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 2017

INTERNET GOLD-GOLDEN LINES LTD.
(Name of Registrant)

2 Dov Friedman Street, Ramat Gan 5250301, 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 attached exhibits pertain to the Registrant's indirect 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 as at March 31, 2017.

99.2 Directors' Report on the State of the Group's Affairs for the three month period ended March 31, 2017.

99.3 Update of Chapter A (Description of Group Operations) of the Periodic Report for 2016.

99.4 Company Separate Condensed Interim Financial Information as at March 31, 2017 (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 30, 2017

EXHIBIT INDEX

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

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99.2 Directors' Report on the State of the Group's Affairs for the three month period ended March 31, 2017.

99.3 Update of Chapter A (Description of Group Operations) of the Periodic Report for 2016.

99.4 Company Separate Condensed Interim Financial Information as at March 31, 2017 (Unaudited).

Part C:

Condensed Consolidated Interim Financial Statements
as at March 31, 2017 (Unaudited)

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
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
800068403

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, 2017 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 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 this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 0.9 % of the total consolidated assets as of March 31, 2017, and whose revenues constitute 0.9% of the total consolidated revenues for the three month period then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report 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 report of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was 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 report of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim 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 estimated, as set forth in Note 6.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 17, 2017

Condensed Consolidated Interim Statements of Financial Position

Assets	March 31, 2017* (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Cash and cash equivalents	**792**	1,221	648
Investments	**578**	556	586
Trade receivables	**1,976**	2,042	2,000
Other receivables	**332**	299	219
Inventory	**114**	123	106
Total current assets	**3,792**	4,241	3,559
Trade and other receivables	**595**	662	644
Broadcasting rights, net of rights exercised	**438**	456	432
Property, plant and equipment	**6,886**	6,902	6,876
Intangible assets	**2,986**	3,260	3,047
Deferred tax assets	**1,008**	1,105	1,007
Deferred expenses and non-current investments	**429***	407	382
Total non-current assets	**12,342**	12,792	12,388
Total assets	**16,134**	17,033	15,947

Condensed Consolidated Interim Statements of Financial Position (Contd.)

Liabilities and equity	March 31, 2017* (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Debentures, loans and borrowings	**1,594**	2,073	1,825
Trade and other payables	**1,705**	1,843	1,610
Current tax liabilities	**112**	622	104
Liability to Eurocom D.B.S. Ltd. related party	**6**	206	32
Employee benefits	**308**	380	315
Provisions	**81**	88	80
Total current liabilities	**3,806**	5,212	3,966
Loans and debentures	**9,109**	8,532	9,128
Employee benefits	**260**	238	258
Derivatives and other liabilities	**250**	262	244
Deferred tax liabilities	**103**	50	101
Provisions	**47**	46	47
Total non-current liabilities	**9,769**	9,128	9,778
Total liabilities	**13,575**	14,340	13,744
Total equity	**2,559**	2,693	2,203
Total liabilities and equity	**16,134**	17,033	15,947

Shaul Elovitch	**Stella Handler**	**Allon Raveh**
Chairman of the Board of Directors	CEO	CFO Bezeq Group

* See Note 3.2 for information about early adoption of IFRS 15, Revenue from Contracts with Customers.

Date of approval of the financial statements: May 17, 2017

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

Condensed Consolidated Interim Statements of Income

	Note	Three months ended March 31		Year ended December 31
		2017* (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Revenues	8	**2,453**	2,559	10,084
Costs of activity				
General and operating expenses	9	**959**	1,018	4,012
Salaries		**504**	513	2,012
Depreciation and amortization		**428**	449	1,739
Other operating expenses (income), net		**(4)**	5	-
Total operating expenses		**1,887**	1,985	7,763
Operating income		**566**	574	2,321
Financing expenses (income)				
Financing expenses		**126**	132	508
Financing income		**(25)**	(30)	(61)
Financing expenses, net		**101**	102	447
Profit after financing expenses, net		**465**	472	1,874
Share in losses of equity-accounted investees		**(2)**	(1)	(5)
Profit before income tax		**463**	471	1,869
Income tax		**113**	183	625
Profit for the period		**350**	288	1,244
Earnings per share (NIS)				
Basic and diluted earnings per share		**0.13**	0.1	0.45

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2017* (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Profit for the period	**350**	288	1,244
Items of other comprehensive income (loss) (net of tax)	**6**	(10)	(15)
Total comprehensive income for the period	**356**	278	1,229

* See Note 3.2 for information about early adoption of IFRS 15, Revenue from Contracts with Customers.

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital NIS million	Share premium NIS million	Capital reserve for employee options NIS million	Capital reserve for transactions between a corporation and a controlling shareholder NIS million	Other reserves NIS million	Deficit NIS million	Total NIS million
Three months ended March 31, 2017 (Unaudited)*							
Balance as at January 1, 2017	3,878	384	-	390	(88)	(2,361)	2,203
Profit for the period	**-**	**-**	**-**	**-**	**-**	**350**	**350**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**6**	**-**	**6**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**6**	**350**	**356**
Balance as at March 31, 2017	**3,878**	**384**	**-**	**390**	**(82)**	**(2,011)**	**2,559**
Three months ended March 31, 2016 (Unaudited)							
Balance as at January 1, 2016	3,874	368	16	390	(98)	(2,139)	2,411
Profit for the period	-	-	-	-	-	288	288
Other comprehensive loss for the period, net of tax	-	-	-	-	(10)	-	(10)
Total comprehensive income for the period	-	-	-	-	(10)	288	278
Transactions with shareholders recognized directly in equity							
Exercise of options for shares	4	16	(16)	-	-	-	4
Balance as at March 31, 2016	3,878	384	-	390	(108)	(1,851)	2,693
Year ended December 31, 2016 (Audited)							
Balance as at December 31, 2015	3,874	368	16	390	(98)	(2,139)	2,411
Income in 2016	-	-	-	-	-	1,244	1,244
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	10	(25)	(15)
Total comprehensive income for 2016	-	-	-	-	10	1,219	1,229
Transactions with shareholders recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(1,441)	(1,441)
Exercise of options for shares	4	16	(16)	-	-	-	4
Balance as at December 31, 2016	3,878	384	-	390	(88)	(2,361)	2,203

* See Note 3.2 for information about early adoption of IFRS 15, Revenue from Contracts with Customers.

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2017*	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**350**	288	1,244
Adjustments:			
Depreciation and amortization	**428**	449	1,739
Share in losses of equity-accounted investees	**2**	1	5
Financing expenses, net	**110**	113	474
Capital gain, net	**(6)**	(11)	(107)
Income tax expenses	**113**	183	625
Change in trade and other receivables	**(7)**	(12)	106
Change in inventory	**(20)**	(9)	(20)
Change in trade and other payables	**(24)**	39	(24)
Change in provisions	**1**	(12)	(19)
Change in employee benefits	**(6)**	1	(65)
Change in other liabilities	**(9)**	(3)	23
Net income tax paid	**(106)**	(105)	(455)
Net cash from operating activities	**826**	922	3,526
Cash flow used for investing activities			
Purchase of property, plant and equipment	**(277)**	(294)	(1,193)
Investment in intangible assets and deferred expenses	**(103)**	(51)	(223)
Proceeds from the sale of financial assets held for trading and others	**4**	196	1,088
Proceeds from the sale of property, plant and equipment	**10**	42	138
Miscellaneous	**(7)**	(16)	1
Tax payment for shareholder loans	**-**	-	(461)
Acquisition of financial assets held for trading and others	**-**	-	(917)
Net cash used for investing activities	**(373)**	(123)	(1,567)
Cash flows used in financing activities			
Repayment of debentures and loans	**(224)**	(50)	(1,841)
Issue of debentures	**-**	-	2,161
Dividends paid	**-**	-	(1,441)
Interest paid	**(22)**	(32)	(458)
Payment to Eurocom DBS for acquisition of shares and DBS loan	**(61)**	(58)	(256)
Miscellaneous	**(2)**	7	(31)
Net cash used for financing activities	**(309)**	(133)	(1,866)
Increase in cash and cash equivalents, net	**144**	666	93
Cash and cash equivalents at beginning of period	**648**	555	555
Cash and cash equivalents at end of period	**792**	1,221	648

* See Note 3.2 for information about early adoption of IFRS 15, Revenue from Contracts with Customers.

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

1. General

Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company include those of the Company and its subsidiaries (together referred to as "the Group"). The Group is a principal provider of communication services in Israel (see also Note 11 – Segment Reporting).

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, 2016 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 17, 2017.

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 these estimates.

The judgements made by management when applying the Group's accounting policy and the principal assumptions underlying assessments that involve uncertainty, are consistent with those used in the Annual Financial Statements, other than as set out in Note 3 below regarding early application of IFRS 15.

