SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of May 2012

INTERNET GOLD-GOLDEN LINES LTD.

(Name of Registrant)

2 Dov Friedman Street, Ramat Gan 52503, Israel
(Address of Principal Executive Office)

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

Form 20-F ☒   Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

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

Yes ☐   No ☒

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

Internet Gold-Golden Lines Ltd.

EXPLANATORY NOTE

The following exhibits are attached:

The attached exhibits pertain to B Communications Ltd.'s (the Registrant's controlled subsidiary) controlled subsidiary, Bezeq The Israel Telecommunication Corp. Ltd., (the "Company" and together with its subsidiaries, the "Group"):

99.1	Condensed Consolidated Interim Financial Statements (Unaudited) of the Group dated March 31, 2012.
99.2	Directors' Report on the State of the Group's Affairs for the three-month period ended March 31, 2012.
99.3	Update of Chapter A (Description of Group Operations) of the Periodic Report for 2011.
99.4	Company Separate Condensed Interim Financial Information March 31, 2012 (Unaudited).
99.5	DBS Satellite Services (1998) Ltd. Condensed Interim Financial Statements as at March 31, 2012 (Unaudited).

SIGNATURE

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

INTERNET GOLD-GOLDEN LINES LTD.
(Registrant)

By: /s/ Doron Turgeman
Doron Turgeman
Chief Executive Officer

Date: May 22, 2012

EXHIBIT INDEX

The attached exhibits pertain to B Communications Ltd.'s (the Registrant's controlled subsidiary) controlled subsidiary, Bezeq The Israel Telecommunication Corp. Ltd., (the "Company" and together with its subsidiaries, the "Group"):

EXHIBIT NO.	DESCRIPTION
99.1	Condensed Consolidated Interim Financial Statements (Unaudited) of the Group dated March 31, 2012.
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99.3	Update of Chapter A (Description of Group Operations) of the Periodic Report for 2011.
99.4	Company Separate Condensed Interim Financial Information March 31, 2012 (Unaudited).
99.5	DBS Satellite Services (1998) Ltd. Condensed Interim Financial Statements as at March 31, 2012 (Unaudited).

Exhibit 99.1

"Bezeq" The Israel Telecommunication Corporation Ltd.
Condensed Consolidated Interim Financial Statements
March 31, 2012
(Unaudited)

bezeq

The information contained in these financial statements constitutes a translation of the financial statements published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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Somekh Chaikin
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Review Report to the Shareholders of "Bezeq" -The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of "Bezeq" -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "the Group") comprising of the condensed consolidated interim statement of financial position as of March 31, 2012 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for this interim period in accordance with IAS 34 "*Interim Financial Reporting*", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute approximately 1.9 % of the total consolidated assets as of March 31, 2012, and whose revenues constitute approximately 1.7 % of the total consolidated revenues for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the abovementioned financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the abovementioned financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 5.

Somekh Chaikin
Certified Public Accountants (Isr.)
May 8, 2012

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2012 (Unaudited) NIS million	March 31, 2011 (Unaudited) NIS million	December 31, 2011 (Audited) NIS million
Assets			
Cash and cash equivalents	**1,473**	681	1,352
Investments, including derivatives	**1,297**	20	946
Trade receivables	**3,130**	2,787	3,059
Other receivables	**349**	274	286
Inventory	**225**	246	204
Assets classified as held for sale	**25**	20	23
Total current assets	**6,499**	4,028	5,870
Investments, including derivatives	**101**	129	119
Trade and other receivables	**1,442**	1,299	1,499
Property, plant and equipment	**6,102**	5,773	6,022
Intangible assets	**2,268**	2,256	2,257
Deferred and other expenses	**280**	281	282
Investments in equity-accounted investees (mainly loans)	**1,041**	1,068	1,059
Deferred tax assets	**188**	299	223
Total non-current assets	**11,422**	11,105	11,461
Total assets	**17,921**	15,133	17,331

Condensed Consolidated Interim Statements of Financial Position (Contd.)

Liabilities and equity	Note	March 31, 2012 (Unaudited) NIS million	March 31, 2011 (Unaudited) NIS million	December 31, 2011 (Audited) NIS million
Debentures, loans and borrowings		**685**	1,013	765
Trade payables		**894**	1,032	890
Other payables, including derivatives		**892**	1,042	792
Current tax liabilities		**481**	313	397
Deferred income		**56**	34	56
Provisions		**181**	260	186
Employee benefits		**358**	538	389
Dividend payable	6	**982**	984	971
Total current liabilities		**4,529**	5,216	4,446
Debentures		**4,592**	1,914	4,663
Loans		**4,139**	2,711	4,150
Employee benefits		**229**	267	229
Other liabilities		**76**	42	93
Provisions		**69**	69	69
Deferred tax liabilities		**63**	75	69
Dividend payable	6	**935**	1,827	924
Total non-current liabilities		**10,103**	6,905	10,197
Total liabilities		**14,632**	12,121	14,643
Equity				
Total equity attributable to equity holders of the Company		**3,246**	2,970	2,650
Non-controlling interests		**43**	42	38
Total equity		**3,289**	3,012	2,688
Total liabilities and equity		**17,921**	15,133	17,331

Shaul Elovitch
Chairman of the Board of Directors

Avi Gabbay
CEO

Alan Gelman
Deputy CEO and CFO

Date of approval of the financial statements: May 8, 2012

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

Condensed Consolidated interim Statements of Income

	Note	For the three-month period ended March 31		For the year ended December 31
		2012	2011	2011
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Revenues	8	**2,740**	2,913	11,373
Operating results				
Depreciation and amortization		**358**	335	1,395
Salaries		**511**	532	2,103
General and operating expenses	9	**1,044**	1,131	4,494
Other operating expenses (income), net		**(23)**	250	139
		1,890	2,248	8,131
Operating profit		**850**	665	3,242
Financing expenses (income)				
Financing expenses		**132**	102	599
Financing income	See Note 4.3	**(176)**	(82)	(389)
Financing expenses (income), net		**(44)**	20	210
Profit after financing expenses (income), net		**894**	645	3,032
Share in losses of equity-accounted investees		**58**	65	216
Profit before income tax		**836**	580	2,816
Income tax		**245**	174	755
Profit for the period		**591**	406	2,061
Attributable to:				
Owners of the Company		**582**	407	2,066
Non-controlling interests		**9**	(1)	(5)
Earnings for the period		**591**	406	2,061
Earnings per share (NIS)				
Basic and diluted earnings per share		**0.21**	0.15	0.76

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2012	**2011**	**2011**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Profit for the period	**591**	406	2,061
Actuarial gains, net of tax	**-**	-	27
Net change in fair value of financial assets classified as available for sale transferred to profit or loss	**(6)**	-	-
Other items of comprehensive income for the period, net of tax	**-**	-	8
Total comprehensive income for the period	**585**	406	2,096
Attributable to:			
Owners of the Company	**576**	407	2,101
Non-controlling interests	**9**	(1)	(5)
Total comprehensive income for the period	**585**	406	2,096

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Deficit	Total	Non-controlling interests	Total equity
	Attributable to owners of the Company								
Three months ended March 31, 2012									
Balance as at January 1, 2012 (Audited)	3,826	68	220	390	(2)	(1,852)	2,650	38	2,688
Profit for the period (Unaudited)	-	-	-	-	-	**582**	**582**	**9**	**591**
Other comprehensive income for the period, net of tax (Unaudited)	-	-	-	-	**(6)**	-	**(6)**	-	**(6)**
Total comprehensive income for the period	-	-	-	-	**(6)**	**582**	**576**	**9**	**585**
Transactions with owners recognized directly in equity									
Share-based payments (Unaudited)	-	-	**20**	-	-	-	**20**	-	**20**
Exercise of options for shares (Unaudited)	**4**	**12**	**(16)**	-	-	-	-	-	-
Distribution to holders of non-controlling interests, net (Unaudited)	-	-	-	-	-	-	-	**(4)**	**(4)**
Balance as at March 31, 2012 (Unaudited)	**3,830**	**80**	**224**	**390**	**(8)**	**(1,270)**	**3,246**	**43**	**3,289**

For details regarding the approval of the general meeting of the Company's shareholders for distribution of a cash dividend of NIS 1.074 billion, subsequent to the reporting date, see Note 6

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

Condensed Consolidated Interim Statements of Changes in Equity (contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Deficit	Total	Non-controlling interests	Total equity
	Attributable to owners of the Company								
Three months ended March 31, 2011									
Balance as at January 1, 2011 (Audited)	6,213	378	146	390	(10)	(1,790)	5,327	43	5,370
Profit for the period (Unaudited)	-	-	-	-	-	407	407	(1)	406
Transactions with owners recognized directly in equity									
Dividends to Company shareholders not in compliance with the earnings test (Unaudited)	(2,415)	(396)	-	-	-	-	(2,811)	-	(2,811)
Share-based payments (Unaudited)	-	-	43	-	-	-	43	-	43
Exercise of options for shares (Unaudited)	5	18	(19)	-	-	-	4	-	4
Balance as at March 31, 2011 (Unaudited)	3,803	-	170	390	(10)	(1,383)	2,970	42	3,012

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

Condensed Consolidated Interim Statements of Changes in Equity (contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Deficit	Total	Non-controlling interests	Total equity
	Attributable to owners of the Company								
Year ended December 31, 2011									
Balance as at January 1, 2011 (Audited)	6,213	378	146	390	(10)	(1,790)	5,327	43	5,370
Profit for the period (Audited)	-	-	-	-	-	2,066	2,066	(5)	2,061
Other comprehensive income for the year, net of tax (Audited)	-	-	-	-	8	27	35	-	35
Total comprehensive income for the year (Audited)	-	-	-	-	8	2,093	2,101	(5)	2,096
Transactions with owners recognized directly in equity									
Dividends to Company shareholders not in compliance with the earnings test (Audited)	(2,415)	(396)	-	-	-	-	(2,811)	-	(2,811)
Dividends to Company shareholders (Audited)	-	-	-	-	-	(2,155)	(2,155)	-	(2,155)
Share-based payments (Audited)	-	-	167	-	-	-	167	-	167
Exercise of options for shares (Audited)	28	86	(93)	-	-	-	21	-	21
Balance as at December 31, 2011 (Audited)	3,826	68	220	390	(2)	(1,852)	2,650	38	2,688

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

Condensed Consolidated Interim Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**591**	406	2,061
Adjustments:			
Depreciation	**278**	259	1,080
Amortization of intangible assets	**73**	70	287
Amortization of deferred and other expenses	**7**	6	28
Share in losses of equity-accounted investees	**58**	65	216
Financing expenses (income), net	**(1)**	36	293
Capital gain, net	**(24)**	(44)	(181)
Share-based payments	**20**	43	167
Income tax expenses	**245**	174	755
Expenses (income) for derivatives, net	**5**	-	(19)
Change in inventory	**(23)**	(70)	(33)
Change in trade and other receivables	**(80)**	(321)	(756)
Change in trade and other payables	**36**	95	(131)
Change in provisions	**(5)**	9	(64)
Change in employee benefits	**(31)**	231	82
Change in deferred and other income	**(18)**	-	50
Net income tax paid	**(133)**	(184)	(649)
Net cash from operating activities	**998**	775	3,186
Cash flow used in investing activities			
Investment in intangible assets and deferred expenses	**(75)**	(78)	(355)
Refund from the Ministry of Communications for frequencies	**-**	-	36
Proceeds from the sale of property, plant and equipment	**47**	187	230
Acquisition of financial assets held for trading	**(1,100)**	(8)	(2,859)
Proceeds from the sale of financial assets held for trading	**750**	-	1,967
Purchase of property, plant and equipment	**(385)**	(422)	(1,548)
Proceeds from disposal of investments and long-term loans	**88**	1	11
Acquisition of investments and long-term loans	**(1)**	(1)	(5)
Proceeds (payment) for derivatives	**4**	(11)	(5)
Dividends received	**-**	-	3
Interest received	**4**	3	34
Net cash used in investing activities	**(668)**	(329)	(2,491)

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

Condensed Consolidated Interim Statements of Cash Flows (contd.)

	For the three-month period ended March 31		For the year ended December 31
	2012	**2011**	**2011**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Cash flows used in financing activities			
Issue of debentures	**-**	-	3,092
Bank loans received	**-**	-	2,200
Repayment of debentures	**(68)**	(92)	(835)
Repayment of loans	**(91)**	(9)	(648)
Net short-term borrowing	-	(1)	(5)
Dividends paid	**-**	-	(3,155)
Interest paid	**(46)**	(32)	(377)
Net payment for derivatives	**-**	-	(1)
Distribution to holders of non-controlling interests, net	**(4)**	-	-
Proceeds from exercise of options	**-**	4	21
Net cash from (used in) finance activities	**(209)**	(130)	292
Increase in cash and cash equivalents	**121**	316	987
Cash and cash equivalents at the beginning of the period	**1,352**	365	365
Cash and cash equivalents at the end of the period	**1,473**	681	1,352

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

Notes to the Financial Statements

1. Reporting Entity

1.1 Bezeq – The Israel Telecommunication Corp. Ltd. ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The condensed consolidated financial statements of the Company include those of the Company and its subsidiaries (together referred to as the "Group"), as well as the Group's interests in associates. The Group is a principal provider of communication services in Israel (see also Note 10 – Segment Reporting).

1.2 As from April 14, 2010, the ultimate controlling shareholder in the Company is Shaul Elovitch, together with his brother, Yosef Elovitch, through their holdings in Eurocom Communications Ltd., the controlling shareholder in Internet Gold-Golden Lines Ltd., which controls B Communications Ltd. ("B Communications"). B Communications holds Company shares through a company that it controls. As at March 31, 2012, this company held 31.05% of the Company's shares. Each of these companies is also considered as a controlling shareholder in the Company.

1.3 The Company is subject to various sets of laws that regulate and restrict its business activities, including its tariffs. The Company's tariffs are regulated by provisions in the Communications Law. The Company's service fees are regulated and adjusted according to a linkage formula. The Company was declared a monopoly in the main areas in which it operates. All the operating segments of the Group are subject to competition. The operations of the Group are subject, in general, to government regulation and supervision.

2. Basis of Preparation

2.1 The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting, and Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2011 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on May 8, 2012.

2.4 Use of estimates and judgment

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments and use estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates used.

The judgments made by management, when applying the Group's accounting policies and the key assumptions used in assessments that involve uncertainty, are consistent with those applied in the Annual Financial Statements.

3. Reporting Principles and Accounting Policy

The significant accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied in the Financial Statements for the year ended December 31, 2011, except as described below.

The Group did not recognize actuarial gains or losses in the three months period ended March 31, 2012, since in the interim period, there were no significant changes in the principal actuarial assumptions in a defined benefit plan: discount rate, expected return on plan assets, employee leave rate and the rate of future salary increases.

