

## **BUSINESS NEWS**

FOR IMMEDIATE RELEASE

---

### ***012 Smile.Communications Reports Results for Q1 2008: EBITDA (Adjusted) Increases to NIS 62 million, Gross Margin to 33% and EBITDA Margin to 24%***

**PETACH TIKVA, Israel, May 13, 2008** – 012 Smile.Communications (NASDAQ Global Market and TASE: SMLC), a growth-oriented provider of communication services in Israel, today reported its financial results for the quarter ended March 31, 2008.

#### **Highlights**

- **Revenues: NIS 263 million (\$74 million): an increase of 10% in core services revenues compared with Q1 2007** after exclusion of revenues from hubbing services and the impact of the shekel-dollar exchange rate
- **Record EBITDA (adjusted): NIS 62 million (\$17.4 million), up 7% year-over-year**
- **Improved cash-flow from operations** : Operating cash-flow for the quarter reached NIS 47 million (\$13.2 million)
- **Continued strong margin improvement:** gross margin reached 33% compared with 29% in Q1 2007; adjusted EBITDA margin reached 24% compared with 21% in Q1 2007
- **VOB-based domestic telephony business growth in line with goals and business plan**
- **Mobile WiMAX trials to be expanded to the Tel Aviv area in Q3 '08 as part of strategy to enter the Israeli mobile market**

#### **Results for the First Quarter**

**Revenues:** Revenues for the first quarter of 2008 were NIS 263 million (\$74 million) compared with revenues of NIS 276 million for the first quarter of 2007. The decrease reflects a significant year-over-year decline in revenues from hubbing (wholesale traffic), services due to Management's decision in late 2007 to de-emphasize this low-margin business, and a 14% year-over-year decline in the average shekel-dollar exchange rate compared to the first quarter of 2007, which significantly reduced the shekel value of the Company's dollar-linked revenues, which account for 36% of the Company's sales. **Excluding these two factors, revenues from core activities increased by approximately 10% on a year-over-year basis.**

**Operating Income:** Operating Income for the first quarter increased by 1% to a record NIS 31 million (\$8.6 million). Operating margin for the quarter reached a record 12% compared with 11% in the first quarter of 2007. Excluding the effect of one-time merger-related expenses, operating income reached NIS 35 million (\$9.9 million), a 15% increase compared with the first quarter of 2007.

**Adjusted EBITDA<sup>(A)</sup>:** Adjusted EBITDA for the first quarter increased by 7% to a record NIS 62 million (\$17.4 million) compared with NIS 58 million for the first quarter of 2007. Adjusted EBITDA margin for the quarter reached a record 24% compared with 21% in the first quarter of 2007.

For more information regarding the use of non-GAAP financial measurements, please see the notes contained in this press release.

**Merger-Related Expenses:** One-time expenses related to the merger of 012 Golden Lines and Smile.Communications were NIS 4.8 million (\$1.4 million) in the first quarter of 2008 compared with NIS 0.5 million in the first quarter of 2007. The Company expects that final merger-related expenses of up to NIS 2 million (\$ 563,000 ) will be recorded in the second quarter of 2008.

**Financing Expenses:** For the first quarter of 2008 the Company incurred a relatively high level of non cash financing expenses. This derived from exchange rate differentials of NIS 18 million related to the effect of the quarter's 8% decrease in the shekel-dollar exchange rate (the rate on March 31, 2008 compared to rate on December 31, 2007) on the Company's dollar-denominated balances. For the first quarter of 2008, total financing expenses were NIS 22.6 million (\$6.4 million) compared with NIS 11.1 million in the first quarter of 2007.

**Net Results:** Net income for the first quarter of 2008 was NIS 5.7 million (\$1.6 million), or NIS 0.22 (\$0.06) per share compared to NIS 15.8 million, or NIS 0.86 per share, in the first quarter of 2007. Excluding one-time expenses related to the merger and the effect of the shekel-dollar exchange rate on financial expenses, the Company's non-GAAP earnings per share for the quarter were NIS 0.88 (\$0.25).