3. Reporting Principles and Accounting Policy

3.1 The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except as described in section 3.2 below.

3.2 Initial application of new standards

3.2.1 As from January 1, 2017, the Group has early adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), which sets out guidelines for recognition of revenue.

IFRS 15 replaces IAS 18, Revenue and presents a new model for recognition of revenue from contracts with customers. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount:

A. Identifying the contract with the customer.
B. Identifying separate performance obligations in the contract.
C. Determining the transaction price.
D. Allocating the transaction price to separate performance obligations.
E. Recognizing revenue when the performance obligations are satisfied.

In accordance with the model, the Group recognizes revenue when the customer gains control over the goods or services. Revenue is measured at the fair value of the consideration that the Group expects to receive for the transfer of the goods or services promised to the customer. Revenue is recognized when it is expected that the economic benefits will flow to the Group and if the revenues and costs can be measured reliably.

Application of the model did not have a material effect on the measurement of the Group's revenue in the reporting period, compared to the provisions of the previous standard.

The main effect of the Group's application of IFRS 15 is the accounting treatment for the incremental costs of obtaining a contract with a customer ("Subscriber Acquisition"), which, in accordance with IFRS 15, are recognized as an asset when the costs are attributed directly to a contract that the Group can specifically identify, they produce or improve the Group's resources that will be used for its future performance obligation and it is probable that the Group will recover these costs, and not only where there is an obligation of the customer to acquire services from the Company for a defined period.

Accordingly, direct commissions paid to agents and sales employees of the Group for sales and upgrades under agreements that do not include an obligation period for the customer, are recognized as an asset for obtaining a contract instead of an expense in the statement of income, since the Group expects to recover these costs under the contracts.

An asset for obtaining a contract is amortized in accordance with the expected average churn rate of subscribers based on the type of subscriber and the service received (mainly over 3-4 years).

Contract acquisition costs that would arise regardless of whether the contract was obtained are recognized as an expense when incurred.

3.2.2 The Group applied IFRS 15 using the cumulative effect approach without a restatement of comparative figures.

As part of initial implementation of IFRS 15, the Group has chosen to apply the expedients in the transitional provisions, according to which the cumulative effect approach is applied only for contracts not yet complete at the transition date and the accounting treatment for the contracts completed at the transition date will not be amended.

The contracts that are renewed every month and that may be cancelled by the customer at any time, without any penalty, are contracts that ended at the date of initial application of IFRS 15. Therefore, Subscriber Acquisition costs incurred prior to January 1, 2017 and recognized in the statement of income as an expense were not accounted for retroactively.

3.2.3 Implementation of the accounting policy described above requires management of the Group companies to exercise their discretion to estimate the expected service period and the anticipated subscriber churn rate. Changes in such estimates may result in a change in depreciation and amortization expenses and changes in the Subscriber Acquisition asset.

3.2.4 Other than the accounting treatment of Subscriber Acquisition costs, implementation of IFRS 15 had no other material effects on the financial statements. In addition, implementation of IFRS 15 had no effect on retained earnings as at the transition date.

3.2.5 The tables below summarize the effects on the condensed consolidated interim statement of financial position as at March 31, 2017 and on the condensed consolidated interim statements of income and cash flows for the three months then ended, assuming that the Group's previous policy regarding Subscriber Acquisition costs continued during that period.

Effect on the condensed consolidated interim statement of financial position as at March 31, 2017

	In accordance with the previous policy (Unaudited) NIS million	Change (Unaudited) NIS million	In accordance with IFRS 15 (Unaudited) NIS million
Net Subscriber Acquisition asset (stated as deferred expenses and non-current investments)	**5**	**36**	**41**
Equity	**2,532**	**27**	**2,559**

Effect on the consolidated interim statement of income for the three months ended March 31, 2017:

	In accordance with the previous policy (Unaudited) NIS million	Change (Unaudited) NIS million	In accordance with IFRS 15 (Unaudited) NIS million
General and operating expenses	**992**	**(33)**	**959**
Salaries	**512**	**(8)**	**504**
Depreciation and amortization expenses	**423**	**5**	**428**
Operating income	**530**	**36**	**566**
Profit after financing expenses	**429**	**36**	**465**
Profit before income tax	**427**	**36**	**463**
Income tax	**104**	**9**	**113**
Profit for the period	**323**	**27**	**350**

Effect on the consolidated interim statement of cash flow for the three months ended March 31, 2017:

	In accordance with the previous policy (Unaudited) NIS million	Change (Unaudited) NIS million	In accordance with IFRS 15 (Unaudited) NIS million
Net cash from operating activities	**785**	**41**	**826**
Net cash used for investing activities	**(332)**	**(41)**	**(373)**

4. <u>Group entities</u>

4.1 A detailed description of the Group entities appears in Note 11 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

4.2 DBS Satellite Services (1998) Ltd. ("DBS")

4.2.1 Further to Note 11.2.1 to the Annual Financial Statements regarding the additional consideration to be paid to Eurocom DBS based on the operating results of DBS in the three years as from the acquisition transaction, in March 2017 the Company paid the second advance payment of NIS 57 million (plus linkage differences) for the operating results of DBS in 2016.

4.2.2 Further to Note 17.2 to the Annual Financial Statements regarding the agreement of DBS for space segment capacity, Space Communications Ltd. ("Space") notified DBS that the Amos 2 satellite had reached the end of its commercial life and is no longer fit to make television broadcasts for DBS. Accordingly, as from March 31, 2017, DBS no longer uses the Amos 2 satellite and is currently using the Amos 3 and Amos 7 satellites.

On April 3, 2017, the general meeting of the Company's shareholders approved the Company's vote at the general meeting of DBS in favor of the agreement between DBS and Space, with an amendment/addition to the existing agreement between the parties dated November 4, 2013 for the lease of satellite segments in Space's satellites, as set out in Note 17.2 of the Annual Financial Statements, including the improvement and implementation of the agreement.

4.2.3 Following the conversion of the shareholders' loans and investment in the capital of DBS in 2016 by the Company, the equity of DBS as at March 31, 2017 and December 31, 2016 amounted to NIS 611 million and NIS 592 million, respectively. Notwithstanding the improved financial position of DBS, as at March 31, 2017, its working capital deficit amounts to NIS 477 million.

The management of DBS believes that the financial resources at its disposal, which include the deficit in working capital and receipt of loans from the Company, will be sufficient for the operations of DBS for the coming year.

5. Income tax

Further to Note 6.6.3 to the Annual Financial Statements, regarding the best-judgment assessment for 2011 received by the Company, the Company filed its objection against the position of the Tax Authority.

6. Contingent liabilities

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

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 75 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 (beyond these provisions) as at March 31, 2017 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 6.5 billion. There is also additional exposure of NIS 381 million for claims, the chances of which cannot yet be assessed

In addition, motions for certification of class actions have been filed against the Group companies, for which the Group has additional exposure beyond the aforesaid, since the exact amount of the claim is not stated in the claim.

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 updates subsequent to the reporting date, see section 6.2 below.

6.1 Following is a description of the Group's contingent liabilities as at March 31, 2017, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	44	4,299	370**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	11	2,005*	-
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Group in respect of various payments and recognition of various salary components as components for calculation of payments to Group employees, some of which have wide ramifications.	7	96	3
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the authorities (including property taxes).	7	12	-
Supplier and communication provider claims	Legal Claims for compensation for alleged damage as a result of the supply of the service and/or the product.	3	102	8
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	3	25	-
Total Legal Claims against the Company and subsidiaries		75	6,539	381

* Total exposure of NIS 2 billion for a claim filed by a shareholder against the Company and officers in the Company, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (according to the method of calculating the damage to be determined).

** There is exposure of an additional amount for a claim in which the amount of the claim is unclear.

6.2 Subsequent to the reporting date, claims amounting to NIS 1.19 billion were filed against Group companies, and a claim without a monetary estimate. At the approval date of the financial statements, the chances of these claims cannot yet be assessed. In addition, claims with exposure of NIS 353 million came to an end.

7. Equity

7.1 Below are details of the Company's equity:

Registered			Issued and paid up		
March 31, 2017 (Unaudited) Number of shares	March 31, 2016 (Unaudited) Number of shares	December 31, 2016 (Audited) Number of shares	March 31, 2017 (Unaudited) Number of shares	March 31, 2016 (Unaudited) Number of shares	December 31, 2016 (Audited) Number of shares
2,825,000,000	2,825,000,000	2,825,000,000	**2,765,472,386**	2,765,425,752	2,765,472,386

7.2 On May 9, 2017, the general meeting of the Company's shareholders approved the recommendation of the Company's Board of Directors of March 29, 2017 to distribute a cash dividend of NIS 578 million to the Company's shareholders. The dividend will be paid on May 29, 2017.