4. Group Entities

A detailed description of the Group entities appears in Note 12 to the Group's Annual Financial Statements as at December 31, 2011. Below are details of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

4.1. Walla! Communications Ltd. ("Walla")

Further to Note 32.3 to the financial statements as at December 31, 2011, regarding the Company's complete tender offer to purchase all the shares of Walla held by the public, on April 5, 2012, the tender offer was accepted by the majority stipulated in the Companies Law (of the number of shares offered for sale, 12,980,972 shares representing 28.45% of the share capital of Walla, notices of acceptance were received for 11,371,893 shares, representing 24.92% of the share capital of Walla) and accordingly, all the shares of Walla held by the public were acquired for NIS 77 million (including exercise of employee options), so that subsequent to the acquisition and as from April 15, 2012, Walla was delisted from the TASE and became a private company wholly owned by the Company. The effect of the acquisition of the public's shares in Walla on the Company's financial statements in the second quarter of 2012 is not expected to be material.

4.2. DBS Satellite Services (1998) Ltd. (an equity-accounted associate)

4.2.1 The Group attaches the condensed interim financial statements of DBS Satellite Services (1998) Ltd. to these condensed consolidated interim financial statements.

4.2.2 Since the beginning of its operations, DBS has accumulated substantial losses. The losses of DBS in 2011 amounted to NIS 230 million and losses in the three months ended March 31, 2012 amounted to NIS 64 million. As a result of these losses, the capital deficit and working capital deficit of DBS as at March 31, 2012 amounted to NIS 3,714 million and NIS 612 million, respectively.

4.2.3 As at March 31, 2012, DBS is in compliance with the financial covenants under the financing agreements and the debentures.

The management of DBS believes that the financial resources at its disposal will be sufficient for its operations for the coming year, based on the cash flow forecast approved by DBS's Board of Directors. If additional resources are required to meet its operational requirements for the coming year, DBS will adapt its operations to preclude the need for additional resources beyond those available to it. In recent years the DBS was required to raise external financial resources intended, inter alia, to expand its investments. At the reporting date, a significant increase in the investments of DBS will require an expansion of the financial resources at its disposal.

See also Note 4.2.4 below.

4. Group Entities (Contd.)

4.2 DBS Satellite Services (1998) Ltd. (an equity-accounted associate) (contd.)

4.2.4 In May 2012 a debenture was signed by DBS and a number of institutional entities ("the lenders") whereby the lenders would extend to DBS a loan of NIS 392 million ("the debenture"). The proceeds of the funds raised will be used for full repayment of the long-term credit granted to the Company by the banks.

The loan granted under the debenture will be used to repay the principal in ten annual unequal instalments, where from 2013 – 2017 the payment of the principal will be 8% of the par value of the debentures and in each subsequent year the payment of the principal will be 12% of the par value of the debentures.

The debenture will bear annual interest of 6.4% payable in six-monthly instalments. The principal and interest of the loan will be linked to the CPI. The agreement includes terms for adjusting the interest rate, terms for early repayment, and liens, including financial covenants which DBS is required to fulfill.

4.2.5 The balance of DBS's current debt to the Group companies As at March 31, 2012 amounts NIS 65 million, of which NIS 42 million is to the Company.

4.3 Stage One Venture Capital Fund (Israel) L.P. ("the Fund")

Further to Note 12.2.3(F) to the financial statements as at December 31, 2011, in February 2012, the Fund signed an agreement to sell all its holdings in Traffix Communications Systems Ltd. Following the agreement, in the reporting period, the Group recognized financing revenues of NIS 74 million from the disposal of available-for-sale assets.

5. Contingent Liabilities

During the normal course of business, legal claims were filed against Group companies or there are pending claims (in this section: "Legal Claims").

In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include appropriate provisions of NIS 161 million, where provisions are required to cover the exposure arising from such legal claims.

In the opinion of the managements of the Group companies, the additional exposure as at March 31, 2012, due to claims filed against Group companies on various matters and which are unlikely to be realized, amounts to NIS 11.9 billion and an amount of NIS 4.1 billion is for claims, which at this stage cannot be assessed, as set out in sections 5.1 and 5.2 below. For updates subsequent to the reporting date, see section 5.2 below. This amount and all the amounts of the additional exposure in this note are linked to the CPI and are stated net of interest.

For motions for certification of class action suits to which the Group has exposure beyond the aforesaid (since the claims do not state an exact amount), see sections 5.2 and 5.4 below.

5. Contingent Liabilities (Contd.)

5.1. Employee claims

As at March 31, 2012, the additional exposure (beyond the provisions included in these financial statements) for employee claims amounts to NIS 252 million and relates mainly to claims filed by groups of employees or individual claims, which are expected to have wide ramifications in the Company. Of these claims, there is a claim amounting to NIS 25 million which at this stage the chances of the claim cannot be assessed. In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 72 million, where provisions are required to cover the exposure resulting from such claims.

Subsequent to the reporting date, at the request of the plaintiff (a former employee of the Company) a claim and motion for its certification as a class action, amounting to NIS 150 million, was deleted. It is noted that there are several prior legal proceedings against the Company in matters that are the same as or similar to the claim that was deleted, and termination of the proceedings has no effect on these claims and on the total exposure for employee claims as at March 31, 2012 as described above.

5.2. Customer claims

As at March 31, 2012, the amount of the additional exposure for customer claims amounts to NIS 9.3 billion (beyond the provisions included in these financial statements). Of these claims, there are claims amounting to NIS 4.1 billion which at this stage the chances of the claim cannot be assessed. An amount of NIS 261 million is for a claim filed against the Company, Pelephone and other communication companies unrelated to the Group, without details of the amount claimed from each defendant. In addition, there are other claims for which the Group has additional exposure beyond the aforesaid, which cannot be quantified, as the exact amount of the claim is not stated in the claims. In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 24 million, where provisions are required to cover the exposure arising from such claims.

In addition, subsequent to the reporting date, customer claims amounting to NIS 173 million were filed against Group companies (at this stage, it is not possible to assess their changes) and customer claims with exposure of NIS 285 million came to an end.

5.3. Supplier and communication provider claims

As at March 31, 2012, the amount of the additional exposure for supplier and communication supplier claims amounts to NIS 1 billion (beyond the provisions included in these financial statements). In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 9 million, where provisions are required to cover the exposure arising from such claims.

5. <u>Contingent Liabilities (Contd.)</u>

5.4. Claims for punitive damages

As at March 31, 2012, the additional exposure for punitive damages amounts to NIS 5.1 billion (beyond the provisions included in these financial statements). This amount does not include claims for which the insurance coverage is not disputed. In addition, there are other claims for which the Group has additional exposure beyond the aforesaid, which cannot be quantified, as the exact amount of the claim is not stated in the claim.

In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 1 million, where provisions are required to cover the exposure arising from such claims.

5.5. Claims by enterprises and companies

As at March 31, 2012, the additional exposure for claims by enterprises and companies amounted to NIS 83 million (beyond the provisions included in these financial statements). In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 11 million, where provisions are required to cover the exposure arising from such claims.

5.6. Claims by the State and authorities

As at March 31, 2012, the additional exposure for claims by the State and authorities amounted to NIS 220 million (beyond the provisions included in these financial statements). In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 44 million, where provisions are required to cover the exposure arising from such claims.

5.7. Contingent claims referring to the associate DBS Satellite Services (1998) Ltd. ("DBS")

As at March 31, 2012, the exposure resulting from the legal claims filed against DBS in respect of various matters amounts NIS 756 million (before linkage and interest). Of these claims, there are claims amounting to NIS 27 million which at this stage cannot yet be assessed.

Subsequent to the reporting date, the Tel Aviv District Court approved the abandonment of a claim and motion for its certification as a class action in the amount of NIS 600 million, alleging, inter alia, that DBS had omitted broadcasts which it was is obligated to air under the terms of its basic package, it removed channels without approval, it failed to comply with its investment obligation and breached obligations regarding the broadcasting of advertisements, promos and marketing and commercial content.

On March 15, 2012, DBS received a letter from counsel for AGICOA, an international organization which collects and distributes the payments of royalties to producers. According to AGICOA, DBS is infringing its rights to secondary broadcasts and so DBS needs to obtain a usage license and also pay for previous use, otherwise, AGICOA will institute legal proceedings. After receipt of the letter, DBS made direct contact with AGICOA. At this preliminary stage when AGICOA’s allegations have not yet been clarified it is impossible to assess the implications of this matter for DBS.

6. Equity and Share-based Payments

6.1 Below are details of the Company's equity:

Registered			Issued and paid up		
March 31, 2012	March 31, 2011	December 31, 2011	March 31, 2012	March 31, 2011	December 31, 2011
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
2,825,000,000	2,825,000,000	2,825,000,000	**2,717,689,862**	2,691,069,862	2,713,627,744

6.2 Following the exercise of options by employees in accordance with the options plans set out in Note 26 to the financial statements as at December 31, 2011, in the three month period ended March 31, 2012, the Company issued 4,062,118 ordinary shares of NIS 1 par value each.

6.3 Subsequent to the reporting date and through to May 7, 2012, following the exercise of options by the employees, in accordance with the options plans set out in Note 26 to the financial statements as at December 31, 2011, the Company issued 67,174 ordinary shares of NIS 1 par value each.

6.4 Further to Note 20.2.2 of the financial statements as at December 31, 2011 regarding a distribution not in compliance with the earnings test, the balance of the dividend payable as at March 31, 2012 is presented as follows:

	March 31, 2012	
	Dividend payable, undiscounted	Presented in the statement of financial position *
	NIS million	NIS million
Current liabilities	**1,000**	**982**
Non-current liabilities	**1,000**	**935**
	2,000	**1,917**

* Dividend payable for the special distribution presented in the statement of financial position at present value plus financing expenses accumulated from March 31, 2011 (the date of court approval for the distribution) to March 31, 2012

Further to Note 20.2.2 to the financial statements as at December 31, 2011 regarding applications to the Tel Aviv District Court concerning the objection to the distribution of the dividend which is not in compliance with the earnings test, on March 29, 2012 and April 4, 2012, two motions were filed at the Tel Aviv District Court (Economic Division), objecting to the continued payments for a distribution which is not in compliance with the earnings tests, which was approved by the court on March 31, 2011. The two motions were filed by two holders of Debentures (Series 5) of the Company, who had also filed a similar objection in 2011, seeking to join as set out in this Note. The Company submitted its response to the objections, rejecting the arguments set out in the objections, and petitioned the court to dismiss the objections in limine and in substance. Subsequently, there were evidentiary hearings and closing arguments. At the publication date of this report, the ruling on this case has yet to be handed down.

6. Equity and Share-based Payments (contd.)

6.5 Subsequent to the reporting date, on April 24, 2012, the general meeting of the shareholders of the Company approved the recommendation of the Board of Directors of the Company from March 14, 2012 to distribute a cash dividend to the shareholders of the Company in the amount of NIS 1.074 billion, representing NIS 0.3951788 per share and 39.51788% of the Company's issued and paid up capital on the record date (May 4, 2012). The dividend will be paid on May 21, 2012. The third lot of the special distribution of NIS 500 million, will be paid together with this distribution, representing NIS 0.1839752 per share at the record date (May 4, 2012) and 18.39752% of the issued and paid up capital of the Company.

7. Transactions with interested and related parties

7.1 Further to Note 29.5.2(A)(3) to the financial statements as at December 31, 2011, regarding the Board of Directors' approval of the amendment to the agreement between DBS and Eurocom Digital Communications Ltd. and ADB, on March 27, 2012, the general meeting of the Company's shareholders approved the amendment to the agreement.

7.2 Further to Note 29.5.2(A)(4) to the financial statements as at December 31, 2011, regarding the Board of Directors' approval of the engagement of DBS in a transaction to acquire converters from Eurocom Digital Communications Ltd. and ADB and regarding credit from suppliers, on April 4, 2012, the general meeting of the Company's shareholders approved the amendment to the agreement.

7.3 On May 8, 2012, the Company's Board of Directors resolved (after the approval of the audit committee) that the Company would vote in favor of DBS's transaction to raise capital of up to NIS 450 million at the general meeting of the shareholders of DBS. For further information about the capital raised by DBS, see Note 4.2.4 above.

8. Revenues

	Three months ended March 31		Year ended December 31
	2012	**2011**	**2011**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Domestic fixed-line communication			
Fixed-line telephony	**574**	597	2,320
Internet - infrastructure	**296**	265	1,092
Transmission and data communication	**196**	183	749
Other services	**66**	64	215
	1,132	1,109	4,376
Cellular telephony			
Cellular services and terminal equipment	**506**	645	2,346
Value added services	**307**	283	1,201
Sale of terminal equipment	**410**	501	1,911
	1,223	1,429	5,458
International communications, internet and NEP services	**322**	315	1,289
Other	**63**	60	250
	2,740	2,913	11,373

9. Operating and general expenses

	Three months ended March 31		Year ended December 31
	2012	**2011***	**2011**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Terminal equipment and materials	**379**	430	1,693
Interconnectivity and payments to domestic and international operators	**224**	222	910
Maintenance of buildings and sites	**162**	161	641
General and marketing expenses - see Note 12.2	**122**	156	655
Services and maintenance by sub-contractors	**43**	46	170
Vehicle maintenance expenses	**38**	42	142
Content services expenses	**24**	33	123
Royalties and collection fees	**52**	41	160
	1,044	1,131	4,494

* Certain expenses were reclassified to present all expenses according to their nature.

