

## BUSINESS NEWS

### **FOR IMMEDIATE RELEASE**

#### ***012 Smile.Communications Reports Financial Results for the Third Quarter of 2007***

- First Quarterly report after IPO, Company Reports NIS 280M Revenues,  
15% Non-GAAP Operating Margin and 22% Adjusted EBITDA -***
- Merger Completed recently, Ahead-of-Schedule and Under-Budget,  
Positioning Company among Israel's Top Communications players -***

**PETACH TIKVA, Israel, November 28, 2007** – 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 third quarter and nine months ended September 30, 2007. This is the Company's first earnings release as a publicly traded company, following its NASDAQ IPO on October 31, 2007.

#### **Highlights**

- **Operational merger completed recently** ahead of schedule and under budget
- **IPO completed recently** on Nasdaq along with dual listing on the TASE (Symbol: SMLC), raising \$74 million, net
- **Company continues to post top-line and bottom-line growth and improved profitability:** revenues for the third quarter reached NIS 280M with 15% non-GAAP operating margin and 22% adjusted EBITDA margin
- **Company lists its Series A Debentures on TASE:** listing results in a 1.1% decrease in annual interest on NIS 425 million of debt.

#### **Results for the Third Quarter**

Revenues for the third quarter of 2007 were NIS 280.3 million (US \$69.8 million), an increase of 219% compared with NIS 87.9 million for the third quarter of 2006. On a pro-forma basis, this represented an increase of 3% compared to NIS 271.9 million (US \$67.8 million) for the third quarter of 2006. Non-GAAP operating margin for the third quarter was 15% compared to 10% in the third quarter of 2006 (on a pro-forma basis).

*Note: pro-forma results are provided to assist the reader in comparing the Company's 2007 results, which include the full contribution of its merger with 012 Golden Lines, with 2006 results, which were before the merger. Pro-forma results combine 012 Golden Lines' results for the third quarter of 2006 with Smile.Communications' results for the same period.*

Operating margin for the quarter on a non-GAAP basis, which was 15%, reached NIS 41.9 million (US\$10.4 million). The difference between GAAP and non-GAAP operating income reflected amortization of NIS 8.0 million (US \$2.0 million) recorded in regard of the intangible assets acquired as part of the acquisition of 012 Golden Lines and non-recurring expenses of NIS 3.0 million (US\$ 0.75 million), related to charges incurred in connection with the merger of Smile.Communications and 012 Golden Lines.

Net income for the third quarter of 2007 increased by 624% to NIS 12.3 million (US \$3.0 million), or NIS 0.67 (US\$ 0.17) per share, compared with NIS 1.7 million, or NIS 0.09 per share, for the third quarter of 2006. Impacting net income were NIS 14.3 million finance expenses, which resulted mostly from the period's exceptionally high 2.5% increase in the Israeli CPI (Consumer Price Index) to which some of the Company's debt is linked, as well as to the abovementioned non-recurring operating expenses.

Adjusted EBITDA (1) for the quarter reached NIS 61.4 million (US \$15.3 million), a 29% increase compared with the third quarter of 2006 (on a pro-forma basis).

On November, 2007, the Company listed its Series A Debentures on the Tel Aviv Stock Exchange, with a total value of NIS 425.0 million (\$105.9 million). As a result of the listing, the annual interest rate on the debentures, which are linked to the CPI, will decline from 5.85% to 4.75%.

## Comments of Management

Commenting on the results, Ms. Stella Handler, CEO of 012 Smile.Communications, said, "The success of our recent IPO marks the completion of a process during which we carried out a complex merger while simultaneously achieving additional organic growth. These activities have positioned us firmly as a major communications player with strong management, a lean cost structure, a strong balance sheet, a high level of brand awareness and a multi-stream revenue platform. Over the next few years, we plan to build upwards and outwards from this strong foundation.

"Specifically, we intend to increase our penetration into additional communications markets, increasing Average Revenues Per User (ARPU) through cross-selling activities to our large customer base, which consists of more than a million households and businesses. To rapidly penetrate Israel's domestic telephony market, we continue to step up our marketing of VOB (Voice Over Broadband) services. In parallel, to leverage our advanced multipurpose network infrastructure and strategic assets, we plan to launch a variety of new next-generation service offerings while pursuing opportunities for synergistic acquisitions and strategic partnerships. As such, we believe we are positioned to capitalize fully on the strong growth that has been projected for Israel's communications market, thereby creating significant long-term value for our shareholders."