8. Revenues

	Three months ended March 31		Year ended December 31
	2017 (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Domestic fixed-line communication (Bezeq Fixed-Line)			
Fixed-line telephony	**350**	374	1,450
Internet - infrastructure	**396**	386	1,558
Transmission and data communication	**202**	212	843
Other services	**55**	59	213
	1,003	1,031	4,064
Cellular telephony - Pelephone			
Cellular services and terminal equipment	**425**	444	1,777
Sale of terminal equipment	**191**	216	811
	616	660	2,588
Multichannel television - DBS	**424**	439	1,745
International communications, ISP, and NEP services - Bezeq International	**358**	377	1,480
Other	**52**	52	207
	2,453	2,559	10,084

9. General and operating expenses

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	(Unaudited) NIS million	(Unaudited) NIS million	(Audited) NIS million
Terminal equipment and materials	**202**	216	831
Interconnectivity and payments to domestic and international operators	**196**	212	825
Maintenance of buildings and sites	**147**	154	605
Marketing and general	**144***	177	697
Content costs	**161**	154	629
Services and maintenance by sub-contractors	**67**	63	261
Vehicle maintenance	**42**	42	164
	959	1,018	4,012

* See Note 3.2 for information about early implementation of IFRS 15, Revenue from Contracts with Customers.

10. Financial instruments

10.1 Fair value

10.1.1 Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 29.8 to the Annual Financial Statements.

	March 31, 2017		March 31, 2016		December 31, 2016	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited) NIS million		(Unaudited) NIS million		(Audited) NIS million	
Loans from banks and institutions (unlinked)	**2,825**	**2,962**	1,883	2,018	2,947	3,089
Debentures issued to the public (CPI-linked)	**3,487**	**3,682**	3,828	4,071	3,473	3,656
Debentures issued to the public (unlinked)	**1,607**	**1,626**	1,296	1,353	1,592	1,602
Debentures issued to financial institutions (CPI-linked)	**832**	**875**	1,293	1,306	830	879
Debentures issued to financial institutions (unlinked)	**410**	**444**	410	463	403	440
	9,161	**9,589**	8,710	9,211	9,245	9,666

10.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to estimate the fair value are described in Note 29.7 to the Annual Financial Statements.

	March 31, 2017 (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Level 1: investment in exchange-traded funds and financial funds	**27**	46	31
Level 2: forward contracts	**(182)**	(216)	(170)
Level 2: future credit from banks	**-**	(21)	-
Level 3: contingent consideration for a business combination	**(84)**	(235)	(84)

11. Segment Reporting

11.1 Operating segments

	Three months ended March 31, 2017 (Unaudited)						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multichannel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,003	616	358	424	52	-	2,453
Inter-segment revenues	75	12	26	-	4	(117)	-
Total revenues	1,078	628	384	424	56	(117)	2,453
Depreciation and amortization	180	94	33	70	4	47	428
Segment results – operating income (loss)	513	5	49	52	(6)	(47)	566
Financing expenses	97	1	3	36	-	(11)	126
Financing income	(5)	(15)	(1)	(9)	-	5	(25)
Total financing expenses (income), net	92	(14)	2	27	-	(6)	101
Segment profit (loss) after financing expenses, net	421	19	47	25	(6)	(41)	465
Share in losses of associates	-	-	-	-	2	-	2
Segment profit (loss) before income tax	421	19	47	25	(8)	(41)	463
Income tax	102	3	11	6	-	(9)	113
Segment results – net profit (loss)	319	16	36	19	(8)	(32)	350

	Three months ended March 31, 2016 (Unaudited)						
	Domestic fixed-line communication NIS million	Cellular communications NIS million	International communications and internet services NIS million	Multichannel television NIS million	Other NIS million	Adjustments NIS million	Consolidated NIS million
Revenues from external sources	1,032	660	377	438	49	-	2,556
Inter-segment revenues	80	11	18	1	5	(112)	3
Total revenues	1,112	671	395	439	54	(112)	2,559
Depreciation and amortization	183	104	33	76	5	48	449
Segment results – operating income (loss)	536	1	37	57	(9)	(48)	574
Financing expenses	109	-	4	143	1	(125)	132
Financing income	(8)	(12)	(2)	(16)	(5)	13	(30)
Total financing expenses (income), net	101	(12)	2	127	(4)	(112)	102
Segment profit (loss) after financing expenses, net	435	13	35	(70)	(5)	64	472
Share in losses of associates	-	-	-	-	(1)	-	(1)
Segment profit (loss) before income tax	435	13	35	(70)	(6)	64	471
Income tax	107	-	9	1	-	66	183
Segment results – net profit (loss)	328	13	26	(71)	(6)	(2)	288

	Year ended December 31, 2016 (Audited)						
	Domestic fixed-line communication NIS million	Cellular communications NIS million	International communications and internet services NIS million	Multichannel television NIS million	Other NIS million	Adjustments NIS million	Consolidated NIS million
Revenues from external sources	4,063	2,587	1,478	1,745	198	-	10,071
Inter-segment revenues	320	43	70	-	20	(440)	13
Total revenues	4,383	2,630	1,548	1,745	218	(440)	10,084
Depreciation and amortization	717	380	137	296	16	193	1,739
Segment results – operating income (loss)	2,076	32	176	264	(34)	(193)	2,321
Financing expenses	475	6	15	539	2	(529)	508
Financing income	(30)	(52)	(5)	(13)	(4)	43	(61)
Total financing expenses (income), net	445	(46)	10	526	(2)	(486)	447
Segment profit (loss) after financing expenses, net	1,631	78	166	(262)	(32)	293	1,874
Share in losses of associates	-	-	1	-	(5)	(1)	(5)
Segment profit (loss) before income tax	1,631	78	167	(262)	(37)	292	1,869
Income tax	399	17	42	(330)	-	497	625
Segment results – net profit (loss)	1,232	61	125	68	(37)	(205)	1,244

11.2 Adjustment of profit or loss for reporting segments

	Three months ended March 31		Year ended December 31,
	2017	**2016**	**2016**
	(Unaudited) NIS million	**(Unaudited) NIS million**	**(Audited) NIS million**
Operating income for reporting segments	**619**	631	2,548
Financing expenses, net	**(101)**	(102)	(447)
Amortization of surplus cost for intangible assets	**(47)**	(46)	(193)
Share in losses of associates	**(2)**	(1)	(5)
Loss for operations classified in other categories and other adjustments	**(6)**	(11)	(34)
Consolidated profit before income tax	**463**	471	1,869

12. Condensed Financial Statements of Pelephone, Bezeq International, and DBS

12.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	March 31, 2017 (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Current assets	**1,315**	1,541	1,275
Non-current assets	**1,999**	1,793	2,019
Total assets	**3,314**	3,334	3,294
Current liabilities	**471**	563	465
Long-term liabilities	**102**	68	104
Total liabilities	**573**	631	569
Capital	**2,741**	2,703	2,725
Total liabilities and equity	**3,314**	3,334	3,294

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2017 (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Revenues from services	**435**	455	1,818
Revenues from sales of terminal equipment	**193**	216	812
Total revenues from services and sales	**628**	671	2,630
Cost of services and sales	**553**	579	2,248
Gross profit	**75**	92	382
Selling and marketing expenses	**48**	66	260
General and administrative expenses	**22**	25	89
Other operating expenses	**-**	-	1
	70	91	350
Operating income	**5**	1	32
Financing expenses	**1**	-	6
Financing income	**(15)**	(12)	(52)
Financing income, net	**(14)**	(12)	(46)
Profit before income tax	**19**	13	78
Income tax	**3**	-	17
Profit for the period	**16**	13	61

12.2 Bezeq International Ltd.

Selected data from the statement of financial position

	March 31, 2017 (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Current assets	**498**	529	497
Non-current assets	**700**	724	691
Total assets	**1,198**	1,253	1,188
Current liabilities	**341**	379	280
Long-term liabilities	**78**	104	100
Total liabilities	**419**	483	380
Capital	**779**	770	808
Total liabilities and equity	**1,198**	1,253	1,188

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2017 (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Revenues from services	**384**	395	1,548
Operating expenses	**258**	258	1,015
Gross profit	**126**	137	533
Selling and marketing expenses	**48**	57	221
General and administrative expenses	**29**	29	118
Other expenses (income), net	**-**	14	18
	77	100	357
Operating income	**49**	37	176
Financing expenses	**3**	4	15
Financing income	**(1)**	(2)	(5)
Financing expenses (income), net	**2**	2	10
Share in the profits of equity-accounted investees	**-**	-	1
Profit before income tax	**47**	35	167
Income tax	**11**	9	42
Profit for the period	**36**	26	125

12.3 D.B.S. Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	March 31, 2017 (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Current assets	**421**	382	440
Non-current assets	**1,572**	1,345	1,586
Total assets	**1,993**	1,727	2,026
Current liabilities	**898**	941	950
Long-term liabilities	**484**	880	484
Loans from shareholders	**-**	4,995	-
Total liabilities	**1,382**	6,816	1,434
Capital (capital deficit)	**611**	(5,089)	592
Total liabilities and equity	**1,993**	1,727	2,026

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2017 (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Revenue from services	**424**	439	1,745
Operating expenses	**315**	321	1,261
Gross profit	**109**	118	484
Selling and marketing expenses	**35**	38	128
General and administrative expenses	**22**	23	92
	57	61	220
Operating income	**52**	57	264
Financing expenses	**36**	35	71
Financing expenses for shareholder loans, net	**-**	108	468
Financing income	**(9)**	(16)	(13)
Financing expenses, net	**27**	127	526
Profit (loss) before income tax	**25**	(70)	(262)
Income tax expenses (revenue)	**6**	1	(330)
Profit (loss) for the period	**19**	(71)	68

13. Subsequent events

13.1 See Note 4.2.2 above for information about the approval of the general meeting of the Company's shareholders on April 3, 2017 for the agreement between DBS and Space with the amendment/addition to the agreement for space segment capacity.

