462	199,771	51,368
Changes in operating assets and liabilities:				
Decrease in trade receivables and other accounts receivable	67,550	169,936	173,619	44,644
Increase (decrease) in trade payables and other accounts payable	(53,335)	(9,850)	75,681	19,457
Decrease (increase) in inventories	(11,960)	53,821	93,447	24,029
Investment in real estate inventories	(3,070)	(2,717)	(3,589)	(923)
Total	<u>458,957</u>	<u>690,511</u>	<u>682,006</u>	<u>175,365</u>
(b) Supplementary information on investing and financing activities not involving cash flows:				
Purchase of property and equipment and investment properties on credit	<u>27,866</u>	<u>48,249</u>	<u>4,228</u>	<u>1,087</u>
Proceeds from sale of property and equipment on credit	<u>-</u>	<u>-</u>	<u>90,486</u>	<u>23,267</u>
Realization of property and equipment	<u>11,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL:

Alon Blue Square Israel Ltd. ("Blue Square") is an Israeli corporation, which, directly and through its subsidiaries and jointly controlled entities (together - the Company) mainly operates in Israel. The Company is controlled by Alon Israel Oil Company Ltd ("Alon"). All references to the Company include, unless the context otherwise indicates, Blue Square and its subsidiaries. ADSs and shares of the Company are listed for trading on the New-York Stock Exchange (the "NYSE") and on the Tel-Aviv Stock Exchange (the "TASE").

The Company operates in four reportable segments: (1) Fueling and Commercial sites through Dor Alon Energy In Israel (1988) Ltd. (hereafter-Dor Alon) (2) Supermarkets through Mega Retail Ltd (hereafter-Mega) (3) Houseware and Textile (Retail and Wholesale) through Na'aman Group (NV) Ltd. (hereafter- Na'aman), (4) Real Estate through Blue Square Real Estate Ltd. (hereafter-BSRE). The Company has three more operating segments that do not meet the quantitative threshold and accordingly are presented as "Other activities" in the segment disclosure: Cellular activity, the Company's share in issuance and clearance of credit cards activity, the baby products sector and the operation of logistic center in Beer Tuvia.

The consolidated operating loss of Mega Retail and its subsidiaries, which operate the Supermarket Segment of the group, in 2014 was approximately NIS 277 million; in 2013, the consolidated operating loss was NIS 149 million. Mega and its subsidiaries continued to incur losses in the first four months of 2015 (unaudited). In addition, in 2014, Mega Retail and its subsidiaries eliminated their deferred tax assets by NIS 132 million.

Management has developed a plan of action ("the Plan") with respect to Mega and its subsidiaries, which was approved by the board of directors, including, among other things, (i) streamlining and layoffs; (ii) reduction of advertising and other discretionary expenditures not essential for ongoing operations; (iii) reduction of inventory; (iv) minimizing capital investments to not more than necessary to maintain the proper operation of equipment and facilities; and (v) disposal of operations of stores. In addition to the measures included in the Plan, the Company has committed to provide additional funding to support Mega in an aggregate amount not to exceed NIS 240 million to assist Mega Retail if peak temporary liquidity needs arise and if the disposal of the operations of stores is not effectuated in accordance with the schedule provided in the Plan.

The Company has already started implementing some of those measures and intends to implement all other measures without delay. Management intends to regularly follow the progress made in implementing the Plan to ensure that the scope of the measures taken under the Plan is sufficient. Management believes that implementation of those measures will bring Mega back to a sound operational path.

The financial statements are presented in the New Israeli Shekel (NIS), which is the functional currency of the Company and most of its subsidiaries.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 (see below).

a. Basis of presentation

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

The consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated.

The Company presents its share of profits in jointly controlled entities and associates which are integral to the Company's activity as part of operating profit.

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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b. Functional currency and convenience translation

For the convenience of the reader, the reported NIS amounts as of December 31, 2014 have been translated into U.S. dollars, at the representative rate of exchange on December 31, 2014 (U.S. \$1 = NIS 3.889). The U.S. 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.

The results and financial position of all the group entities whose functional currency is different from the NIS are translated into NIS as follows:

Assets and liabilities for each statement of financial position presented are translated at the closing rate of that statement. 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.

Income and expenses for each statement of income are generally translated at average exchange rates.

All resulting exchange differences are recognized in other comprehensive income.

c. Consolidated financial statements

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control.

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.

After initial recognition, goodwill in subsidiaries 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.

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.

Joint Arrangement

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and, except for certain jointly owned properties, which are considered to be joint operations, has determined them all to be joint ventures. Joint ventures are accounted for using the equity method. The joint operation is included in the Company's financial statements based on the Company's share in the assets, liabilities, income and expenses, as determined in the joint arrangement between the parties.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses and movements in other comprehensive income.

Unrealised gains and losses on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the company.

Associates

Associates are companies in which the Company has significant influence over the financial and operating policies without having control.

The investment in an associate is accounted for using the equity method.

Goodwill relating to the acquisition of an associate is initially measured as the difference between the acquisition cost and the company's share in the fair value of the associate's net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost and is not systematically amortized.

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates. The Company determines at the end of each reporting period whether there is objective evidence that the carrying amount of the investment in the associate is impaired. If there is objective evidence, as above, the amount of the loss is calculated as the difference between the recoverable amount of the investment in the associate and its carrying amount.

The recoverable amount is the higher of value in use and fair value less costs to sell based on the estimated net cash flows to be generated by the associate.

Impairment loss, as above, is not allocated specifically to goodwill that forms part of the investment and, accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

d. Segment reporting

Segment information is 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 review information regarding segment assets and segment liabilities in his performance measurement.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

e. Foreign currency transactions

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

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

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

f. Property and equipment

Property and equipment are initially recognized at acquisition or construction cost. Cost includes expenditure that is directly attributable to the acquisition, construction or installation of the items, capitalization of borrowing costs during the construction period of qualified assets and expected costs for dismantling and restoring the site on which it is located. Property and equipment included as part of the acquisition of a subsidiary is included at the fair value as at the date of acquisition. Repairs and maintenance are charged to the income statement 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>
Leased lands	100
Buildings	50
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.

An asset carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

When the use of a property changes from owner-occupied to investment property, which is measured at fair value, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in other comprehensive income and presented within equity in a revaluation reserve, unless the gain reverses a previous impairment loss on the specific property, in which case the gain is first recognized in profit or loss. Any loss is recognized directly in profit or loss.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

g. 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 one of the following independent appraisers, "Haushner Civil Eng. & Real Estate Appraisal Ltd.", "Greenberg Olpiner & co." and "Barak Friedman Cohen & Co. Economic & Real Estate Appraisal."

Fair value of investments property is based on current prices in an active market-to the extent these are available, 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.

Gains and losses arising from changes in fair value are recorded in the income statement 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 Israel Lands Authority or local authorities that is classified and accounted for as an investment property, is 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.

h. Intangible assets:

Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or group of CGUs, that is expected to benefit from the synergies of the combination.

When exiting an activity, a proportional amount of goodwill is attributed to the carrying amount of the sold activity.

Goodwill impairment reviews are undertaken at least annually. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, but are reviewed for impairment at least annually. 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).

Computer software

The costs of separately acquired computer software licenses are capitalized and amortized over their estimated useful lives (mainly four years). Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding five years).

Evacuation fees

Amounts 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.

Fees paid on the establishment of loan facilities

Fees paid on the establishment of loan facilities are 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.

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.

i. Impairment of definite life non-financial assets

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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 are expected to 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 Supermarkets segment, a CGU can be a single store or a group of stores where the cash inflows of one store are largely interdependent on the cash inflows of another store in the same geographic area. The food retail activities are grouped into 76 CGUs.

In the fueling and commercial sites segment the Company evaluates the fueling stations and the convenience stores on its sites together, on one 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 16 separate CGUs based on their geographical locations in a manner similar to the food retail activities.

In the Houseware and Textile segment each of the self-operated stores (112) is considered a separate CGU on the basis of their geographical location and customers.

An impairment loss is recognized in the income statement under "other losses". Definite life non-financial assets that suffered 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.

j. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition or construction of any qualifying asset (including investment property, real estate inventories and land and buildings) 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.

k. Financial assets

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. Financial assets are classified as current assets if expected to be settled or disposed of within one year from the date of the statement of financial position; otherwise they are classified as non-current.

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, because they are managed and their performance is evaluated on a fair-value basis. Derivative financial instruments are also classified in this category.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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.

Recognition and measurement

Investments are initially recognized at fair value with transaction costs added to the carrying value for financial assets not carried at fair value through profit or loss are expensed in the statement of income for all other financial assets. 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 income statements 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".

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

Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The reversal of the previously recognized impairments loss is recognized in the consolidated income statements.

Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognized in the consolidated income statements on equity instrument are not reversed through the consolidated income statements. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statements.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

l. Customers' deposits

These reflect the amounts that can be demanded by customers upon the return of containers and other loaned equipment and presented among current liabilities.

m. Derivative financial instruments

Derivative financial instruments and separable embedded derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value, with changes recognized as "finance income or expenses", since they do not meet hedge accounting criteria.

n. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, except for real estate inventories, is determined mainly by the "first-in, first-out" (FIFO) method, and is presented net of provisions for slow moving inventories and for shrinkage of consumer products.

Cost of real estate inventories is specific and includes capitalization of borrowing costs for long term projects. 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 estimated cost to complete and applicable selling expenses.

o. 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. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets.

p. Cash and cash equivalents

Cash and cash equivalents include 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.

q. 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 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.

r. Trade payables and rebates

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company receives annual rebates from suppliers for which the Company has no obligation to meet specified purchasing targets.

In some cases the Company expects to receive certain rebates mainly 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 to the extent to which the Company has reached the target.

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

s. Borrowings

Borrowings (including loans, debentures and convertible debentures) are recognized initially at fair value, net of transaction costs incurred. The difference, if any, between the proceeds (net of transaction costs) and the maturity amount is recognized in the income statements 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 income statements, while the debentures are measured at amortized cost.

t. Current and deferred income taxes

Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Company will have to use its economic resources to pay the obligation.

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of goodwill and for differences relating to investments in subsidiaries, jointly controlled entities and associates, to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are written down to the extent that their utilization is no- more probable.

Offset of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

u. Employee benefits

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 pension plans.

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.

According to IAS 19 employee benefits, the present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of "deep market" for high-quality corporate bonds. Since the transition to IFRS on January 1, 2008, there was a generally accepted common practice notion in Israel that there was no "deep market" for high-quality corporate bonds in Israel, therefore a discount rate was used based on Israeli Government bonds that are denominated in the currency in which the benefits will be paid (NIS) and that have terms to maturity approximating the terms of the related liability. On November 25, 2014 the Israeli Securities Authority published an economic research indicating changes in the economic environment in Israel stating that a "deep market" exists in Israel for high-quality corporate bonds denominated in NIS. As a result the Company used the discount rate of high-quality corporate bonds in determining the discount rate as of December 31, 2014. The impact of the change in discount rate was recorded in other comprehensive income as remeasurement of the present value of the obligation, net. The effect on previous periods was immaterial.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

According to the above, the Company's defined benefit obligation as of December 31, 2014, has been determined on the basis of the market yields of index-linked corporate bonds, that are highly rated.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, including the effect of the change in estimate as above, are charged or credited to equity in other comprehensive income, in the period in which they arise.

The Company purchases insurance policies and regularly contributes to retirement benefit funds to meet 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.

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.

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.

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.

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.

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.

Profit sharing and bonus plans

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

v. 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 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. The increase in the provision due to passage of time is recognized as interest expense.

w. 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, remeasurement and losses of employee defined benefit plans and revaluation reserve for fixed assets.

x. 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 includes government levies collected by the Company within the course of its fueling operations and net of value added tax, returns, rebates and discounts.

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 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 Company bases its estimates on past experience, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Sales of goods – retail

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

Discounts are recognized as a reduction of sales upon recognition of the related sales.

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.

Revenue from the provision of the sale of goods on the internet is recognized at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by credit or payment card.

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.

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.

Awards and loyalty programs

Participating members in these programs earn benefits upon purchasing goods, which can be utilized over a specific term. The Company 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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Revenue from sales of real estate assets

Revenue from the sale of real estate assets are recognized when the significant risks and rewards of ownership have passed to the buyer. Revenue is not recognized if there are significant uncertainties with respect to the collection of the consideration from the transaction, or the costs associated with it, or if there is a continuing involvement of the Company with respect to the sold property.

Revenue from cellular operation

Revenues from services is recognized and recorded when the services are provided. Revenues derived from sale of handsets are recognized upon delivery of the handset to the customer.

y. Finance income and expenses

Finance income mainly 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 income statement.

Finance expense mainly comprises interest expense on loans received and debentures issued, 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.

z. Advertising costs

Advertising costs are expensed as incurred, net of reimbursements from suppliers in respect of specific joint advertising campaigns, in accordance with the terms of specific agreement.

ab. 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 income statement on a straight-line basis over the period of the 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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

ac. 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.

ad. 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 (loss) 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.

ae. Non-current assets and disposal group held for sale

Non-current assets (or group of assets and liabilities for disposal) are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction and not through continuing use. These assets are presented at the lower of their carrying amount and fair value less cost to sell.

Any impairment loss on a disposal group is initially allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to assets not in the scope of the measurement requirements of IFRS 5.

In subsequent periods, depreciable assets classified as held for sale or distribution are not periodically depreciated, and investments in associates classified as held for sale are not accounted for by the equity method.

af. New and Amended IFRS and Interpretations

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

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2014 and have immaterial impact on the Company:

Amendment to IAS 32, 'Financial Instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the Company's consolidated financial statements as a result.

IFRIC 21, 'Levies, sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Company Group is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the group.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and early adoption is permitted. The Company is assessing the impact of IFRS 15.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture; These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. These amendments are effective as of January 1, 2016, with earlier adoption permitted.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 result of operations. The Company uses derivative financial instruments in order to partially hedge certain risk exposures, which are not designated as hedge for accounting purposes.

The board of directors and senior management of each company in the group is 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 and equity 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 and equity securities, the Company diversifies its portfolio in accordance with pre-defined limits.

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, which comprise most of its investments and in debt securities that are traded in the US market that have a minimum rating of B at the date of investment. The Company manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis.

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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year ended December 31					
	2012	2013	2014	2012	2013	2014
	NIS in millions					
	Impact on post-tax profit			Impact on Comprehensive income		
Government bonds	1.4	1.1	0.6	6.5	6.5	5.6
Corporate bonds	0.9	1.7	1.3	3.2	3.9	3.6
Equity securities	2.6	3.7	1.3	4.5	11.0	6.4
	<u>4.9</u>	<u>6.5</u>	<u>3.2</u>	<u>14.2</u>	<u>21.4</u>	<u>15.6</u>

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, in addition to gains/losses from securities classified as fair value through profit or loss, as a result of gains/losses on debt or equity securities classified as available for sale (in the event of decline in fair value other than temporary, decline in fair value will be recognized directly in income or 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 from suppliers with credit linked to the U.S. dollar. Those units are exposed to foreign currency risk arising primarily with respect to the U.S. 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, 2014 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 2.8 million higher / lower (2013 NIS 5.0 million). As at December 31, 2014 Dor Alon had forward contracts for a notional amount of U.S. \$58.5 million (2013 U.S. \$105.7 million) in order to partially hedge the foreign currency risk. These forward contracts are not accounted for using hedge accounting.

(c) CPI risk

As at December 31, 2014, the excess of financial liabilities over financial assets linked to the CPI was NIS 2,685 million (2013: NIS 3,049 million). As at December 31, 2014 the Company had forward contracts for a notional amount of NIS 228 million (2013 NIS 430 million) in order to partially hedge the CPI risk. These forward contracts are not accounted for using hedge accounting.

At December 31, 2014 if the CPI had increased/decreased by 1% with all other variables held constant, post-tax profit for the year would have decreased/increased by NIS 19.7 million (2013: NIS 22.9 million, 2012: NIS 22.5 million).

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

BSRE has also commitments that are linked to the Israeli Inputs Building Index (hereafter- the Building Index), resulting from engagements with building contractors. Changes in the Building Index affect the costs of construction of investment properties; as of December 31, 2014, BSRE has NIS 381 million under construction agreements including commitments of an associate company (Residence Company) which has engagements with contractors to build the apartments that are linked to the Building Index. The Company mitigates its exposure to this risk, by linking the apartment purchasing agreements to the Building Index.

As to the Company's commitments for future minimum payments under non-cancelable operating leases, most of which are linked to the CPI for the years subsequent to the statement of position dates, see note 34a.

(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, 2014 if interest rates on borrowings had been 1% (100 basis points) higher/lower with all other variables held constant, pre-tax profit for the year would have been NIS 17.5 million (2013: NIS 17.1 million, 2012: NIS 17.6 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Most of the fixed interest assets and liabilities of the Company (such as deposits, loans and issued debentures) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as at the reporting date would not have a material effect on the statement of income.

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, 2014 if interest rates had been 5% higher/lower with all the other variables held constant other components of equity would have been NIS 7.2 million (2013: NIS 7.1 million, 2012: NIS 7.1 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 – see 1(a) above. 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 180 days.

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, therefore the Company believes that the risk of credit concentration is low. Individual risk limits are set based on internal ratings that take into consideration the customer's financial position, credit history and other factors.

Dor Alon requests collateral from some of its customers and or the recipients of loans in accordance with management's credit risk assessment. Where relevant, a credit committee consisting of, 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 by the credit committee, based on the Dor Alon's policy and to extent necessary with external legal advisers.

