

## BUSINESS NEWS

### **FOR IMMEDIATE RELEASE**

#### **012 Smile.Communications Reports Q2 2008 Results: Record Operating Income & Adjusted EBITDA, Up 22% & 11% YOY, Respectively**

**-- Broadband and Voice Services Continue To Generate Strong Revenues As Preparations Continue for Launch of Mobile MVNO & examining the feasibility of WiMAX technology -**

**PETACH TIKVA, Israel, August 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 three and six-month periods ended June 30, 2008.

#### **Highlights**

- **Strong revenues: NIS 264 million (\$79 million).** This represents an increase of 10% in core services revenues compared with Q2 2007 after exclusion of revenues from hubbing services and the impact of the shekel-dollar exchange rate
- **Record profits: EBITDA (adjusted) up 11% year-over-year to a record of NIS 63 million (\$18.7 million); Operating income up 22% year-over-year to a record of NIS 33 million (\$9.8 million)**
- **Continued strong margin improvement:** gross margin reached 33% compared with 30% in Q2 2007; adjusted EBITDA margin rose to 24% compared with 21% in Q2 2007; operating margin increased to 12% from 10% in Q2 2007
- **Strong Cash-Flow performance:** Operating cash-flow for the quarter was NIS 45 million (\$13.4 million)
- **On-track performance in VOB-based domestic telephony business:** continued growth in line with goals and business plan, achieving more than 75,000 subscriber lines to date
- **Progress towards entrance into the mobile market:** the Company applied for full MVNO commercial license, and continues examining the feasibility of WiMAX technology

#### **Results for the Second Quarter**

**Revenues:** Revenues for the second quarter of 2008 were NIS 264 million (\$79 million) compared with NIS 275 million for the second quarter of 2007. The decrease reflects management's decision in late 2007 to de-emphasize its low-margin hubbing services (wholesale traffic), resulting in a 47% year-over-year decline in this activity, and the continued decline in the average shekel-dollar exchange rate (a 19% decline in Q2 2008 average exchange rate compared with Q2 2007), which significantly reduced the shekel value of the Company's dollar-linked revenues (approximately 33% of the Company's total revenues). **Excluding these two factors, revenues from core activities increased by approximately 10% on a year-over-year basis.**

**Operating Income:** Operating Income for the second quarter increased by 22%, compared with the second quarter of 2007, to a record NIS 33 million (\$9.8 million). Excluding the effect of one-time merger-related expenses, operating income reached NIS 35 million (\$10.4 million), a 22% increase compared with the second quarter of 2007.

**Merger-Related Expenses:** During the second quarter, the Company recorded final one-time expenses related to the merger of 012 Golden Lines and Smile.Communications, in the amount of NIS 1.9 million (\$0.6 million). The accumulated amount of merger-related expenses is lower than the original budget for the process.

**Adjusted EBITDA:** Adjusted EBITDA for the second quarter increased by 11% to NIS 63 million (\$18.7 million) compared with NIS 57 million for the second quarter of 2007. Adjusted EBITDA margin for the quarter reached 24% compared with 21% in the second quarter of 2007. *For more information regarding the use of non-GAAP financial measurements, please see the notes contained in this press release.*

**Financing Expenses:** The Company incurred a high level of non-cash financing expenses again during the second quarter. This was mainly due to exchange rate differentials of NIS 14 million on the Company's dollar-denominated balances as a result of a 6% decline in the shekel-dollar exchange rate during the second quarter, and the quarter's 2.4% increase in the Israeli CPI to which the Company's bonds are linked. For the second quarter of 2008, financing expenses totaled NIS 25 million (\$7.4 million) compared with NIS 13 million in the second quarter of 2007.

**Net Results:** Net income for the second quarter of 2008 was NIS 5.6 million (\$1.7 million), or NIS 0.22 (\$0.07) per share, compared to NIS 5.4 million, or NIS 0.29 per share, in the second quarter of 2007. Excluding one-time expenses related to the merger, and the non-cash financial expenses described above, the Company's non-GAAP earnings for the second quarter of 2008 was NIS 22.4 million (\$ 6.7 million), or NIS 0.88 (\$0.26) per share.