13.2 In accordance with the decisions of the Company's Board of Directors as at May 4, 2017 and May 17, 2017, the Company is assessing the option of a public offering of debentures by way of expansion of one or more series of the Company's marketable debentures in accordance with the Company's shelf prospectus of May 2014. This includes a public offering of Debentures (Series 9) by way of expansion of the series and the option of granting the holders of Debentures (Series B) of DBS, which are traded on the TACT-Institutional system of the TASE ("the DBS Debentures") the option of purchasing the Company's Debentures (Series 6 and/or Series 10) that are traded on the TASE instead of their DBS debentures.

13.3 See Note 7.2 above for information about the approval of the general meeting of May 9, 2017 for the distribution of a cash dividend to the Company's shareholders.

Chapter B -

Board of Directors' Report on the State of the Company's Affairs for the Period Ended March 31, 2017

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.

Board of Directors' Report on the State of the Company's Affairs for the Period Ended March 31, 2017

We hereby present the Board of Directors' report on the state of affairs of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the three months ended March 31, 2017 ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2016 is also available to the reader.

In its financial statements, the Group reports on four main operating segments:

1. Domestic Fixed-Line Communications

2. Cellular Communications

3. International Communications, Internet and NEP Services

4. Multi-Channel Television

It is noted that the Company's financial statements also include an "Others" segment, which comprises mainly online content and commerce services (through "Walla") and contracted call center services (through "Bezeq Online"). The "Others" segment is immaterial at the Group level.

	1-3.2017	1-3.2016	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%
Profit	**350**	288	62	21.5
EBITDA (operating profit before depreciation and amortization)	**994**	1,023	(29)	(2.8)

Year-on-year, profit was up during the Quarter following a reduction in taxes on income, as compared to an increase in the same period last year. The reduction was due to the effects of lower corporate tax rates on deferred tax assets. Operating profit was similar to the prior year period, despite changes in its composition as detailed below.

1. The Board of Directors' explanations on the state of the Company's affairs, the results of its operations, equity, cash flows, and additional matters

1.1 Financial position

	Mar. 31, 2017	Mar. 31, 2016	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Cash and current investments	**1,370**	1,777	(407)	(22.9)	The decrease was reported across all Group segments. For more information, see Section 1.3 - Cash Flows, below.
Current and non-current trade and other receivables	**2,903**	3,003	(100)	(3.3)	The decrease was mainly due to a reduction in trade receivables in the Cellular Communications segment, due to lower revenues from services and handset sales.
Inventory	**114**	123	(9)	(7.3)	
Broadcasting rights	**438**	456	(18)	(3.9)	
Property, plant and equipment	**6,886**	6,902	(16)	(0.2)	
Intangible assets	**2,986**	3,260	(274)	(8.4)	The decrease was mainly due to write-downs of excess acquisition costs attributed to intangible assets upon assuming control of DBS, and a decrease in investment (net of depreciation) in the Cellular Communications segment.
Deferred tax assets	**1,008**	1,105	(97)	(8.8)	Tax assets were reduced, mainly due to the reduction in the corporate tax rate starting 2017.
Deferred costs and non-current investments	**429**	407	22	5.4	The increase was due to early adoption of IFRS 15 - Revenue from Contracts with Customers, whereby distributor fees are recognized as subscriber acquisition assets. See Note 3.2 to the financial statements.
Total assets	**16,134**	17,033	(899)	(5.3)	

1.1. Financial Position (Contd.)

	Mar. 31, 2017	Mar. 31, 2016	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**10,703**	10,605	98	0.9	
Trade and other payables	**1,705**	1,843	(138)	(7.5)	The decrease was reported across all Group segments.
Current and deferred tax liabilities	**215**	672	(457)	(68.0)	The Company paid a total of NIS 461 million in the third quarter of 2016, following an agreement between the Company and the tax authorities
Liability towards Eurocom D.B.S. Ltd.	**6**	206	(200)	(97.1)	Payments to Eurocom D.B.S Ltd. for the purchase of DBS's loans and shares.
Other liabilities	**946**	1,014	(68)	(6.7)	The decrease was mainly due to employee benefit liabilities in the Domestic Fixed-Line Communications segment.
Total liabilities	**13,575**	14,340	(765)	(5.3)	
Total equity	**2,559**	2,693	(134)	(5.0)	Equity comprises 15.9% of the balance sheet total, as compared to 15.8% of the balance sheet total on March 31, 2016.

1.2 Results of operations

1.2.1 Highlights

	1-3.2017	1-3.2016	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**2,453**	2,559	(106)	(4.1)	Revenues were down across all Group segments.
Depreciation and amortization expenses	**428**	449	(21)	(4.7)	The decrease was mainly attributable to the Cellular Communications and Multi-Channel Television segments.
Salary expenses	**504**	513	(9)	(1.8)	
General and operating expenses	**959**	1,018	(59)	(5.8)	The decrease was reported across all Group segments, mainly the Cellular Communications segment. The decrease was affected, among other things, by early adoption of IFRS 15 - Revenue from Contracts with Customers, whereby distributor fees are recognized as subscriber acquisition assets. See Note 3.2 to the financial statements.
Other operating expenses (income), net	**(4)**	5	(9)	-	
Operating profit	**566**	574	(8)	(1.4)	
Finance expenses, net	**101**	102	(1)	(1.0)	
Share in losses of investees	**2**	1	1	100	
Income tax	**113**	183	(70)	(38.3)	Taxes were down mainly due to a reduction in the tax asset and recognition of NIS 64 million in deferred tax expenses in the prior year period, following a reduction in the corporate tax rate.
Profit for the period	**350**	288	62	21.5	

1.2.2 Operating segments

A. Revenue and operating profit data, presented by the Group's operating segments:

	1-3.2017		1-3.2016	
	NIS millions	% of total revenues	NIS millions	% of total revenues
Revenues by operating segment				
Domestic Fixed-Line Communications	**1,078**	**43.9**	1,112	43.5
Cellular Communications	**628**	**25.6**	671	26.2
International Communications, Internet and NEP Services	**384**	**15.7**	395	15.4
Multi-Channel Television	**424**	**17.3**	439	17.2
Other and offsets	**(61)**	**(2.5)**	(58)	(2.3)
Total	**2,453**	**100**	2,559	100

	1-3.2017		1-3.2016	
	NIS millions	% of total revenues	NIS millions	% of total revenues
Operating profit by segment				
Domestic Fixed-Line Communications	**513**	**47.6**	536	48.2
Cellular Communications	**5**	**0.8**	1	0.1
International Communications, Internet and NEP Services	**49**	**12.8**	37	9.4
Multi-Channel Television	**52**	**12.3**	57	13.0
Other and offsets	**(53)**	**-**	(57)	-
Consolidated operating profit/ % of Group revenues	**566**	**23.1**	574	22.4

1.2.2. Operating segments

B. Domestic Fixed-Line Communications Segment

	1-3.2017	1-3.2016	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Fixed-line telephony	**361**	384	(23)	(6.0)	The decrease was due to lower average revenue per phone line and a decrease in the number of lines.
Internet - infrastructure	**409**	394	15	3.8	The increase was mainly due to growth in the number of Internet subscribers through the wholesale service, offset by a decline in the number of retail Internet subscribers.
Transmission, data communications and others	**308**	334	(26)	(7.8)	The decrease was mainly due to lower transmission revenues from telecom operators.
Total revenues	**1,078**	1,112	(34)	(3.1)	
Depreciation and amortization	**180**	183	(3)	(1.6)	
Salaries	**224**	230	(6)	(2.6)	
General and operating expenses	**165**	172	(7)	(4.1)	The decrease was mainly due to a reduction in distributor fee costs, recognized as an asset following early adoption of IFRS 15, and a reduction in interconnect fees to telecom operators.
Other operating income, net	**4**	9	(5)	(55.6)	
Operating profit	**513**	536	(23)	(4.3)	
Finance expenses, net	**92**	101	(9)	(8.9)	Net finance expenses were down due to finance expenses on the fair value of future long-term bank credit which were included in the prior year quarter. The decrease was partially offset, among other things, by higher interest costs on loans.
Income tax	**102**	107	(5)	(4.7)	The decrease was due to a reduction in profit after financing expenses, and a reduction in the corporate tax rate from 25% to 24% beginning 2017.
Segment profit	**319**	328	(9)	(2.7)	