BSRE receives collaterals for third party lease agreements of investment property.

Balances owed to BSRE by the residence company and the mall company amount to NIS 80.9 million and NIS 76.9 million, as of December 31 2014 and 2013, respectively; BSRE expects that profits from the wholesale market project will serve to repay this debt. In addition, the other shareholders of these companies provided guarantee in favor of BSRE in respect of these loans, and therefore the credit risk of these loans is considered by BSRE as low. The residence company (associated company) receives advances from residence customers, and in no case transfers the possession to the customer before full payment is made.

(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.

Deterioration in the Company's debt rating may cause a breach in financial covenants of certain debt instruments and renewal of credit lines and may also affect its ability to raise funds and increase the cost of money; the investing policy of certain financial institutions determines in many cases, a rating threshold for their investments and may affect also the marketability of such debt instruments.

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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 34a. Cash flows relating to the conversion component of convertible debentures are included in the maturities of the debentures above.

The table does not include unutilized long-term credit lines of BSRE amounting NIS 105 million as of December 31, 2014.

Between Dor Alon and the controlling shareholder of Blue Square there is a deposit / borrow agreement under which it can deposit / borrow monies on on-call terms of up to NIS 150 million (see note 36d). A similar agreement exists between Blue Square and BSRE (see note 36e) that may affect Blue Square liquidity.

December 31, 2014					
	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	782,621	-	-	-	782,621
Trade payables	1,195,822	-	-	-	1,195,822
Other payables	433,809	-	-	-	433,809
Bank loans and other	339,324	407,946	646,362	532,116	1,925,748
Debentures and convertible debentures	570,596	478,868	1,185,068	698,546	2,933,078
Other long-term payables	1,060	-	-	28,212	29,272
Total	3,323,232	886,814	1,831,430	1,258,874	7,300,350

December 31, 2013					
	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	849,589	-	-	-	849,589
Trade payables	1,235,627	-	-	-	1,235,627
Other payables	368,444	-	-	-	368,444
Bank loans and other	301,863	388,407	596,971	457,103	1,744,344
Debentures and convertible debentures	738,573	628,672	1,286,079	671,102	3,324,426
Other long-term payables	6,484	-	-	28,469	34,953
Total	3,500,580	1,017,079	1,883,050	1,156,674	7,557,383

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

Market risks that result from the changes in oil products prices

Dor Alon maintains fuel and oil inventories for its filling stations, the selling prices of which adjust to the changes in fuel prices in the Mediterranean. Increase/ decrease in fuel prices, increases/ decreases the Company's gross profit in the following period. Dor Alon's management evaluates from time to time, the feasibility of entering hedge transactions to protect it from possible decline in fuel prices, taking into account the estimated inventory levels for the next month, the price trend and the cost of hedge. No hedge activity was conducted by the Company in 2014 in respect of fuel price changes.

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), net of the Company's debt which is related by the Company to real estate that is not in use by the Company, 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 Board of Directors resolved, as from 2012, that the net debt to EBITDA ratio for dividend distribution will not exceed 6. The Board of directors will continue to monitor this ratio and update it, if required, to suit the changes in the Company activities and its working capital requirements. As of December 31, 2014, the Company has no retained earnings available for dividend distribution under the Israeli Company's law.

As to the rating of Blue Square debentures, see note 21(d).

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 BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following tables present the Company's financial assets and liabilities that are measured at fair value at December 31, 2014 and 2013:

December 31, 2014	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
	NIS in thousands			
Assets:				
Financial assets at fair value through profit or loss:				
Government Bonds	17,388	-	-	17,388
Corporate bonds	35,078	-	-	35,078
Investment in equity securities	11,825	-	-	11,825
Money market fund	13,978	-	-	13,978
Embedded derivatives in rent agreements	-	4,504	-	4,504
Forwards contracts over foreign currency	-	589	-	589
Investment in equity securities – property company	-	-	22,454	22,454
Available-for-sale financial assets:				
Government Bonds	134,778	-	-	134,778
Corporate bonds	61,826	-	-	61,826
Money market fund	45,195	-	-	45,195
Investment in equity securities	20,305	-	-	20,305
Investment in equity securities – gas exploration companies	9,906	49,377	-	59,283
Total assets	<u>350,279</u>	<u>54,470</u>	<u>22,454</u>	<u>427,203</u>
Liabilities:				
Embedded derivatives:				
Conversion component embedded in convertible debentures	-	121	-	121
Forwards contracts over foreign currency	-	-	-	-
Forwards contracts over Israeli CPI	-	1,060	-	1,060
Rent agreements	-	1,931	-	1,931
Total liabilities	<u>-</u>	<u>3,112</u>	<u>-</u>	<u>3,112</u>
December 31, 2013				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
	NIS in thousands			
Financial assets at fair value through profit or loss:				
Government Bonds	30,541	-	-	30,541
Corporate bonds	45,488	-	-	45,488
Investment in equity securities	14,722	-	-	14,722
Money market fund	63,641	-	-	63,641
Embedded derivatives in rent agreements	-	6,309	-	6,309
Investment in equity securities – property company	-	-	23,754	23,754
Available-for-sale financial assets:				
Government Bonds	140,136	-	-	140,136
Corporate bonds	48,352	-	-	48,352
Money market fund	117,967	-	-	117,967
Investment in equity securities	14,178	-	-	14,178
Investment in equity securities – gas exploration companies	9,753	50,506	-	60,259
Total assets	<u>484,788</u>	<u>56,815</u>	<u>23,754</u>	<u>565,347</u>
Liabilities:				
Embedded derivatives:				
Conversion component embedded in convertible debentures	-	121	-	121
Forwards contracts over foreign currency	-	5,595	-	5,595
Forwards contracts over Israeli CPI	-	889	-	889
Rent agreements	-	2,847	-	2,847
Total liabilities	<u>-</u>	<u>9,452</u>	<u>-</u>	<u>9,452</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 maximize 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 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 presented in level 3 and 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; and
 4. After deducting the property company's recorded liabilities.
 - b. The investment in gas exploration companies is partly listed (presented in level 1 above) and is partly unlisted (presented as level 2 above). 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.

During 2014 the Company recorded loss from changes in the fair value of the equity securities in level 3 in the amount of NIS 0.3 million. As of December 31, 2014, the balance of the investment in equity securities amounts to NIS 22.5 million.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

d. Financial Instruments by category

December 31, 2014				
	Loans and Receivables	Assets at fair value through the profit or loss	Available for sale	Total
NIS in thousands				
Current:				
Cash and cash equivalents	290,102	-	-	290,102
Short term bank deposits	94,307	-	-	94,307
Investment in securities	-	100,723	262,104	362,827
Trade receivables	1,030,367	-	-	1,030,367
Other receivables excluding prepayments and other	396,988	-	-	396,988
Non-Current:				
Loans to associates	150,371	-	-	150,371
Investment in equity securities	-	-	59,283	59,283
Other long-term receivables	153,519	-	-	153,519
Non-current derivative financial instruments	-	5,093	-	5,093
Total	<u>2,115,654</u>	<u>105,816</u>	<u>321,387</u>	<u>2,542,857</u>

December 31, 2014			
	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	774,626	-	774,626
Trade payables	1,195,822	-	1,195,822
Other account payables and accrued expenses	557,925	-	557,925
Loans from banks and others	1,697,949	-	1,697,949
Convertible debentures	60,424	-	60,424
Conversion component embedded in convertible debentures	-	121	121
Debentures	2,449,248	-	2,449,248
Derivatives financial instruments	-	2,991	2,991
Other liabilities	13,416	-	13,416
Total	<u>6,749,410</u>	<u>3,112</u>	<u>6,752,522</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2013			
	Loans and Receivables	Assets at fair value through profit or loss	Available for sale	Total
	NIS in thousands			
Current:				
Cash and cash equivalents	322,579	-	-	322,579
Short term bank deposits	93,803	-	-	93,803
Investment in securities	-	178,146	320,633	498,779
Trade receivables	1,221,932	-	-	1,221,932
Other receivables excluding prepayments and other	255,208	-	-	255,208
Non-Current:				
Loans to associates	154,746	-	-	157,746
Investment in equity securities	-	-	60,259	60,259
Other long-term receivables	181,519	-	-	181,519
Non-current derivative financial instruments	-	6,309	-	6,309
Total	<u>2,229,787</u>	<u>184,455</u>	<u>380,892</u>	<u>2,795,134</u>

	December 31, 2013		
	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	829,812	-	829,812
Trade payables	1,235,627	-	1,235,627
Other account payables and accrued expenses	487,278	-	487,278
Loans from banks and others	1,524,660	-	1,524,660
Convertible debentures	91,201	-	91,201
Conversion component embedded in convertible debentures	-	121	121
Debentures	2,788,867	-	2,788,867
Derivatives financial instruments	-	9,331	9,331
Other liabilities	10,854	-	10,854
Total	<u>6,968,299</u>	<u>9,452</u>	<u>6,977,751</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

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, 2014 were deposited with major Israeli banks.

Trade receivables

	December 31	
	2013	2014
	NIS in thousands	
Retail:		
Credit cards	354,801	285,676
Insured checks receivables*	32,989	35,452
Wholesale:		
Checks receivables	94,927	77,124
Open accounts	630,246	527,112
	1,112,963	925,364

* The Company is 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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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, 2014					Total	Fair value
	NIS linked	NIS	US Dollar	Other	Other(*)		
	to CPI	unlinked	currencies	NIS in thousands	NIS in thousands		
Assets:							
Cash and cash equivalents	-	279,828	10,219	55	-	290,102	**
Short term bank deposit	-	26,379	67,928	-	-	94,307	**
Investment in securities	138,776	164,675	16,617	-	42,759	362,827	**
Trade receivables	-	1,006,613	23,754	-	-	1,030,367	**
Other accounts receivables	35,127	353,839	116	-	-	389,082	**
Income taxes receivable	16,020	-	-	-	-	16,020	**
Loans receivable	28,207	156,854	18,753	-	-	203,814	**
Derivative financial instruments	589	-	4,504	-	-	5,093	**
Investment in equity securities	-	-	-	-	59,283	59,283	**
Other long-term receivables	89,445	-	-	-	-	89,445	**
Total assets	<u>308,164</u>	<u>1,988,188</u>	<u>141,891</u>	<u>55</u>	<u>102,042</u>	<u>2,540,340</u>	
Liabilities:							
Credit and loans from banks and others	-	774,626	-	-	-	774,626	**
Trade payables	-	909,202	286,620	-	-	1,195,822	**
Other accounts payable and accrued expenses	16,553	387,772	4,669	-	-	408,994	**
Customer's deposits	28,212	-	-	-	-	28,212	**
Income tax payables	4,620	-	-	-	-	4,620	**
Provisions	5,370	40,137	-	-	-	45,507	**
Loans	694,891	1,003,058	-	-	-	1,697,949	1,694,727
Debentures	2,171,307	277,941	-	-	-	2,449,248	2,603,041
Convertible debentures	60,424	-	-	-	-	60,424	63,350
Other long-term liabilities	12,226	1,190	-	-	-	13,416	**
Derivative financial instruments	-	-	2,991	-	-	2,991	**
Total liabilities	<u>2,993,603</u>	<u>3,393,926</u>	<u>294,280</u>	<u>-</u>	<u>-</u>	<u>6,681,809</u>	

(*) Financial instrument that are not monetary assets

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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)
	%	%	%
2014	12.0	(0.001)	(0.02)
2013	(7.0)	1.9	1.8
2012	(2.3)	1.4	1.6

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

(2) Calculated based on actual CPI date (through December of each 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 identical 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.

Goodwill and indefinite life intangible assets:

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 mostly based on value-in-use calculations. These calculations require the use of estimates. See note 17 for details of key assumptions.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

Referring to goodwill allocated to Houseware CGU, 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 1.0% and a 1.0% decrease in the growth rate would result in the estimated recoverable amount of the Houseware CGU falling below its carrying amount by NIS 24 million and NIS 17 million, respectively, beyond an impairment of NIS 21 million included in the Company's 2014 results (2013 – NIS 18 million and NIS 12 million, respectively, beyond an impairment of NIS 4.5 million included in the Company's 2013 results).

Referring to goodwill allocated to the Filling and Commercial Stations CGU, 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% and a 0.5% decrease in the growth rate would result in the estimated recoverable amount of the Filling and Commercial Stations CGU falling below its carrying amount by NIS 53 million and NIS 40 million, respectively.

The recoverable amounts of the other CGU's are substantially higher than their carrying amount.

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 various assumptions; judgments and estimates are required for cash flows projections that are expected during the remaining economic life of the asset, in accordance with the lease terms during the lease period and, after such period, based on suitable rentals that are determined on the basis of market surveys for similar assets with similar location and terms, using adjustments and discount rates that reflect the current market assessments as to uncertainties prevailing with respect to cash flow amounts and timing.

In some cases, mainly building rights or assets under development, the residual value approach is used to determine fair value. The evaluation of the asset's fair value is based on the value of the completed asset, less estimated constructor's profit and construction costs to complete.

When the rate used for discounting cash flows is different by 0.5% from management estimate the fair value of investment property will be NIS 44 million higher or NIS 39 million lower. When the discount rate is different by 1% from management estimate the fair value of investment property will be NIS 93 million higher or NIS 74 million lower.

3) 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 33.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

4) Income taxes and deferred taxes

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, taking into account market expectations, the duration of successive tax losses and their magnitude (see also note 31j). When the Company, as a result of these assessments, reduces deferred tax assets (or increase deferred tax liabilities), the Company's effective tax rate will increase and negatively affect its results.

5) Property, plant and equipment

Property, plant and equipment also represent a significant proportion of the Company's total assets. Therefore the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

The useful lives of the Company's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.

NOTE 5 – SEGMENT INFORMATION:

The Company includes segment information according to IFRS 8. The Company's chief operating decision maker (CODM) through December 31, 2014, Mr. David Wiessman (see also note 37a.), reviewed the Company's internal reports in order to evaluate performance and allocate resources. The Company presents four reportable segments: (1) Fueling and Commercial sites, (2) Supermarkets, (3) Real estate, (4) Houseware and textile (Retail and Wholesale). Segments that do not meet the quantitative thresholds consist of the cellular activity, the company's share in Diners Club Israel (issuance and clearance of credit cards activity), the baby products sector and the operation of the logistic center in Beer Tuvia, and are presented under Other Activities. Virtually all of the Company's activities are located in Israel.

The segments' results, as reviewed by the Chief Operating Decision Maker (CODM) include the operating profit before financial expenses from continuing operations, including the company's share in profits of investments accounted for using the equity method and excluding impairment of goodwill and amortization of "excess costs". In addition, loss provision of NIS 35 million to the investment in Kfar Hasha'ashuim (see note 8) is included in the reconciliation to the financial statements. The segments' results for prior periods were adjusted in order to reflect the segments' results and the adjustment to the results in the consolidated report for those periods from continuing operations.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – SEGMENT INFORMATION (continued):

The Company's operating segments consist of the following:

- (1) Fueling and Commercial 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 filling stations and convenience stores and direct marketing of distillates to customers. The fueling and commercial 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 includes the amortization of the excess of cost arising at the time of acquisition. As of December 31, 2014, Dor Alon operated 209 fueling stations and 214 convenience stores in various formats.
- (2) Supermarkets – The Company operates the second largest food retail chain in Israel. Through its subsidiary, Mega Retail Ltd. ("Mega Retail"), which operates supermarket branches, the Company offers a wide range of food and beverage products and "Non-food" items, such as houseware, toys, small electrical appliances, computers and computer accessories, entertainment and leisure products and textile products and "Near-Food" products, such as health and beauty aids, products for infants, cosmetics and hygiene products. As of December 31, 2014, Mega Retail operates 197 supermarkets, including branches which were resolved to cease their operation. This segment also includes properties owned through BSRE, in connection with the supermarket operation of Mega Retail's stores (including warehouses and offices). The results of branches which were resolved to cease their operation are excluded from the segment operating results on a retrospective basis, in line with the information reviewed by the CODM (they are presented in a separate adjustments column to the consolidated results; comparatives were restated accordingly), The allocation of costs attributed to the excluded branches was made on the basis of direct costs and joint expenses that will be saved.
- (3) Houseware and Textile (Retail and Wholesale) – through its subsidiary Na'aman , the Company is engaged as retailer and wholesaler in houseware and textile activities. As of December 31, 2014, Na'aman operated 112 stores, some through franchisees. The presentation of this segment, based solely on houseware and textile activities was effected in the third quarter of 2014. Other activities are included in Others; comparative figures have been reclassified accordingly. In the reconciliation to the financial statements of the Company includes the impairment of goodwill in the amount of NIS 21 million and NIS 4.5 Million for 2014 and 2013, respectively.
- (4) 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 in Tel-Aviv. (see note 34c)
- (5) Other – The Company is engaged in cellular "MVNO" activities through its subsidiary Alon Cellular Ltd, in the baby products sector, as a retailer and wholesaler, through Dr. Baby Marketing and Distribution 888 Ltd (100% held subsidiary) and the operation of a logistic center in Beer Tuvia through Bee Group Ltd. (100% held subsidiary). The Company is also engaged in issuance and clearance of credit cards and grant of credit through its associate Diners Club Israel Ltd. (the Company's share in Diners profit amounted to NIS 16.7 million, NIS 20.1 million and NIS 19.6 million for the years ended December 31, 2014, 2013 and 2012, respectively). In the reconciliation to the financial statements the Company included the amortization of the excess of cost arising at the time of acquisition (amounted to NIS 8.5 million, NIS 11.2 million and NIS 11.0 million, in 2014, 2013 and 2012, respectively). The activities in the Other segment include activities aimed to customer preservation and loyalty in the rest of the segments.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – SEGMENT INFORMATION (continued):