10. NOTE – SEGMENT REPORTING

10.1. Operating segments

	Three months ended March 31, 2012 (Unaudited)						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,131	1,222	321	417	62	(417)	2,736
Inter-segment revenues	68	22	11	-	9	(106)	4
Total revenues	1,199	1,244	332	417	71	(523)	2,740
Depreciation and amortization	178	135	34	66	6	(61)	358
Segment results – operating profit (loss)	539	267	50	52	(2)	(56)	850
Financing expenses	120	17	5	119	2	(131)	132
Financing income	(71)	(39)	(3)	(3)	-	(60)	(176)
Total financing expenses (income), net	49	(22)	2	116	2	(191)	(44)
Segment profit (loss) after financing expenses, net	490	289	48	(64)	(4)	135	894
Share in earnings (losses) of equity accounted investees	-	-	-	-	-	(58)	(58)
Segment profit (loss) before income tax	490	289	48	(64)	(4)	77	836
Income tax	142	73	12	-	(1)	19	245
Segment results – net profit (loss)	348	216	36	(64)	(3)	58	591

10. Segment Reporting (contd.)

10.1. Operating segments (Contd.)

	Three months ended March 31, 2011 (Unaudited)						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,108	1,428	315	406	59	(406)	2,910
Inter-segment revenues	70	22	14	-	8	(111)	3
Total revenues	1,178	1,450	329	406	67	(517)	2,913
Depreciation and amortization	162	139	24	69	7	(66)	335
Segment results – operating profit	211	399	61	61	1	(68)	665
Financing expenses	80	15	3	138	1	(135)	102
Financing income	(54)	(25)	(2)	(4)	-	3	(82)
Total financing expenses (income), net	26	(10)	1	134	1	(132)	20
Segment profit (loss) after financing expenses, net	185	409	60	(73)	-	64	645
Share in earnings (losses) of equity accounted investees	-	-	-	-	-	(65)	(65)
Segment profit (loss) before income tax	185	409	60	(73)	-	(1)	580
Income tax	62	99	14	-	-	(1)	174
Segment results – net profit (loss)	123	310	46	(73)	-	-	406

10. Segment Reporting (contd.)

10.1 Operating segments (Contd.)

	Year ended December 31, 2011 (Audited)						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	4,371	5,454	1,288	1,619	236	(1,619)	11,349
Inter-segment revenues	277	94	66	-	41	(454)	24
Total revenues	4,648	5,548	1,354	1,619	277	(2,073)	11,373
Depreciation and amortization	688	561	109	276	21	(260)	1,395
Segment results – operating profit	1,658	1,360	241	295	3	(315)	3,242
Financing expenses	531	67	11	547	5	(562)	599
Financing income	(291)	(105)	(9)	(23)	-	39	(389)
Total financing expenses (income), net	240	(38)	2	524	5	(523)	210
Segment profit (loss) after financing expenses, net	1,418	1,398	239	(229)	(2)	208	3,032
Share in earnings (losses) of equity accounted investees	-	-	1	-	-	(217)	(216)
Segment profit (loss) before income tax	1,418	1,398	240	(229)	(2)	(9)	2,816
Income tax	353	342	58	1	4	(3)	755
Segment results – net profit (loss)	1,065	1,056	182	(230)	(6)	(6)	2,061

10. Segment Reporting (contd.)

10.2 Adjustments for segment reporting of revenue and profit or loss

	Three months ended March 31		Year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues			
Revenues from reporting segments	**3,192**	3,363	13,169
Revenues from other segments	**71**	67	277
Cancellation of revenues from inter-segment sales except for revenues from sales to an associate reporting as a segment	**(106)**	(111)	(454)
Cancellation of revenue for a segment classified as an associate	**(417)**	(406)	(1,619)
Consolidated revenues	**2,740**	2,913	11,373

	Three months ended March 31		Year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit or loss			
Operating profit for reporting segments	**908**	732	3,554
Cancellation of expenses for a segment classified as an associate	**(52)**	(61)	(295)
Other financing income (expenses), net	**44**	(20)	(210)
Share in losses of equity-accounted investees	**(58)**	(65)	(216)
Profit (loss) for operations classified in other categories	**(2)**	1	3
Other adjustments	**(4)**	(7)	(20)
Consolidated profit before income tax	**836**	580	2,816

11. Condensed Financial Statements of Pelephone Communications Ltd. and Bezeq International Ltd.

11.1. Pelephone Communications Ltd.

Statement of financial position

	March 31, 2012	March 31, 2011	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**2,887**	2,119	2,280
Non-current assets	**3,057**	2,970	3,124
	5,944	5,089	5,404
Current liabilities	**1,294**	1,159	1,263
Long-term liabilities	**1,284**	657	992
Total liabilities	**2,578**	1,816	2,255
Equity	**3,366**	3,273	3,149
	5,944	5,089	5,404

Statement of income

	Three months ended March 31		Year ended December 31, 2011
	2012	2011	
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**527**	666	2,436
Revenue from value added services	**307**	283	1,201
Revenues from sales of terminal equipment	**410**	501	1,911
Total revenues from services and sales	**1,244**	1,450	5,548
Cost of services and sales	**831**	902	3,587
Gross profit	**413**	548	1,961
Selling and marketing expenses	**116**	117	480
General and administrative expenses	**30**	32	121
	146	149	601
Operating profit	**267**	399	1,360
Financing expenses	**17**	15	67
Financing income	**(39)**	(25)	(105)
Other financing income, net	**(22)**	(10)	(38)
Profit before income tax	**289**	409	1,398
Income tax	**73**	99	342
Profit for the period	**216**	310	1,056

11. Condensed Financial Statements of Pelephone Communications Ltd. and Bezeq International Ltd. (Contd.)

11.2. Bezeq International Ltd.

Statement of financial position

	March 31, 2012	March 31, 2011	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**527**	451	500
Non-current assets	**815**	619	768
	1,342	1,070	1,268
Current liabilities	**298**	265	292
Long-term liabilities	**179**	20	147
Total liabilities	**477**	285	439
Equity	**865**	785	829
	1,342	1,070	1,268

Statement of income

	Three months ended ended March 31		Year ended December 31,
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**332**	329	1,354
Operating expenses	**201**	193	788
Gross profit	**131**	136	566
Selling, marketing and development expenses	**50**	47	209
General and administrative expenses	**31**	28	116
	81	75	325
Operating profit	**50**	61	241
Financing expenses	**5**	3	11
Financing income	**(3)**	(2)	(9)
Financing expenses (income), net	**2**	1	2
Share in the earnings of equity-accounted associates	**-**	-	1
Profit before income tax	**48**	60	240
Income tax	**12**	14	58
Profit for the period	**36**	46	182

12. Subsequent Events

12.1 For information about the Company's purchase of all Walla shares in April 2012, see Note 4.1.

12.2 On April 2, 2012, the settlement between the Company and the Ministry of Communications regarding the claim of government authorities to pay frequency fees in Judea, Samaria and Gaza according to which the Company will pay the plaintiffs NIS 26 million (plus linkage to the CPI of February 11, 2010), was given the validity of a ruling. Following the settlement, in the reporting period, the Company reduced liabilities for frequency fees and decreased operating and general expenses by NIS 37 million and financing expenses by NIS 13 million.

12.3 On May 2, 2012, the Ministry of Communications published a policy document regarding the expansion of competition for fixed-line communications - the wholesale market, according to which the Minister of Communications has adopted the main recommendations of the "Committee for reviewing and adjusting Bezeq's rate structure and setting rates for wholesale services in fixed-line communications", headed by Amir Hayek, CPA, as described in the document.

The Company is studying the policy document and at this stage is unable to estimate its effect on its business results.

Exhibit 99.2

Directors' Report on the State of the Corporation's Affairs for the three months ended March 31, 2012

The information contained in this report constitutes a translation of the directors' report published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

We respectfully present the Directors' Report on the state of affairs of "Bezeq" – The Israel Telecommunication Corp. Limited ("the Company") and the consolidated Group companies (the Company and the consolidated companies together: "the Group"), for the three-month period ended March 31, 2012.

The Directors' Report contains a condensed review of its subject-matter and was prepared assuming that the Directors' Report for December 31, 2011 is also available to the reader.

The Group reports on four main segments in its financial statements:

1) **Domestic Fixed-Line Communications**

2) **Cellular**

3) **International Communications, Internet and NEP Services**

4) **Multi-Channel Television**

It should also be noted that the Company's consolidated financial statements also include an “Others” segment which comprises mainly Internet services and Internet portal operation (through Walla) and customer call center services (through Bezeq On Line), This Others segment is not material at the Group level.

Profit for the reporting quarter amounted to NIS 591 million, compared with NIS 406 million in the corresponding quarter last year, an increase of 45.6%.

EBITDA (operating profit before depreciation and amortization) amounted to NIS 1,208 million compared with NIS 1,000 million in the corresponding quarter, an increase of approximately 20.8%.

The results for the quarter compared with the corresponding quarter were affected by various factors described in this report, including expenses in respect of early retirement recorded in the corresponding quarter in the Domestic Fixed-Line Communications segment.

1. Explanations of the Board of Directors for the state of the corporation's affairs, the results of its operations, its equity, cash flows and other topics

1.1 Financial position

1.1.1 Assets

The Group's assets at March 31, 2012 amounted to NIS 17.92 billion, compared with NIS 15.13 billion on March 31, 2011, of which NIS 6.1 billion (34%) are property, plant and equipment, compared with NIS 5.77 billion (38%) on March 31, 2011.

The increase in the Group's assets stems primarily from the Domestic Fixed-Line Communications segment, as described below.

In the Domestic Fixed-Line Communications segment, total assets, without loans and investment in associates, increased compared with March 31, 2011 by NIS 1.72 billion. The increase stems mainly from an increase in cash balances and current investments as a result of cash flows generated from operating activities, the proceeds from an issue of debentures and bank loans taken during 2011, and a rise in the balance of property, plant and equipment owing to continued deployment of the NGN.

In the Cellular segment, total assets increased from NIS 5.09 billion on March 31, 2011 to NIS 5.94 billion at March 31, 2012. The increase stems primarily from a rise in the customer balance, attributable mainly to an increase in revenues from the sale of terminal equipment on instalments and an increase in cash and cash equivalents, which were partially offset by a decrease in property, plant and equipment and intangible assets.

In the International Communications, Internet and NEP segment, assets increased by NIS 272 million. Most of the increase occurred in property, plant and equipment balances following investment in setting up the Seabed Cable. Cash balances also increased.

In the Multi-Channel Television segment total assets increased by NIS 53 million, which stemmed mainly from an increase in the balances of broadcasting rights and cash.

1.1.2 Liabilities

The Group's debt to financial institutions and debenture holders at March 31, 2012 amounted to NIS 9.42 billion, compared with NIS 5.64 billion on March 31, 2011[1]. The increase in debt stemmed from the Domestic Fixed-Line Communications segment following an issue of debentures and receipt of loans from banking corporations. During 2011, the increase was moderated somewhat by the repayment of debentures and loans in the Domestic Fixed-Line Communications segment and in the Cellular segment.

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1 The Group's debt to financial institutions and debentures-holders net of cash and cash equivalents, investments in monetary funds and other investments at March 31, 2012, amounted to NIS 6.5 billion, compared with NIS 4.8 billion on March 31, 2011.

1.2 Results of operations

1.2.1 Principal results

Condensed consolidated statement of income:

	For the three-month period ended March 31			
	2012 NIS millions	2011 NIS millions	Increase (decrease)	Change %
Revenue	**2,740**	2,913	(173)	(6)%
Operating expenses	**1,890**	2,248	(358)	(16)%
Operating profit	**850**	665	185	28%
Finance (income) expenses, net	**(44)**	20	(64)	-
Profit after finance (income) expenses, net	**894**	645	249	39%
Share in losses of affiliates	**58**	65	(7)	(11)%
Profit before income tax	**836**	580	256	44%
Income tax	**245**	174	71	41%
Profit for the period	**591**	406	185	46%
Attributed to:				
Company owners	**582**	407	175	43%
Non-controlling interest	**9**	(1)	10	-
Profit for the period	**591**	406	185	46%
Earnings per share				
Base and diluted earnings per share (NIS)	**0.21**	0.15	0.06	40%

The Group's revenue in the first quarter of 2012 amounted to NIS 2,740 million, compared with NIS 2,913 million in the corresponding quarter, a decrease of 5.9%. Most of the decrease stems from the Cellular segment as a result of a decrease in revenues from services and from the sale of terminal equipment.

The Group's depreciation and amortization expenses in the first quarter amounted to NIS 358 million compared with NIS 335 million in the corresponding quarter, an increase of 6.9%. The increase stems from the Domestic Fixed-Line Communications segment and the International Communications, Internet and NEP segment, as explained below.

The Group's salary expenses in the quarter amounted to NIS 511 million compared with NIS 532 million in the corresponding quarter, a decrease of 4%. The decrease stems from the Domestic Fixed-Line Communications segment and the Cellular segment, as explained below.

The Group's operating and general expenses in the quarter amounted to NIS 1,044 million compared with NIS 1,131 million in the corresponding quarter, a decrease of 7.7%. The decrease stems from the Cellular segment, primarily as a result of a decrease in the costs of terminal equipment, and from the Domestic Fixed-Line Communications segment, mainly owing to a smaller liability for the payment of frequency fees (see Note 12.2 to the financial statements).

Other operating income, net, in the quarter amounted to NIS 23 million compared with expenses of NIS 250 million in the corresponding quarter. The transition from expenses to income stems from recording a provision of NIS 281.5 million in respect of severance at early retirement in the Domestic Fixed-Line Communications segment in the first quarter of 2011.

Finance income, net, in the quarter amounted to NIS 44 million, compared with expenses of NIS 20 million in the corresponding quarter.

Most of the change stems from the sale of all the shares held by Stage One Venture Capital Fund (Israel) L.P. in Traffix Communication Systems Ltd., which were classified by the Group as an investment available for sale. As a result, finance income of NIS 74 million was recorded in the consolidated financial statements in the current quarter (see Note 4.3 to the financial statements).

1.2.2 Segments of operation

A. The table shows revenue and operating profit by segment of operation:

	NIS millions	% of revenues	NIS millions	% of revenues
Revenues by segment of operation				
Domestic Fixed-Line communications	**1,199**	**43.8%**	1,178	40.4%
Cellular	**1,244**	**45.4%**	1,450	49.8%
International Communications, Internet and NEP	**332**	**12.1%**	329	11.3%
Multi-Channel Television	**417**	**15.2%**	406	13.9%
Others and setoffs*	**(452)**	**(16.5)%**	(450)	(15.4)%
Total	**2,740**	**100%**	2,913	100%

	For the three-month period ended March 31			
	2012		2011	
	NIS millions	% of revenues	NIS millions	% of revenues
Operating income by segment of operation				
Domestic Fixed-Line communications	**539**	**45.0%**	211	17.9%
Cellular	**267**	**21.5%**	399	27.5%
International Communications, Internet and NEP	**50**	**15.1%**	61	18.5%
Multi-Channel Television	**52**	**12.5%**	61	15.0%
Others and setoffs*	**(58)**	**-**	(67)	-
Consolidated operating income / % of Group revenues	**850**	**31.0%**	665	22.8%

* The setoffs are mainly in respect of the Multi-Channel Television segment, an affiliate.

B. **Domestic Fixed-Line Communications**

Revenues

The segment's revenues in the first quarter of 2012 amounted to NIS 1,199 million compared with NIS 1,178 million in the corresponding quarter, an increase of 1.8%.

The increase in revenues stems mainly from an increase in revenue from high-speed Internet, mainly as a result of an increase in revenue per subscriber as surfing speeds are upgraded, and of an increase in the number of Internet subscribers. Revenues from data communications, transmission and others also increased. The increase in revenues was offset by a decrease in revenues from telephony, mainly as a result of erosion of revenue per telephone line.

Costs and expenses

Depreciation and amortization expenses in the quarter amounted to NIS 178 million, compared with NIS 162 million in the corresponding quarter, an increase of 9.9%. The increase in depreciation expenses stemming from investment in the NGN project was moderated due to the end of depreciation of other property, plant and equipment.

The salary expense in the quarter amounted to NIS 267 million compared with NIS 284 million in the corresponding quarter, a decrease of 6%. The decrease in salary expenses stemmed from a decrease in share-based payments, a decrease in the number of employees, and an increase in salaries attributed to investment. The decrease was partly offset by salary increments and an increase in actuarial costs.