1.2.2. Operating segments

C. Cellular Communications segment

	1-3.2017	1-3.2016	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Services	**435**	455	(20)	(4.4)	The decrease was due to market competition driving down rates and migration of existing customers to cheaper plans offering greater data bandwidth at current market prices.
Equipment sales	**193**	216	(23)	(10.6)	The decrease was due to a change in the sales mix, reflected in lower sales volumes of high-end cellular devices and more sales of lower-end cellular devices. Sales of accessories, electronic products and non-cellular multimedia products were also up.
Total revenues	**628**	671	(43)	(6.4)	
Depreciation and amortization	**94**	104	(10)	(9.6)	Expenses were down mainly due to CDMA network assets and additional assets having been fully written off. The decrease was partially offset by first-time recognition of depreciation expenses on subscriber acquisition assets.
Salaries	**98**	96	2	2.1	
General and operating expenses	**431**	470	(39)	(8.3)	The decrease was mainly due to a reduction in handset sales costs following a change in the sales mix as aforesaid. The decrease was further affected by early adoption of IFRS 15 and lower engineering costs. The decrease was partially offset by higher call completion fees.
Operating profit	**5**	1	4	-	
Finance income, net	**14**	12	2	16.7	
Income tax	**3**	-	3	-	
Segment profit	**16**	13	3	23.1	

1.2.2 Operating segments

D. International Communications, Internet and NEP Services

	1-3.2017	1-3.2016	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**384**	395	(11)	(2.8)	The decrease was due to decreased revenues from transferring calls between global operators (hubbing) and lower revenues from international calls due to a decrease in call minutes driven by continued competition with cellular operators and increasing use of substitute calling products. The decrease was partially offset by revenues from PBX sales and equipment for telecom solutions for businesses.
Depreciation and amortization	**33**	33	-	-	
Salaries	**84**	83	1	1.2	
General and operating expenses	**218**	228	(10)	(4.4)	The decrease was due to a reduction in expenses from transferring calls between global operators (hubbing) and expenses from international calls, coupled with lower fee payments on subscriber recruitment which were recognized as an asset following the early adoption of IFRS 15. The decrease was partially offset by higher internet service expenses and costs from the sale of PBXs and equipment for telecom solutions for business, corresponding to revenues as aforesaid.
Other operating expenses	**-**	14	(14)	(100)	Expenses in the prior year period were due to the signing of a collective agreement.
Operating profit	**49**	37	12	32.4	
Finance expenses, net	**2**	2	-	-	
Tax expenses	**11**	9	2	22.2	
Segment profit	**36**	26	10	38.5	

1.2.2 Operating segments

E. Multi-Channel Television

	1-3.2017	1-3.2016	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**424**	439	(15)	(3.4)	The decrease was mainly due to a decrease in the average number of subscribers.
Depreciation and amortization	**70**	76	(6)	(7.9)	The decrease was mainly due to a reduction in investments.
Salaries	**59**	61	(2)	(3.3)	
General and operating expenses	**243**	245	(2)	(0.8)	
Operating profit	**52**	57	(5)	(8.8)	
Finance expenses, net	**27**	19	8	42.1	Net expenses were up, mainly due to a change in the fair value of financial assets.
Finance expenses for shareholder loans, net	**-**	108	(108)	(100)	No finance expenses were recognized in the present Quarter, following conversion of the shareholder loans to equity in the third quarter of 2016.
Taxes on income	**6**	1	5	-	
Segment profit (loss)	**19**	(71)	90	-	

1.3 Cash flow

	1-3.2017	1-3.2016	Change		
	NIS millions	NIS millions	NIS millions	%	Explanation
Net cash from operating activities	**826**	922	(96)	(10.4)	Net cash from operating activities was down due to Multi-Channel Television and Cellular Communications operations, partially offset by an increase in net cash in Domestic Fixed-Line Communications operations due to changes in working capital.
Net cash used in investing activities	**(373)**	(123)	(250)	203.3	Net cash used in investing activities was up, mainly due to lower proceeds on the sale of held-for-trading financial assets, and increased investment in subscriber acquisition assets (see Note 3.2.5 to the financial statements).
Net cash used in financing activities	**(309)**	(133)	(176)	132.3	Net cash used in financing activities was due to loan repayments in the Domestic Fixed-Line Communications segment.
Increase in cash	**144**	666	(522)	(78.4)	

Average volume in the reported Quarter:

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 10,828 million.

Supplier credit: NIS 888 million.

Short-term credit to customers: NIS 1,988 million. Long-term credit to customers: NIS 438 million.

1.3. Cash Flows (contd.)

As of March 31, 2017, the Group had a working capital deficit of NIS 14 million, as compared to a working capital deficit of NIS 971 million on March 31, 2016.

According to its separate financial statements, the Company had a working capital deficit of NIS 560 million as of March 31, 2017, as compared to a working capital deficit of NIS 1,577 million on March 31, 2016.

This reduction in the Group's working capital was mainly due to a decrease in the Company's current liabilities, including a decrease in liabilities to financial institutions and debenture-holders, tax liabilities, and liabilities to Eurocom D.B.S. Ltd.

The Company's Board of Directors has reviewed, among other things, the Company's cash requirements and resources, both at present and in the foreseeable future, has reviewed the Company's and the Group's investment needs, the Company's and the Group's available credit sources, and has conducted sensitivity analysis to unexpected deterioration in the Company and the Group's business. In this context, the Company's Board of Directors has determined that the aforesaid working capital deficit does not indicate any liquidity problem in the Company and the Group and that there is no reasonable concern that the Company and the Group will fail to meet their existing and foreseeable obligations on time (even in the event of unexpected deterioration in the Company's and the Group's business). The Company and the Group can meet their existing and foreseeable cash requirements, both through available cash balances, through cash from operating activities, through liquid resources from subsidiaries, through guaranteed credit facilities in 2017 under pre-determined commercial terms, and by raising debt from bank and non-bank sources.

The above information includes forward-looking information, based on the Company's assessments concerning its liquidity. Actual data may differ materially from these assessments if there is a change in any of the factors taken into account in making them.

2. Disclosure Concerning the Company's Financial Reporting

2.1 Disclosure on the early adoption of IFRS 15 - Revenues from Contracts with Customers

Following publication of IFRS 15 - Revenues from Contracts with Customers ("the Standard"), the Company reviewed the Standard's possible impact on its financial statements, including by consultation with its auditing accountants and additional consultants. This review was conducted across all Group companies. As a result, the Company decided on the early adoption of the Standard, starting from the Company's financial statements as of March 31, 2017.

For information concerning the Standard's guidelines, its application, and adjustments to the Group's financial statements following the Standard's first-time application, see Note 3.2 to the financial statements.

Actions taken by the Group in preparation for adopting the Standard, and measures for reducing risk of errors in its financial statements:

1. The Group studied the possible impact of the Standard on its financial statements. This process included a review of the Standard's provisions, a review of professional information issued by international accounting firms and by the International Accounting Standards Board (IASB), and internal discussions with Group companies. Meetings were also held with the auditing accountants and additional accounting consultants. These meetings included a thorough discussion of issues raised by the Standard's application, and a review of its impact on the Group's companies. Each company documented the relevant issues and their impact on the financial statements.

2. The Group studied the Israel Securities Authorities' response to a pre-ruling request on the early adoption of the Standard, and Accounting Staff Position 11-4 - Disclosure on the Effects of Applying IFRS 15.

3. The Group has reviewed the necessary adjustments to the Group's information systems supporting the Standard's application.

4. The Group has studied its internal controls and adaptations needed to achieve effective control over proper first-time application of the Standard, in particular concerning the plausibility of significant judgments and estimates made in such application.

2.2 Due to legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

3. Details of debt certificate series

3.1 According to the Company's Board of Directors' decisions of May 4, 2017, and May 17, 2017, the Company is considering a possible public issue of debentures, effected as an expansion of an existing series and offering the holders of DBS Debentres (Series B) to buy Company debentures in lieu of their debenture-holdings.

For more information, see Note 13.2 to the financial statements.

3.2 Debentures (Series 6-10) are rated Aa2.il Stable by Midroog Ltd. ("Midroog") and ilAA/Stable by Standard & Poor's Maalot Ltd. ("Maalot").