	<u>Fueling and commercial sites</u>	<u>Supermarkets</u>	<u>Houseware and Textile</u>	<u>Real estate</u>	<u>Other activities</u>	<u>Adjustments</u>		<u>Total consolidated</u>
						<u>Branches resolved to cease operations</u>	<u>Other</u>	
	NIS in thousands							
Year ended December 31, 2014:								
Net segment revenues	4,859,627	5,442,942	280,888	51,158	116,949	309,393	-	11,060,957
Inter segment revenues	48,110	-	19,298	-	4,144	-	(71,552)	-
Net revenues	4,907,737	5,442,942	300,186	51,158	121,093	309,393	(71,552)	11,060,957
Depreciation and amortization	91,219	146,613	5,949	-	11,361	14,351	9,033	278,526
Segment profit (loss)	140,481	39,266	11,549	102,610	(28,970)	(68,885)	(105,363)	90,688
Unallocated corporate expenses								(34,477)
Financial expenses, net								(211,252)
Loss before taxes on income								<u>(155,041)</u>
Year ended December 31, 2013:								
Net segment revenues	5,140,486	5,773,632	273,084	38,369	104,932	555,837	-	11,886,340
Inter segment revenues	39,385	-	27,467	-	2,577	-	(69,429)	-
Net revenues	5,179,871	5,773,632	300,551	38,369	107,509	555,837	(69,429)	11,886,340
Depreciation and amortization	88,142	138,930	5,935	-	10,436	18,675	7,023	269,141
Segment profit (loss)	138,566	99,245	(1,955)	75,015	(31,029)	(55,308)	(46,575)	177,959
Unallocated corporate expenses								(24,024)
Financial expenses, net								(254,016)
Loss before taxes on income								<u>(100,081)</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – SEGMENT INFORMATION (continued):

	<u>Fueling and commercial sites</u>	<u>Supermarkets</u>	<u>Houseware and Textile</u>	<u>Real estate</u>	<u>Other activities</u>	<u>Adjustments</u>		<u>Total consolidated</u>
						<u>Branches resolved to cease operations</u>	<u>Other</u>	
	NIS in thousands							
Year ended December 31, 2012:								
Net segment revenues	5,773,398	5,967,490	261,044	30,569	67,257	585,419	-	12,685,177
Inter segment revenues	41,197	-	29,458	-	-	-	(70,655)	-
Net revenues	5,814,595	5,967,490	290,502	30,569	67,257	585,419	(70,655)	12,685,177
Depreciation and amortization	87,808	165,197	4,627	-	8,910	2,267	9,705	278,514
Segment profit (loss)	149,534	173,015	7,251	99,302	(32,588)	(35,979)	(52,369)	308,166
Unallocated corporate expenses								(24,268)
Financial expenses, net								(241,928)
Income before taxes on income								41,970

The Company does not regularly report any segment assets and liabilities measure to the chief operating decision maker, see also note 2d.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – SUBSIDIARIES

i) Information about principal subsidiaries

Set out below are the Company's principal subsidiaries at December 31, 2014. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Company and the proportion of ownership interests held equals to the voting rights held by Company.

Name of Entity	Principal activities	% of Ownership by the group
Dor Alon Energy in Israel (1988) Ltd.	Operation of fueling stations and convenience stores, direct marketing and jet fuel	78.43
Blue Square Real Estate Ltd.	Project development and generating yield	*69.71

* See also iii below.

For information about principal subsidiaries of the Company, see appendix.

The total non-controlling interest as of December 31, 2014 is NIS 477.1 million, of which NIS 211.5 million is for Dor Alon and NIS 248.1 million is attributed to BSRE.

ii) Summarized financial information on subsidiaries with material non- controlling interests

Set out below are the summarized financial information for each subsidiary that has non- controlling interests that are material to the Company.

Summarized balance sheet:

	Blue Square Real Estate*		Dor Alon	
	December 31		December 31	
	2013	2014	2013	2014
	NIS in thousands			
Current				
Assets	753,828	483,371	1,525,946	1,371,305
Liabilities	418,992	316,780	1,391,340	1,266,899
Total current net assets	334,836	166,591	134,606	104,406
Non- current				
Assets	3,505,894	3,582,867	1,380,479	1,351,353
Liabilities	2,306,665	2,225,244	999,533	906,643
Total non- current net assets	1,199,229	1,357,623	380,946	444,710
Net assets	1,534,065	1,524,214	515,552	549,116
Non - controlling interest share %	25.2%	30.3%	21.6%	21.6%
Non - controlling interest share	387,198	461,684	111,483	118,741
Adjustments:				
Adjustments for consolidation*	(179,856)	(213,622)	2,872	2,949
Fair value adjustments	-	-	95,404	89,847
Adjusted non- controlling interest share	207,342	248,062	209,759	211,537

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – SUBSIDIARIES (continued):

* BSRE's assets include real estate and deferred taxes as presented in their financial statements and for the purpose of the consolidation are annulled in the amount of approximately NIS 1,050 million and NIS 245 million respectively (2013 - NIS 1,050 million and NIS 235 million).

Summarized income statements:

	<u>Blue Square Real Estate</u>			<u>Dor Alon</u>		
	<u>Year ended December 31</u>			<u>Year ended December 31</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>NIS in thousands</u>					
Revenues	202,720	214,460	224,528	5,814,595	5,179,871	4,907,737
Net income	199,228	148,740	191,447	32,571	46,045	43,718
Other comprehensive income	981	(5,347)	8,315	10,637	9,853	(2,143)
Total comprehensive income	200,209	143,393	199,762	43,208	55,898	41,575
Non- controlling interest share-%	21.8%	25.2%	25.2%***	21.6%	21.6%	21.6%
Non- controlling interest share	43,606	36,192	50,420	9,343	12,087	8,990
Adjustments:						
Adjustments for consolidation*	(10,662)	(16,175)	(4,702)	247	211	-
Fair value adjustments	-	-	-	678	60	(724)
Adjusted net income attributable to non-controlling interest	32,944	20,017	45,718	10,268	12,358	8,266
Dividends paid to non- controlling interest**	-	20,986	52,906	-	9,737	6,474

* Annulment of revenues and changes in fair value of investment property due to property in own use.

** See also (iii) below.

*** Represents NCI share during 2014. As of December 31, 2014 NCI share in BSRE is 30.3%

Summarized cash flows:

	<u>Blue Square Real Estate</u>		<u>Dor Alon</u>	
	<u>Year ended December 31,</u>		<u>Year ended December 31,</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
	<u>NIS in thousands</u>			
Cash flows from operating activities:				
Income before taxes on income	204,463	261,322	57,931	51,534
Income tax received (paid), net	(11,501)	(17,312)	(2,566)	236
Adjustments to net cash provided by operating activities	(4,367)	(46,398)	318,869	237,232
Net cash provided by operating activities	188,595	197,612	374,234	289,002
Net cash provided by (used in) investing activities	(97,777)	161,520	(77,986)	(36,268)
Net cash used in financing activities	(70,663)	(525,902)	(282,961)	(248,677)
Increase (decrease) in cash and cash equivalents and bank overdrafts	20,155	(166,770)	13,287	4,057
Translation differences on cash and cash equivalents	(9)	53	-	-
Balance of cash and cash equivalents and bank overdrafts at beginning of year	206,532	226,678	39,510	52,797
Balance of cash and cash equivalents and bank overdrafts at end of year	226,678	59,961	52,797	56,854

The information above is the amount before inter- company eliminations.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - SUBSIDIARIES (continued):

iii) Transaction with non- controlling interest

On May 7, 2013 the Company sold 3.5% of BSRE shares, subsequent to which it held 74.76% ownership in BSRE;
On February 23, 2014, an ordinary purchase offer of BSRE was completed for the purchase of 7.8% of its issued and outstanding share capital for NIS 160 million. The purchase offer was responded by 99.2% of BSRE shareholders including the Company. The Company's share in the purchase offer's consideration was NIS 120 million and the balance of NIS 40 million was paid to non-controlling interests and was included in the statements of cash flows used in financing activities under the line item "dividend paid to non-controlling interests". The holding rate of the Company in BSRE, after the purchase offer, decreased by 0.05%.
During 2014 the Company sold 5% shareholding in BSRE.
The difference between the consideration received and the carrying amount of the interest sold, net of the tax effect, was directly carried to equity, as follows:

	2013	2014
	NIS in thousands	
Consideration received from non- controlling interests	48,864	69,695
Carrying amount of group's interest disposed of	20,926	39,952
Gain on disposal recorded within parent's equity	27,938	29,743
Taxes on income	(6,984)	(7,745)
Gain on disposal recorded within parent's equity net of tax	20,954	21,998

During the first quarter of 2015, the Company sold additional 6% of BSRE shares, reducing its holding in BSRE to 63.71%. Net gain on disposal will be recognized in equity. In April 2015, BSRE distributed NIS 30 million as dividend to its shareholders, of which NIS 10.9 million were paid to non-controlling interests.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The amounts recognized in the consolidated statement of financial position are as follows:

	December 31	
	2013	2014
	NIS in thousands	
Associates:		
Diners	210,294	195,853
Other associates	89,038	94,578
	<u>299,332</u>	<u>290,431</u>
Joint ventures:		
City Mall Tel Aviv	211,884	226,049
Other joint ventures	451,551	460,548
	<u>663,435</u>	<u>686,597</u>
	<u>962,767</u>	<u>977,028</u>

The amounts recognized in the consolidated income statements are as follows:

	Year ended December 31	
	2013	2014
	NIS in thousands	
Associates:		
Diners*	8,839	10,518
Other associates	391	1,271
	<u>9,230</u>	<u>11,789</u>
Joint ventures:		
City Mall Tel Aviv	10,856	12,716
Other joint ventures	7,125	13,492
	<u>17,981</u>	<u>26,208</u>
	<u>27,211</u>	<u>37,997</u>

* The amounts recognized in the consolidated income statements include the amortization of the excess of cost arising at the time of acquisition.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued):

a. Investment in associates

As of December 31, 2014 the Company has a material associate, Diners Club Israel Ltd (hereinafter - Diners Israel), which is held directly by the Company and by a subsidiary of the Company, Dor Alon. The Company holds 36.75% of the issued share capital of Diners Israel and Dor Alon holds 12.25% of the issued share capital of Diners Israel.

Diners club Israel Ltd

On December 26, 2006, an agreement (hereinafter – the original agreement) was signed between the Company, and Cal - Israel Credit Cards Ltd. (hereinafter – CAL) and Diners Israel, a subsidiary of CAL.

CAL is engaged with the issuance and clearance of VISA and Master-Card credit cards and is a principal member of the international organization of VISA and Master-card which provides it the right to use these trademarks in Israel as well as the right to issue and clear credit cards in Israel.

Diners has an exclusive license to use the brand Diners in Israel by "Diners Club International Ltd" and to operate, issuance and clearance services of Diners cards.

CAL and Diners are also engaged with grant of loans to their credit card holders.

According to the said agreement, the Company jointly purchased from CAL 49% of the issued share capital of Diners. Both parties had the ability to cancel the agreement in certain circumstances. The Company was entitled to receive income arising from the activity of the loyalty program and to participate in the profit from activities of Diners (which is not part of the loyalty program) upon meeting some milestones as specified in the original agreement.

On May 25, 2011, the Company agreed to an amendment to the original agreement (hereinafter – "the amendment"). The main features of the amendment were the elimination of the right of CAL to annul the agreement and the transfer to Diners part of the operations of CAL with regard to the grant of "off-bank loans" to Diners' credit card holders.

Additionally, the amendment set the terms as to the business relationship between the parties, including a cancellation mechanism in the event the loyalty plan was cancelled by the Company.

On September 23, 2014, the parties agreed to the following amendments to the agreement:

- i) The loyalty programme club term was extended to July 15, 2019.
- ii) CAL will have a call option to buy the Company's share, when, upon renewal of the club agreement, if the Company opt not to do so, or when the agreement is cancelled as a result of a breach caused by the Company; the Company will not be able to exercise its put option, in any of these circumstances.
- iii) The cost for exercising either CAL's call option, or the Company's put option, will be based on the fair value of Diners at that time, as determined by an agreed upon evaluator ;
- iv) The distribution of dividends will continue to follow the original agreement. Consequently, until the repayment of certain earnings amounting to approximately NIS 75 million (prior earnings that did not arise from the "YOU" club activities), CAL will receive 75.5% and the Company will receive 24.5% of any such distribution. As at December 31, 2014, the balance of such earnings is approximately NIS 25 million.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued):

Allocation of the excess of cost of acquisition over the share in net book value of equity acquired of Diners Israel, was determined as follows : NIS 71 million to customer relationships and contractual arrangements which is amortized over 4.5 to 6.5 years and NIS 104 million to goodwill which is not amortized (see also note 2c).

The financial statements of Diners are prepared in accordance with International Financial Reporting Standards and with the directives and guidelines of the Supervisor of Banks in Israel. The Company includes its share in the profits of Diners in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Diners is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Company's interest in the associate.

Summarized financial information of Diners Club Israel Ltd.

Financial position statement data (100%):

	December 31	
	2013	2014
	NIS in thousands	
Assets		
Current assets	*798,000	1,044,000
Non - current assets	33,000	14,000
Total assets	831,000	1,058,000
Liabilities		
Current liabilities	*558,000	748,000
Non- current liabilities	32,000	135,000
Total liabilities	590,000	883,000
Net assets	241,000	175,000

*Reclassified.

Summarized statement of income (100%):

	For the year ended	
	December 31	
	2013	2014
	NIS in thousands	
Revenues	135,000	136,000
Operating profit	62,000	55,000
Income before taxes on income	62,000	55,000
Taxes on income	21,000	21,000
Net income from continuing operation	41,000	34,000
Other comprehensive income	-	-
Total comprehensive income	41,000	34,000

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued):

Reconciliation of summarized financial information:

Reconciliation of the summarized financial information presented to the carrying amount of the Company's interest in Diners Club Israel Ltd.

	Year ended December 31	
	2013	2014
	NIS in thousands	
Net assets at the beginning of the year:	200,000	241,000
Profit for the year	41,000	34,000
Dividend		(100,000)
Closing net assets:	241,000	175,000
Interest in associate-%	49%	49%
Interest in associate	118,090	85,750
Fair value adjustments	(12,013)	5,886
Goodwill	104,217	104,217
Carrying value	<u>210,294</u>	<u>195,853</u>

b. Investment in joint ventures

The Company holds 50% of City Mall Tel Aviv, a principal joint venture, through its subsidiary BSRE. The shares of City Mall Tel Aviv are unlisted and there is no quoted market price available for its shares.

In addition BSRE has immaterial joint ventures which operate real estate for internal use and third party use and Dor Alon has certain immaterial joint ventures which operate fuel stations and commercial centers (see appendix to the financial statements).

City Mall Tel Aviv Ltd.

City Mall Tel Aviv Ltd. (the Mall Company) was established as a jointly controlled entity by BSRE and Gindi Group under the construction project of the wholesale market complex and according to a Memorandum of Understandings dated April 15, 2010 (the MOU) that regulates the relations between BSRE and Gindi group in all that concerns the wholesale market in Tel Aviv (see note 34c).

a) Completion of purchasing the leasehold rights in the real estate

In 2012, the purchase of the leasehold rights in the real estate of the wholesale market project was completed. As of December 31, 2012, the Mall Company paid the entire consideration for the leasehold rights in the real estate designated for establishing the commercial complex pursuant to purchase agreements signed between the parties in a total amount of NIS 394 million (the Company's share 50%). The leasehold rights are for the period ending August 31, 2099.

The main commercial areas under construction approximate 33,000 square meter, of which approximately 60% are leased under signed agreements or memorandum of understanding (as of December 31, 2014).

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued):

As of December 31, 2014, due to a breach in covenants, the Mall Company has classified its bank loans as current; subsequent to which an amendment to the agreement was signed and the parties have agreed in principle to the expansion of the project financing – see also note 34c(2).

c. Summarized financial information of City Mall Tel Aviv

Financial position statement data (100%):

	December 31	
	2013	2014
	NIS in thousands	
Assets:		
Current assets	5,511	42,682
Non-current assets	869,886	1,101,830
	<u>875,397</u>	<u>1,144,512</u>
Liabilities:		
Current liabilities	16,543	573,739
Non-current liabilities	691,168	374,428
	<u>707,711</u>	<u>948,167</u>
Net Assets	<u>167,686</u>	<u>196,345</u>

Summarized statement of income (100%):

	Year ended December 31	
	2013	2014
	NIS in thousands	
Revenues-increase in fair value of investment property, net	34,668	36,712
Other income	-	928
Taxes on income	7,709	9,200
Net income	<u>21,713</u>	<u>25,431</u>
Other comprehensive income	-	-
Total comprehensive income	<u>21,713</u>	<u>25,431</u>
Dividends received from associate	-	-

Reconciliation of summarized financial information:

Reconciliation of the summarized financial information presented to the carrying amount of the Company's interest in City Mall Tel Aviv

	Year ended December 31	
	2013	2014
	NIS in thousands	
Net assets	167,686	196,345
Interest in joint venture-%	50%	50%
Interest in joint venture	83,843	98,173
Loans granted by BSRE	128,041	127,876
Carrying value	<u>211,884</u>	<u>226,049</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Kfar Hasha'ashuim Marketing Ltd. ("Kfar")

In December 2012, the Company resolved to realize its investment in Kfar which operated the leisure and toy activity of the Company under the Other segment, and as of December 31, 2013, operated 83 stores, mostly through franchisees. As a result, Kfar was classified as a disposal group held for sale and as a discontinued operation.