Operating and general expenses in the quarter amounted to NIS 237 million compared with NIS 271 million in the corresponding quarter, a decrease of 12.5%. The decrease stemmed mainly from the smaller liability for payment of frequency fees (see Note 12.2 to the financial statements).

Other operating income, net in the quarter amounted to NIS 22 million compared with expenses of NIS 250 million in the corresponding quarter. The transition from expenses to income stems from recording provision expenses of NIS 281.5 million in the corresponding quarter in respect of severance at early retirement. Conversely, there was a decrease in capital gains from the sale of real estate properties and copper cable in the current quarter.

Profitability

Operating profit in the segment in the quarter amounted to NIS 539 million compared with NIS 211 million in the corresponding quarter, an increase of 155%. The increase stems from the changes described above in the revenue and expense items, and primarily from the provision for severance in early retirement which was recorded in the corresponding quarter.

Finance expenses, net

Finance expenses, net in the first quarter amounted to NIS 49 million, compared with NIS 26 million in the corresponding quarter, an increase of 88.5%. The increase stems primarily from an increase in interest expenses in respect of debentures issued during 2011, finance expenses in respect of revaluation of the liability to distribute a dividend which is not in compliance with the earnings test, and an increase in bank credit at fixed and variable shekel interest. The increase was moderated mainly by the stable known CPI to which some of the debentures are linked in the current quarter, compared with a rise in the known CPI in the corresponding quarter, recording finance income as a result of a smaller liability for the payment of frequency fees (see Note 12.2 to the financial statements), and gains from investment in monetary funds in the current quarter.

C. **Cellular segment**

Revenue

The segment's revenues in the first quarter of 2012 amounted to NIS 1,244 million compared with NIS 1,450 million in the corresponding quarter, a decrease of 14.2%. Revenues from services (including value added services) amounted to NIS 834 million compared with NIS 949 million in the corresponding quarter, a decrease of 12.1%. The decrease in the service revenues stemmed from tariff erosion as a result of intensifying competition which led to a decrease in average revenue per user (ARPU).

Revenues in the segment from the sale of terminal equipment in the first quarter amounted to NIS 410 million, compared with NIS 501 million in the corresponding quarter, a decrease of 18.2%. The decrease stemmed primarily from fewer upgrades and sales, which were partly offset by a rise in the average price of handsets sold.

Costs and expenses

Depreciation and amortization expenses in the period amounted to NIS 135 million compared with NIS 139 million in the corresponding quarter, a decrease of 2.9%.

Salary expenses in the period amounted to NIS 132 million compared with NIS 150 million in the corresponding quarter, a decrease of 12%. The decrease in the salary expense stems primarily from a decrease in the number of positions.

Operating and general expenses in the quarter amounted to NIS 710 million compared with NIS 762 million in the corresponding quarter, a decrease of 6.8%. The decrease stemmed mainly from a decrease in the costs of terminal equipment as a result of a decline in the number of handsets upgraded and sold, which was partly offset by rise in the average price of handsets sold.

Profitability

Operating profit in the segment amounted to NIS 267 million compared with NIS 399 million in the corresponding quarter, a decrease of 33.1%. The decrease in operating profit stemmed primarily from erosion of revenues from services and a decline in quantities of user equipment sold, as noted above.

Finance income, net

Finance income, net in the segment amounted to NIS 22 million compared with NIS 10 million in the corresponding quarter. The increase stemmed mainly from a rise in finance income from the credit embodied in sales of terminal equipment in 36 installments, following increased sales in 2011.

D. **International Communications, Internet and NEP**

Revenue

The segment's revenues for the first quarter amounted to NIS 332 million compared with NIS 329 million in the corresponding quarter, an increase of 0.9%. The increase in revenues stems mainly from an increase in Internet revenues as a result of growth in the number of customers and increased activity in communications solutions for businesses (ICT), offset by a decrease in revenues from outgoing and incoming calls due to a decline in the volume of traffic in the market and a decrease in revenues from call transfers between communications carriers worldwide.

Costs and expenses

Depreciation and amortization expenses in the quarter amounted to NIS 34 million compared with NIS 24 million in the corresponding quarter, an increase of 41.7%. The increase stems primarily from the start of depreciation of the Seabed Cable.

Salary expenses in the quarter amounted to NIS 70 million compared with NIS 64 million in the corresponding quarter, an increase of 9.4%. Most of the increase stems from an increase in the number of workers employed in outsourcing in the ICT operation, and from the termination of capitalization of subscriber acquisition costs.

Operating and general expenses in the quarter amounted to NIS 178 million compared with NIS 180 million in the corresponding quarter, a decrease of 1%. The decrease in expenses stemming from a decrease in capacity maintenance costs as a result of deployment of the Seabed Cable, was moderated by the increase in expenses incurred for the reasons explained above for the increase in the segment's revenues.

Profitability

Operating profit in the segment in the quarter amounted to NIS 50 million compared with NIS 61 million in the corresponding quarter, a decrease of 18%. The decrease stems from the changes described above in the revenue and expense items.

E. **Multi-channel television segment (stated by the equity method)**

Revenue

The segment's revenues in the first quarter of 2012 amounted to NIS 417 million compared with NIS 406 million in the corresponding quarter, an increase of 2.7%. Most of the increase stems from a rise in revenues from the use of advanced converters, increased revenues from premium channels, one-time sales of content, and an increase in the number of customers.

Costs and expenses

The cost of sales in the quarter amounted to NIS 272 million, similar to the corresponding quarter.

Sales, marketing, administrative and general expenses in the quarter amounted to NIS 93 million, compared with NIS 72 million in the corresponding quarter, an increase of 29%. The increase in these expenses stemmed primarily from the termination of capitalization of subscriber acquisition costs and an increase in advertising expenses.

Profitability

Operating profit in the quarter amounted to NIS 52 million compared with NIS 61 million in the corresponding quarter, a decrease of 14.8%. The decrease in operating profit stems from the above-mentioned changes in the revenue and expense items

1.2.3 Income tax

The Group's tax expenses in the reporting quarter amounted to NIS 245 million, which is 27.4% of profit after net finance expenses, compared with NIS 174 million and 27% of profit after net finance expenses in the corresponding quarter.

The increase in the percentage of tax after net finance expenses stems mainly from the rise in the corporate tax rate (from 24% in 2011 to 25% in 2012), and from unrecognised expenses in the quarter (mainly share-based payments). In the corresponding quarter, timing differences occurred in the recognition of expenses (primarily early retirement), which will be recognised when the tax rates are lower.

1.3 Equity

Equity attributable to the Company's owners at March 31, 2012 amounted to NIS 3.25 billion, which is 18% of the total balance sheet, compared with NIS 2.97 billion on March 31, 2011, which was 20% of the total balance sheet. The increase in equity, which stemmed mainly from the Group's profits and also from share-based payments, was largely offset by the distribution of a dividend of NIS 2.16 billion during 2011 in respect of profits from the second half of 2010 and the first half of 2011.

1.4 Cash flows

Consolidated cash flows from operating activities in the first quarter of 2012 amounted to NIS 998 million, compared with NIS 775 million in the corresponding quarter, an increase of NIS 223 million. Most of the increase stems from the Domestic Fixed-Line Communications segment due to increased profit and changes in working capital.

Cash flow from operating activities is one of the sources of financing for the Group’s investments, which during the reporting quarter included NIS 385 million in the development of communications infrastructures and NIS 75 million in intangible assets and deferred expenses, compared with NIS 422 million and NIS 78 million, respectively, in the corresponding quarter. Furthermore, in the Domestic Fixed-Line Communications segment, NIS 350 million, net, was invested in shekel monetary trust funds. Conversely, the Group received NIS 88 million in proceeds from the realization of non-current investments (see Note 4.3 to the financial statements) and NIS 47 million from the sale of property, plant and equipment, compared with NIS 187 in the corresponding quarter.

In the reporting quarter, the Group repaid debts and paid interest totaling NIS 205 million, of which NIS 68 million of debentures, NIS 91 million of loans, and NIS 46 million of interest payments. This compares with repayment of debt and interest payments of NIS 134 million in the corresponding quarter.

Average of long-term liabilities (including current maturities) to financial institutions and debenture holders in the reporting quarter amounted to NIS 9,497 million.

Average supplier credit in the quarter was NIS 892 million, and the average short-term customer credit was NIS 3,095 million. The average long-term customer credit was NIS 1,425 million.

The Group's working capital surplus at March 31, 2012 amounted to NIS 1,970 million, compared with a working capital deficit of NIS 1,188 million in the corresponding quarter. The Company has a working capital surplus of NIS 112 million at March 31, 2012, compared with a deficit of NIS 2,390 million in the corresponding quarter. The transition from deficit to surplus in the Company's working capital stems primarily from an increase in its current assets, mainly due to an increase in investments in monetary funds and in cash balances. Furthermore, the Company's current liabilities decreased following repayment of debentures and a decrease in employee benefit liabilities. In addition, there is an increase in the working capital surplus in the Cellular and the International Communications, Internet and NEP segments.

2. Explanations of the Board of Directors relating to exposure to market risks and their management

2.1 Fair value sensitivity tests and the effects of changes in the market prices of the fair value of the balances in and off the balance sheet for which there is a strong commitment at March 31, 2012, do not differ significantly from the report at December 31, 2011.

2.2 The linkage base report at March 31, 2012 does not differ significantly from the report at December 31, 2011.

3. Aspects of Corporate Governance

3.1 Disclosure of the process for approval of the financial statements

3.1.1 <u>Committee</u>

The Committee for Examination of the Company's Financial Statements is a separate committee which does not also serve as the Audit Committee (each committee has a different chairman). However, it is noted that all of the members of the Audit Committee are also members of the Committee for the Examination of the Financial Statements.

3.1.2 <u>Committee members</u>

The committee comprises the following four members: Yitzhak Idelman, chairman (external director), Mordechai Keret (external director), Eldad Ben-Moshe (independent director), and Dr. Yehoshua Rosenzweig (independent director), each of whom has accounting and financial expertise. All the committee members gave declarations prior to their appointment. For additional details about the directors who are committee members, see Chapter D of the Company's Periodic Report for 2011.

3.1.3 <u>Approval of the financial statements</u>

A. The Committee for the Examination of the Financial Statements discussed and formulated its recommendations for the Board at its meetings on May 3 and May 6, 2012.

B. All the members of the committee attended the above discussions.

C. Other than the committee members, the meeting on May 3, 2012 was attended by Chairman of the Board Mr. Shaul Elovitz, Deputy CEO and CFO Mr. Alan Gelman, Company Controller Mr. Danny Oz, Company Secretary Ms. Linor Yochelman, internal auditor Mr. Lior Segal, General Counsel Mr. Amir Nachlieli, director Mr. Rami Nomkin, the external auditors and other officer-holders in the Company. Other than the committee members, the meeting on May 6, 2012 was attended by Chairman of the Board Mr. Shaul Elovitz, Company CEO Mr. Avi Gabbay, Deputy CEO and CFO Mr. Alan Gelman, Company Controller Mr. Danny Oz, internal auditor Mr. Lior Segal, director Mr. Rami Nomkin, Company Secretary Ms. Linor Yochelman, General Counsel Mr. Amir Nachlieli, the external auditors and other officer-holders in the Company.

D. The Committee reviewed the assessments and estimates made in connection with the financial statements, the first-time application of SOX, internal controls relating to the financial reporting, the integrity and propriety of the disclosure in the financial statements and the accounting policy adopted in the corporation’s material affairs.

E. The committee's recommendations were forwarded in writing to the Board on May 6, 2012.

F. The Board discussed the recommendations of the Committee for the Examination of the Financial Statements on May 8, 2012.

G. The Board believes that the recommendations of the Committee for the Examination of the Financial Statements were submitted a reasonable time (about two business days) prior to the Board meeting, also taking into account the scope and complexity of the recommendations.

H. The Board accepted the recommendations of the Committee for the Examination of the Financial Statements, and resolved to approve the Company's financial statements for the first quarter of 2012.

3.2 Application of the Provisions of the Sarbanes-Oxley Act of 2002 (SOX)

Commencing 2011, the Company ceased to apply the provisions of the Securities (Periodic and immediate reports) (Amendment) Regulations, 2009, in the matter of internal control, and applies instead the provisions of the Sarbanes-Oxley Act of 2002 (SOX), as a significant subsidiary of a company traded in the U.S. (foreign private issuer).

4. Disclosure concerning the financial reporting of the corporation

4.1 Critical accounting estimates

Preparation of the financial statements in accordance with IFRS requires management to make assessments and estimates that affect the reported values of the assets, liabilities, income and expenses, as well as the disclosure in connection with contingent assets and liabilities. Management bases these assessments and estimates on past experience and on valuations, expert opinions and other factors which it believes are relevant in the circumstances. Actual results might differ from these assessments with different assumptions or conditions. Information about primary topics of uncertainty in critical estimates and judgments made in the application of the accounting policy is provided in the annual financial statements. We believe that these assessments and estimates are critical since any change in these assessments and assumptions could potentially have a material effect on the financial statements.

4.2 Owing to the materiality of the claims filed against the Group, which cannot yet be assessed or the exposure estimated, the auditors drew attention to them in their opinion on the financial statements.

4.3 Material events after the date of the financial statements

4.3.1 For details about the Company's purchase of all the shares of Walla in April 2012, see Note 4.1 to the financial statements.

4.3.2 On April 24, 2012, the general meeting of the shareholders of the Company approved (following the recommendation of the Board of Directors on March 14, 2012), the distribution of a cash dividend to the Company's shareholders in the amount of NIS 1,074 million – see Note 6.5 to the financial statements.

4.3.3 On May 2, 2012, the Ministry of Communications published a policy paper on the expansion of competition in fixed-line communications – wholesale market. For more information, see the update to section 1.7.3 in Chapter A of the Periodic Report for 2011.

5. Details of series of liability certificates

5.1 On March 21, 2012, the appointment of Hermetic Trust (1975).Ltd. ("Hermetic") was approved as trustee for the Debentures (Series 5) of the Company, replacing Mizrachi Tefahot Trust Co. Ltd., and accordingly, from that date, Hermetic serves as trustee for those debentures.

<u>The trust company</u>:

Hermetic Trust (1975).Ltd.
Contact person in the trust company – Dan Avnon, CEO

Email address – avnon@hermetic.co.il, telephone: 5274867
Address – 113 Hayarkon Street, Beit Hermetic, Tel Aviv

5.2 Other than the above, details relating to the series of liability certificates at March 31, 2012 do not differ significantly from the report at December 31, 2011.

5.3 The rating reports are attached to the Directors' Report.

6. Miscellaneous

For information about the liability balances of the reporting corporation and the subsidiaries or the proportionately consolidated companies in its financial statements at March 31, 2012, see the report form filed by the Company on Magna on May 8, 2012

We thank the managers, the employees, the public and the shareholders of the Group's companies.