For current and historical ratings data for the debentures, see the Company's immediate report of June 2, 2016 (ref. no. 2016-01-043158) its immediate report of July 12, 2016 (ref. no. 2016-01-080467), its immediate report of April 18, 2016 (ref. no. 2016-01-050395) (Midroog) and April 24, 2017 (ref. no. 2017-01-034792) (Maalot).

The rating reports are included in this Board of Directors' Report by way of reference.

4. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of March 31, 2017, see the Company's reporting form on the MAGNA system, dated May 18, 2017.

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

Shaul Elovitch Chairman of the Board	Stella Handler CEO

Signed: May 17, 2017

Exhibit 99.3

May 17, 2017

“Bezeq” - The Israel Telecommunication Corp. Ltd.

Quarterly report for period ended March 31, 2017

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2016

Directors’ Report on the State of the Company’s Affairs for the period ended March 31, 2017

Interim Financial Statements as at March 31, 2017

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2016

The information contained in this report constitutes a translation of the 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 2016 ("Periodic Report")
of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")

1. General development of the Group's business

Section 1.4 - Dividend distribution

For information about a dividend distribution in the amount of NIS 578 million in respect of profits from the second half of 2016 that was approved by a general meeting of the Company's shareholders on May 9, 2017, but has not yet been distributed, see Note 7 to the Company's Financials for the period ended March 31, 2017.

Outstanding, distributable profits at the report date - NIS 350 million (surpluses accumulated over the last two years, after subtracting previous distributions), not including the NIS 578 million noted above.

[1] The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 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 2013 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

Section 1.5.4 - Main results and operational data[2]

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

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenues (NIS million)	1,078	1,082	1,089	1,100	1,112
Operating profit (NIS million)	513	481	519	540	536
Depreciation and amortization (NIS million)	180	161	188	185	183
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	693	642	707	725	719
Net profit (NIS million)	319	235	343	326	328
Cash flow from current activities (NIS million)	600	482	526	517	539
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	210	205	207	227	195
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	10	15	22	54	41
Free cash flow (NIS million) (2)	400	292	341	344	385
Number of active subscriber lines at the end of the period (in thousands)(3)	2,100	2,119	2,137	2,151	2,167
Average monthly revenue per line (NIS) (ARPL)(4)	57	56	58	58	59
Number of outgoing minutes (in millions)	1,180	1,139	1,297	1,257	1,316
Number of incoming minutes (in millions)	1,281	1,252	1,383	1,314	1,348
Number of active subscriber lines at the end of the period (in thousands) (7)	1,580	1,558	1,539	1,521	1,503
Of which the number of active subscriber lines at the end of the period - retail (in thousands) (7)	414	377	347	323	290
Average monthly revenue per Internet subscriber (NIS) - retail	91	90	89	90	91
Average bundle speed per Internet subscriber - retail (Mbps)(5)	45.1	43.2	41.8	40.2	38.9
Churn rate (6)	2.8%	2.4%	2.6%	2.4%	2.9%

(1) EBITDA (Earnings before income taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies.

(2) Free cash flow is a financial index which is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important liquidity index that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.

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

(4) Excluding revenues from transmission services and data communication, internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period.

(5) For bundles with a range of speeds, the maximum speed per bundle is taken into account.

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period.

(7) Number of active Internet lines including retail and wholesale lines. Retail - Internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.

[2] On the initial application of IFRS 15 - *Revenue from Contracts with Customers*, from January 1, 2017, see Note 3.2 to the Company's Financial Statements for the period ended March 31, 2017.

B. Pelephone

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue from services (NIS million)	435	439	468	456	455
Revenue from sale of terminal equipment (NIS million)	193	213	181	202	216
Total revenue (NIS million)	628	652	649	658	671
Operating profit (NIS million)	5	(4)	27	8	1
Depreciation and amortization (NIS million)	94	89	92	95	104
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	99	85	119	103	105
Net profit (NIS million)	16	3	32	13	13
Cash flow from current activities (NIS million)	117	65	152	180	185
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	73	63	64	63	51
Free cash flow (NIS million) (1)	44	2	88	117	134
Number of subscribers at the end of the period (thousands) (2) (5)	2,430	2,402	2,348	2,260	2,692
Average monthly revenue per subscriber (NIS) (ARPU) (3)(6)	60	62	68	68	57
Churn rate (4)	7.9%	6.3%	6.1%	6.2%	5.2%

(1) Regarding the definition of EBITDA (earnings before income taxes, depreciation and amortization) and free cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network) and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, performed no surfing activity on his phone or has not paid for Pelephone services. It is noted that a customer may have more than one subscriber number ("line").

(3) Average monthly revenue per subscriber. The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period.

(4) The churn rate is calculated as the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period.

(5) Regarding the write off of CDMA subscribers, see Section 3.4 in the Description of Company Operations in the 2016 Financials ("Section 3.4"). In Q2 2016, Pelephone wrote off 499,000 CDMA subscribers, as noted in Section 3.4.

(6) The effect of writing off the CDMA subscribers, as noted in Section 3.4, led to an increase of NIS 10 in Pelephone's ARPU in Q1 2017 and an average of NIS 12 in the second and third quarters of 2016. The effect of writing off the subscribers on ARPU for the year 2016 was NIS 9.

C. Bezeq International

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenues (NIS million)	384	392	384	377	395
Operating profit (NIS million)	49	47	45	47	37
Depreciation and amortization (NIS million)	33	34	35	35	33
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	82	81	80	82	70
Net profit (NIS million)	36	33	33	33	26
Cash flow from current activities (NIS million)	52	86	65	69	49
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)(2)	29	25	24	33	37
Free cash flow (NIS million) (1)	23	61	41	36	12
Churn rate (3)	5.3%	5.2%	5.5%	4.5%	5.2%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.
(2) The item also includes long term investments in assets.
(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 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenues (NIS million)	424	438	434	434	439
Operating profit (NIS million)	52	68	62	77	57
Depreciation and amortization (NIS million)	70	71	75	74	76
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	122	139	137	151	133
Net profit (loss) (NIS million)	19	395	(142)	(114)	(71)
Cash flow from current activities (NIS million)	51	207	154	110	158
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	60	41	50	58	59
Free cash flow (NIS million) (1)	(9)	166	104	52	99
Number of subscribers (at the end of the period, in thousands) (2)	608	614	618	623	629
Average monthly revenue per subscriber (ARPU) (NIS)(3)	232	237	233	231	231
Churn rate (4)	4.3%	3.6%	4.5%	3.6%	4.2%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.
(2) Subscriber - a single household or small business customer. In the case of a business customer with multiple reception points or a large number of decoders (such as a hotel, kibbutz, 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. The number of subscribers was corrected retrospectively due to an insignificant change in the counting of subscribers among large customers.
(3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by the average number of customers. The average monthly revenue was corrected retrospectively due to an insignificant change in the counting of subscribers among large customers.
(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period.

2. Bezeq ("the Company") - Domestic Fixed-Line Communications

Section 2.9.5 - Officers and senior management in the Company

On the approval of an amended compensation policy for the Company – on April 5, 2017, a special general meeting of the Company's shareholders approved the amendments to the compensation policy according to the text attached as an addendum to the Report on Call for a General Meeting that was included in the 2016 Financials by way of reference.

Section 2.11 – Working capital

For information about the Company's working capital, see Section 1.3 in the Directors Report.

At March 31, 2017, the Company has a working capital deficit of NIS 560 million (this figure refers to the Company's separate financial statements. In the Company's consolidated financial statements as at March 31, 2017, there is a working capital deficit in the amount of NIS 14 million).

Section 2.13 - Financing

In accordance with decisions of the Board of Directors on May 4, 2017 and May 17, 2017, the Company is reviewing the possibility of issuing debentures to the public by way of an expansion of one or more series of the Company's marketable debentures, based on a shelf prospectus of the Company from May 2014. This includes reviewing a public offering of Series 9 debentures of the Company by way of an expansion of the series as well the possibility of allowing the holders of Series B debentures of DBS, which are traded on the TASE's TACT (Tel Aviv Continuous Trading) System (DBS debentures) to purchase debentures from Series 6 and/or 10 which are traded on the Tel Aviv Stock Exchange Ltd, in exchange for the DBS debentures that they own. On this matter, see also the Company's immediate report published on the date of publication of these reports concerning a review of the issuance of marketable debentures.

Section 2.13.6 - Credit rating

On April 24, 2017, Standard & Poor's Maalot Ltd. affirmed a rating of ilAA/Stable for the Company and its debentures (Series 6-10) and for Pelephone and DBS, as detailed in the full rating report published in an Immediate Report issued by the Company on April 24, 2017, which is included here by way of reference.

On this matter, see also Section 3 of the Directors Report.

Section 2.14 - Taxation

For information about taxation, see Note 5 to the Company's Financial Statements for the period ended March 31, 2017.