In February 2014, BEE Group completed the sale of 65% of its holdings in Kfar for NIS 13 million. This consideration is payable over a period of up to 5 years; it is linked to the CPI and bears interest of 3%. BEE Group granted the acquirer (the CEO of Kfar) an option to purchase its remaining holdings in Kfar for NIS 7 million, within two years from closing the transaction (the Call option) and the acquirer granted Bee Group an option to sell him the remaining investment for the same amount at the end of the two years, for a period of six months. According to the agreement, if Kfar will be held in the future by a public entity, the Call Option can be settled in shares of that entity, instead of cash. In addition, the remaining consideration which has not yet been paid to BEE Group can also be paid in shares of such public entity, provided that the total holdings of Bee Group in the said public entity will not exceed 20%. In February 2015, an amended agreement was signed which includes, among others, a mechanism for adjusting the consideration to be received such that the final consideration may be decreased by an additional NIS 6 million.

The Company also provided a guarantee of up to NIS 46 million in respect of credit lines of Kfar. The acquirer committed to provide an amount which exceeds the debt withdrawn from the bank by NIS 5 million as collateral for the credit liens. In addition, the acquirer committed to decrease the amount of debt to the bank every year. The acquire did not fulfill these obligations. In March 2015, the bank has requested that the Company exercise part of the above guarantee. Consequently, a provision of NIS 35 million was made by the Company as of December 31, 2014 in respect of the balance of the above receivable, the investment in Kfar and the above guarantee.

The results of Kfar for the years ended December 31, are as follows:

	<u>2012</u>	<u>2013</u>	<u>**2014</u>
	NIS in thousands		
Revenues	115,214	114,837	22,155
Expenses	91,906	93,008	18,826
Gross profit	23,308	21,829	3,329
Selling, general and administrative expenses	(35,956)	(32,205)	(5,421)
Other losses	-	*(16,471)	-
Finance expenses	(4,820)	(3,147)	(973)
Loss before taxes from discontinued operations	(17,468)	(29,994)	(3,065)
Tax benefit (taxes on income)	(5,000)	-	-
Loss from discontinued operations	<u>(22,468)</u>	<u>(29,994)</u>	<u>(3,065)</u>

* During 2013 the Company impaired goodwill in the amount of NIS 14.1 million in accordance with the fair value less cost to sell.

**For the period until the consummation of the transaction;

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (continued):

The major classes of assets and liabilities of Kfar classified as held for sale as at December 31, 2013 are, as follows:

	December 31
	2013
	NIS in thousands
Assets	
Cash and cash equivalents	1,017
Trade receivables	58,119
Other current assets	9,505
Inventories	23,330
Intangible assets, net	7,195
Assets of disposal group classified as held for sale	99,166
Liabilities	
Credit and loans from banks and others	46,210
Trade payables	35,787
Other current liabilities	3,559
Liabilities of disposal group classified as held for sale	85,556
Net assets directly associated with disposal group	13,610

The net cash flows incurred by Kfar, are as follows:

	Year ended December 31,	
	2012	2013
	NIS in thousands	
Operating	(7,666)	(3,824)
Investing	567	1,298
Financing	7,764	1,715
Net cash flow (outflow)	665	(811)

Cash flows used in the sale of Kfar in 2014:

	NIS in thousands
Investment accounted for using the equity method	(7,000)
Other long-term receivables	(9,000)
Assets of disposal group classified as held for sale	93,680
Liabilities of disposal group classified as held for sale	(79,769)
Cash flows used in sale of Kfar	(2,089)

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – CASH, CASH EQUIVALENTS AND DEPOSITS:

a. Cash and cash equivalents

	December 31	
	2013	2014
	NIS in thousands	
Cash at bank and on hand	42,245	54,681
Bank deposits with original maturities of three months or less	280,334	235,421
	322,579	290,102

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

	December 31	
	2013	2014
	NIS in thousands	
Cash and cash equivalents	322,579	290,102
Cash at banks attributable to discontinued operations	1,017	-
	323,596	290,102
Bank overdrafts, see note 21	(12,605)	(5,490)
	310,991	284,612

b. Short-term deposits

	December 31	
	2013	2014
	NIS in thousands	
Deposits at suppliers (1)	68,737	71,872
Short term deposits relating to debentures (2)	19,292	19,299
Bank deposits (3)	5,774	3,136
	93,803	94,307

- (1) Linked to the U.S. Dollar, bearing interest of LIBOR plus 2%. Deposits used as a security for suppliers.
(2) Deposit used as security for debentures – see also note 21.
(3) Bearing interest of 0.2%.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – INVESTMENT IN SECURITIES

a. Comprised as follows:

	December 31	
	2013	2014
	NIS in thousands	
Available for sale financial assets – current	320,633	262,104
Financial assets at fair value through profit or loss-current	178,146	100,723
Available for sale financial assets – non-current	60,259	59,283
	559,038	422,110

b. Composition per type of security:

	December 31	
	2013	2014
	NIS in thousands	
Debt securities	445,717	307,946
Equity securities	113,321	114,164
	559,038	422,110

c. Available for sale financial assets

	2012	2013	2014
	NIS in thousands		
At January 1	230,642	283,352	380,892
Purchases	178,149	207,526	164,286
Proceeds	(147,937)	(130,305)	(223,748)
Transfers to or from other comprehensive income	19,632	16,682	(3,295)
Attributed to statements of income	2,866	3,637	3,252
At December 31	283,352	380,892	321,387

In 2012, 2013 and 2014 the Company recycled profits from equity into the income statements in the amount of NIS 2,906 thousand, NIS 3,298 thousands and NIS 6,510 thousands, respectively.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – INVESTMENT IN SECURITIES (continued):

- d. Financial assets at fair value through profit or loss

	December 31	
	2013	2014
	NIS in thousands	
Debt securities	76,029	66,444
Investment in equity securities	102,117	34,279
Total	178,146	100,723

NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS:

Derivative financial Instruments	Statement of financial position Item	December 31			
		2013		2014	
		NIS in thousands			
		Assets	Liabilities	Assets	Liabilities
Forward contracts over the					
Israeli CPI (a)	Derivative financial instruments	-	889	589	-
Foreign exchange contracts (b)	Derivative financial instruments	-	5,595	-	1,060
Embedded derivatives:					
Rent agreements	Derivative financial instruments	6,309	2,847	4,504	1,931
Conversion component embedded in the convertible debentures (see note 21)	Convertible debentures	-	121	-	121
Total		6,309	9,452	5,093	3,112

- (a) The notional principal amounts of the outstanding forward contracts over the Israeli CPI at December 31, 2014 were approximately NIS 228 million.
- (b) The notional amount of open forward foreign exchange contracts (up to 3 months, mostly 2 months) as of December 31, 2013 and 2014 are \$105.7 million and \$58.5 million respectively.

NOTE 12 – TRADE RECEIVABLES:

	December 31	
	2013	2014
	NIS in thousands	
Trade receivables	1,260,205	1,074,674
Less: provision for impairment of trade receivables	(38,273)	(44,307)
	1,221,932	1,030,367

As of December 31, 2014, trade receivables of NIS 24,912 thousands (2013: NIS 29,269 thousands) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. Approximately 79% of these past-due receivables are overdue for up to 3 months.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – TRADE RECEIVABLES (continued):

As of December 31, 2014, trade receivables of NIS 124,399 thousands (2013: NIS 117,973 thousands) were impaired and provided for. The amount of the provision was NIS 44,307 thousands as of December 31, 2014 (2013: NIS 38,273 thousands). 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	
	2013	2014
	NIS in thousands	
At January 1	52,367	38,273
Provisions made during the period	1,741	9,894
Unused amounts reversed	(5,792)	(6)
Receivable written off during the year as uncollectible	(10,043)	(3,854)
At December 31	38,273	44,307

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.

NOTE 13 – OTHER RECEIVABLES:

	December 31	
	2013	2014
	NIS in thousands	
Prepayments	20,006	21,055
Related parties , see note 36	140,593	191,707
Government authorities	6,511	4,391
Advances to suppliers and others	11,447	12,665
Current maturities of loans receivable	15,798	10,918
Receivables in respect of gift certificates	14,515	25,785
Receivables in respect of sale of property and equipment	-	106,957
Other	77,791	57,229
	286,661	430,707

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – INVENTORIES:

- a) Inventories presented in current assets:

	December 31	
	2013	2014
	NIS in thousands	
Fuel and oil products	93,084	79,919
Consumer (including non-food) products	508,929	431,742
	602,013	511,661

- b) Real estate inventories (presented as non-current assets)

Representing approximately a 240-dunam parcel of property in Point-Wells near Seattle, Washington, USA, acquired by BSRE from a related party (see note 36a.b); BSRE has also signed a development agreement with the related party to initiate and promote a detailed plan for the approval of the building of at least 2,000 residential units on the land.

BSRE is operating to change the zoning of the land from heavy industrial use to urban center zoning, and so far has received an "in principal" approval for the zoning change from the Snohomish County.

Based on the new zoning, BSRE filed with the redistrict committee a detailed plan that includes the construction of three residential complexes at a scope of 3,000 residential units public premises on the real estate and development plans (the detailed plan). the county approved 2,700 residential units as Urban Village zoning. In the process of changing the land designation from "Heavy Industrial" to "Urban Center", on April 10, 2014, the State of Washington Supreme Court upheld that BSRE has a vested right to the development of the land under the designation of "Urban Center", which shall include the construction of 3,000 housing units, public areas and development programs. As of the date of this report, the Company is unable to estimate the exact duration of time it will take to receive the approval of the competent authorities for exercising the construction rights under the plan which determined the designation of land as an "Urban Center".

Through December 31, 2014, BSRE invested U.S. \$7.4 million (NIS 28.8 million) in the development of property rights and capitalized borrowing costs of U.S. \$5.5 million (NIS 21.9 Million) (in 2013: U.S. \$6.4 million and U.S. \$4.9 million, respectively).

The property serves primarily as a plant for storage and distribution of fuel and oils by the related party, and is rented to the related party for a period of up to 10 years. According to the development agreement, all demolition and contamination cleanups required for the land will be the responsibility of the related party and on its account; the related party will also compensate BSRE for any damages incurred in connection with such activities. In case BSRE was to sell the land the related party will entitled to some of the consideration net of costs as defined in the agreement.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – 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 d. below)	Fueling station equipment	Motor vehicles	Furniture, equipment and installations	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2014	2,847,920	306,983	23,098	1,435,422	4,613,423
Additions	102,831	35,975	4,585	79,130	222,521
Disposals	(186,402)	(5)	(2,329)	(130,216)	(318,952)
Transfer to investment property	(121,463)	-	-	-	(121,463)
Balance at December 31, 2014	<u>2,642,886</u>	<u>342,953</u>	<u>25,354</u>	<u>1,384,336</u>	<u>4,395,529</u>
Accumulated depreciation:					
Balance at January 1, 2014	898,977	74,233	15,817	1,071,241	2,060,268
Additions	113,454	31,428	2,686	84,483	232,051
Disposals	(95,176)	-	(2,295)	(105,223)	(202,694)
Transfer to investment property	(30,888)	-	-	-	(30,888)
Balance at December 31, 2014	<u>886,367</u>	<u>105,661</u>	<u>16,208</u>	<u>1,050,501</u>	<u>2,058,737</u>
Impairment of property and equipment	(14,756)	-	-	-	(14,756)
Net book value at December 31, 2014	<u><u>1,741,763</u></u>	<u><u>237,292</u></u>	<u><u>9,146</u></u>	<u><u>333,835</u></u>	<u><u>2,322,036</u></u>
	Land, buildings and leasehold improvements (see d. below)	Fueling stations equipment	Motor vehicles	Furniture, equipment and installations	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2013	2,820,928	270,152	23,874	1,432,692	4,547,646
Additions	65,541	36,831	1,670	35,834	139,876
Disposals	(17,969)	-	(2,446)	(33,104)	(53,519)
Transfer to investment property	(20,580)	-	-	-	(20,580)
Balance at December 31, 2013	<u>2,847,920</u>	<u>306,983</u>	<u>23,098</u>	<u>1,435,422</u>	<u>4,613,423</u>
Accumulated depreciation:					
Balance at January 1, 2013	830,051	46,335	14,180	983,663	1,874,229
Additions	81,180	27,898	3,482	111,269	223,829
Disposals	(11,689)	-	(1,845)	(23,691)	(37,225)
Transfer to investment property	(565)	-	-	-	(565)
Balance at December 31, 2013	<u>898,977</u>	<u>74,233</u>	<u>15,817</u>	<u>1,071,241</u>	<u>2,060,268</u>
Impairment of property and equipment	(18,071)	-	-	-	(18,071)
Net book value at December 31, 2013	<u><u>1,930,872</u></u>	<u><u>232,750</u></u>	<u><u>7,281</u></u>	<u><u>364,181</u></u>	<u><u>2,535,084</u></u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – PROPERTY AND EQUIPMENT (continued):

- b. As to liens placed on assets, see note 35.
- c. Additions during the period – Property and equipment include property under construction and capitalization of labor and finance expenses in an amount of NIS 1.5 million.
- d. Capitalized lease payments amount to NIS 181 million at December 31, 2014 (NIS 241 million at December 31, 2013), and are in respect of long-term land leases from the Israeli Land administration. Most of these leases are for periods of over 25 years, with extension period of 49 years.

NOTE 16 – INVESTMENT PROPERTY:

The changes in the carrying value of investment property for the years ended December 31, 2014 and 2013 respectively, are as follows:

	<u>2013</u>	<u>2014</u>
	<u>NIS in thousands</u>	
At January 1	539,466	770,490
Transfer from property and equipment (b)	20,015	90,575
Transfer from assets held for sale (c)	45,600	-
Additions (d)	123,717	48,174
Disposals		(8,750)
Changes in fair value of investment property, net:		
Charged to increase in fair value of investment property, net in the income statements (e)	42,122	50,258
Changes in fair value of investment property transfer from property and equipment:		
Charged to other losses (b)	(2,262)	-
Carried to OCI	1,832	31,872
At December 31	<u>770,490</u>	<u>982,619</u>

- a) All the Company's investment properties are located in Israel.
- b) In 2014, six assets were transferred from property and equipment. Decrease in fair value of investment property, which transferred from property and equipment, is recognized in the income statements and increase in fair value of such assets is recognized in OCI.
- c) In the last quarter of 2013, after the purchasers did not complete the payments according to the date set forth in the sale agreement, the sale of the asset was canceled and the property was classified to investment property.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 – INVESTMENT PROPERTY (continued):

- d) The additions in 2014, totaling NIS 48.2 million, include an amount of approximately NIS 40 million in respect of the Comverse transaction, the building was completed and the building was transferred to its lessee in December 2014. The additions in 2013, totaling NIS 123.7 million, include an amount of approximately NIS 69 million in respect of expansion of the Hadar mall and an amount of NIS 41 million in respect of Comverse.
- e) The change in fair value in 2014 is in respect of the completion of projects, additional rights received on land (amounting to NIS 33 million) and the reduction of discount rate at 0.25% in some of the commercial properties.
- f) The changes in fair value in 2013 are due mainly to projects under construction (approximately NIS 25 million), and the reduction of discount rate at 0.25% in some of the commercial properties.
- g) For details regarding liens and guarantees see note 35.
- h) Association in Israel – The discount rate is 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. In most assets the discount rate was reduced by 0.25% compared to previous years. The ranges of discount rates used by the appraiser are mainly 7.5% - 8.25% per annum.
- i) Rental revenue that has been recognized in the statements of income within revenues:

	Year ended December 31	
	2013	2014
	NIS in thousands	
Rental income	39,041	51,158

- j) Break down of investment property at December 31, 2014 and 2013, by lease rights and ownership of land:

	December 31,	
	2013	2014
	NIS in thousands	
Under ownership	368,549	490,681
Finance lease from the Israel Lands Administration	401,941	491,938
Total	770,490	982,619

- k) Capitalized borrowing costs:

The amount of borrowing costs capitalized during the years ended December 31, 2014 and 2013 was NIS 8.5 million and NIS 5.2 million, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 4.3% in 2014 and 4.8% in 2013 (linked to the Israeli CPI).

NOTE 16 – INVESTMENT PROPERTY (continued):

l) Fair value of investment property

The fair value of investment property items is measured by external independent valuation specialists who are members of the Institute of Real Estate Appraisers in Israel who possess recognized relevant professional training and ongoing experience on investment property in locations and classifications that were valued.

Data on measurements of investment property in level 3

Fair value of investment property is determined at least annually or when there are indications for changes in value (at the earlier) based on valuations carried out by external independent valuation specialists with the adequate professional skills.

Fair value is measured using income capitalization technique: the valuation model is based on the present value of the NOI estimate expected to derive from the property. The valuation of real estate is based on the net annual cash flows capitalized at capitalization rate reflecting their specific risks. When there are lease agreements, in respect of which the payments are other than the proper rental fees, adjustments are made to reflect the rental payments at the end of the lease term.

The valuations take into account the type of tenants actually occupying the leased property or the responsible parties for meeting the lease liabilities and the remaining economic life of the property in those locations where such parameters are relevant.

The market value of the rental data includes a wide range in all of the regions and uses and derives, among others, from the variance of the nature of the leased property with respect to the age and the finish level of the various properties. For details on the capitalization rates, see h, as above.