Shaul Elovitz Chairman of the Board of Directors	Avraham Gabbay CEO

Date of signature: May 8, 2012

Update to Chapter A
(Description of Company Operations)
To the Periodic Report for 2011

bezeq

The information contained in this report constitutes a translation of the periodic report published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

Update to Chapter A (Description of Company Operations) [1] To the Periodic Report for 2011 ("Periodic Report") of "Bezeq "- The Israel Telecommunication Corporation Ltd. ("the Company")

1. **Description of general development of the Bezeq Group's business**

Section 1.1 - Bezeq Group activities and business development

Section 1.1.1 – General

Beginning April 9, 2012, the Company holds all the shares of Walla!, further to the completion of a full tender offer for the shares of Walla! held by the public (regarding this, see update to Section 1.1.2).

Following are details of the current holdings in the Company including fully diluted holdings, assuming exercise of all the options allotted to the Group's employees and managers as at March 31, 2012 and May 7, 2012

	Percentage of holdings		
Shareholders	As at March 31, 2012	As at May 7, 2012	Fully diluted as at May 7, 2012[2]
B Communications (through B Tikshoret)	31.05%	31.05%	30.18%
The public	68.95%	68.95%	69.82%

Section 1.1.2 - Mergers and acquisitions

Concerning the full tender offer for Walla! shares - pursuant to publication of the full tender offer for the purchase of all the shares in Walla! held by shareholders from the public, on April 5, 2012 the tender offer was accepted by the majority stipulated in the Companies Law (of the number of shares offered for sale, 12,980,972 shares accounting for 28.45% of the share capital of Walla!, notice of acceptance was received for 11,371,893 shares, accounting for 24.92% of the share capital of Walla!), and accordingly all the shares of Walla! that were held by the public were acquired, so that subsequent to the acquisition and beginning April 15, 2012, Walla! was delisted from the Tel Aviv Stock Exchange and became a private company wholly owned by the Company. Regarding this, also see Note 4.1 to the Company's consolidated financial statements for the period ended March 31, 2012.

Section 1.4 - Distribution of dividends

Section 1.4.2 - Distribution of a dividend

On April 24, 2012, the General Meeting of the Company's shareholders (further to a recommendation of the Board of Directors from March 14, 2012), approved the distribution of a cash dividend to the Company's shareholders in the total sum of NIS 1,074 million, which on the determining date for the distribution (May 4, 2012) amounts NIS 0.3951788 per share and 39.51788% of the Company's issued and paid-up share capital. The dividend will be paid on May 21, 2012. Together with this distribution, the third portion of the special distribution, in the amount of NIS 500 million, will be paid, which on the determining date for the distribution (May 4, 2012) amounts NIS 0.1839752 per share and 18.39752% of the Company's issued and paid-up share capital (regarding this, also see the update to Section 1.4.3).

The outstanding distributable profits at the reporting date amount NIS 582 million.[3].

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1 The update is pursuant to Article 39A of the Securities regulations (Periodic and Immediate Reports), 5730-1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2011 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

2 The calculation of full dilution assumes that all the allotted options will be exercised into shares. In view of the mechanism of net exercise of stock appreciation rights in the plan for managers and senior employees of the Group from November 2007 and the employee stock option plan (2010) this assumption is only theoretical, since in practice, the recipients exercising the stock options, will not be allotted all the shares deriving from them, but only shares of an amount that reflects the financial benefit embedded in the stock options.

3 Subject to complying with the distribution tests.

Section 1.4.3 - Distribution that is not in compliance with the earnings test

On March 29, 2012 and on April 4, 2012, two objections were filed in the Economic Department of the Tel Aviv District Court to the continuation of payments in respect of the distribution which is not in compliance with the earnings test that was approved by the same court on March 31, 2011. The motions were filed by two holders of Debentures (Series 5) of the Company who had also filed a similar objection in 2011 and an application to be included therein as detailed in the Periodic Report for 2011. The Company submitted its response to the objections, rejecting the arguments detailed in the objections, and requesting the court to dismiss the objections in limine and in substance. Subsequently, there were evidentiary hearings and closing arguments. At the publication date of this report, a ruling on this case has not yet been handed down.

Section 1.5 - Financial information concerning Bezeq Group's operations

Section 1.5.4 - Principal results and operational data

A. Bezeq Fixed Line (the Company's operations as a domestic carrier)

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues (NIS millions)	1,199	1,114	1,186	1,170	1,178
Operating profit (NIS millions)	539	384	546	517	211
Depreciation and amortization (NIS millions)	178	175	180	171	162
(EBITDA) ((NIS millions)	717	559	726	688	373
Net profit (NIS millions)	348	301	311	330	123
Cash flow from operating activities (NIS millions)	651	550	641	496	419
Payments for investments in property, plant & equipment and intangible assets (NIS millions) (6)	269	259	268	319	319
Proceeds from sale of property, plant & equipment and intangible assets (NIS millions) (6)	46	40	68	48	72
Free cash flow (NIS millions) (1)	428	216	441	225	287
No. of active subscriber lines at end of period (NIS thousands) (2)	2,368	2,367	2,363	2,356	2,358
Average monthly revenue per line (NIS) (ARPL)(3)	74	70	78	77	79
No. of outgoing minutes (millions)	2,359	2,340	2,481	2,415	2,521
No. of incoming minutes (millions)	1,543	1,526	1,602	1,535	1,577
No. of internet subscribers at end of period (thousands) (2)	1,121	1,111	1,100	1,088	1,079
% of subscribers using NGN services out of total Internet subscribers connected to the NGN network (%)(4)	58%	53%	51%	44%	41%
Average monthly revenue per internet subscriber (NIS)	84	81	81	80	79
Average bandwidth per internet subscriber (Mbps)	7.5	6.7	6.0	5.3	4.8
Churn rate (5)	3.1%	2.7%	2.7%	2.7%	3.2%

(1) Cash from operating activities less purchase of property, plant and equipment, and intangible assets, net.

(2) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (approximately) the first three months of the collection process).

(3) Excluding revenues from transmission and data communication, Internet services, services to communications operators and contractor and other works. Calculated based on the average lines for the period.

(4) The numbers for 2011 were corrected in view of the revised number of Company internet subscribers connected to the NGN network, as a result of data optimization.

(5) The number of telephony subscribers who left Bezeq Fixed Line during the period, divided by the average number of registered telephony subscribers in the period. The numbers for 2011 are presented after correction of an insignificant error of calculation of 0.1% per quarter.

(6) Excluding the purchase and sale (Back to Back) of a real-estate asset in the amount of NIS 115 million during 2011.

B. Pelephone

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues from services (NIS millions)	834	849	914	925	949
Revenues from the sale of terminal equipment (NIS millions)	410	390	507	513	501
Total revenues (NIS millions)	1,244	1,239	1,421	1,438	1,450
Operating profit (NIS millions)	267	262	342	357	399
Depreciation and amortization (NIS millions)	135	140	139	143	139
(EBITDA) ((NIS millions)	402	401	481	500	539
Net profit (NIS millions)	216	204	263	279	310
Cash flow from operating activities (NIS millions)	294	223	168	101	308
Payments for investments in property, plant & equipment and intangible assets, net (NIS millions)	115	92	71	86	133
Free cash flow (NIS millions) (1)	179	131	97	15	175
Number of subscribers at end of period (thousands) (2), (6)	2,876	2,847	2,842	2,827	2,861
Average number of minutes per subscriber per month (MOU) (3), (6)	399	384	385	370	359
Average monthly revenue per internet subscriber (NIS) (ARPU) (4), (6)	97	100	107	109	110
Revenues from value added services (included in revenues from services) (NIS millions)	307	311	310	297	283
Revenues from value added services as percentage of revenues from cellular services	39.6%	39.5%	36.3%	34.5%	32.1%
Churn rate (5), (6)	3.9%	5.3%	6.1%	6.6%	5.0%

1) Cash from operating activities less purchase of property, plant and equipment, and intangible assets, net.

2) Subscriber data do not include subscribers connected to Pelephone services for six months or more but who are inactive. Inactive subscribers are those who in the past six months have not received or made at least one call or have not paid for Pelephone services.

3) Average monthly use per subscriber in minutes. The index is calculated by the average monthly total outgoing minutes and incoming minutes in the period, divided by the average number of subscribers in the same period.

4) Average monthly revenue per subscriber. The index is calculated by dividing the average total monthly revenues from cellular services, repair services and warranty in the period, by the average number of active subscribers in the same period.

5) The data has been calculated according to the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive during the period to the average number of active subscribers during the period.

6) In the report for 2011, due to greater movement of subscribers to prepaid tracks in the initial months after the reduction of the disconnect fees, Pelephone decided not to include subscribers who had not made calls during the fourth quarter as active subscribers. Consequently, Pelephone deleted 91,000 subscribers. These subscribers were deleted retroactively from each quarter in which they were transferred to prepaid tracks. As a result of the foregoing, data for subscribers, ARPU, MOU and churn rates were amended retroactively in each quarter of 2011. The increase in the number of subscribers in the first quarter of 2012 is the result of an increase in the number of prepaid subscribers which was partially offset by a decline in the number of postpaid subscribers.

C. Bezeq International

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues (NIS millions)	332	342	351	332	329
Operating profit (NIS millions)	50	59	61	60	61
Depreciation and amortization (NIS millions)	34	31	28	26	24
(EBITDA) ((NIS millions)	84	89	89	87	85
Net profit (NIS millions)	36	44	46	46	46
Cash flow from operating activities (NIS millions)	58	76	57	68	42
Payments for investments in property, plant & equipment and intangible assets, net (NIS millions) (1)	71	103	92	47	46
Free cash flow (NIS millions) (2)	(13)	(27)	(35)	21	(4)
Churn rate (3)	4.3%	3.7%	3.2%	2.8%	2.9%

(1) This item also includes long-term investments in assets.

(2) Cash from current operations less purchase of property, plant and equipment, and intangible assets, net.

(3) The number of internet subscribers who left Bezeq International during the period divided by the average number of registered internet subscribers in the period.

D. DBS

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues (NIS millions)	417	404	405	404	406
Operating profit (NIS millions)	52	106	63	65	61
Depreciation and amortization (NIS millions)	66	62	74	71	69
(EBITDA) ((NIS millions)	118	168	137	136	130
Net profit (loss) (NIS millions)	(64)	7	(76)	(88)	(73)
Cash flow from operating activities (NIS millions)	116	119	134	119	141
Payments for investments in property, plant & equipment and intangible assets, net (NIS millions)	56	62	67	64	71
Free cash flow (NIS millions) (1)	60	57	67	55	70
No. of subscribers (at end of period, thousands) (2)	585	586	585	581	580
Average monthly revenue (ARPU) per subscriber (NIS) (3)	237	229	232	232	234
Churn rate (4)	3.6%	2.8%	2.8%	2.9%	3.3%

(1) Cash from operating activities less purchase of property, plant and equipment, and intangible assets, net.

(2) Subscriber - a single household or small business customer. In the event of a business customer with multiple reception points or a large number of decoders (such as a hotel, collective community settlement or gym), the number of subscribers is calculated by dividing the total payment received from the business customer by the average revenue from a small business customer.

(3) Average monthly revenue per subscriber is calculated by dividing DBS's total revenues (revenues from content and equipment, premium channels, technical service, advanced products, one-time sale of content, revenues from channels, internet and other) by the average number of customers.

(4) Number of DBS subscribers who left DBS during the period divided by the average number of registered DBS subscribers in the period.

Section 1.7 - General environment and the impact of outside factors on the Group's activity

Section 1.7.3 - Regulatory oversight and changes in the regulatory environment

Sub-section a - Policy for regulating competition - Hayek Commission

On May 2, 2012, the Ministry of Communications published a policy document on the expansion of competition for fixed-line communications - wholesale market, according to which the Minister of Communications ("the Minister") adopted the key recommendations of the "Committee for reviewing and revising Bezeq's rate structure and setting wholesale service tariffs for fixed-line communications", headed by Amir Hayek CPA ("Hayek Committee"), in the manner specified in that document which was included in the Company's Immediate Report dated May 2, 2012, presented here by way of reference.

Following are the main points of the policy document:

1. Owners of universal fixed-line access infrastructures who provide retail services, including the Company, will be obligated to sell wholesale services to holders of telecommunications licenses, including Bitstream Access, lease of access segments, dark fibers, tubes and transmission services, on a non-discriminatory basis and with no discounts for size. In this regard, a procedure was established whereby an agreement for these services will be negotiated and as soon as such agreement is signed, the infrastructure owner will publish a shelf offering for sale of the services based on the agreement and which also includes additional services as the Ministry determines from time to time ("shelf offering"). In certain circumstances, the Minister has the power to stipulate conditions or prices for the services. The infrastructure owners must submit to the relevant license owners the distribution of their existing infrastructures, with exceptions to be defined.

2. Upon publication of the shelf offering, corporations with an interest in the infrastructure owner may also purchase wholesale services from it, without discrimination. The Company will be able to provide wholesale telephony services that are not supplied over a broadband network to its subsidiaries, provided that these services are also available to everyone and without discrimination.

3. Within 9 months of publication of the shelf offering, the Minister will order elimination of the structural separation between the infrastructure provider who published the aforementioned offering and the international call providers and ISPs, replacing it with accounting separation (unless the Minister believes that this will adversely affect competition or the public interest), so that the Company will be able to offer subsidized plans. Furthermore, insofar as the wholesale market develops and the degree of competition based on joint service bundles that combine fixe-line and mobile services in the private sector (according to indices or conditions stipulated by the Minister) allows this, the Minister will consider ease or cancellation of the structural separation between an infrastructure provider and a cellular operator who has an interest in the said provider.

4. The Minister will review the subject of the unbundling of broadcast services included in the joint service packages, which also include Bezeq services (fixed or mobile) or broadband access services. The structural separation between the infrastructure providers and multi-channel TV area will be eliminated by granting suppliers, without nation-wide fixed-line infrastructure, a reasonable possibility to provide a basic TV service package over the internet.

5. If no wholesale market develops in the correct manner (based on indices to be defined for this purpose) within 24 months of the publication of the policy document, the Minister will take action to implement structural separation between the infrastructure and the services provided by general domestic carrier license holders.

6. Within six months of publication of the shelf offering, the Minister will take action to change the method of oversight of the Company's prices so that prices will be controlled by the setting of a maximum price.

7. Within 9 months, the Ministry of Communications will formulate regulations aimed at increasing the investment in and upgrading fixed-line communications infrastructure in Israel.

The Company is studying the policy document and at this stage it is unable to estimate its effect on business performance.

Sub-section B - Increase in the rate of royalties - in August 2011, an amendment to the Royalties Regulations (Satellite broadcasts) was approved so that the rate of royalties in 2012 will be 1.75%.