## **Segment Overview**

- **Broadband:** second quarter revenues from core broadband activities were NIS 131.5 million (\$39.2 million), an increase of 15% compared with NIS 113.9 million in the second quarter of 2007, reaching 49.9% of the Company's total revenues (compared to 41% in the second 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. To date, the Company has accumulated over 75,000 subscriber lines.
- **Traditional telephony:** second quarter revenues from traditional telephony services were NIS 132.1 million (\$39.4 million), representing approximately 50% of the Company's revenues. This is a decrease of 9% compared with the second quarter of 2007, reflecting 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 June 30, 2008 were NIS 260 million (\$77.6 million), compared with NIS 47.9 million as of June 30, 2007 and NIS 230 million as of December 31, 2007. The Company has no bank debt as of June 30, 2008, compared to NIS 151 million at the end of the second quarter of 2007 and NIS 2 million as of December 31, 2007.

On July 14, 2008, the Company announced that Midroog Ltd., an Israeli financial rating company which is affiliated with Moody's, has reissued the A1 rating that it originally awarded to the Company's Series A debentures issued in 2007. Midroog concluded that the A1 rating would continue if the Company issues new debt of up to NIS 320 million (approximately \$95 million).

### **Comments of Management**

Commenting on the results, Ms. Stella Handler, CEO of 012 Smile.Communications, said, "We are pleased to report another quarter of strong revenues and record profits for 012 Smile.Communications. In line with our strategic plan, during the second quarter we continued to grow our core businesses, expand our VOB subscriber base and prepare for our entrance to the mobile market."

Ms. Handler continued, "We recorded our final merger-related expenses during the quarter, bringing the entire process to a close on schedule and under budget. In parallel, we continued to sign up new VOB subscribers at a strong and steady rate, on track with our goal of achieving a 5% market share by the end of 2009. Also during the quarter, we applied for a full MVNO license to enable us to enter the mobile market, and requested an expansion of our trial WiMAX license. After studying the draft policy published by Israel's Ministry of Communications for the purpose of holding public hearings on the WiMAX frequency allocation process, we intend to submit our opinion of the proposed process."

### **Conference Call Information**

Management will host an interactive teleconference to discuss the results today, August 13, 2008, at 09:00 a.m. EDT. To participate, please call one of the following access numbers several minutes before the call begins: 1-888-407-2553 from within the U.S. or 1866-9586-867 from within Canada, 0-800-917-5108 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, expenses recorded for stock compensation in accordance with SFAS 123(R), income tax expenses and 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 June 30, 2008 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of June 30, 2008 (NIS 3.3520 = 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.

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**Consolidated Balance Sheets**

	June 30	December 31	Convenience translation into U.S. dollars \$1 = NIS 3.352
	2008	2007	June 30
	(Unaudited)	(Audited)	(Unaudited)
	NIS thousands		\$ thousands
<b>Current assets</b>			
Cash and cash equivalents	94,078	229,895	28,066
Short-term investments	166,243	-	49,595
Trade receivables, net	195,991	194,964	58,470
Parent company receivable	773	6,553	231
Related parties receivables	1,535	2,161	458
Prepaid expenses and other current assets	21,264	19,804	6,344
Deferred taxes	7,904	9,396	2,358
Total current assets	487,788	462,773	145,522
<b>Investments</b>			
Long-term trade receivables	3,550	3,460	1,059
Assets held for employee severance benefits	19,116	18,453	5,703
Total investments	22,666	21,913	6,762
<b>Property and equipment, net</b>	165,084	160,211	49,249
Other assets, net	292,300	295,592	87,202
Other intangible assets, net	188,506	202,376	56,237
Goodwill	411,171	411,171	122,664
<b>Total assets</b>	1,567,515	1,554,036	467,636

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

	June 30 2008 (Unaudited) NIS thousands	December 31 2007 (Audited)	Convenience translation into U.S. dollars \$1 = NIS 3.352
			June 30 2008 (Unaudited) \$ thousands
<b>Current liabilities</b>			
Short-term bank credit	-	2,407	-
Current maturities of long-term obligations and debentures	<b>91,036</b>	3,558	<b>27,159</b>
Accounts payable	<b>132,730</b>	164,535	<b>39,597</b>
Loan from the parent company	<b>108,517</b>	105,733	<b>32,374</b>
Other payables and accrued expenses	<b>119,857</b>	101,661	<b>35,756</b>
Total current liabilities	<b>452,140</b>	377,894	<b>134,886</b>
<b>Long-term liabilities</b>			
Debentures	<b>391,673</b>	437,460	<b>116,848</b>
Long-term obligations	<b>990</b>	2,836	<b>295</b>
Long-term trade and other payables	-	20,458	-
Deferred taxes	<b>27,470</b>	29,027	<b>8,195</b>
Liability for employee severance benefits	<b>32,037</b>	32,318	<b>9,558</b>
Total long-term liabilities	<b>452,170</b>	522,099	<b>134,896</b>
<b>Total liabilities</b>	<b>904,310</b>	899,993	<b>269,782</b>
<b>Shareholders' equity and parent company investment</b>	<b>663,205</b>	654,043	<b>197,854</b>
<b>Total liabilities, shareholders' equity and parent company investment</b>	<b>1,567,515</b>	1,554,036	<b>467,636</b>