The fair value estimate will increase if:

1. The market value of the rental payments will increase.
2. Cash flow capitalization rate will decrease.

The key data that are not observable in the market refer to the following factors:

The return rate of investment property, is based on professional publications in the relevant markets and comparison with similar transactions and the market value of rental payments (market rent) is based on professional publications in the relevant markets and comparison with similar transactions.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – INTANGIBLE ASSETS:

The composition of intangible assets and the accumulated amortization thereon, grouped by major classifications, and changes therein in 2014 and 2013, 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>
	NIS in thousands					
At January 1, 2013						
Cost	802,357	196,263	143,820	138,609	221,641	1,502,690
Accumulated amortization and impairment	-	(135,355)	(16,980)	(44,268)	(49,476)	(246,079)
Net carrying amount	<u>802,357</u>	<u>60,908</u>	<u>126,840</u>	<u>94,341</u>	<u>172,165</u>	<u>1,256,611</u>
Year ended December 31, 2013:						
Opening net carrying amount	802,357	60,908	126,840	94,341	172,165	1,256,611
Additions	-	9,503	158	-	2,759	12,420
Amortization charge	-	(23,868)	(4,781)	(14,117)	(18,040)	(60,806)
Impairment	(4,500)	-	-	-	-	(4,500)
Net carrying amount	<u>797,857</u>	<u>46,543</u>	<u>122,217</u>	<u>80,224</u>	<u>156,884</u>	<u>1,203,725</u>
At December 31, 2013:						
Cost	797,857	205,766	143,785	138,609	224,400	1,510,417
Accumulated amortization and impairment	-	(159,223)	(21,568)	(58,385)	(67,516)	(306,692)
Net carrying amount	<u>797,857</u>	<u>46,543</u>	<u>122,217</u>	<u>80,224</u>	<u>156,884</u>	<u>1,203,725</u>
Year ended December 31, 2014:						
Opening net carrying amount	797,857	46,543	122,217	80,224	156,884	1,203,725
Additions	-	23,746	157	-	2,287	26,190
Amortization charge	-	(24,336)	(5,440)	(14,116)	(23,680)	(67,572)
Impairment	(22,000)	-	-	-	-	(22,000)
Net carrying amount	<u>775,857</u>	<u>45,953</u>	<u>116,934</u>	<u>66,108</u>	<u>135,491</u>	<u>1,140,343</u>
At December 31, 2014:						
Cost	775,857	229,512	143,942	138,609	226,687	1,514,607
Accumulated amortization and impairment	-	(183,559)	(27,008)	(72,501)	(91,196)	(374,264)
Net carrying amount	<u>775,857</u>	<u>45,953</u>	<u>116,934</u>	<u>66,108</u>	<u>135,491</u>	<u>1,140,343</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – INTANGIBLE ASSETS (continued):

- a. Amortization is included in the income statements within Selling, general and administrative expenses. Impairment losses are 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	
	2013	2014
	NIS in thousands	
Supermarkets	159,113	158,113
Houseware retail and wholesale*	106,679	85,679
Fueling and Commercial sites:		
Goodwill – filling and commercial stations	500,065	500,065
Goodwill – direct marketing	18,000	18,000
Goodwill – jet fuel	14,000	14,000
Indefinite life – brand name	86,033	86,033
	<u>883,890</u>	<u>861,890</u>

* Goodwill as of December 31, 2014 includes an impairment of NIS 21 million (December 31, 2013 - NIS 4.5 million) in the Houseware component. The recoverable amount of Housware CGU amounts to NIS 228 million.

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

Segment CGU	Supermarkets	Houseware retail and wholesale
	Supermarkets	Houseware
	%	
December 31, 2014:		
Expected gross margin	26.5	55.0
Growth rate (1)	0.0	1.3
Discount rate (2)	10.1	13.1
December 31, 2013:		
Expected gross margin	26.9	56.0
Growth rate (1)	0	1.3
Discount rate (2)	10.3	14.8

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – INTANGIBLE ASSETS (continued):

Segment	Fueling and commercial sites		
	Filling and convenience sites	Direct marketing	Jet fuel
CGU	%		
December 31, 2014:			
Expected operating profit	3	4	1
Growth rate (1)	1.9	2.0	1.0
Discount rate (2)	9.6	10.1	17.5
December 31, 2013:			
Expected operating profit	3	4	1
Growth rate (1)	2	2.7	2
Discount rate (2)	9.5	9.8	17.2

- (1) Weighted average growth rate used to extrapolate cash flows beyond the budget management estimations covering a five-year period.
(2) Pre-tax discount rate applied to cash flow projections.

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

NOTE 18 – LOANS RECEIVABLE

	December 31	
	2013	2014
	NIS in thousands	
Loan to jointly controlled companies (1)	42,423	44,609
Loan to associate	34,457	36,320
Loans to others (2) (3)	105,844	65,159
	182,724	146,088
Less current maturities	15,798	10,917
	<u>166,926</u>	<u>135,171</u>

- (1) Loans bearing interest of 5.26% and linked to the Israeli CPI and the repayment date has not yet been determined. These Loans were granted in connection with the purchase of the leasehold rights in the real estate of the wholesale market project. The repayment of half of these loans is secured by a guarantee of the Gindi Group (see also note 7), in the event that it is not repaid by April 15, 2018.
- (2) Mainly owners of fueling stations to which the Company supplies fuel. As at December 31, 2014 and 2013 the amount includes a single debtor balance of NIS 15.0 million and 15.1 million respectively.
- (3) In September 2014 the loan to related party in amount of NIS 53.7 million was fully repaid.

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 – LOANS RECEIVABLE (continued):

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

	December 31	
	2013	2014
	NIS in thousands	
Second year	44,259	7,478
Third year	4,686	7,025
Fourth year	4,109	4,869
Fifth year	3,852	5,225
Sixth year and afterwards	13,018	14,699
Without stated maturity date	97,002	95,875
	<u>166,926</u>	<u>135,171</u>

NOTE 19 – OTHER LONG TERM RECEIVABLES

	December 31	
	2013	2014
	NIS in thousands	
Conditional grants to owners of fuel stations (1)	17,013	14,975
Prepaid rent (2)	11,279	13,879
Others	4,320	23,886
	<u>32,612</u>	<u>52,740</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.

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 fueling and commercial sites is amortized over the term of the lease. As of December 31, 2014 the remaining term of the leases is between 2 and 12 years.

NOTE 20 – OTHER ACCOUNT PAYABLES AND ACCRUED EXPENSES:

	December 31	
	2013	2014
	NIS in thousands	
Payroll and related expenses and other employee benefits	153,227	161,616
Government authorities	152,743	164,902
Liability in respect of gift certificates	175,265	214,302
Accrued expenses	108,992	100,147
Other	47,031	82,307
Total	<u>637,258</u>	<u>723,274</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES

Composition

	December 31	
	2013	2014
	NIS in thousands	
Loans from banks and others (1)	2,354,472	2,472,575
Debentures (2)	2,788,867	2,449,248
Convertible debentures (2)	91,201	60,424
	<u>5,234,540</u>	<u>4,982,247</u>

(1) Loans from banks and others:

	December 31	
	2013	2014
	NIS in thousands	
Current liabilities:		
Bank overdrafts (note 9)	12,605	5,490
Loans from banks and others	696,804	657,939
Commercial paper *	120,403	111,197
Current maturities of non-current loans	251,089	283,342
	<u>1,080,901</u>	<u>1,057,968</u>
Non-current liabilities:		
Loans from banks and others	1,273,571	1,414,607
	<u>2,354,472</u>	<u>2,472,575</u>

* On August 23, 2012 the Company issued commercial paper to institutional investors in an amount of NIS 80 million for a period of five years. The commercial paper bears a variable annual interest and is repayable every three months at the demand of the holders. On June 17, 2013 the Company issued commercial paper to institutional investors in an amount of NIS 45 million for a period of five years. The commercial paper bears a variable annual interest and is repayable every three months at the demand of the holders. Until December 31, 2014 the Company redeemed approximately NIS 5 million. Amounts presented as of December 31, 2014 are net of commercial papers held by group companies in the amount of NIS 9.1 million.

Regarding financing agreements and term with banks and others, see note 34.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

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

	Weighted average interest rate (a)	December 31	
		2013	2014
		NIS in thousands	
	%		
NIS - linked to the Israeli CPI and bears a fixed annual interest rate	3.59	607,586	694,892
NIS - linked to the Israeli CPI and bears a variable annual interest rate	4.8	197,513	-
NIS - Unlinked and bearing a fixed annual interest rate	7.75	38,054	28,483
NIS - Unlinked and bearing a variable annual interest rate	3.14	1,511,319	1,749,200
		<u>2,354,472</u>	<u>2,472,575</u>

- (a) Weighted average interest rate, as of December 31, 2014 See also d below.
(b) During 2014, the Company utilized a repayment option of a CPI linked loan amounting NIS 191 million which was replaced with a new loan of NIS 200 million with a variable interest rate for ten years.
(c) 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	
	2013	2014
	NIS in thousands	
Second year	343,638	359,018
Third year	198,595	271,356
Fourth year	220,325	174,633
Fifth year and afterwards	511,013	609,600
	<u>1,273,571</u>	<u>1,414,607</u>

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

	December 31			
	2013	2014	2013	2014
	NIS in thousands			
	Carrying amount		Fair value (*)	
Bank and other loans	<u>1,524,660</u>	<u>1,697,949</u>	<u>1,528,587</u>	<u>1,694,727</u>

(*) The fair values of long-term loans are based on cash flows discounted using a rate based on the capitalization rate of 2.8% (2013: 2.9%).

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

(d) Loan financial covenants

Blue Square has a loan with total of approximately NIS 142 million as at December 31, 2014, regarding which Blue Square has undertaken to meet certain financial covenants. As of December 31, 2014, Blue Square met the above mentioned covenants.

The terms of the loan to Blue Square provide for the bank to add 0.25% to the interest rate, in the event that a rating company (Standard & Poor's Maalot or Midroog) reduces the Company's rating by two grades. Additional 0.25% will be added in the event that the rating of the Company reduces to BBB under Maalot rating or Baa2 under Midroog rating. Below BBB or Baa2 rating will entitle the bank to call the loan for repayment.

On March 10, 2015, Midroog ratified the A3 rating with negative outlook of series C bonds and lowered to P2 the rating of the Company's commercial papers.

As of April 1, 2015, Blue Square rating was reduced to Baa1 with Credit Review, by the rating agency Midroog.

BSRE has a loan with a total balance of NIS 197.3 million, whereby BSRE has undertaken to meet certain financial covenants. As of December 31, 2014, BSRE met the above mentioned covenants.

BSRE has a loan with total of approximately NIS 120 million as at December 31, 2014, with a group of institutional companies to finance the building of the addition to the Hadar Mall regarding which BSRE has undertaken to meet certain financial covenants. As of December 31, 2014, BSRE met the above mentioned covenants.

Dor Alon's subsidiaries have loans with a total balance of NIS 82.5 million as at December 31, 2014 for which they have undertaken to meet certain covenants. As at December 31, 2014 Dor Alon's subsidiaries met the covenants.

Bee Group has short and long term loans with a total of NIS 115.5 million as of December 31, 2014, pursuant to which Bee Group has undertaken to meet certain financial covenants. As at December 31, 2014 Bee Group met the covenants for loans in the amount of NIS 78 million and received a waiver for the remaining amount. These financial covenants include a limitation on the distribution of dividends to Blue Square.

The financial covenants in the subsidiaries' loan agreements do not restrict the subsidiaries from transferring funds to Blue Square in the form of cash dividends, loans or advances, except for Bee Group, which is restricted from transferring funds to the Company in the form of dividends, and BSRE that is restricted from transferring funds in the form of dividends, when its equity falls below NIS 800 million, following such distribution. As of December 31, 2014, Bee Group did not have any earnings to distribute as a dividend. As of December 31, 2014, BSRE equity exceeded the above threshold by more than NIS 700 million.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

(2) Debentures and convertible debentures

Debentures	Ref	Weighted Average interest rates at December 31, 2014	December 31	
			2013	2014
			NIS in thousands	
Blue Square:				
Alon Blue Square (Series A)	d(1)(a)	5.90%	82,386	-
Alon Blue Square marketable debentures (Series C)	d(1)(b)	2.50%	240,065	360,983
			322,451	360,983
Blue Square Real Estate:				
Marketable debentures-Blue				
Square Real Estate (Series B)	d(2)(b)	4.70%	686,038	301,807
Marketable debentures-Blue				
Square Real Estate (Series C)	d(2)(c)	4.20%	247,948	227,922
Marketable debentures-Blue				
Square Real Estate (Series D)	d(2)(d)	4.50%	750,457	749,866
Marketable debentures-Blue				
Square Real Estate (Series E)	d(2)(e)	3.30%	121,605	387,224
			1,806,048	1,666,819
Dor Alon Energy:				
Marketable debentures-Dor Alon				
Energy (Series B)	d(3)(a)	5.00%	144,574	72,246
Marketable debentures-Dor Alon				
Energy (Series C)	d(3)(b)	2.47%	80,602	60,757
Marketable debentures-Dor Alon				
Energy (Series D)	d(3)(c)	6.65%	324,949	216,751
Debentures of Dorgas Batuchot ltd.	d(3)(d)	4.95%	53,288	45,170
Dor Debentures	d(3)(e)	6.45%	67,253	63,151
Total			670,666	458,075
			2,799,165	2,485,877
Less- amount of discount (net of accumulated amortization)			(10,298)	(36,629)
			2,788,867	2,449,248
Less-current maturities			(580,639)	(437,249)
			2,208,228	2,011,999
Convertible debentures				
Blue Square Real Estate (Series A)	d(2)(a)	6.25%	89,146	59,372
Conversion component at fair value	a)		121	121
Premium (net of amortization)			1,934	932
Total			91,201	60,424
Less-current maturities			(29,715)	(29,687)
			61,486	30,737

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

- a) Conversion component of convertible debentures

The conversion component of the BSRE convertible debentures is calculated based on a binomial model.

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

	December 31	
	2013	2014
	NIS in thousands	
First year - current maturities	604,835	463,306
Second year	522,794	391,384
Third year	450,785	353,363
Fourth year	333,696	362,336
Fifth year and afterwards	976,201	974,860
Total	<u>2,888,311</u>	<u>2,545,249</u>

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

	December 31			
	2013	2014	2013	2014
	NIS in thousands			
	Carrying amount		Fair value*	
Debentures	2,788,867	2,449,248	2,995,762	2,603,041
Convertible debentures	91,201	60,424	98,325	63,350
Total	<u>2,880,068</u>	<u>2,509,672</u>	<u>3,094,087</u>	<u>2,666,391</u>

* The fair values of debentures and convertible debentures, both marketable and non marketable, are based on market prices and cash flows discounted using a rate based on the capitalization rate of between 1.26% and 5.5%.

- d) Debentures and convertible debentures – additional details

1) Blue Square:

- (a) Debentures (Series A)

In August 2003, the Company issued debentures to institutional investors in consideration for their par value. These debentures were linked (principal and interest) to the Israeli CPI and bore interest at the rate of 5.9% per annum, payable semi-annually. The principal was repayable in three equal annual installments, the last of which was on August 5, 2014.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

- (b) On November 9, 2010, the Company completed its public tender of Series C 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). During 2012, Series C was expanded by a private offering to institutional investors in the amount of NIS 35 million par value for 89.5% of their par value, reflecting a return of 5.7%. During 2013 additional expansions were made for Series C by private offerings to institutional investors, in the total amount of NIS 162 million par value, reflecting an average return of 3.67%. On April 3, 2014 the series C was expanded by a private offering to institutional investors in the amount of NIS 150 million par value, for 101.3% of their par value, reflecting a return of 3.8%.

As of December 31, 2014 the Company's subsidiaries hold NIS 22.3 million of Series C of the Company.

Other:

As of March 1, 2015, Midroog announced the update of the rating on debentures issued by the Company to A3 with a negative outlook. On April 1, 2015 Midroog announced the update of the rating to Baa1 with credit review.

2) BSRE

- a) BSRE (Series A)

Convertible debentures (Series A)

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, 2014 was NIS 225.59 par value of debentures per share (adjusted to the payment of dividend in December 2014). The par value balance of the debentures as of December 31, 2014 was NIS 50 million.

The annual effective interest rate on the debentures, taking into account the issuance expenses as above, is 5.4%.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

b) BSRE (Series B)

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.

The annual effective interest rate on the debentures, taking into account the issuance expenses as above, is 5.5%.

Pursuant to a partial exchange tender offer, on January 27, 2014, BSRE completed the exchange of NIS 200 million par value of debentures (Series B) against the issuance of NIS 265.5 million par value of marketable debentures (Series E), which was effected as an expansion of Series E, with the same terms. The carrying amount of the liability relating to the exchanged debentures (series B) was NIS 238 million. The exchange is not considered substantive change in the terms of the debentures and therefore had no effect on the statement of income.

c) BSRE (Series C)

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

The principal of debentures is to be redeemed 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 redeemed 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 redeemed in October of each of the years 2017 and 2018.

The Series C debentures are linked to the CPI and bear interest at an annual rate of 4.2%, which is payable every six months, on April 30 and October 31 of each year from 2010 until the final redemption of the debentures.

The annual effective interest rate payable on Series C debentures, taking into account the issuance expenses as above is 4.55%.

d) BSRE (Series D)

On July 12, 2010, BSRE completed its 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 is to 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 is to 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).