2. Domestic fixed-line communications; "Bezeq - The Israel Telecommunication Corporation Ltd. ("the Company")

Section 2.6.4 - Additional factors that could influence competition

Sub-section B - regarding the process of choosing an investor for a communications venture with IEC, as far as the Company is aware, the scheduled date for submittal of basic offers (April 23, 2012) was postponed and the participants will receive notice of the new date in due course.

Section 2.9.6 - Compensation plans for employees

Sub-section A - on March 24, 2012, five years after the end of the allotment period, the stock options plan from 2007 came to an end (as part of this plan, 78,107,470 options were exercised).

Section 2.9.7 - Officers and senior management in the Company

On April 24, 2012, Mr. Yehuda Porat's service as an employee director came to an end.

Section 2.13.2 - Limitations on credit obtaining

Section A - limitations included in the Company's loans – as at the date of the financial statements and as at the publication date of this report, the Company is in compliance with all the applicable limitations.

Section 2.16.9 - The Telegraph Ordinance

Concerning the termination of the claim filed by the State authorities regarding radio frequencies in the Administered Territories, see the update to Section 2.18.6.

Section 2.17.1 – Material agreements concerning debentures

Section A - deed of trust for Debentures (Series 5) - on March 21, 2012, the appointment of Hermetic Trust Services (1975) Ltd. ("Hermetic") was approved as the trustee for Debentures (Series 5) of the Company, replacing Mizrahi-Tefahot Trust Company Ltd., and accordingly from that date Hermetic serves as the trustee for the aforementioned debentures.

Section 2.18 – Legal proceedings

Section 2.18.1(B) - regarding a claim and application for its certification as a class action that was filed by a former employee of the Company concerning the inclusion of wage components, on April 29, 2012 the Tel Aviv Regional Labor Court handed down a ruling striking out the application and the application for certification as a class action, upon the plaintiff's request and further to the court's recommendation.

Section 2.18.3 - regarding two claims and applications for their certification as class actions claiming unlawful collection of money in cases of disconnection due to non-payment - one claim (claim from February 2011 in the amount of NIS 44 million) and an application for its certification as a class action were dismissed in limine on March 28, 2012, at the Company's request.

Section 2.18.6 - regarding a claim filed by the State authorities for payment of frequency fees in the Administered Territories in the amount of NIS 74 million - on April 2, 2012, a compromise settlement between the parties to the procedure was validated as a court ruling, in which the Company will pay the plaintiffs the total amount of NIS 26 million (plus CPI linkage from February 11, 2010).

Section 2.18.10 - regarding an application to approve a distribution that is not in compliance with the earnings test, see the update to Section 1.4.3.

3. Mobile radio-telephone (cellular telephony) - Pelephone Communications Ltd. ("Pelephone")

Section 3.1.5 A - Technology changes that can affect the area of operation

Accordingly to the Ministry of Communications plan for 2012, which was published in March 2012, the ministry will work to allocate Generation 4 frequencies (LTE).

Section 3.7.2 D - Increased competition and the removal of barriers to switching among operators

Pursuant to the approval of the Economic Affairs Committee, on March 21, 2012, the Knesset approved the amendment to the Communications Law according to which:

1. Exit penalties will be eliminated as specified in the Periodic Report for 2011.

2. A license holder will not make a subscriber's commitment to receive cellular services dependent on that subscriber's agreement with it or with any other license holder to purchase, rent, borrow or lease terminal equipment, either in one agreement or in separate agreements, including by way of providing a discount or any other benefit in one agreement that is dependent on the other agreement. The Amendment will take effect on January 1, 2013. The Minister of Communications has the power to postpone the applicability date by six months. The principal sales method currently applied is to offer discounts on the price of the services that are dependent on the terminal equipment in the customer's possession. From the entering into force of this amendment, it will no longer be possible to offer such benefits. Elimination of the connection between communications service agreements and the sale of terminal equipment, may affect the volume of the sale of terminal equipment by Pelephone.

Section 3.15.2 - Restrictions

Sub-section A - Undertaking towards banks - pursuant to legal position 104-15 of the Securities Authority from October 30, 2011, following are further disclosures in connection with compliance with financial covenants of reportable credit:

Financial covenants to which Pelephone is obligated:	As at March 31, 2012	Maximum required ratio
Pelephone's total debts will not exceed 3 times its equity.	0.60	3.00
Total debts are not to exceed NIS 3.8 billion (linked to the CPI known in January 2002. As at March 31, 2012 = NIS 4.81 billion).	2.01	4.81
Undertaking to a particular bank that debts to it will not exceed 40% of Pelephone's total cumulative debts to financial entities including debenture holders.	14.2%	40%

Section 3.21 – Legal proceedings

Section 3.21.1 (D) –regarding a claim and application for its certification as a class action in the amount of NIS 240 million, which was filed against Pelephone in July 2008 alleging, inter alia, the collection of payment in respect of a standing order, ostensibly in contravention of Pelephone's license – in May 2012 an additional claim was filed in the Tel Aviv District Court as well as an application for its certification as a class action in the amount of NIS 74 million alleging the same cause of unlawful billing for payment of a standing order.

Section 3.21.1 (I) - regarding a claim and application for its certification as a class action in the amount of NIS 285 million, which was filed against Pelephone in November 2011 and alleged that Pelephone recorded service conversations by Pelephone customers at the service stations without their knowledge and without terminating the recording when the representative was not with them, thus infringing on their right to privacy - in April 2012, the court decided to approve abandonment of the claim and of the application for its certification as a class action.

In March 2012, a claim was filed against Pelephone in the Tel Aviv District Court together with an application for its certification as a class action. The claim alleges that Pelephone makes false representations to the public according to which it provides a surfing experience on its network at extremely high speeds. According to the plaintiffs, they conducted dozens of measurements showing that the surfing speed on the respondent's cellular network is lower than specified. According to the claim, this conduct caused and causes cumulative personal loss of NIS 560. The amount of the application is estimated in the total of NIS 242 million, subject to data to be produced by Pelephone as part of the proceeding.

4. Bezeq International – international communication and internet services ("Bezeq International")

Section 4.15.1 - Financing - General

On March 29, 2012, a loan of NIS 40 million was received from the Company to be repaid in five equal principal and interest installments commencing March 2013.

5. DBS - multi-channel television Satellite Services (1998) Ltd. ("DBS")

Section 5.1.4 - Market developments in the segment of operation

Sub-section A - in April 2012, Broadcasting by means of Digital Broadcast Stations Law, 5772-2012, was published in the Official Gazette.

Section 5.15.2 - Bank financing

The debt coverage target under the financing agreement as at March 31, 2012 was 1.1. DBS was in compliance with this covenant (debt coverage ratio as at March 31, 2012 was 1.44), DBS was in compliance with the supplier credit covenant (supplier credit as at March 31, 2012 was NIS 444 million).

Section 5.15.3 - Debentures

As at March 31, 2012, DBS was in compliance with the debt/EBITDA ratio covenant specified in Deed of Trust B (the ratio of the debt of DBS to its EBITDA as at March 31, 2012 was 2.87).

In May 2012, DBS and several institutional entities (in this section: "the Lenders") signed a debenture whereby the Lenders will provide DBS with a loan of NIS 392 million (in this section: "the Debenture"). The full proceeds from this capital raising are to be used for the settlement of long-term credit that was provided to DBS by the banks.

The loan to be provided according to the Debenture is to be redeemed in ten (unequal) annual principal payments in April of the years 2013-2022[4] and will bear annual interest of 6.4% per annum as mentioned, to be paid in semi-annual installments. The principal and interest will be CPI linked. According to the Debenture, if the loan rating is downgraded to ilBBB or a corresponding rating (whichever is lower), the annual interest paid on the loan will increase by 0.5%, and it will increase by a further 0.25% for each additional notch reduction on the rating scale, as long as the downgrade is in force.

Furthermore, the Debenture sets forth various events (similar to those noted in Deed of Trust B), including a right to call for immediate repayment (not at the initiative of DBS) of another series of debentures that was issued and/or may be issued by DBS and/or of DBS's obligations towards a financial institution, subject to the conditions specified in the debenture, which if they occur, subject to period extensions specified in the Debenture, establish an entitlement to immediate recall of the loan, subject to the provisions of the Debenture.

DBS must comply every quarter with both the following financial covenants (subject to periods of improvement and improvement conditions defined in the Debenture): (a) compliance with a maximum debt/EBITDA ratio[5] , and (b) compliance with a maximum ratio of debt to E-C.[6]

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4 In each of the years 2013-2017, payment of the principal will be 8% of the nominal value of the debentures, and in each year thereafter payment of the principal will be 12% of the nominal value of the debentures,

5 The ratio between the total debt of DBS (debts to financial institutions as defined in the Debenture) at the end of the relevant quarter and its EBITDA for the 12 months ending at the end of that quarter. The term EBITDA means: with respect to any period of calculation – the total operating profit of DBS from ordinary operations (before finance and tax expenses), plus depreciation and amortization, plus expenses classified under investments in the financial statements of DBS as at December 31, 2010 (and were reclassified to expenses due to accounting policy or the instruction of an authority) and plus provisions and extraordinary one-time expenses. The maximum ratio in respect of the review period ending up to the end of 2013 is 5, in respect of a review period ending up to the end of 2015 – 4.65, and in respect of a review period commencing in 2016 – 4.3

6 The ratio between the total debt, as it is at the end of the relevant quarter, and the E-C of DBS for the 12 months ending at the end of that quarter. The term "E-C means: the EBITDA of DBS for the 12 months ending at the end of that quarter, minus the CAPEX (amount of the additions to property, plant and equipment, without the deduction of depreciation and amortization) of DBS during that period. The maximum ratio up to December 31, 2015 is 9.5, and beginning January 1, 2016 – 7.8.

The Debenture sets forth limitations with respect to the distribution of a dividend and repayment of shareholders' loans, similar to the limitations that apply to Deed of Trust B.[7]

Receipt of the loan according to the Debenture is conditional on meeting several conditions precedent pertaining to relevant approvals to be obtained from the competent organs of DBS for entering into the debenture agreement and to obtaining agreement from the banks. Until the conditions precedent are met and the Lenders' collaterals are registered, the money for the loan will be deposited in trust. In the event that not all the aforementioned conditions precedent are met within 60 days of signing the Debenture, DBS will refund the money for the loan that was deposited to the Lenders, plus a fee as defined and linkage and interest differences in respect of the period of the deposit in trust.

In May 2012, S&P Maalot issued a rating of IlA- for the Debenture.[8]

For additional information about the collaterals which will be created to guarantee the Debenture and changes in the conditions of the Debenture and the collaterals, as noted, in the event that the Company provides a guarantee in favor of the Lenders – see Note 6B to DBS's financial statements as at March 31, 2012.

Section 5.17 - Restrictions and supervision of the corporation

In March 2012, the Council announced that it is considering carrying out a pilot scheme in which HOT and DBS will offer their subscribers limited broadcast packages consisting of a "confined" package, smaller than their currently available basic package which will include the compulsory channels (the TV and radio channels which the license holders are obligated to broadcast by law) as well as several pre-defined channels, at a price that is cheaper than the basic package, or alternatively, a select package of channels to include the compulsory channels and channels to be chosen by the subscriber for additional payment. The Council has initiated an invitation process to present public opinion before making a final decision on this subject.

Section 5.17.7 - Requirement to transmit channels

In April 2012, the HCJ issued an order nisi instructing the Knesset, the State and the other respondents to the petition to explain why the court should not declare that the amendment to the law should not be applied to DBS until reasonable compensation is arranged for DBS, and alternatively why the amendment to the law should not be revoked.

Section 5.20 - Legal proceedings

Section 5.20.1.A - On March 13, 2012, DBS submitted its response to the Attorney General's position, and on March 15, 2012, the applicant submitted his response to the Attorney General's position. At a hearing held on April 4, 2012, the court suggested that the parties retract their request to approve the settlement and that the applicant and his attorney should withdraw the application for certification. The parties were requested to submit their positions by April 19, 2012. On April 22, 2012, following a joint application by the parties, and in view of the difficulties encountered in the application for certification, the court approved the applicant's abandonment of the application, without ordering expenses.

May 8, 2012	
Date	Bezeq - The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shaul Elovitch, Chairman of the Board of Directors

Avi Gabbay, Chief Executive Officer

7 The target of the financial covenant applicable in relation to this is lower (more stringent) than the target that applies according to Deed of Trust B.

8 The rating was set within the context of a comprehensive rating by S&P Maalot for a debt raising in the total amount of up to NIS 450 million par value, as part of the Debenture and the possible expansion of Debentures (Series B) of DBS.

Exhibit 99.4

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Condensed Separate Interim Financial Information

March 31, 2012
(Unaudited)

bezeq

The information contained in these financial reports constitutes a translation of the financial reports published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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Somekh Chaikin

8 Hartum Street, Har Hotzvim	Telephone	972 2 531 2000
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To:
The Shareholders of “Bezeq”- The Israel Telecommunication Corporation Ltd.

Special auditors’ report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq” -The Israel Telecommunication Corporation Ltd. (hereinafter- “the Company”) as of March 31, 2012 and for the three month period then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information for this period based on our review.

We did not review the separate interim financial information from the financial statements of investee companies in which the investments amounted to NIS 193 million as of March 31, 2012, and the Company’s share in the profit from these investee companies amounted to NIS 64 million for the three month period then ended. The financial statements of those companies were reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we will become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the abovementioned separate interim financial information is not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 4.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 8, 2012

Condensed Interim Statements of Financial Position

	March 31, 2012 (Unaudited) NIS million	March 31, 2011 (Unaudited) NIS million	December 31, 2011 (Audited) NIS million
Assets			
Cash and cash equivalents	663	444	1,096
Investments, including derivatives	1,291	13*	940
Trade receivables	783	738	731
Other receivables	251	156	212
Inventories	17	9	13
Loans and guarantees granted to investees	599	179*	546
Assets classified as held for sale	25	20	23
Total current assets	**3,629**	**1,559**	**3,561**
Investments, including derivatives	79	95	77
Trade and other receivables	110	217	116
Property, plant and equipment	4,369	4,157	4,319
Intangible assets	384	289	368
Investments in investees	6,512	6,399*	6,303
Loans and guarantees granted to investees	1,685	877*	1,256
Deferred tax assets	178	292	216
Total non-current assets	**13,317**	12,326	12,655
Total assets	**16,946**	13,885	16,216

	March 31, 2012 (Unaudited) NIS million	March 31, 2011 (Unaudited) NIS million	December 31, 2011 (Audited) NIS million
Liabilities			
Debentures, loans and borrowings	**679**	999	757
Trade payables	**222**	150	177
Other payables, including derivatives	**703**	800	592
Current tax liabilities	**424**	260	361
Deferred income	**33**	21	28
Provisions (Note 4)	**157**	239	163
Employee benefits	**317**	496	351
Dividend payable	**982**	984	971
Total current liabilities	**3,517**	3,949	3,400
Debentures	**5,031**	2,389	5,034
Bank loans	**3,996**	2,523	3,996
Employee benefits	**184**	222	182
Deferred and other income	**37**	5	30
Dividend payable	**935**	1,827	924
Total non-current liabilities	**10,183**	6,966	10,166
Total liabilities	**13,700**	10,915	13,566
Equity			
Share capital	**3,830**	3,803	3,826
Share premium	**80**	-	68
Reserves	**606**	550	608
Deficit	**(1,270)**	(1,383)	(1,852)
Total equity	**3,246**	2,970	2,650
Total liabilities and equity	**16,946**	13,885	16,216

Shaul Elovitch
Chairman of the Board of Directors

Avi Gabbay
CEO

Alan Gelman
Deputy CEO and CFO

* Reclassified See Note 1.3.