### **Segment Overview**

- **Broadband:** first quarter revenues from core broadband activities were NIS 129.7 million (\$36.5 million), an increase of 13% compared with NIS 114.9 million for the first quarter of 2007. The Company's rate of recruitment of new VOB-based telephony subscribers for the quarter was in line with its plan for achieving a 5% market share by the end of 2009.
- **Traditional telephony:** first quarter revenues from traditional telephony services were NIS 133.7 million (\$37.6 million), a decrease of 17% compared with NIS 161.2 million for the first quarter of 2007. The decrease derived from a reduced level of hubbing services and the decline in the average shekel-dollar exchange rate, as mentioned above.

**Balance Sheet:** The Company's cash, cash equivalents and short term investments as of March 31, 2008 were NIS 302 million (\$85.1 million), compared with NIS 41 million as of March 31, 2007. In addition, the Company's bank debt decreased by 80%, from NIS 312 million as of March 31, 2007 to NIS 61 million (\$17.2 million) as of the end of the first quarter of 2008.

### **Comments of Management**

Commenting on the results, Ms. Stella Handler, CEO of 012 Smile.Communications, said, "The first quarter was another period of strong performance across all operational parameters. One of our main activities during the quarter was the completion of the merger of our brands under the '012 Smile' brand, an important strategic step which was accompanied by a major media campaign. This campaign has succeeded in increasing the market's recognition and ToM (Top of Mind) of our brand, while also taking our VOB domestic telephony marketing to the next level. In addition, we are

expanding our Mobile WiMAX trials to the Tel Aviv area, a preliminary step in our strategy for entering Israel's mobile market. As we announced recently, we have applied for a license for facility-based MVNO, Mobile WiMAX and Mobile VOB technologies to enter the mobile business with a complete solution. In addition, we are proud to have successfully completed all the operational, financial and marketing aspects of our complex merger."

Ms. Handler concluded, "Taken as a whole, we are pleased with our performance during the first quarter and with the steady progress we have made in executing on our long-term plan for growth."

### **Conference Call Information**

Management will host an interactive teleconference to discuss the results today, May 13, 2008, at 09:00 a.m. EDT. To participate, please call one of the following access numbers several minutes before the call begins: 1-888-668-9141 from within the U.S. or 1866-485-2399 from within Canada, 0-800-32-33-67 from within the U.K., or +972 3 918-0691 from other international locations. The call will also be broadcast live through the company's Website, [www.012.net](http://www.012.net), and will be available there for replay during the next 30 days.

### **Non-GAAP Measurements**

Reconciliation between the Company's results on a GAAP and non-GAAP basis is provided in a table immediately following the Consolidated Statement of Operations (Non-GAAP Basis). Non-GAAP financial measures consist of GAAP financial measures adjusted to exclude amortization of acquired intangible assets, as well as certain business combination accounting entries. The purpose of such adjustments is to give an indication of our performance exclusive of non-cash charges and other items that are considered by management to be outside of our core operating results. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. We believe these non-GAAP financial measures provide consistent and comparable measures to help investors understand our current and future operating cash flow performance. These non-GAAP financial measures may differ materially from the non-GAAP financial measures used by other companies. Reconciliation between results on a GAAP and non-GAAP basis is provided in a table immediately following the Consolidated Statement of Operations.

### **Notes:**

#### **A: EBITDA**

EBITDA is a non-GAAP financial measure generally defined as earnings before interest, taxes, depreciation and amortization. We define adjusted EBITDA as net income before financial income (expenses), net, impairment and other charges, income tax expenses, depreciation and amortization.