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

During 2012 and 2013, the debentures (Series D) were expanded by several private offerings to institutional investors amounting to NIS 309 million and NIS 276 million par values, respectively. Total net consideration received from such offerings, net of commissions to the institutional investors and distributors, amounted to NIS 319 million in 2013 and NIS 308 million in 2012.

The annual effective interest rate payable on Series D debentures, taking into account the expansions and issuance expenses as above is 4.3%.

The terms of the debentures determine that in case Midroog Ltd. or another rating agency were to reduce BSRE's rating to A3 the annual interest rate will increase by 0.35%. In case BSRE's rating was 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.

e) BSRE (Series E)

On October 30, 2013, BSRE issued by a public offering new debentures series (Series E) for their par value of NIS 120 million (net of issuance expenses), reflecting a return of 3.5%. The debentures are payable in six annual installments effective from 2018, where the first four installments will represent 7.5% of the par value of the debentures and the last two installments will represent 35% of the par value of the debentures. The debentures are linked (principal and interest) to the CPI and bear annual interest of 3.3% payable in semi-annual payments on May 31 and November 30 effective from May 2014. The debentures are listed for trade and were rated by Midroog with the rating of A1 with a stable outlook.

On January 27, 2014 the Company issued additional NIS 265.5 million par value debentures (Series E) in exchange for Debentures (series B) – see (b) above.

According to the deed of trust, BSRE committed to comply with certain financial covenants. The deed of trust includes also a "cross default" covenant that is triggered when any of BSRE's debentures, or other material obligation, that exceed NIS 100 million has defaulted.

BSRE has committed not to create a current charge on its entire assets in favor of any third party to secure any debt or liability unless a consent of the debentures holders (Series E) is obtained or provided that a current charge on its entire assets is created also in favor of the debentures holders (Series E) at the same ranking.

As of December 31, 2014 BSRE met the financial covenants.

f) As at December 31, 2014 BSRE's (Series A, B, C, D and E) debentures were rated by Midroog at Credit Review A1 with negative implications.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

3) Dor Alon

a) Dor Alon (Series B)

In accordance with a prospectus dated May 29, 2005, these debentures 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 annual effective interest rate payable on Series B debentures, taking into account the issuance expenses as above is 6.65%.

b) Dor Alon (Series C)

These debentures 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% and are paid in quarterly installments up to December 2017. The principal is redeemed in semi-annual installments on June 1 and December 1 over five years, starting 2013.

During 2013 the debentures series C was expanded by a private offering of NIS 21 million par value of debentures (Series C) to institutional investors for 97.95% of their par value, reflecting a return of 5.3%.

c) Dor Alon (Series D)

These debentures 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.

These debentures series was expanded by a private offering to institutional investors, On February 15, 2012 NIS 119.9 million par value of bonds for 100.95% of their par value, reflecting a return of 6.9% and on August 20, 2012 NIS 46 million par value of debentures to institutional investors for 101.08% of their par value, reflecting a return of 6.9%.

During 2013 the debentures series was expanded by a private offering of NIS 129 million par value of debentures (Series D) for 103.8% of their par value, reflecting a return of 5.2%.

The principal is repayable in equal semi-annual payments on June 1 and December 1 from 2014 to 2016.

The annual effective interest rate payable on Series D debentures, taking into account the issuance expenses as above is 6.6%.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – LOANS FROM BANKS AND OTHERS, DEBENTURES AND CONVERTIBLE DEBENTURES (continued):

Series B, C and D of Dor Alon debentures are not secured. As at January, 2014 the debentures are rated as A2 in the surveillance list with stable outlook.

d) Dorgas Batuchot Ltd. (a subsidiary of Dor Alon)

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, 2014 was NIS 45,170 thousand, which is repayable over the first five years at rate of NIS 8,067 thousand per annum with NIS 4,840 thousand in the sixth year. As at December 31, 2014 these debentures are rated Aa2.

e) 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. The principal balance at December 31, 2014 was NIS 63,151 thousand. At December 31, 2014 the debentures are rated A2 with stable outlook.

e) Covenants for debentures and convertible debentures

The debentures issued by Dor Debentures and Dorgas Batuchot include the requirement to meet certain covenants. As at December 31, 2014 the covenants for Dor Debentures (Series 1 & 2) and Dorgas Batuchot were met.

NOTE 22 – OTHER LIABILITIES:

	December 31	
	2013	2014
	NIS in thousands	
Rental contracts and value of unfavorable terms of operating leases	112,547	96,687
Other	16,745	9,580
	<u>129,292</u>	<u>106,267</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 – RETIREMENT BENEFIT OBLIGATIONS:

a. Composition of the liability for defined benefit plans:

	December 31	
	2013	2014
	NIS in thousands	
Statement of financial position obligations for:		
Present value of funded obligation	489,953	478,603
Provision in respect of unutilized sick leave	44,323	38,285
	534,276	516,888
Fair value of the plan assets	462,972	458,172
	71,304	58,716
Total present value of the obligation, net	<u>71,304</u>	<u>58,716</u>

b. Changes in the liability for defined benefit plans:

	2013	2014
	NIS in thousands	
Liability in respect of defined benefit plans at January 1	494,110	534,276
Benefits paid	(37,740)	(54,136)
Current service costs	45,748	38,343
Past service cost	-	(13,257)
Loss from change in demographic assumption	-	792
Gain from change in financial assumptions	(2,745)	(5,469)
Experience (gains) losses	14,992	(4,369)
Interest costs	19,911	20,708
Liability in respect of defined benefit plans at December 31	<u>534,276</u>	<u>516,888</u>

c. Changes in plans assets:

	2013	2014
	NIS in thousands	
Fair value of plan assets at January 1	424,653	462,972
Employer contributions paid into the plan	38,856	36,607
Return on plan assets, excluding amounts included in interest income	6,249	(9,889)
Benefits paid	(26,375)	(49,914)
Interest income on plan assets	20,388	18,602
Other adjustments	(799)	(206)
Fair value of plan assets at December 31	<u>462,972</u>	<u>458,172</u>

The actual return (loss) on plan assets was NIS 5,213 thousands (2013 – NIS 26,637 thousands, 2012 NIS 43,261 thousands).

Expected contributions to post- employment benefit plans for the year ending December 31, 2015 are approximately NIS 47,373 thousands.

The accumulated remeasurement component gains (losses) that were recognized in the OCI, net of taxes, as of December 31, 2014, 2013 and 2012 is NIS 27,263 thousands, NIS 27,170 thousands and NIS 22,966 thousands, respectively.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 – RETIREMENT BENEFIT OBLIGATIONS (continued):

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

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Current services costs	48,752	45,748	38,343
Past service cost	-	-	(13,257)
Interest cost	19,186	19,911	20,708
Interest income on plan assets	(19,129)	(20,388)	(15,102)
Other adjustments	310	799	206
	<u>49,119</u>	<u>46,070</u>	<u>30,898</u>

The expense recognized in the income statements for defined contribution plans was NIS 10,261 thousands in 2014, NIS 8,978 thousand in 2013 and NIS 9,067 thousands in 2012.

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

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Selling, general and administrative expenses	49,062	46,547	25,292
Financial (income) expenses	57	(477)	5,606
	<u>49,119</u>	<u>46,070</u>	<u>30,898</u>

The principal actuarial assumptions used were as follows:

	December 31	
	2013	2014
	%	
Discount rate*	2.6-4.4	2.7-4.1
Inflation rate	2.6	1.3-1.9
Future salary increases	1-4	1-4
Rates of employee turnover**	1-54	1-54

* On December 31, 2014, the Company changed the basis for determining the discount rates for capitalizing its net pension liabilities, See also Note 2u; as a result the effect of this change on the Company's net defined benefit obligation – reduction of NIS 7.8 million - was carried to other comprehensive income as part of the remeasurement adjustments of the defined benefits plans.

**A change of 5% in the rates of employee turnover will result in an increase of NIS 15.7 million in actuarial gains recorded in the OCI.

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 2013-3-1 of the Ministry of Finance.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 – PROVISION FOR OTHER LIABILITIES AND CHARGES:

	Real estate related disputes (1)	Legal claims	Total
	<u>NIS in thousands</u>		
At January 1, 2013	18,820	41,758	60,578
Charged (credited) to the income statements:			
Provisions made during the year	-	14,691	14,691
Unwind of discount	-	611	611
Provisions reversed during the year	-	(6,929)	(6,929)
Provisions used during the year	-	(9,761)	(9,761)
At December 31, 2013	<u>18,820</u>	<u>40,370</u>	<u>59,190</u>
Charged (credited) to the income statements:			
Provisions made during the year	3,570	26,119	29,689
Provisions reversed during the year	-	(13,385)	(13,385)
Provisions used during the year	-	(7,797)	(7,797)
At December 31, 2014	<u>22,390</u>	<u>45,307</u>	<u>67,697</u>

- (1) Provisions relating to disagreements with respect to lease fees required for assets where the lease term has ended, disagreements with respect to balances due to constructors or as to whether conditions for payment were met, and for development and construction levies that are under negotiation with the authorities (see also note 33).

NOTE 25 – EQUITY

	Number of Shares issued
At December 31, 2012	<u>66,161,860</u>
At December 31, 2013	<u>66,161,860</u>
At December 31, 2014	<u>66,161,860</u>

The total authorized number of ordinary shares as of December 31, 2014 and 2013 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 3% of the outstanding Ordinary Shares of the Company as of December 31, 2014. As of December 31, 2014 the shares are quoted at \$2.57 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, 2014 the shares are quoted at NIS 10.56 per ordinary share.

The total number of treasury shares held by the Company at December 31, 2014 and 2013 is 207,433 shares.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 – OTHER RESERVES:

	Available for sale investments	Currency translation differences	Transactions with non- controlling interests	Asset revaluation	Total
At January 1, 2012	(1,659)	250	(8,263)	-	(9,672)
Change in other reserves:					
Available for sale investments	11,555	-	-	-	11,555
Transactions with non- controlling interests	-	-	(607)	-	(607)
Currency translation differences	-	(1,693)	-	-	(1,693)
Asset revaluation reserve	-	-	-	9,662	9,662
At December 31, 2012	<u>9,896</u>	<u>(1,443)</u>	<u>(8,870)</u>	<u>9,662</u>	<u>9,245</u>
Change in other reserves:					
Available for sale investments	8,796	-	-	-	8,796
Transactions with non- controlling interests	(137)	153	20,836	(427)	20,425
Currency translation differences	-	(4,946)	-	-	(4,946)
Asset revaluation reserve	-	-	-	1,055	1,055
At December 31, 2013	<u>18,555</u>	<u>(6,236)</u>	<u>11,966</u>	<u>10,290</u>	<u>34,575</u>
Change in other reserves:					
Available for sale investments	(1,214)	-	-	-	(1,214)
Transactions with non- controlling interests	(116)	(133)	19,279	(1,352)	17,678
Currency translation differences	-	8,109	-	-	8,109
Asset revaluation reserve	-	-	-	17,513	17,513
At December 31, 2014	<u>17,225</u>	<u>1,740</u>	<u>31,245</u>	<u>26,451</u>	<u>76,661</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 – EXPENSES BY NATURE:

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Change in inventories	(11,960)	53,821	93,447
Net purchases	9,778,192	9,039,671	8,375,772
Wages salaries and related expenses	1,042,787	1,048,284	1,038,242
Depreciation, amortization and impairment charges	278,514	269,141	278,526
Transportation and storage expenses	116,514	111,685	95,366
Advertising costs	90,475	*71,474	97,713
Rent and maintenance expenses	520,901	541,703	551,201
Other expenses	694,068	649,908	570,426
Total cost of sales, selling general and administrative expenses	12,509,491	11,785,687	11,100,693

* Net of a one-time legal claim for reimbursement and compensation of NIS 22 million received in the fourth quarter of 2013 for costs incurred by the Company in prior years.

NOTE 28 – OTHER GAINS (LOSSES):

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Other gains:			
Gain from sale of property and equipment	10,317	244	*83,272
Other	505	2,805	11,764
	<u>10,822</u>	<u>3,049</u>	<u>95,036</u>
Other losses:			
Provision for losses and guarantee in Kfar (see note 8)	-	-	35,000
Loss from sale of property and equipment and other assets	306	11,396	-
Impairment provisions of property and equipment and intangible assets	-	6,762	22,000
Reorganization costs	1,089	-	16,274
Other	5,149	6,409	14,070
	<u>6,544</u>	<u>24,567</u>	<u>87,344</u>

* On December 31, 2014, BSRE sold and transferred to the buyer the logistic center in Rishon Lezion that was used by the Company, for approximately NIS 95 million; NIS 62 million were deposited on that date in a trust fund, which was released to the Company on January 4, 2015, and the balance was paid on March 31 2015. In addition to the above, a land parcel in Rishon Lezion was sold in 2014 for NIS 35 million. As a result of these sales, the Company recognized gain of NIS 57 million in 2014.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 – EMPLOYEE BENEFIT EXPENSES:

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Wages, salaries, including social security costs	985,097	993,387	995,069
Share options granted to managers and employees	(493)	(151)	-
Post-employment benefits	58,183	55,048	41,159
	<u>1,042,787</u>	<u>1,048,284</u>	<u>1,036,228</u>
Number of positions at December 31, (100%)*	<u>10,846</u>	<u>10,965</u>	<u>10,336</u>

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

NOTE 30 – FINANCE INCOME AND EXPENSES:

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Income:			
Interests:			
Interest income on short-term bank deposits	2,487	4,512	1,457
Interest income from bank and others	30,694	27,033	22,305
Net gain from marketable securities available for sale	17,914	9,443	10,495
Net gain from financial instruments	30,431	32,300	27,534
Changes in fair value of derivatives-			
Forward contracts on the Israeli CPI	1,476	4,880	-
	<u>83,002</u>	<u>78,168</u>	<u>61,791</u>
Expenses:			
Interest and differences from linkage to the Israel CPI:			
Bank borrowings	125,557	116,580	91,129
Debentures and convertible debentures	182,372	202,679	139,189
Bank commissions, foreign currency exchange losses and others	24,283	20,630	48,550
Changes in fair value of derivatives:			
Forward contracts on the Israeli CPI	3,824	2,116	2,639
Embedded derivatives	15	64	75
Net of capitalization of finance expenses	(11,121)	(9,885)	(8,539)
	<u>324,930</u>	<u>332,184</u>	<u>273,043</u>
Net finance cost	<u>241,928</u>	<u>254,016</u>	<u>211,252</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 – TAXES ON INCOME:

a. Corporate taxation of the Company:

Corporate taxation in Israel

1. The Company and most of its subsidiaries are Israeli companies and act within the borders of Israel, hence, assessed for corporate tax in Israel.
2. Commencing with tax year 2008, the results of operations for tax purposes of the Company and its subsidiaries are measured in nominal values. Through 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).
3. Tax rates

On December 5, 2011 the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) – 2011. According to the law the company tax rate was set at 25%, as from 2012.

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, by which, inter alia; the corporate tax rate was raised by 1.5% to a rate of 26.5%, as from 2014.

Current taxes for the periods reported in these financial statements are calculated according to the tax rates specified above.

Capital gains are taxed at regular corporate tax rates on income.

Corporate taxation in other jurisdictions

A subsidiary company incorporated in the U.S. is subject to U.S. Federal, State and City taxes; the weighted tax rate that apply to the subsidiary is approximately 35%.

b. Tax assessments

Blue Square has received final tax assessments for tax years through 2009.