Date of approval of the financial statements: May 08, 2012

The accompanying notes to the condensed separate interim financial information are an integral part thereof.

Condensed Interim Information of Income

	For the three-month period ended March 31		For the year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,199**	1,178	4,648
Cost of Operations			
Depreciation and amortization	**178**	162	688
Salaries	**267**	284	1,089
Operating and general expenses (Note 3)	**237**	271	1,074
Other operating expenses (income), net	**(22)**	250	139
	660	967	2,990
Operating profit	**539**	211	1,658
Financing expenses (income)			
Financing expenses	**120**	80	531
Finance revenues	**(71)**	(54)	(291)
Financing expenses, net	**49**	26	240
Profit after financing expenses, net	**490**	185	1,418
Share in earnings of investees, net	**254**	284	1,001
Profit before income tax	**744**	469	2,419
Income tax (see Note 5.4)	**162**	62	353
Profit for the period	**582**	407	2,066

The accompanying notes to the condensed separate interim financial information are an integral part thereof.

Condensed Interim Statements of Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**582**	407	2,066
Items of other comprehensive income			
Actuarial gains (losses) net of tax	**-**	-	28
Other items of comprehensive income (loss) for the period, net of tax	**-**	-	3
Other comprehensive income (loss), net of tax in respect of investees	**(6)**	-	4
Other comprehensive income (loss), net of tax	**(6)**	-	35
Total comprehensive income for the period	**576**	407	2,101

The accompanying notes to the condensed separate interim financial information are an integral part thereof.

Condensed Interim Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**582**	407	2,066
Adjustments:			
Depreciation	**157**	144	613
Amortization of intangible assets	**21**	18	75
Share in the profits of equity-accounted investees, net	**(254)**	(284)	(1,001)
Financing expenses, net	**52**	29	243
Capital gain, net	**(24)**	(44)	(181)
Share-based payment transactions	**20**	41	165
Income tax expenses	**162**	62	353
Change in inventory	**(5)**	6	2
Change in trade and other receivables	**(71)**	3	95
Change in trade and other payables	**90**	(85)	(80)
Change in provisions	**(5)**	10	(67)
Change in employee benefits	**(32)**	226	79
Change in deferred income	**7**	-	27
Expenses (income) for derivatives, net	**5**	(2)	(21)
Net cash from (used in) operating activities with respect to transaction with investees	**8**	(35)	(34)
Net income tax paid	**(62)**	(77)	(228)
Net cash from operating activities	**651**	419	2,106
Cash flow used in investing activities			
Investment in intangible assets	**(36)**	(30)	(167)
Proceeds from the sale of property, plant and equipment	**46**	187	228
Acquisition of financial assets held for trading	**(1,100)**	(8)	(2,850)
Proceeds from the sale of financial assets held for trading:	**750**	-	1,961
Purchase of property, plant and equipment	**(233)**	(289)	(998)
Proceeds (payment) for derivatives	**4**	(11)	(5)
Proceeds from disposal of investments and long-term loans	**(3)**	1	7
Interest and dividends received	**2**	2	33
Net cash from (used in) investing activities with respect to transactions with investees	**(403)**	219	507
Net cash from (used in) investing activities	**(973)**	71	(1,284)

The accompanying notes to the condensed separate interim financial information are an integral part thereof.

Condensed Interim Statements of Cash Flows (contd.)

	For the three-month period ended March 31		For the year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows used in financing activities			
Bank loans received	-	-	2,200
Issue of debentures	-	-	3,092
Repayment of bank loans	**(77)**	-	(600)
Repayment of debentures	-	(25)	(702)
Dividend paid	-	-	(3,155)
Interest paid	**(34)**	(20)	(346)
Net proceeds (payment) for derivatives	-	-	(1)
Proceeds from exercise of options	-	4	21
Net cash used for investment activities with respect to transactions with investees	-	(203)	(433)
Net cash from (used in) financing activities	**(111)**	(244)	76
Increase (decrease) in cash and cash equivalents	**(433)**	246	898
Cash and cash equivalents at the beginning of the period	**1,096**	198	198
Cash and cash equivalents at the end of the period	**663**	444	1,096

The accompanying notes to the condensed separate interim financial information are an integral part thereof.

Notes to the Condensed Separate Interim Financial Information

1. Manner of preparing financial information

1.1 Definitions

The Company – "Bezeq" The Israel Telecommunication Corporation Ltd.

Investee, the Group, Subsidiary, Interested Party - as these terms are defined in the Company's consolidated financial statements for 2011.

1.2 Principles for preparing financial information

The condensed separate interim financial information is presented in accordance with Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970 and do not include all the information required under Article 9(C) and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports), 1970 with respect to the separate financial information of the corporation. It should be read in conjunction with the separate financial statements for the year ended December 31, 2011 and in conjunction with the condensed interim consolidated financial statements as of March 31, 2012 ("the Consolidated Financial Statements").

The accounting policies for this condensed separate interim financial information are in accordance with the accounting policies specified in the separate financial information as of December 31, 2011 and for the year then ended.

1.3 Some of the amounts in the comparative information were reclassified to the relevant sections in the financial statements for the current period.

2. Revenue

	Three months ended March 31		Year ended December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Fixed-line telephony	**588**	617	2,393
Internet - infrastructure	**296**	265	1,092
Transmission and data communication	**245**	228	931
Other services	**70**	68	232
	1,199	1,178	4,648

3. General and operating expenses

	Three months ended March 31		Year ended December 31
	2012	**2011**	**2011**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Interconnectivity and payments to communication operators	**75**	79*	314
General and marketing expenses**	**8**	47*	194
Terminal equipment and materials	**24**	22	89
Maintenance of buildings and sites	**63**	62	247
Services and maintenance by sub-contractors	**20**	20	76
Vehicle maintenance expenses	**19**	21	78
Royalties and others	**28**	20	76
	237	271	1,074

* Reclassified

** See Note 12.2 to the consolidated financial statements with regard to a settlement arrangement between the Company and the Ministry of Communications concerning the State of Israel government authorities claim for payment of frequency fees in Judea, Samaria and Gaza. Following the settlement, in the reporting period, the Company reduced liabilities for frequency fees and decreased operating and general expenses by NIS 37 million and financing expenses by NIS 13 million.

4. Contingent liabilities

During the normal course of business, legal claims were filed against the Company or there are pending claims (“in this section: “Legal Claims”).

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions in the amount of NIS 157 million, where provisions are required to cover the exposure arising from such legal claims.

In the opinion of the Company's managements, the amount of additional exposure, as of March 31, 2012, due to claims filed against the Company on various matters and which are unlikely to be realized, is NIS 2.1 billion with an additional amount of NIS 621 million for claims which at this stage cannot yet be assessed (of which NIS 361 million is for claims filed against the Company and other related companies, without details concerning the amount claimed from each of the defendants).

The foregoing amounts are linked to the CPI and are before the addition of interest.

In addition, there are other claims for which the Company has additional exposure beyond the aforesaid, which cannot be quantified as the exact amount of the claim is not stated in the claim.

For further information pertaining to contingent liabilities see Note 5 to the consolidated statements, contingent liabilities.

5. Material agreements and transactions with investees during the reporting period and thereafter

5.1 On March 29, 2012 the Company provided a loan in the amount of NIS 440 million for Pelephone Communications Ltd. ("Pelephone"). The loan bears fixed annual interest of 5.7%. The loan will be repaid in ten equal annual installments commencing March 15, 2013.

5.2 On March 29, 2012 the Company provided a loan in the amount of NIS 40 million for Bezeq International Ltd. ("Bezeq International"). The loan bears fixed annual interest of 4.7%. The loan will be repaid in five equal annual installments commencing March 15, 2013.

5.3 On January 17, 2012 the Company provided a loan in the amount of NIS 3 million for Bezeq Online Ltd. ("Bezeq Online"). The loan bears fixed annual interest of 4.2%. The loan will be repaid in ten equal annual installments commencing January 17, 2013.

5.4 In February 2012 Stage One Venture Capital Fund (Israel) L.P. ("the Fund") signed an agreement to sell its entire holding in Traffix Communications Systems Ltd. In March 2012 the Company received its share in the profits of the Fund, in an amount of NIS 80 million. The profits from the sale are included in the profits of equity accounted investees, and taxed in the Company. Consequently, the tax expenses include tax expenses for these profits.

5.5 On May 2, 2012 the board of directors of Pelephone resolved to distribute a dividend in the amount of NIS 466 million in May 2012.

5.6 On May 3, 2012 the board of directors of Bezeq International resolved to distribute a dividend in the amount of NIS 90 million in May 2012.

Exhibit 99.5

DBS SATELLITE SERVICES (1998) LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2012

Condensed Interim Financial Statements as at March 31, 2012

Contents **Page**

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Review Report to the Shareholders of D.B.S. Satellite Services (1998) Ltd.

Introduction

We have reviewed the accompanying financial information of D.B.S. Satellite Services (1998) Ltd. (hereinafter – "the Company") comprising of the condensed interim statement of financial position as of March 31, 2012 and the related condensed interim statements of operations, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the abovementioned interim financial information does not comply, in all material respects, with the disclosure requirements according to Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above conclusion, we draw attention to Note 4 with respect to the financial position of the Company.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 7, 2012

Condensed Interim Statements of Financial Position at

	March 31, 2012 (Unaudited) NIS thousands	March 31, 2011 (Unaudited) NIS thousands	December 31, 2011 (Audited) NIS thousands
Assets			
Cash and cash equivalents	**22,266**	-	13,325
Trade receivables	**166,671**	163,300	159,596
Other receivables	**5,683**	11,786	8,020
Total current assets	**194,620**	175,086	180,941
Broadcasting rights, net of rights exercised	**345,112**	308,931	330,572
Property, plant and equipment, net	**669,556**	678,761	675,954
Intangible assets, net	**96,145**	89,133	94,227
Total non-current assets	**1,110,813**	1,076,825	1,100,753
Total assets	**1,305,433**	1,251,911	1,281,694

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

Condensed Interim Statements of Financial Position at

	March 31, 2012	March 31, 2011	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Borrowings from banks	**98,743**	50,690	85,998
Current maturities for debentures	**57,494**	56,387	57,494
Trade payables and service providers	**431,885**	381,772	409,298
Other payables	**162,891**	158,580	162,519
Provisions	**55,737**	85,250	55,329
Total current liabilities	**806,750**	732,679	770,638
Debentures	**1,121,231**	1,162,350	1,120,806
Bank loans	**309,539**	401,184	337,679
Loans from shareholders	**2,764,042**	2,394,108	2,677,916
Long-term trade payables	**11,690**	49,322	18,766
Employee benefits	**6,325**	6,822	6,171
Total non-current liabilities	**4,212,827**	4,013,786	4,161,338
Total liabilities	**5,019,577**	4,746,465	4,931,976
Capital deficit			
Share capital	**29**	29	29
Share premium	**85,557**	85,557	85,557
Options	**48,219**	48,219	48,219
Capital reserves	**1,537,271**	1,537,271	1,537,271
Capital reserve for share-based payments	**10,280**	9,689	10,280
Accumulated deficit	**(5,395,500)**	(5,175,319)	(5,331,638)
Total capital deficit	**(3,714,144)**	(3,494,554)	(3,650,282)
Total liabilities and equity	**1,305,433**	1,251,911	1,281,694

David Efrati	Ron Eilon	Mickey Naiman
(Authorized to sign as chairman of the board)	CEO	CFO
(See Note 7)		

Date of approval of the financial statements: May 7, 2012

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

Condensed Interim Income Statements

	For the three months ended		For the year ended
	March 31, 2012	March 31, 2011	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues	**416,704**	405,550	1,618,809
Cost of revenues	**272,237**	271,899	1,028,168
Gross profit	**144,467**	133,651	590,641
Selling and marketing expenses	**53,507**	40,059	152,737
General and administrative expenses	**39,355**	32,222	143,036
Operating profit	**51,605**	61,370	294,868
Financing expenses	**31,729**	44,928	168,991
Financing income	**(2,589)**	(3,972)	(23,163)
Financing expenses for shareholder loans	**86,127**	93,721	377,529
Financing expenses, net	**115,267**	134,677	523,357
Loss before income tax	**(63,662)**	(73,307)	(228,489)
Income tax	**200**	71	1,128
Loss for the period	**(63,862)**	(73,378)	(229,617)
Basic and diluted loss per share (in NIS)	**2,136**	2,454	7,681

The attached notes are an integral part of these condensed interim financial statements

Condensed Interim Statements of Comprehensive Income

	For the three months ended		For the year ended
	March 31, 2012	March 31, 2011	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Loss for the period	**(63,862)**	(73,378)	(229,617)
Other items of comprehensive income:			
Actuarial losses from a defined benefit plan	-	-	(80)
Other comprehensive profit (loss) for the period	-	-	(80)
Total comprehensive loss for the period	**(63,862)**	(73,378)	(229,697)

The attached notes are an integral part of these condensed interim financial statements

Condensed Interim Statements of Changes in Equity as at March 31, 2012

	Share capital	Share premium	Option warrants	Capital reserve	Capital reserve for share-based payments	Accrued deficit	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Three months ended March 31, 2012 (Unaudited)							
Balance as at January 1, 2012 (Audited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,331,638)**	**(3,650,282)**
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	**(63,862)**	**(63,862)**
Other comprehensive loss for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	**(63,862)**	**(63,862)**
Balance as at March 31, 2012 (Unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,395,500)**	**(3,714,144)**
Three months ended March 31, 2011 (Unaudited)							
Balance as at January 1, 2011 (Audited)	29	85,557	48,219	1,537,271	9,391	(5,101,941)	(3,421,474)
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	(73,378)	(73,378)
Other comprehensive loss for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(73,378)	(73,378)
Transactions with owners recognized directly in equity							
Share-based payments	-	-	-	-	298	-	298
Balance as at March 31, 2011 (Unaudited)	29	85,557	48,219	1,537,271	9,689	(5,175,319)	(3,494,554)

Condensed Interim Statements of Changes in Equity (Contd.)