## Consolidated Statements of Operations

	Three-month period ended		Six-month period ended		Convenience
	June 30		June 30		translation
	2008	2007	2008	2007	into dollars
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	\$1 = NIS 3,352
	NIS thousands				Six-month
					period ended
					June 30
					2008
					(Unaudited)
					\$ thousands
<b>Revenues</b>	<b>263,607</b>	275,245	<b>526,964</b>	551,298	<b>157,209</b>
<b>Costs and expenses</b>					
Cost of revenues	<b>177,367</b>	192,379	<b>354,057</b>	387,352	<b>105,626</b>
Selling and marketing expenses	<b>36,048</b>	40,479	<b>74,564</b>	78,168	<b>22,245</b>
General and administrative expenses	<b>15,479</b>	13,963	<b>28,281</b>	26,524	<b>8,437</b>
Other charges	<b>1,903</b>	1,444	<b>6,705</b>	1,907	<b>2,000</b>
<b>Total costs and expenses</b>	<b>230,797</b>	248,265	<b>463,607</b>	493,951	<b>138,308</b>
<b>Income from operations</b>	<b>32,810</b>	26,980	<b>63,357</b>	57,347	<b>18,901</b>
Financial expenses, net	<b>24,758</b>	12,640	<b>47,345</b>	23,760	<b>14,124</b>
<b>Income before tax expenses</b>	<b>8,052</b>	14,340	<b>16,012</b>	33,587	<b>4,777</b>
Tax expenses	<b>2,486</b>	8,941	<b>4,764</b>	12,426	<b>1,421</b>
<b>Net income</b>	<b>5,566</b>	5,399	<b>11,248</b>	21,161	<b>3,356</b>
<b>Income per share</b>					
Basic and diluted earnings per share (in NIS)	<b>0.22</b>	0.29	<b>0.44</b>	1.15	<b>0.13</b>
Weighted average number of ordinary shares used in calculation of basic and diluted earnings per share	<b>25,360,000</b>	18,370,000	<b>25,360,000</b>	18,370,000	<b>25,360,000</b>



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

	Three-month period ended		Six-month period ended		Convenience translation into dollars \$1 = NIS 3.352
	June 30		June 30		Six-month period ended
	2008	2007	2008	2007	June 30
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2008
	NIS thousands				\$ thousands
GAAP operating income	<b>32,810</b>	26,980	<b>63,357</b>	57,347	<b>18,901</b>
<u>Adjustments</u>					
Amortization of acquired intangible assets	<b>6,820</b>	7,985	<b>13,640</b>	15,969	<b>4,069</b>
Other charges	<b>1,903</b>	1,444	<b>6,705</b>	1,907	<b>2,000</b>
Expenses recorded for stock compensation in accordance with SFAS 123(R)	<b>950</b>	-	<b>950</b>	-	<b>284</b>
Non-GAAP adjusted operating income	<b>42,483</b>	36,409	<b>84,652</b>	75,223	<b>25,254</b>
GAAP tax expenses (benefit), net	<b>2,486</b>	8,938	<b>4,764</b>	12,426	<b>1,421</b>
<u>Adjustments</u>					
Amortization of acquired intangible assets Included in tax expenses, net	<b>1,841</b>	2,315	<b>3,683</b>	4,631	<b>1,099</b>
Non-GAAP tax expenses (benefit), net	<b>4,327</b>	11,253	<b>8,447</b>	17,057	<b>2,520</b>
Net income as reported	<b>5,566</b>	5,402	<b>11,248</b>	21,161	<b>3,356</b>
Taxes on income	<b>2,486</b>	8,938	<b>4,764</b>	12,426	<b>1,421</b>
Other charges	<b>1,903</b>	1,444	<b>6,705</b>	1,907	<b>2,000</b>
Expenses recorded for stock compensation in accordance with SFAS 123(R)	<b>950</b>	-	<b>950</b>	-	<b>284</b>
Financial expenses	<b>24,758</b>	12,640	<b>47,345</b>	23,760	<b>14,124</b>
Depreciation and amortization	<b>26,963</b>	28,085	<b>53,506</b>	55,118	<b>15,962</b>
Adjusted EBITDA	<b>62,626</b>	56,509	<b>124,518</b>	114,372	<b>37,147</b>