Some subsidiaries have received final assessments for tax years through 2009-2010. For some of the subsidiaries, no final tax assessments have been received since their inception.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 – TAXES ON INCOME (continued):

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

In the years 2007 to 2011, a Temporary Order was in affect (the meaning of the temporary order is that IFRS would actually not be applied upon computation of the income reported for tax purposes for the said tax years). Legislation proceedings in respect of the adoption of IFRS and its consequential amendments to the Income Tax Ordinance have not been completed to date and therefore the Company estimates that the temporary provisions set for the years 2007 through 2013, will be extended to 2014, and that a new legislation shall not apply to tax years preceding 2015. The Company computed its taxable income for tax years 2007 to 2014 based on Israeli accounting standards applicable prior to adoption of IFRS in Israel, subject to certain adjustments.

d. Losses for tax purposes, carried forward to future years

As of December 31, 2014 and 2013 the Company and subsidiaries have operating tax loss carry forwards of approximately NIS 984 million and NIS 637 million. The balance of carry forward losses, in respect of which deferred tax assets were not included, amounted to NIS 926 million and NIS 173 million respectively. In addition, the Company and its subsidiaries have capital loss tax carry forwards of approximately NIS 93 million and NIS 7 million as of December 31, 2014 and 2013. The tax benefit in respect of capital tax loss carry forwards amounting to NIS 93 million has not been recorded due to uncertainty of their realization.

e. Taxes on income included in the income statements:

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Current taxes:			
Current tax on profits for the year	21,747	3,930	39,281
Adjustments in respect of prior years	(3,942)	(3,669)	(1,594)
Total current taxes	17,805	261	37,687
Deferred taxes	(20,668)	(12,928)	182,168
Income tax expense	(2,863)	(12,667)	219,855

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

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Deferred tax:			
Tax on actuarial loss on post-employment benefits scheme	1,482	1,794	750
available-for-sale financial assets	(4,897)	(5,482)	1,283
Tax on asset revaluation reserve	(4,117)	(485)	(8,446)
	(7,532)	(4,173)	(6,413)

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 – TAXES ON INCOME (continued):

- g. 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		
	2012	2013	2014
	NIS in thousands		
Profit (loss) before tax	41,970	(100,081)	(155,041)
Theoretical tax expenses (tax benefit) (25%, 25% and 26.5 % respectively)	10,493	(25,020)	(41,086)
Tax effects of:			
Change in future tax rate	-	367	-
Difference between the measurement basis of income for tax purposes and the measurement basis of income for book purposes, net	(3,718)	6,867	17,482
Deferred tax recognized for differences relating to investment in subsidiaries	-	-	11,000
Expenses not deductible for tax purposes, net	1,211	2,316	(3,232)
Utilization of previously unrecognized tax losses	(4,624)	(2,002)	(425)
Reassessment of deferred tax assets (see j below)	-	-	141,000
Tax losses for which no deferred income tax asset was recognized	18,515	14,780	100,521
Increase (decrease) in taxes resulting from computation of deferred taxes at a rate which is different from the theoretical rate	288	1,301	310
Non-taxable financial (income) expenses*	-	(149)	-
Tax impact relating to investments accounted for using the equity method results	(21,765)	(6,803)	(10,069)
Adjustment in respect of prior years	(3,942)	(3,669)	(1,594)
Other	679	(655)	5,948
Tax charge	(2,863)	(12,667)	219,855

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 – TAXES ON INCOME (continued):

h. Deferred tax assets and liabilities, as presented in the statement of financial position are expected to be recovered or settled, as follows:

	December 31	
	2013	2014
	NIS in thousands	
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	130,810	-
Deferred tax asset to be recovered within 12 months	36,566	27,844
	<u>167,376</u>	<u>27,844</u>
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	(174,722)	(214,011)
Deferred tax liability to be recovered within 12 months	(8,981)	(18,741)
	<u>(183,703)</u>	<u>(232,752)</u>
Deferred tax liabilities, net	<u>(16,327)</u>	<u>(204,908)</u>

The deferred taxes are computed at the tax rates of 26.5%. For changes in tax rate enacted during 2013 – see also note 31a.

i. The movement in the net deferred income tax accounts is as follows:

	Year ended December 31	
	2013	2014
	NIS in thousands	
Balance at January 1	(25,082)	(16,327)
Statement of income charge:		
Tax charged to tax expenses	12,928	(182,168)
Tax charged to discontinued operation	-	-
Tax charged directly to other comprehensive income	(4,173)	(6,413)
Balance at December 31	<u>(16,327)</u>	<u>(204,908)</u>

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 – TAXES ON INCOME (continued):

- j. 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	Investment property and depreciable property and equipment	Intangible assets and other	Total
	NIS in thousands		
Balance at January 1, 2013	(99,822)	(49,949)	(149,771)
Credited to the income statements	(24,795)	(11,998)	(36,793)
Charged directly to OCI	(485)	(5,482)	(5,967)
Balance at December 31, 2013	(125,102)	(67,429)	(192,531)
Credited to the income statements	(22,955)	(700)	(23,655)
Charged directly to OCI	(8,446)	1,283	(7,163)
Balance at December 31, 2014	(156,503)	(66,846)	(223,349)

Deferred tax assets	Provisions for employee rights	Carry forwards tax losses	Derivative instruments	Provision for impairment of trade receivables	Total
Balance at January 1, 2013	40,468	69,801	1,223	13,197	124,689
Charged (credited) to tax expenses in the income statements	707	53,212	(1,430)	(2,768)	49,721
Charged directly to OCI	1,794	-	-	-	1,794
Balance at December 31, 2013	42,969	123,013	(207)	10,429	176,204
Charged (credited) to tax expenses in the income statements*	(39,148)	(119,949)	(90)	674	(158,513)
Charged directly to OCI	750	-	-	-	750
Balance at December 31, 2014	4,571	3,064	(297)	11,103	18,441

* Taking into account the successive tax losses and their magnitude, the Company reassessed the probability of utilization of its deferred tax assets (see note 4(4)) and as a result reduced the balance of the deferred tax assets. The net effect on the year ended December 31, 2014, was NIS 141 million.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 32 – 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 25).

	Year ended December 31,		
	2012	2013	2014
Profit (loss) attributable to equity holders of the Company (NIS in thousands) from continuing operations	4,561	(115,701)	(428,713)
Loss attributable to equity holders of the Company (NIS in thousands) from discontinued operations	(22,468)	(29,994)	(3,065)
Loss attributable to equity holders of the Company (NIS in thousands)	(17,907)	(145,695)	(431,778)
Weighted average number of ordinary shares in issue	65,954,427	65,954,427	65,954,427

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 (through 2013) and share options (through 2012). For the reported periods, the effect of such potential ordinary shares was not dilutive.

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

NOTE 33 – CONTINGENCIES:

In the ordinary course of business, the Company is involved in various lawsuits against it. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, while events that occur in the course of the litigation may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of its legal counsels and on the Company's estimate of the probable settlements amounts that are expected to be incurred, if such settlements will be agreed by both parties. The provision recorded in the consolidated financial statements in respect of all lawsuits against the Company amounted to NIS 45.2 million (see also note 24 regarding provisions).

Described hereunder are the outstanding lawsuits against the Company, classified into groups with similar characteristic. The amounts presented below are calculated based on the claims amounts as of the date of their submission to the Company.

a. Customer claims

In the ordinary course of business, lawsuits have been filed against the Company by its customers. These are mostly requests for approval of class action lawsuits, particularly concerning allegations of illegal collection of funds, unlawful conduct or breach of license, or a breach of agreements with customers, causing monetary and non-monetary damage to them.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33 – CONTINGENCIES (continued):

Described hereunder are the outstanding consumer purported class actions with respect to lawsuits with a total claim amount of NIS 1,917 million or which have not been quantified, broken down by the amount claimed, as of the date of approval of these financial statements:

	Total claims amount (NIS in millions)	Number of claims
Up to NIS 50 million	463	37
NIS 51-100 million	238	5
NIS 101-200 million	504	3
Above NIS 201 million	762	2
Unquantified claims	-	5
Total	1,967	52
Against the Company and other defendants together	<u>1,836</u>	<u>5</u>

In September 2013, the court approved a settlement agreement that was reached by the parties in a mediation process. According to the settlement agreement, the Company undertook to replace purchase vouchers that have expired since September 2004 with new vouchers. In the opinion of the Company and its advisors, the provisions included in the Company's financial statements are sufficient to cover the potential liabilities.

On September 6, 2012, a letter of claim and motion for approval as a class action was filed against Dor Alon, for an aggregate amount of NIS 43.2 million. The plaintiff claims that as a customer of the Dor Alon "Spidomat" arrangement for car fueling at reduced prices, she discovered that her reduction was less than the regular discount given to all other customers at the station. As result, the Plaintiff claims she suffered financial damages from being a member of the "Spidomat" arrangement. In October 2014, the court approved the claim as a class action, and Dor Alon made a proper provision for this claim in its financial statements.

b. Employees, subcontractors, suppliers, authorities and other claims

Tax and local authorities:

In January 2012 the Company received a demand from the National Insurance for additional payments, related to certain benefits granted to employees in the Company's branches in the amount of NIS 27.5 million for the years 2001-2004. The Company's appeal was rejected by the National Insurance. In August 2013 the Company filed an appeal to the Labor Court. In December 2013, the Company received a demand from the National Insurance for additional payments with respect to years 2005 – 2006 in the sum of approximately NIS 2 million, and in January 2014 the company filed an appeal with regard to this demand.

In February 2015, during the deliberations in the Labor Court, and notwithstanding the statute of limitations argument, the parties have agreed that the right amount for the years 2001- 2004 is approximately NIS 6.4 million (before CPI linkage differences, interest and fines).

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33 – CONTINGENCIES (continued):

In the opinion of the Company, based on the opinion of its legal advisers, the chances that the Company's position will be accepted are higher than them of being rejected. The Company made a proper provision for this claim in its financial statements.

Business licenses and permits

The Company's operations in Israel require permits from several authorities, including the Health Ministry and the Police and Fire Departments. 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 departments or take other action. However, the Company does not anticipate that not obtaining the necessary permits will have a material effect on its business. The Company and some of its directors and managers are indicted in connection with business licenses and planning and building regarding the Company's stores. As of the date of this Report, there are pending indictments and provisional closure orders against some of the Company's stores or departments. The Company estimates that these matters will not have a material adverse effect on the Company's operations.

Contingencies related to Mega

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.

In September 2013 the court gave its judgment, according to which, Mega paid the plaintiff approximately NIS 3 million. Both sides have filed an appeal to the Supreme Court.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34 – COMMITMENTS:

- a. Operating lease commitments - the Company leases various retail outlets, filling stations and commercial centers, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The Company also leases cars under cancellable operating lease agreements. The Company is required to give up to two month notice for the termination of these agreements.

Future minimum payments under non-cancelable operating leases for the years subsequent to the statement of position dates are as follows:

	December 31	
	2013	2014
	NIS in thousands	
First year	353,078	392,164
Second year	318,205	347,005
Third year	282,410	318,572
Fourth year	250,775	265,271
Fifth year	207,100	203,835
Sixth year and thereafter	622,176	620,675
	<u>2,033,744</u>	<u>2,147,522</u>

- b. Capital commitments

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

	December 31,	
	2013	2014
	NIS in thousands	
Property and equipment	36,905	1,795
Investment property and real estate	34,905	-

In addition commitment to investments of jointly controlled entities and associates amounted to NIS 381 million (2013 - NIS 143 million).

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34 – COMMITMENTS (continued):

c. Wholesale market

1. Real estate rights and acquisition agreements

During June 2010 two 50%.50% joint ventures between BSRE and Gindi Investments (hereafter – the purchasers) entered into agreements to purchase land lease 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 apartment buildings complex, areas for commercial use and areas for multi-purpose use. The rights for the apartment building complex were acquired by City Core Tel Aviv Ltd. ("the Residence Company") and the rights for the commercial and multi-purpose use were acquired by City Mall Tel Aviv Ltd. ("the Mall Company"). The land rights were acquired for a basic total consideration of NIS 950 million (100%) linked to the CPI together with the obligation to pay additional consideration in certain circumstances (subsequent to December 31, 2014, the parties have agreed to an additional final payment of NIS 15 million in this respect). As of December 31, 2013, the purchasers paid the full consideration in the amount of NIS 989 million before VAT (BSRE's share in these payment amounts to NIS 495 million).

As part of its commitments to the sellers, the purchasers are obligated to plan and build public buildings and parking for the sellers. The consideration to be paid by the sellers is based on cost plus 10%, up to a ceiling of NIS 84 million (which can be extended in certain conditions, with the sellers approval, to NIS 102 million); any excess of costs will be bear by the purchasers. In addition, the purchasers are obligated to develop 9 dunams of publicly open landscape, that is the property of the Tel Aviv municipality, and additional parking places.

2. Financing of the project

On June 26, 2013, Tel Aviv Lev Towers Ltd. (the residence company) a company held 49.5% by BSRE, and the Tel Aviv Mall Ltd. (the mall company) a company held 50% by BSRE, (the purchasers) entered into financing agreement with banks according to which the banks will extend financing and credit facilities to the residence company in a total scope of up to NIS 2 billion mainly for granting guarantees under the sale law to the apartment purchasers and financing and credit lines of up to NIS 450 million to the mall company for completing the construction of the mall basements and foundation. The credit lines are to be paid on March 31, 2016 (the final payment date) and will bear an annual interest of Prime + 2%. Additional NIS 100 million of credit line was extended during 2014 to the mall company, payable by April 2015. As of December 31, 2014, due to the complexity of the project, the Mall company estimated that it will not meet the project's budget and timetable per the financing agreement and informed the banks following which the parties have agreed on the way the budget and timetables should be updated. However, because no amendment to the agreement was signed before December 31 2014, the Mall company presented the balance of its liability to the banks of approximately NIS 540 million, as a current liability. Subsequent to December 31, 2014, an amendment to the agreement was signed with the necessary adjustments. The parties are negotiating the extension of the financing agreement to the aggregate amount of NIS 1 Billion, to provide the necessary funding for the completion of the project, to which the banks have agreed in principle. The Mall company estimates that a detailed agreement to that effect will be signed in the following months.

The mall company may repay the entire credit by an early payment subject to the conditions stated in the financing agreement.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34 – COMMITMENTS (continued):

To secure the liability of the residence company, BSRE provided a constant guarantee of NIS 25 million. To secure the liability of the mall company, BSRE provided a constant guarantee of NIS 50 million. In addition, the purchasers committed that the surplus accumulated in the residential project after the full credit repayment, will serve as collateral to repay the credit of the mall company.

The financing agreement further contains a number of conditions for the entry of the agreement into effect, among others, recording mortgage, liens and a warning note in favor of the banks.

3. Principles agreement with Gindi.

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

- a. BSRE shall extend 60% of the amounts required to make the first payment and 60% of any additional amount required to promote the project until the second payment is made and which may not be available under the bank credit line. As of December 31, 2013 balance stands at NIS 76.9 million and is presented under the item of long term loans granted.
- 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. 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 subject to the bank's approval.

4. Sale agreements with apartment purchasers

As of the reporting date, the residence company entered into commitment for 692 sale agreements (from 722 in the entire project) with a scope of NIS 1,725 million (including VAT) and received advances of NIS 1,163 million (including VAT).

5. Building permit

As of the reporting date, a building permit to construct all the apartments, the mall, commercial spaces and the sport center was received.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34 – COMMITMENTS (continued):

d. Commitment for establishing a power plant:

On February 8, 2012, a corporation controlled by Dor Alon (55% held) entered into a detailed agreement with Sugat Sugar Refineries Ltd. (Sugat) under which the corporation shall establish a power plant on its premises with total capacity of up to 124 Mega Watt. At the first stage, the plant capacity shall be 64 Mega Watt. Under the agreement, the power plant shall provide the energy needs of Sugat for 24 years and 11 months and in addition, the corporation may sell steam and electricity to third parties.

It was further agreed that in the stage preceding the first stage, the corporation shall connect the Sugat plant to the natural gas transmission systems, shall convert the existing energy plant of Sugat to a dual system enabling the operation by fuel oil and natural gas and shall operate and maintain for Sugat its existing energy plant, all as determined in the detailed agreement.

On August 4, 2014, the parties signed an amendment to the agreement, under which Sugat will operate the existing facilities for a year, and will pay Dor Alon for the steam, based on specified rates.

On March 1, 2012, the corporation entered into an agreement with Israel Natural Gas Lines Ltd. ("INGL") to connect Sugat to the national transmission system for natural gas and to provide natural gas transmission services by INGL (the agreement).

Pursuant to the agreement, INGL shall establish the infrastructures that include, inter alia, the transmission piping and the facilities necessary to connect the Sugat plant to natural gas and shall install the infrastructures necessary for natural gas transmission to the power plant which is planned to be built by the corporation on the Sugat plant premises.

The agreement is for a period until July 31, 2029 with a renewal option of five additional years.

Pursuant to the agreement, the corporation shall bear the connecting expenses to the transmission system which is estimated at NIS 15 million. In addition the corporation is committed to pay the current annual payments to INGL for transmission services until the end of the agreement term in an immaterial amount, regardless of whether the corporation uses the transmission services or not.

On December 9, 2012, the Corporation entered into an agreement to purchase natural gas from the partners in Tamar partnership (the partnership agreement) for the purpose of operating existing installations and a power plant, when established, the purpose of which, is to supply the energy needs of Sugat. Dor Alon's Board of Directors approved the transaction as an extraordinary transaction, in which the controlling shareholders may have a personal interest, pursuant to the Companies' Regulations (Relieves in Transactions with Interested Parties) – 2000. Pursuant to the agreement, Tamar partnership partners committed to supply the partnership with natural gas at a scope of up to 1.68 billion square meters according to the conditions set forth in the supply agreement. The term of the supply agreement is 15 years, which commenced in June 2014, or the end of consuming the contractual quantity, whichever is earlier. The supply period can be extended with additional two years, not to exceed the end of consuming the contractual quantity.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34 – COMMITMENTS (continued):

- e. During 2014, the lease on Dor Alon offices, located in a building near Kibbutz Yakum, was extended to July 2017, with an option for two additional years. The annual rental is NIS 3,296 thousand, linked to the March 2014 CPI.
- f. Dor Alon has agreements with the owners of land for the building and operation of 22 fueling stations and two 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 fueling station or commercial center has started providing services to the public. As of December 31, 2014, two commercial centers and two filling stations had started operation. No commercial centers or filling stations has started operations in 2014.
- g. In November 2013, Dor Alon entered into an agreement to purchase natural gas from the partners in Tamar partnership (the "agreement", the "sellers" and "Tamar partnership", respectively). The term of the agreement commenced in the fourth quarter of 2013 and will end at the end of 7 years or on the date Dor Alon will consume the overall contractual quantity, as defined below, whichever is earlier (the term of the agreement).

Pursuant to the agreement, the sellers committed to supply Dor Alon with a natural gas at a total scope of up to 0.36 BCM estimated at U.S. \$85 million under the conditions set forth in the agreement. Dor Alon committed to Take or Pay for the annual quantity of gas at the scope and according to the mechanism set forth in the agreement.

- h. 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 (approximately 54 filling stations). 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 fueling 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. By the end of 2014 Dor Alon installed such systems in approximately 134 fueling stations that it operates, and during 2015-2016 it intends to install such systems in approximately 75 fueling stations. Dor Alon expects that its investment in the relevant equipment, in order to implement the provisions of the said Regulations, in 2015 will be approximately NIS 10 million. In addition, Dor Alon expects that it will be required to invest further amounts also in future years, and that it may be required to pay for unexpected expenses for remediation of soil or water contamination.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 35 – LIENS AND GUARANTEES:

LIENS:

Blue Square

The Company has registered a first ranking fixed lien in favor of BSRE, on all its rights in a bank account where it is required to deposit shares of BSRE held by the Company with a value of two times the value of such loans (see also note 36e).