	Share capital	Share premium	Option warrants	Capital reserve	Capital reserve for share-based payments	Accrued deficit	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Year ended December 31, 2011(Audited)							
Balance as at Jan 1, 2011 (Audited)	29	85,557	48,219	1,537,271	9,391	(5,101,941)	(3,421,474)
Total comprehensive income for the year							
Loss for the year	-	-	-	-	-	(229,617)	(229,617)
Other comprehensive loss for the year	-	-	-	-	-	(80)	(80)
Total comprehensive loss for the year	-	-	-	-	-	(229,697)	(229,697)
Transactions with owners recognized directly in equity							
Share-based payments	-	-	-	-	889	-	889
Balance as at December 31, 2011 (Audited)	29	85,557	48,219	1,537,271	10,280	(5,331,638)	(3,650,282)

The attached notes are an integral part of these condensed interim financial statements

Condensed Interim Statements of Cash Flow

	For the three months ended		For the year ended
	March 31, 2012	March 31, 2011	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Loss for the period	**(63,862)**	(73,378)	(229,617)
Adjustments:			
Depreciation and amortization	**65,842**	68,593	276,393
Financing expenses, net	**120,351**	140,951	519,716
Profit from sale of property, plant and equipment	**(56)**	(50)	(515)
Share-based payments	**-**	298	889
Income tax expenses	**200**	71	1,128
Change in trade receivables	**(7,075)**	5,547	9,251
Change in other accounts receivable	**2,337**	(636)	3,130
Increase in trade payables and service providers	**19,095**	14,716	32,457
Decrease in other payables and provisions	**(6,295)**	(10,387)	(71,868)
Increase in broadcasting rights, net of rights exercised	**(14,540)**	(4,441)	(26,082)
Change in employee benefits	**154**	126	(605)
	180,013	214,788	743,894
Income tax paid	**(200)**	(71)	(1,128)
Net cash from operating activities	**115,951**	141,339	513,149
Cash flows from investment activities			
Proceeds from the sale of property, plant and equipment	**109**	129	747
Acquisition of property, plant and equipment	**(48,463)**	(57,453)	(207,741)
Payments for software and licenses	**(7,914)**	(3,813)	(32,181)
Payments for subscriber acquisition	**-**	(9,850)	(24,414)
Net cash used in investment activities	**(56,268)**	(70,987)	(263,589)

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

Condensed Interim Statements of Cash Flow (Contd.)

	For the three months ended		For the year ended
	March 31, 2012	March 31, 2011	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Repayment of bank loans	**(14,953)**	(72,426)	(97,277)
Repayment of debenture principal	-	-	(57,271)
Short-term bank credit, net	**(442)**	(81,948)	(85,294)
Payment for financing lease obligation	**(334)**	-	(768)
Interest paid	**(35,013)**	(35,878)	(114,178)
Issue of debentures, net	-	119,900	118,553
Net cash used for financing activities	**(50,742)**	(70,352)	(236,235)
Change in cash and cash equivalents	**8,941**	-	13,325
Cash and cash equivalents at the beginning of the period	**13,325**	-	-
Cash and cash equivalents at the end of the period	**22,266**	-	13,325

The attached notes are an integral part of these condensed interim financial statements

NOTE 1 –REPORTING ENTITY

DBS Satellite Services (1998) Ltd. (hereinafter-“the Company”) was incorporated in Israel on December 2, 1998. The Company’s head offices are located at 6 Hayozma St., Kfar Saba, Israel.

In January 1999, the Company received a license from the Ministry of Communications for satellite television broadcasts (“the License”). The License is valid until January 2017 and may be extended for an additional period of six years under certain conditions. The Company's operations are subject, inter alia, to the Communications Law (Telecommunications and Broadcasts), 1982 (“the Communications Law”) and the regulations and rules promulgated thereunder and to the license terms.

Pursuant to its license, "Bezeq" The Israel Telecommunication Corporation Limited (“Bezeq”) is required to maintain full structural separation between it and its subsidiaries, and between it and the Company. Additionally, under the licenses of the Company and Bezeq, there are restrictions on the joint marketing of services (service bundles).

In August 2009, the Supreme Court accepted the Antitrust Commissioner’s appeal of the ruling of the Antitrust Tribunal approving the merger (as defined in the Antitrust Law, 1988) between the Company and Bezeq by exercising the options held by Bezeq into Company shares, subject to certain conditions, and ruled against the merger.

The Company believes that as a result of the development of competition between the telecommunications groups and the increasing importance of providing comprehensive communications services, if the restrictions on Bezeq’s control of the Company and on Bezeq’s cooperation with it remain intact, the adverse effect of these restrictions on the Company’s results is liable to increase.

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

The condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for the full annual financial statements. They should be read in conjunction with the financial statements for the year ended December 31, 2011 (“the annual statements”). In addition, these condensed interim financial statements have been prepared in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed interim financial statements were approved by the Company's Board of Directors on May 7, 2012.

B. Use of estimates and judgment

The preparation of the condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The judgment of management when applying the Company’s accounting policy and the principal assumptions used in assessments that involve uncertainty are consistent with those applied in the annual financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in these condensed interim financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2011, except as described below:

Recognition of actuarial gains or losses

The Company does not produce an updated actuarial assessment for measuring employee benefits in every interim reporting period unless there are significant changes during the interim period in the principal actuarial assumptions in a defined benefit plan: discount rate, expected return on plan assets, employee leave rate and the rate of future salary increases. As a result, actuarial gains or losses are not recognized in the reporting period.

NOTE 4 – FINANCIAL POSITION OF THE COMPANY

A. Since the beginning of its operations, the Company has accumulated substantial losses. The Company's losses in 2011 amounted to NIS 230 million and losses in the three months ended March 31, 2012 amounted to NIS 64 million. As a result of these losses, the Company's capital deficit and working capital deficit as at March 31, 2012 amounted to NIS 3,714 million and NIS 612 million, respectively.

B. 1. As at March 31, 2012, DBS is in compliance with the financial covenants under the financing agreements and the debentures.

2. The Company's management believes that the financial resources at its disposal will be sufficient for the Company’s operations for the coming year, based on the cash flow forecast approved by the Company’s Board of Directors. If additional resources are required to meet its operational requirements for the coming year, the Company will adapt its operations to preclude the need for additional resources beyond those available to it. In recent years the Company was required to raise external financial resources intended, inter alia, to expand its investments. At the reporting date, a significant increase in its investments will require an expansion of the financial resources at its disposal. In addition, see Note 6 – *Material events subsequent to the balance sheet date.*

NOTE 5 – CONTINGENT LIABILITIES

Legal claims

Legal claims have been filed against the Company or various legal proceedings are pending against it (in this section: “legal claims”).

In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, appropriate provisions have been included in the financial statements where provisions are required to cover the exposure resulting from such claims.

As at March 31, 2012, the exposure resulting from the legal claims filed against the Company in respect of various matters amounts NIS 755,509 thousand. These amounts and all the amounts of the claims in this note do not include interest and linkage.

Following is a description of the material legal claims against the Company as at March 31, 2012 classified by groups with similar characteristics.

NOTE 5 – CONTINGENT LIABILITIES (CONTD.)

A. **Employee claims**

During the normal course of business, employees and former employees filed collective and individual claims against the Company. Most of these claims are for alleged non-payment of salary components and delay in salary payment. As at March 31, 2012, these claims amounted to NIS 49,929 thousand. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 2,554 thousand where provisions are required to cover the exposure resulting from such claims.

B. **Customer claims**

During the normal course of business, the Company's customers filed claims against the Company. These are mainly motions for certification of class actions (and claims by virtue thereof) which are usually allegations of unlawful collection of money and harm to the services provided by the Company. As at March 31, 2012, these claims amounted to NIS 705,017 thousand. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 1,792 thousand where provisions are required to cover the exposure resulting from such claims.

After the balance sheet date a ruling was handed down to dismiss a claim and motion for certification as a class action in the sum of NIS 600 million. See Note 6 - Material events after the balance sheet date.

On March 14, 2012 a motion was filed in the Tel Aviv Jaffa District Court for certification of a class action against the Company, alleging interference with the reception of the Company's broadcasts and problems with the functioning of the Company's customer service setup between March 8 and 13, 2012 or thereabouts. The class action filed by the applicant amounts NIS 27,132. The Company's response to the applicant's motion is to be submitted by June 20, 2012. In the opinion of the Company's lawyers, at this preliminary stage it is impossible to assess the implications of the decision for the Company.

C. **Supplier and communication provider claims**

During the normal course of business, suppliers of goods and/or services to the Company filed various claims against the Company. As at March 31, 2012, these claims amounted to NIS 563,000. In the opinion of the Company's lawyers, financial resources will not be needed to dismiss these claims.

Contingencies

On March 15, 2012 the Company received a letter from counsel for AGICOA, an international organization which collects and distributes the payments of royalties to producers. According to AGICOA, the Company is infringing its rights to secondary broadcasts and so it needs to obtain a usage license and also pay for previous use otherwise AGICOA will institute legal proceedings. After receipt of the letter the Company made direct contact with AGICOA. At this preliminary stage when AGICOA's allegations have not yet been clarified it is impossible to assess the implications of this matter for the Company.

NOTE 6 – MATERIAL EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

A. In respect of a claim against the Company in connection with the omission of broadcasts which was included in Customer Claims and described in Note 31 C of the 2011 annual statements, on April 22, 2012 the Tel Aviv Jaffa District Court approved the dismissal of the claim and application to certify it as a class action, in the amount of NIS 600 million. This claim alleged inter alia that the Company had omitted broadcasts which it was is obligated to air under the terms of its basic package, it removed channels without approval, it failed to comply with its investment obligation and breached obligations regarding the broadcasting of advertisements, promos and marketing and commercial content.

B. In May 2012 a debenture was signed by the Company and a number of institutional entities ("the lenders") whereby the lenders would extend to the Company a loan of NIS 392 million ("the debenture"). The proceeds of the funds raised will be used for full repayment of the long-term credit granted to the Company by the banks.

In May 2012 S&P Maalot awarded the debenture a rating of ilA. This rating was determined as part of an overall rating set by S&P Maalot for the raising of debt of up to NIS 450 million par value as part of the debenture and as part of a possible expansion of the Company's debenture (Series B).

The loan granted under the debenture will be used to repay the principal in ten annual unequal instalments, where from 2013 – 2017 the payment of the principal will be 8% of the par value of the debentures and in each subsequent year the payment of the principal will be 12% of the par value of the debentures.

The debenture will bear annual interest of 6.4% payable in six-monthly instalments. The principal and interest of the loan will be linked to the CPI. Under the terms of the debenture, if the rating of the loan is downgraded to BBBil or its equivalent (the lower of the two) the annual interest will be increased by 0.5%, and for each additional notch the annual interest will increase by a further 0.25% throughout the period in which the downgraded rating remains in effect.

In addition, the debenture stipulated various events (similar to the events stipulated in Deed of Trust B, including a demand for immediate repayment (not initiated by the Company) of another series of debentures issued or which will be issued by the Company and/or of debts owed by the Company to a financial institution subject to the terms set out in the debenture). The occurrence of these events, subject to the extension periods set out in the debenture, creates a right to immediate repayment of the loan subject to the provisions of the debenture.

The debenture: (A) compliance with the total debt / EBITDA ratio – the ratio between the total debt (debts to the financial institutions listed in the debenture) at the end of the relevant quarter and the EBITDA of the Company in the 12-month period ending at the end of said quarter. The term "EBITDA" is defined – in relation to the period of any calculation – as the Company's total operating profit from ordinary operations (before financing expenses and taxes) plus depreciation and amortization, plus expenses which are included in the investments item of the Company's financial statements at December 31, 2010 (and whose classification was changed to expenses as a result of accounting policy or directives from an authority) plus provisions and extraordinary non-recurring expenses. Not exceeding the maximum ratio set out in the debenture where for a trial period up to the end of 2013 the ratio will be 5, for a review period up to the end of 2015 the ratio will be 4.65, and for a review period up to the end of 2016 the ratio will be 4.3. (B) compliance with the debt / E-C ratio (EBITDA less CAPEX as defined in the agreement) will not exceed the maximum debt / E-C ratio set out in the debenture where until December 31, 2015 the ratio will be 9.5 and from January 1, 2016 the ratio will be 7.8.

The debenture determined certain restrictions regarding the distribution of dividends and repayment of shareholder loans similar to the restrictions applicable to Deed of Trust B. The financial condition ratio is lower (negative) than that applicable to Deed of Trust B.

NOTE 6 – MATERIAL EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (CONTD.)

The debenture will be secured by charges similar to those created in favor of the holders of debentures (Series B). The lenders' collateral will be of first and equal rank (pari passu) to the collateral created by the Company in favor of the banks to secure the bank credit for the collateral of the holders of debentures (Series A), the collateral of the holders of debentures (Series B) and the collateral financing the additional secured entities, if any. According to the debenture the Company may take credit secured by assets which represent collateral for the lenders subject to compliance with the general financial covenant relating to the debt / EBITDA ratio and if a secured series of debentures is issued, subject to submission of a rating report that the loan rating at that time will not be downgraded as a result of the issuance of an additional series.

In the event that Bezeq provides a guarantee in favour of the lenders, and as long as the Company's rating does not fall below (ilAA-) or its equivalent in another rating company (the lower of the two), the collateral granted to the lenders will be abolished and a number of provisions relating to the terms governing funding secured by the Company, the financial conditions, certain grounds for immediate repayment and the restrictions on the distribution of dividends and repayment of shareholder loans will be abolished. If such a guarantee is provided (and with certain changes also in the event of a merger between the Company and between Bezeq) the annual interest rate of the loan will be reduced by a further 1% (in other words to 5.4%, but no lower than the yield of Bezeq's debenture 6 after an adjustment for the difference in duration, and in any event no lower than 6.4%). Interest additions for a fall in the loan rating, if any, will also be abolished.

Under the debenture, receipt of the loan is conditional upon the existence of conditions precedent relating to receipt of the approvals required by the organs of the Company which are qualified to enter into the debenture and upon receipt of consent from the banks. Until the existence of the conditions precedent and registration of the lenders' collateral the loan funds will be deposited in a trust. In the event that all the above-mentioned conditions precedent do not exist within 60 days from the date of signature of the debenture, the Company will repay the deposited loan funds to the lenders plus a commission and linkage differentials and interest for the period of the trust deposit.

For further details of debentures A and B, see Note 14 to the Company's annual financial statements as at December 31, 2011.

NOTE 7 – APPONTMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS FOR THE APPROVAL MEETING

As at the date of approval of the financial statements, the Company's Board of Directors does not have an incumbent chairman. Consequently, on May 7, 2012 the Company's Board of Directors authorized David Efrati, a director in the Company, to serve as chairman of the Board of Directors' meeting convened to approve the financial statements and to sign the Company's financial statements as at March 31, 2012.