We present adjusted EBITDA as a supplemental performance measure because we believe that it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structure (most particularly affecting our interest expense given our recently incurred significant debt), tax positions (such as the impact of changes in effective tax rates or net operating losses) and the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense). Adjusted EBITDA should not be considered in isolation or as a substitute for net income or other statement of operations or cash flow data prepared in accordance with GAAP as a measure of our profitability or liquidity. Adjusted EBITDA does not take into account our debt service requirements and other commitments, including capital expenditures, and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. In addition, adjusted EBITDA, as presented in this press release, may not be

comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated.

#### **B: Convenience Translation to Dollars**

For the convenience of the reader, the reported NIS figures of March 31, 2008 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of March 31, 2008 (NIS 3.553 = U.S. Dollar 1.00). The U.S. Dollar (\$) amounts presented should not be construed as representing amounts receivable or payable in U.S. Dollars or convertible into U.S. Dollars, unless otherwise indicated.

#### About 012 Smile.Communications

**012 Smile.Communications is a growth-oriented communication services provider in Israel with a leading market position, offering a wide range of broadband and traditional voice services. Its broadband services include broadband Internet access with a suite of value-added services, specialized data services and server hosting, as well as new innovative services such as local telephony via voice over broadband and a WiFi network of hotspots across Israel. Traditional voice services include outgoing and incoming international telephony, hubbing, roaming and signaling and calling card services. 012 Smile.Communications services residential and business customers, as well as Israeli cellular operators and international communication services providers through its integrated multipurpose network, which allows it to provide services to almost all of the homes and businesses in Israel.**

**012 Smile is a 72.4 % owned subsidiary of Internet Gold Golden Lines Ltd. (NASDAQ: IGLD) one of Israel's leading communications groups with a major presence across all Internet-related sectors. In addition to 012 Smile, its 100% owned Smile.Media subsidiary manages a growing portfolio of Internet portals and e-Commerce sites. Internet Gold and 012 Smile are part of the Eurocom Communications Group. 012 Smile's shares trade on the NASDAQ Global Market and on the Tel Aviv Stock Exchange.**

**For additional information about 012 Smile.Communications Ltd., please visit the Company's investors' site at <http://www.012.net>.**

.

#### Forward-Looking Statements

This press release contains forward-looking statements that are subject to risks and uncertainties. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, general business conditions in the industry, changes in the regulatory and legal compliance environments, the failure to manage growth and other risks detailed from time to time in 012 Smile.Communications' filings with the Securities Exchange Commission. These documents contain and identify other important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements. Stockholders and other readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statement.

For further information, please contact:

Ms. Idit Azulay

012 Smile.Communications Ltd

+972 72-2003848

[i.azulay@smile.net.il](mailto:i.azulay@smile.net.il)

**Consolidated Balance Sheets**

	March 31 2008 (Unaudited) NIS thousands	December 31 2007 (Unaudited)	Convenience translation into U.S. dollars \$1 = NIS 3.553 March 31 2008 (Unaudited) \$ thousands
<b>Current assets</b>			
Cash and cash equivalents	229,755	229,895	64,665
Short-term investments	72,687	-	20,458
Trade receivables, net	197,868	190,604	55,690
Parent company receivable	1,579	6,553	444
Related parties receivables	2,088	2,161	588
Prepaid expenses and other current assets	27,632	19,804	7,777
Deferred taxes	8,462	7,247	2,382
<b>Total current assets</b>	<b>540,071</b>	456,264	<b>152,004</b>
<b>Investments</b>			
Long-term trade receivables	3,150	3,460	887
Deferred taxes	12,700	14,648	3,574
Assets held for employee severance benefits	19,093	18,453	5,374
<b>Total investments</b>	<b>34,943</b>	36,561	<b>9,835</b>
<b>Property and equipment, net</b>	<b>166,176</b>	160,211	<b>46,771</b>
Other assets, net	289,436	295,592	81,462
Other intangible assets, net	195,440	202,376	55,007
Goodwill	411,171	411,171	115,725
<b>Total assets</b>	<b>1,637,237</b>	1,562,175	<b>460,804</b>