BSRE

- a. As of December 31, 2014 there are charges on nine of properties transferred to BSRE by Mega and the related lease agreements, for the purpose of securing bank loans received in 2014, the balance of which as of December 31, 2014 amounts to approximately NIS 197.3 million.

In addition to the above, at the date of approval of these financial statements on two of the assets which were transferred as part of the split off from Blue Square 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 Blue Square.

Also, charges have been registered on five 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.

- b. On December 31, 2014 a BSRE subsidiary had a loan in an amount of NIS 67 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.
- c. As of December 31, 2014 there is a charge on one of the properties transferred from Mega to BSRE for the purpose of securing the liabilities of the vendors of the property acquired by Mega to the third parties.
- d. To secure the repayment of the loans of the Residential Company and the Mall Company, the rights in the real estate were pledged in favor of the bank that extended the loans to the purchasers (see note 34.c.2).
- e. As a collateral to pay the loan to expand Hadar mall in Jerusalem (BSRE's share in the mall is 50%) (including the additional loan, if exercised) BSRE charged in favor of the lenders the entire rights in the real estate of the mall including related rights (such as the Company's rights in lease agreements signed and/or to be signed with tenants in the mall, placing charges on the Company's rights in insurance policies). In addition, BSRE placed charges in favor the lenders by floating charge on its rights in a designated account in which lease fees are to be deposited (the Company's share) and shall charge its shares in the management company of the mall (50%). The balance of the above loan as of December 31, 2014 amounts to approximately NIS 120 million.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 35 – LIENS AND GUARANTEES (continued):

- f. As security for the financing arrangement from a bank who provided a credit line of NIS 115 million for the development of the parking area in Giv'on, Tel Aviv Parking lots Ltd. (a 50% jointly controlled entity of BSRE) has registered a fixed and floating charges on all the assets and rights of the lender, including BSRE's shareholding in the lender. To secure the loan, a lien on the property and the accompanying rights will be registered in favor of the bank. Furthermore, BSRE will provide guarantees in an unlimited amount to the bank and up to 50% from the joint venture's liabilities. As of December 31, 2014 NIS 94 million from the credit line was used.
- g. As security for the long term loan from a bank who provided the financing for the construction of a logistic center Eyal Baribua (a 50% jointly controlled entity of BSRE) has registered a fixed and floating charge on the property and the accompanying rights. As of December 31, 2014 the balance of the loan amounted approximately NIS 92.6 million,
- h. As part of the deed of trust of its Series E debentures, BSRE has committed not to register a floating lien on its assets (a negative pledge) without the approval of the holders of such debentures, or the creation of a similar lien in favor of the debenture holders, on a pari-passu basis.

Dor Alon

In order to secure the liabilities of Dor Alon and its subsidiaries to banks, the balance of which as of December 31, 2014 amounted to NIS 922 million, Dor Alon and its subsidiaries placed 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 jointly controlled 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 jointly controlled entities.

BEE Group

The BEE Group and its subsidiary (Na'aman) 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, including its shareholding in Na'aman, and other benefits in favor of banks to secure their liabilities to banks, amounting as of December 31, 2014 to NIS 115 million.

In order to secure its liabilities, Na'aman has undertaken not to pledge any of its assets and/or provide any kind of guarantee to a third party without prior approval of the banks.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 35 – LIENS AND GUARANTEES (continued):

GUARANTEES:

- a. Blue Square has provided bank guarantees for third parties such as service suppliers, for gift certificates and customers in an aggregate amount of approximately NIS 1.3 million. In addition, Blue Square has provided guarantees to third parties to secure obligations of subsidiaries, amounting as of the date of the approval of the financial statements to NIS 120 million. Blue Square also guarantees bank loans of Mega and its subsidiaries, amounting as of December 31, 2014 NIS 300 million.
- b. Mega has issued the following guarantees:
 - i. Mega has provided bank guarantees for its subsidiary, Eden Teva Briut, in an aggregate amount of approximately NIS 90 million.
 - ii. Mega provided a bank guarantee to a third party in an amount of approximately NIS 5.0 million.
- c. 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 City Core Tel Aviv company and City Mall Tel Aviv company discussed in note 34c.
 - ii. A guarantee for a bank loan to the logistic center company of NIS 75 million.
 - iii. In the amount of NIS 4 million to the Tel-Aviv municipality and the building contractor for the Tel Aviv parking lots.
- d. Dor Alon provided guarantees in the amount of NIS 17.8 million in connection with tenders in which it participates as a bidder and in connection with legal proceedings to which it is a party.

NOTE 36 – RELATED-PARTY DISCLOSURES

Key management personnel – includes the members of the board of directors and senior managers in the Company, and CEO's of Dor Alon, BSRE, Mega, Naaman and Alon cellular.

The principal related parties of the Company are: 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. In addition there are related parties who are not principal related parties by virtue on the Company's holding in jointly controlled entities or associates that are held at more than 25%.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – RELATED-PARTY DISCLOSURES (continued):

a. Transactions with related parties:

	Year ended December 31	
	2013	2014
	NIS in thousands	
Fuel sales to related parties(a)	200,068	185,084
Sales to joint control entities(a)	798,008	759,397
Rental income (b)	6,092	6,825
Management fees to parent company (c)	5,987	5,419
Directors' fees (d)	2,069	2,114
Legal consulting (e)	5,913	5,736
Purchases (f)	901,867	836,311

- a. Relate to transactions that are carried out in the normal course of business in accordance with regular market prices and credit. Includes sales of fuels of Dor Alon to joint control entities and sales of products of Mega to Joint control entities.

In January 2004 the shareholders of Blue Square approved an agreement according to which it provides joint control entities of 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. In 2014 and 2013 the sales amounted to approximately NIS 52 million and NIS 60 million respectively.

- b. Point Wells

During 2010, BSRE signed agreements with subsidiaries of Alon U.S.A, a related party, for the acquisition and development of a property in Point-Wells near Seattle, Washington, USA (presented as real estate inventories - see also note 14(2)). The property, which currently serves primarily as a plant for storage and distribution of fuel and oils of the related parties was acquired for U.S. \$19.5 million.

According to the development agreement, all demolition and contamination cleanups required for the land will be the responsibility of the related parties and on their own account; the related parties will also compensate BSRE for any damages incurred in connection with such activities. In case the Company was to sell the land the related party may participate in the consideration net of costs as defined in the agreement.

The agreements provide for the lease of the property to the related parties for a period of up to 10 years. Rental income received by BSRE amounts to \$1.7 million for the years 2014 and 2013, respectively.

- c. In December 2010, Alon and Dor Alon renewed the management services agreement ("Management Services Agreement"), effective from January 1, 2011, by which Alon provides the following services and rights to Dor Alon (the "Services"): (i) various management services, including those related to the chairman of the board and president of Dor Alon, day to day management of Dor Alon, strategy and business development, supplementary legal counsel, corporate secretary services provided by Alon's in-house counsel, and (ii) the right to use the "Alon" and "Alonit" brand names. On March 2014, the management services agreement was extended for an additional three year period with similar terms of the quarterly management fees paid by Dor Alon to Alon equal the aggregate of 3% of Dor Alon's EBITDA profits according to Dor Alon's quarterly consolidated financial statements but not more than NIS 1,375 thousand on a quarterly basis, linked to the consumer price index published on February 2004. Alon received approximately NIS 5.4 million for the Services (2013 - NIS 6.0 million).

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – RELATED-PARTY DISCLOSURES (continued):

d. Commencing November 15, 2005, the Company's former Chief Executive Officer, Mr. David Wiessman (see note 37a) receives compensation for his services of NIS 49,000 per month plus reimbursement of actual expenses incurred in connection with his services to the Company. The compensation amount is linked to the Israeli CPI (base index – November 2005), and is updated every three months. Due to the recent amendment to the Israeli's Companies Law, this arrangement was re-approved by our audit committee, board of directors and shareholders meeting for additional three years commencing on February 2, 2012.

e. Legal services

The Company receives legal services from S. Biran & Co. a related party of the Company.

f. Goods purchase from related parties

Mega purchases goods from Tnuva. 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.

g. Discounts

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 2013 and 2014 were: 12% at the Mega In Town stores, 12% at Mega on-line, 6% at the Zol Beshefa stores, You stores and Mega Bool stores, 50% in Vardinon and 30% in Na'aman.

The discounts are limited to purchases in a total amount of NIS 8,500 a month.

Gift cards

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.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – RELATED-PARTY DISCLOSURES (continued):

Employment agreement with Ms. Moran Wiessman

Beginning in January 2009, Ms. Moran Wiessman has been employed by Alon Blue Square wholly-owned subsidiary Bee Group as the manager of the Bee Group internet sites. Ms. Wiessman is the daughter of Mr. David Wiessman, the Company's Chief Executive Officer. As of December 31, 2014, Ms. Wiessman receives a monthly salary of NIS 21,000, a cell phone at the expense of Mega, and Mega assigned a car to Ms. Wiessman as is customary in Mega for employees at the same level. In addition, Ms. Wiessman is entitled to standard social allocations by Mega (5% for provident fund, 8.33% for severance payments and 1% for disability insurance) and other social benefits that are standard for an employee in her position.

Salary increases or bonuses shall be granted as is customary in Mega based on the professional performance of Ms. Wiessman. Ms. Wiessman's monthly salary may be increased up to 20% annually. Mega management is entitled to grant Ms. Wiessman an annual bonus as is customary in Mega of only up to six monthly salaries a year. The grant requires the approval of the audit committee that will confirm that the bonus was given according to the grant's policy in Mega.

b. Balances with related parties

Year-end balances arising from sales/purchases of goods/services:

	December 31,	
	2013	2014
	NIS in thousands	
Assets		
Diners credit card customers	102,220	68,971
Other receivables	140,593	191,707
Available for sale financial assets	9,753	9,906
Loan to related party	53,745	-
Loans to investments accounted for using the equity method	76,880	80,929
Liabilities	383,191	351,513
Trade payables	83,657	81,632
Other payables	23,324	26,526
Loan to parent Company	9,250	-
	<u>116,231</u>	<u>108,158</u>

The receivables from related parties include loan granted to the parent company and balances arise 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 receivable from a related party, see note 18.

c. Acquisition of Dor Alon

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

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – RELATED-PARTY DISCLOSURES (continued):

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).

d. Dor Alon

1. Pursuant to the agreement entered into in May 2005, and subsequently extended on January 6, 2011 until January 2016, Dor Alon may, from time to time, deposit funds with Alon and receive in return funds on ON CALL terms (on an on-demand basis). The amount of funds lent from each party to the other party may not exceed NIS 150 million at any time (linked to the prime 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. Either party may terminate the agreement by providing three-month prior written notice.
2. 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.
3. Purchase of natural gas
Regarding purchase of natural gas from the partners in Tamar partnership under long-term commitments - see note 34.d and g.

e. BSRE

Pursuant to an agreement between Blue Square and BSRE, commencing February 28, 2014, for a period of three years BSRE may, from time to time, deposit funds with the Blue Square and receive in return funds on ON CALL terms (on an on-demand basis). The amount of funds lent from each party to the other party may not exceed NIS 150 million at any time. The amounts will be deposited for periods that will not exceed one year, which can be renewed. The deposit will bear interest at rates that are equal to interest rate paid by these companies for "on call" credit during same month.

Blue Square "on call" obligation to BSRE, amounting NIS 80 million at December 31, 2014, is secured by first fixed lien on all its rights in a bank account where it is required to deposit shares of BSRE held by the Company with a value of two times the value of such obligation.

In addition, if the rating of Series C debentures of Blue Square decreases below Baa2, the maximum amount of any such deposit may not exceed NIS 50 million. Two grades decrease in the rating also triggers an increase of 0.5% per annum of the interest paid on the deposit. Following its new rating in April 1, 2015 of Series C debentures (see note 21.d), Blue Square was required to increase the interest on the above deposit.

Either party may terminate the agreement by providing a seven days prior notice.

ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – RELATED-PARTY DISCLOSURES (continued):

Key management compensation

	Year ended December 31		
	2012	2013	2014
	NIS in thousands		
Salaries and other short-term employee benefits	17,047	14,433	18,788
Share-based payments	(663)	(168)	-
Total	16,384	14,265	18,788

NOTE 37 – EVENTS SUBSEQUENT TO DECEMBER 31, 2014:

- a. Effective March 29, 2015, Mr. Avigdor Kaplan was appointed by the Board of Director to serve as the Company's new Chief Executive Officer. Until then and during the reported year of 2014, Mr. David Weissman served in that role. Mr. Kaplan also serves as CEO of Alon Israel Oil Company Ltd, the parent company of Blue Square, from the beginning of the year 2015.
- b. As to changes in the rating of Blue Square debentures (C series), subsequent to December 31, 2014 – see note 21(d)
- c. As to the sale of additional holding in BSRE – see note 6iii.
- d. Subsequent to December 31, 2014, the Company redeemed Commercial paper in amount of NIS 44 million.

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ALON BLUE SQUARE ISRAEL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DETAILS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES AT DECEMBER 31, 2014

APPENDIX

Holding Company	Name of Company	Percentage of ownership and control by holding Company as of December 31, 2014	
Alon Blue Square Israel Ltd.	Mega Retail Ltd.	100%	Subsidiary
	Blue Square Real Estate Ltd.	69.71%	Subsidiary
	BEE Group Ltd.	100%	Subsidiary
	Diners Club Israel Ltd.	36.75%	Associate
	Dor Alon Energy in Israel (1988) Ltd.	78.43%	Subsidiary
	Alon Cellular Ltd.	100%	Subsidiary
Mega Retail Ltd.	Eden Teva Market Ltd.	51%	Subsidiary
	Doctor Baby Marketing Ltd.	100%	Subsidiary
	Loyalty plan-partnership "YOU"	75%	Partnership
	Radio Non-Stop Ltd.	33%	Associated Company
Blue Square Real Estate Ltd.	Radio "Zafon" Ltd.	12%	Associated Company
	Kenyon Hadar Management Company Ltd.	50%	Jointly Controlled Entity
	Hyper Lod Center Ltd.	100%	Subsidiary
	Gamda trade Ltd.	100%	Subsidiary
	Blue Square – Hadar – Joint Operation	50%	Jointly Controlled Entity
	Logistic Center Bee Square Real Estate Ltd.	100%	Subsidiary
	Izdarehet Investments Company Ltd.	50%	Jointly Controlled Entity
	City Core Tel Aviv Ltd.	49.5%	Associate
	City Mall Tel Aviv Ltd.	50%	Jointly Controlled Entity
	Tel Aviv Parking lots Ltd.	50%	Jointly Controlled Entity
	Einat real estate investment agriculture cooperative Ltd.	50%	Jointly Controlled Entity
	Eyal Baribua Ltd.	50%	Jointly Controlled Entity
	BSRE U.S.A Inc	100%	Subsidiary
	BSRE Point Wells Lp	99.9%	Partnership
Bee Group Ltd.	Na'aman Group)NV(Ltd.	77.51%	Subsidiary
	Kfar Hasha'ashuim Marketing Ltd.	35%	Associate
Dor Alon Energy in Israel (1988) Ltd.	Dor Alon Gas Technologies Ltd.		Subsidiary
		100%	
	Dor Alon retail sites management LTD	100%	Subsidiary
	Alon fuel management and operation networks (1999) Ltd.	100%	Subsidiary
	Dor Alon Energy Centers	55%	Partnership
	Loyalty plan-partnership "YOU"	25%	Partnership
	Dor energy holdings (2004) ltd	100%	Subsidiary
	Diners Club Israel Ltd.	12.25%	Associate
	Mercury Aviation	31.25%	Associate

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 BLUE SQUARE ISRAEL LTD.

By: /s/ Avigdor Kaplan
Name: Avigdor Kaplan
Title: Chief Executive Officer

By: /s/ Yehuda van der Walde
Name: Yehuda van der Walde
Title: Chief Financial Officer

Date: April 30, 2015

List of Subsidiaries*

Mega Retail Ltd.

Dor Alon Energy in Israel (1988) Ltd.

Blue Square Real Estate Ltd.

Eden Teva Market Ltd.

Bee Group Retail Ltd.

Naaman Group (N.V.) Ltd.

Diners Club Israel Ltd.

Dor Alon Gas Technologies Ltd.

Dor Alon Retail Sites Management Ltd.

Alon Cellular Ltd.

*All of our subsidiaries are incorporated in Israel

CERTIFICATION

I, Avigdor Kaplan, certify that:

1. I have reviewed this Annual Report on Form 20-F of Alon 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: Avigdor Kaplan
Avigdor Kaplan
Chief Executive Officer

Date: April 30, 2015

CERTIFICATION

I, Yehuda van der Walde, certify that:

1. I have reviewed this Annual Report on Form 20-F of Alon 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: Yehuda van der Walde
Yehuda van der Walde
Chief Financial Officer

Date: April 30, 2015

**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 Blue Square Israel Ltd. (the "Company") on Form 20-F for the period ending December 31, 2014, 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: Avigdor Kaplan
Avigdor Kaplan
Chief Executive Officer

By: Yehuda van der Walde
Yehuda van der Walde
Chief Financial Officer

Date: April 30, 2015