Section 2.18 – Legal proceedings

Pending proceedings - subsection (E) - on a claim and motion for its certification as a class action relating to a campaign by the Company to upgrade the internet surfing speed - on April 3, 2017, a ruling was handed down on this action certifying the plaintiff's application to abandon the motion to certify the claim as a class action and dismissing the plaintiff's personal claim, and this after, in its response, the Company drew attention to advertisements in which it had specified the exclusions to the campaign.

Pending proceedings - subsection (H) - on two motions for the certification of class actions claiming that the Company charges a monthly payment, unlawfully and without consent, for support and/or liability services as part of using its internet infrastructure, and a court ruling from March 26, 2017 to strike out the later motion in view of the similarity between the two motions - on May 14, 2017, the Company received notice of an appeal (that was filed in the Supreme Court on May 4, 2017) by the applicant in the later motion asking to strike out the earlier motion and continue the hearing in the later motion.

Legal proceedings that ended in the Reporting Period or by the date of publication of the report - subsection (B) - regarding a Supreme Court ruling which dismissed two appeals on a ruling of the Tel Aviv District Court (Economic Department) which dismissed two (consolidated) motions to certify derivative actions concerning the distribution of dividends and loans of the Company - on April 6, 2017, the Company received a copy of a petition to hold another hearing on the case that was filed by one of the appellants.

On April 19, 2017, the Company received (by email and not by means of due service of process) class action certification motion which was filed with the Tel Aviv District Court against the Company and against its subsidiary, Walla! Communications Ltd., Yad2 and an advertising company owned by Walla (hereinafter collectively, the "Respondents"). The motion pertains to the Company's B144 service, which enables businesses to advertise on the Internet (the "Service"). According to the petitioner, the Respondents charged subscribers to the Service unlawful charges. The petitioner estimates the class action amount at NIS 1.11 billion (based on an estimate of 300,000 customers and compensation of NIS 3,700 per customer). Notably, on May 7, 2017, the Company received another claim together with a class action certification motion (which was filed in the Tel Aviv District Court) the subject of which is similar to this claim and alleging that unlawful amounts had been charged for the Company's B144 service. According to the information in the motion, the amount of the class action cannot be estimated.

3. <u>Pelephone - Mobile radio-telephone (cellular telephony)</u>

Section 3.1 - General information about the area of operations

Section 3.1.5.1 - on April 20, 2017, permission was received from the Ministry of Communications to operate the LTE Advanced technology (LTEA).

Section 3.2 - Services and Products

Section 3.2.2 - in April 2017, the Finance Minister announced an economic plan that includes, inter alia, the elimination of import duties and purchase taxes. As part of this plan, the Finance Ministry decided to abolish purchase tax on imported cellular devices, which had been 15% of the value of the device.

Section 3.7 - Property, plant and equipment

Section 3.7.1.1 - in April 2017, Pelephone received approval to close down the CDMA network on July 30, 2017, or earlier with the Ministry's approval.

Section 3.8 - Intangible assets

Section 3.8.2 - in April 2017, Pelephone received a temporary allocation of 5 mega bandwidth on the 1800 Mhz spectrum. This allocation is for a limited period and it will expire at the end of 2019 or earlier, as decided by the Ministry of Communications.

Section 3.9 – Human resources

Sections 3.9.2 and 3.9.5 - on April 27, 2017, a new collective labor agreement was signed by Pelephone and the New General Federation of Workers ("the Histadrut") and Pelephone's workers' committee, replacing the collective agreement that expired on December 31, 2016. The main points of this agreement are:

1. The agreement applies retroactively from January 1, 2017 and up to December 31, 2019. After this date, the agreement will be extended automatically for 18-month periods, unless one of the parties gives notice that it wishes to change it.

2. The inclusion of mechanisms which include the Committee in decisions concerning the termination of permanent employees, the implementation of disciplinary measures against them and restructuring of the organization, while allowing for administrative flexibility which would make it possible to operate in a competitive and dynamic market.

3. The determination of quotas for streamlining-related dismissals and annual salary increments, various financial benefits and annual bonuses based on Pelephone's business results to be given to employees during the term of the Agreement. The ongoing costs of the agreement are not materially different from the previous collective agreement.

4. The open labor dispute declarations are cancelled.

Section 3.16 – Legal proceedings

Section 3.16.1(H) - on a claim and class action certification motion against Pelephone which alleges that Pelephone opted customers to the Smart Call service (a service that blocks incoming calls from various call centers, including the call centers of Pelephone's competitors), without their consent or knowledge - on May 7, 2017, the court authorized the applicant to abandon the motion for certification of the class action against Pelephone and it dismissed his personal claim against Pelephone.

4. <u>Bezeq International – international communications, Internet and NEP services</u>

There are no updates to this chapter.

5. <u>DBS - Multi-channel television Satellite Services (1998) Ltd. ("DBS")</u>

Section 5.1 - General information about the area of operations

Section 5.1.2.6 - at the date of this report, the Knesset is discussing a government bill to amend the Communications Law. Among other things, the bill addresses issues that are similar to the must-sell regulations in the area of sports content that were also discussed by the Filber Committee, including the granting of a license for broadcasting a sports channel or a significant sports operator by their producers. At the date of the report, DBS is unable to estimate whether the aforementioned bill will be implemented in legislation and in what format, and it is also unable to estimate what effect it will have on DBS's business.

Section 5.15.1 - S&P Maalot ratings for DBS and its debentures

On the affirmation of an ilAA/Stable rating by Standard & Poor's Maalot Ltd. for DBS (as part of the affirmation of the rating for the Company), see the update to Section 2.13.6.

Section 5.16.1 - Space segment leasing agreement:

In April 2017, the Company's general meeting and the general meeting of Spacecom approved the engagement in the 2017 Agreement (see the Company's Immediate Report dated April 3, 2017, ref.: 2017-01-030040) which is included in this report by way of reference.

At the beginning of April 2017, the Amos 2 satellite reached the end of its commercial life and ceased providing services to DBS. At the date of this report, DBS uses the space segments on the Amos 3 and Amos 7 satellites.

May 17, 2017	
Date	Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Shaul Elovitch, Chairman of the Board of Directors

Stella Handler, CEO

Condensed Separate Interim Financial Information

At March 31, 2017

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
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
800068403

To:

The Shareholders of “Bezeq”- The Israel Telecommunication Corporation Ltd.

Subject: 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, 2017 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 based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 110 million as of March 31, 2017, and the loss from this investee company amounted to NIS 10 million for three-month period then ended. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report 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 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 report of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was 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 estimated, as set forth in Note 4.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 17, 2017

Condensed interim information of Financial Position

	March 31, 2017 * (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Assets			
Cash and cash equivalents	**274**	432	182
Investments	**551**	509	549
Trade receivables	**687**	708	698
Other receivables	**154**	140	72
Dividend receivable from investees	**65**	583	-
Loans granted to investees	**80**	278	78
Total current assets	**1,811**	2,650	1,579
Trade and other receivables	**181**	182	211
Property, plant and equipment	**4,912**	4,796	4,867
Intangible assets	**221**	246	229
Investment in investees	**7,046**	6,594	7,080
Loans granted to investees	**98**	450	120
Non-current and other investments	**124**	118	105
Total non-current assets	**12,582**	12,386	12,612
Total assets	**14,393**	15,036	14,191

Condensed Separate Interim Information of Financial Position (cont'd)

	March 31, 2017 * (Unaudited) NIS million	March 31, 2016 (Unaudited) NIS million	December 31, 2016 (Audited) NIS million
Liabilities			
Debentures, loans and borrowings	**1,181**	1,829	1,405
Loan from an investee	**105**	434	-
Trade and other payables	**681**	760	679
Current tax liabilities	**99**	622	96
Employee benefits	**249**	325	263
Liability to Eurocom DBS Ltd, an affiliate	**6**	206	32
Provisions (Note 4)	**50**	51	48
Total current liabilities	**2,371**	4,227	2,523
Loans and debentures	**8,615**	7,621	8,630
Loan from an investee	**325**	-	325
Employee benefits	**222**	200	220
Derivatives and other liabilities	**238**	252	231
Deferred tax liabilities	**63**	43	59
Total non-current liabilities	**9,463**	8,116	9,465
Total liabilities	**11,834**	12,343	11,988
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**308**	282	302
Deficit	**(2,011)**	(1,851)	(2,361)
Total equity	**2,559**	2,693	2,203
Total liabilities and equity	**14,393**	15,036	14,191

Shaul Elovitch	Stella Handler	Alon Raveh
Chairman of the Board of Directors	CEO	CFO of the Bezeq Group

* See Note 1.3 with regard to early adoption of IFRS 15 - Revenue from Customer Contracts