**Consolidated Balance Sheets (cont'd)**

	March 31	December 31	Convenience translation into U.S. dollars \$1 = NIS 3.553
	2008	2007	March 31
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS thousands		\$ thousands
<b>Current liabilities</b>			
Short-term bank credit	61,080	4,750	17,191
Current maturities of long-term obligations	80,634	3,558	22,695
Accounts payable	142,156	156,332	40,010
Loan from the parent company	107,216	105,733	30,176
Other payables and accrued expenses	128,249	102,096	36,096
	<u>519,335</u>	<u>372,469</u>	<u>146,168</u>
<b>Total current liabilities</b>			
<b>Long-term liabilities</b>			
Debentures	383,306	437,460	107,882
Long-term obligations	1,826	2,836	514
Long-term trade and other payables	-	20,458	-
Deferred taxes	40,430	41,526	11,379
Liability for employee severance benefits	31,550	32,318	8,880
	<u>457,112</u>	<u>534,598</u>	<u>128,655</u>
<b>Total long-term liabilities</b>			
<b>Total liabilities</b>	<u>976,447</u>	<u>907,067</u>	<u>274,823</u>
<b>Shareholders' equity and parent company investment</b>	<u>660,790</u>	<u>655,108</u>	<u>185,981</u>
<b>Total liabilities, shareholders' equity and parent company investment</b>	<u>1,637,237</u>	<u>1,562,175</u>	<u>460,804</u>

**Consolidated Statements of Operations**

	Three-month period ended March 31		Convenience translation into dollars \$1 = NIS 3.553
	2008	2007	Three-month period ended
	(Unaudited)	(Unaudited)	March 31
	NIS thousands	NIS thousands	\$ thousands
<b>Revenues</b>	<b>263,357</b>	276,053	<b>74,122</b>
<b>Costs and expenses</b>			
Cost of revenues	176,690	194,973	49,730
Selling and marketing expenses	38,516	37,689	10,840
General and administrative expenses	12,802	12,561	3,603
Impairment and other charges	4,802	463	1,352
<b>Total costs and expenses</b>	<b>232,810</b>	245,686	<b>65,525</b>
<b>Income from operations</b>	<b>30,547</b>	30,367	<b>8,597</b>
Financial expenses, net	22,587	11,120	6,357
<b>Income before tax expenses</b>	<b>7,960</b>	19,247	<b>2,240</b>
Tax expenses	2,278	3,488	641
<b>Net income</b>	<b>5,682</b>	15,759	<b>1,599</b>
<b>Income (loss) per share</b>			
Basic and diluted earnings per share (in NIS)	0.22	0.86	0.06
Weighted average number of ordinary shares used in calculation of basic and diluted earnings per share	25,360,000	18,370,000	25,360,000

**Reconciliation Table of Non-GAAP Measures (NIS in thousands)**

	Three-month period ended March 31		Convenience translation into dollars \$1 = NIS 3.553 Three-month period ended March 31
	2008 (Unaudited) NIS thousands	2007 (Unaudited)	2008 (Unaudited) \$ thousands
GAAP operating income	30,547		30,367 8,598
<u>Adjustments</u>			
Amortization of acquired intangible assets	6,820		7,985 1,919
Non-recurring expenses	4,802		463 1,352
Non-GAAP adjusted operating income	<u>42,169</u>		<u>38,815</u> <u>11,869</u>
GAAP tax expenses (benefit), net	2,278		3,488 641
<u>Adjustments</u>			
Amortization of acquired intangible assets Included in tax expenses, net	1,841		2,315 518
Non-GAAP tax expenses (benefit), net	<u>4,119</u>		<u>5,803</u> <u>1,159</u>
Net income as reported	5,682		15,759 1,599
Taxes on income	2,278		3,488 641
Non-recurring expenses	4,802		463 1,352
Financial expenses	22,587		11,120 6,357
Depreciation and amortization	26,543		27,033 7,471
Adjusted EBITDA	<u>61,892</u>		<u>57,863</u> <u>17,420</u>