Date of approval of the financial statements: May 17, 2017

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

Condensed Separate Interim Information of Profit or Loss

	For the three months ended March 31		Year ended December 31
	2017*	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,078**	1,112	4,383
Costs of activity			
Salaries	**224**	230	898
Depreciation and amortization	**180**	183	717
Operating and general expenses (Note 3)	**165**	172	705
Other operating expenses, net	**(4)**	(9)	(13)
Cost of Activities	**565**	576	2,307
Operating profit	**513**	536	2,076
Financing expenses (income)			
Financing expenses	**97**	109	475
Financing income	**(5)**	(8)	(30)
Financing expenses, net	**92**	101	445
Profit after financing expenses, net	**421**	435	1,631
Share in profits (losses) of investees, net	**31**	(40)	12
Profit before income tax	**452**	395	1,643
Income tax	**102**	107	399
Profit for the period	**350**	288	1,244

Condensed Separate Interim Information of Comprehensive Income

	For the three months ended March 31		Year ended December 31
	2017*	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**350**	288	1,244
Other comprehensive income (loss) items for the period, net of tax	**6**	(10)	(15)
Total comprehensive income for the period	**356**	278	1,229

* See Note 1.3 with regard to early adoption of the IFRS 15 - Revenue from Customer Contracts

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

Condensed Separate Interim Information of Cash Flows

	For the three months ended March 31		Year ended December 31
	2017*	2016	2016
	(Unaudited) NIS million	(Unaudited) NIS million	(Audited) NIS million
Cash flows from operating activities			
Profit for the period	**350**	288	1,244
Adjustments:			
Depreciation and amortization	**180**	183	717
Share in earnings (losses) of investees, net	**(31)**	40	(12)
Financing expenses, net	**87**	103	445
Capital gain, net	**(5)**	(11)	(107)
Income tax expenses	**102**	107	399
Change in trade and other receivables	**15**	(55)	(51)
Change in trade and other payables	**33**	2	(54)
Change in provisions	**2**	(9)	(12)
Change in employee benefits	**(12)**	(8)	(72)
Miscellaneous	**-**	(2)	(15)
Net cash (used in) from operating activities due to transactions with subsidiaries	**(26)**	(7)	27
Net income tax paid	**(95)**	(92)	(445)
Net cash from operating activities	**600**	539	2,064
Cash flows from investment activities			
Investment in intangible assets and other investments	**(26)**	(16)	(76)
Proceeds from the sale of property, plant and equipment	**10**	41	132
Acquisition of financial assets held for trading and others	**-**	-	(905)
Proceeds from the sale of financial assets held for trading and others	**-**	138	1,003
Tax payment for shareholders' loans	**-**	-	(461)
Purchase of property, plant and equipment	**(184)**	(179)	(758)
Miscellaneous	**(7)**	(16)	2
Net cash from investment activities due to transactions with investees	**(106)**	(64)	148
Net cash used for investing activities	**(313)**	(96)	(915)
Cash flow from finance activities			
Issue of Debentures	**-**	-	2,161
Repayment of debentures and loans	**(224)**	(49)	(1,444)
Dividends paid	**-**	-	(1,441)
Payment to Eurocom DBS for acquisition of DBS shares and loans	**(61)**	(58)	(256)
Interest paid	**(15)**	(17)	(381)
Miscellaneous	**-**	3	(21)
Net cash (used in) from financing activities due to transactions with subsidiaries	**105**	-	305
Net cash used for financing activities	**(195)**	(121)	(1,077)
Net increase in cash and cash equivalents	**92**	322	72
Cash and cash equivalents at beginning of period	**182**	110	110
Cash and cash equivalents at the end of the period	**274**	432	182

* See Note 1.3 with regard to early adoption of the IFRS 15 - Revenue from Customer Contracts

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

Notes to the Condensed Separate Interim Financial Information

1. Manner of preparing financial information

1.1 Definitions

"The Company": Bezeq The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2016.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2016 and in conjunction with the condensed interim consolidated financial statements as at March 31, 2017 ("the Consolidated Financial Statements").

The accounting policies used in preparing this condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2016, other than that described in section 1.3 below.

1.3 First-time Application of Accounting Standards

Commencing January 1, 2017, the Group applies early adoption of International Financial Reporting Standard - Revenues from Customer Contracts ("IFRS 15"), which sets out guidelines with respect to recognition of revenue. IFRS 15 replaces IAS 18 - Revenues and presents a new model for recognition of revenues from contracts with customers.

For further information concerning the first-time adoption of IFRS 15 see Note 3.2 to the Consolidated Financial Statements.

The tables below present a breakdown of the effects on the condensed interim statement of financial position as at March 31, 2017 and on the condensed statement of income and interim statement of cash flows for the three-month period then ended, assuming that the Company's previous policy regarding subscriber acquisition costs will be continued during this period.

Effect on the condensed interim statement of financial position as at March 31, 2017:

	Per the previous policies (Unaudited) NIS million	Change (Unaudited) NIS million	Per IFRS 15 (Unaudited) NIS million
Subscriber acquisition asset, net (presented as part of non-current investments)	**5**	**5**	**10**
Equity	**2,555**	**4**	**2,559**

Effect on the interim statement of income for the three-month period ended March 31, 2017:

	Per the previous policies (Unaudited) NIS million	Change (Unaudited) NIS million	Per IFRS 15 (Unaudited) NIS million
General and operating expenses	**168**	**(3)**	**165**
Salaries	**226**	**(2)**	**224**
Depreciation and amortization costs	**180**	**-**	**180**
Operating profit	**508**	**5**	**513**
Profit after financing expenses	**416**	**5**	**421**
Profit before income tax	**447**	**5**	**452**
Income tax	**101**	**1**	**102**
Profit for the period	**346**	**4**	**350**

Effect on the interim statement of cash flows for the three-month period ended March 31, 2017:

	Per the previous policies (Unaudited) NIS million	Change (Unaudited) NIS million	Per IFRS 15 (Unaudited) NIS million
Net cash from operating activities	**595**	**5**	**600**
Net cash used for investing activities	**(308)**	**(5)**	**(313)**

2. Revenues

	For the three months ended March 31		Year ended December 31
	2017 (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Fixed-line telephony	**361**	384	1,490
Internet - infrastructure	**409**	394	1,597
Transmission and data communication	**252**	273	1,077
Other services	**56**	61	219
	1,078	1,112	4,383

3. Operating and general expenses

	For the three months ended March 31		Year ended December 31
	2017 (Unaudited) NIS million	2016 (Unaudited) NIS million	2016 (Audited) NIS million
Maintenance of buildings and sites	**47**	49	189
Marketing and general	**42**	43	195
Interconnectivity and payments to communications operators	**31**	34	130
Services and maintenance by sub-contractors	**17**	17	72
Vehicle maintenance	**18**	17	72
Terminal equipment and materials	**10**	12	47
	165	172	705

4. Contingent liabilities

During the normal course of business, legal claims were filed against the Company or there are various 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 these litigations, the financial statements include appropriate provisions in the amount of NIS 50 million, where provisions are required to cover the exposure arising from such litigation.

In the Management's opinion, the additional exposure (exceeding the foregoing provisions), as of March 31, 2017 due to legal claims filed against the Company on various matters, which are unlikely to be realized, amounts to a total of NIS 3.3 billion. This amount includes exposure of NIS 2 billion for a claim by shareholders against the Company and officers of the Company which the plaintiff estimates to be NIS 1.1 billion or NIS 2 billion (based on the method to be fixed of calculating the damages) In addition, the Company has further exposure in the amount of NIS 179* million for claims, the success of which cannot be assessed at this stage. The foregoing amounts are linked to the consumer price index and are before the addition of interest.

Furthermore, other claims have been filed against the Company as class actions with respect to which the Company has additional exposure beyond the aforesaid amounts, which cannot be quantified as the exact amounts of the claims are not stated in the claims.

Subsequent to the reporting date, claims amounting to NIS 1.1 billion were filed against the Company and against the subsidiary, Walla Communications Ltd., Yad 2 and an advertising company owned by Walla. Furthermore, another claim without a monetary estimate was filed with regard to a similar matter as this claim. At the date of approval of the financial statements, the chances of these claims succeeding cannot as yet be assessed. In addition, claims amounting to exposure of NIS 114 million were concluded.

* There is further exposure with respect to a lawsuit for which the amount of the claim is unclear.

For further information concerning contingent liabilities see Note 6 to the Consolidated Financial Statements.

5. Dividends from investees

5.1 On March 8, 2017, the board of directors of Bezeq International resolved to distribute a dividend to the Company in the amount of NIS 65 million in May 2017.

6. Events during the reporting period and subsequent events

6.1 On May 10, 2017, the Company provided Bezeq International with a loan in the amount of NIS 50 million, to be repaid in three equal annual installments from May 2018. The loan bears annual interest of 2.56%.

6.2 With regard to the Company's review of the option of issuing a public issue of debentures by way of a series expansion, see Note 13.2 to the Consolidated Financial Statements.