## Segment Overview

- **Broadband:** the Company continues to benefit from the consolidated market's stable ARPU and a steadily rising broadband customer base, which exceeds 500,000 subscribers, and is the first company in Israel to launch nationwide domestic VOB services. In the third quarter our VOB subscriber base increased by 39%, which is in line with our original work plan. Broadband revenues for the third quarter of 2007 were NIS 122.2 million (US \$30.5 million), an increase of 175% compared with NIS 44.3 million for the third quarter of 2006. On a pro-

forma basis, this represented an increase of 14% compared to NIS 107.5 million (US \$26.8 million) for the third quarter of 2006.

- **Traditional voice:** The Company continued to experience growth in both incoming and outgoing international long-distance telephony activities. However, we have decided not to pursue certain hubbing opportunities due to their low margin contribution to profitability. Rather we have continued to focus our resources and efforts to our residential and business customer base. Total revenues from traditional voice services for the third quarter of 2007 were NIS 158.1 million (US \$39.4 million), an increase of 247% compared with NIS 43.6 million for the third quarter of 2006. On a pro-forma basis, this represented a decrease of 4% compared to NIS 164.4 million (US \$40.1 million) for the third quarter of 2006.

## **Results for the Nine Month Period**

Revenues for the nine months ended September 30, 2007 were NIS 831.6 million (US\$ 207.2 million), an increase of 238% compared with NIS 246.0 million recorded in the comparable period of 2006. On a pro-forma basis, this represented an increase of 9.5%.

Operating income for the first nine months of 2007 increased by 261% to NIS 88.2 million (US \$22.0 million) compared with NIS 24.4 million for the comparable period of 2006. Operating margin for the period on a GAAP basis was 11%, while on a non-GAAP basis it was 14%, reaching NIS 117.1 million (US \$29.2 million). The difference between GAAP and non-GAAP operating income relates amortization of NIS 24 million (US \$6.0 million) of intangible assets acquired as part of the acquisition of 012 Golden Lines and non-recurring expenses of NIS 5 million (US\$ 1.25 million) relating to charges incurred in connection with the merger with 012 Golden Lines.

Net income for the nine months ended September 30, 2007 increased by 215% to NIS 33.4 million (US \$8.3 million), or NIS 1.82 (US\$ 0.45) per share, compared with NIS 10.1 million, or NIS 0.55 per share, for the first nine months of 2006. Net income for the period was impacted by the abovementioned non-recurring operating expenses. In addition, net income includes net income tax incurred during the nine month ended September 30, 2007 of NIS 17.3 million (US \$4.3 million) and the tax benefit associated with its tax loss carry forward.

Adjusted EBITDA (1) for the nine months ended September 30, 2007 reached NIS 175.8 million (US \$43.8 million), a 23% increase compared with the nine months ended September 30, 2006 (on a pro-forma basis).

## **Reconciliation between Results on a GAAP and Non-GAAP Basis**

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.

*(1) 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. On a pro forma basis, we define adjusted EBITDA as net income before financial income (expenses), net, impairment and other charges, income tax expenses, depreciation and amortization and income from discontinued operations.*

*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 on periods or companies of changes in effective tax rates or net operating losses or, most recently, our provision for tax expenses) 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 prospectus, may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated. Our use of adjusted EBITDA is detailed more fully in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Non-GAAP Financial Measures" and reflects our belief that the non-GAAP financial information is important for the understanding of our operations.*

#### **NOTE A: Convenience Translation to Dollars**

For the convenience of the reader, the reported NIS figures of September 30, 2007 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of September 30, 2007 (NIS 4.0130 = 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 73.3% owned subsidiary of Internet Gold (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 [www.012.net](http://www.012.net)

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**

	September 30 2007 <u>(Unaudited)</u>	September 30 2006 <u>(Unaudited)</u> NIS thousands	December 31 2006 <u>(Audited)</u>	Convenience translation into U.S. dollars \$1 = NIS 4.013 <u>September 30 2007</u> \$ thousands
<b>Current assets</b>				
Cash and cash equivalents	23,723	-	37,987	5,912
Trade receivables, net	213,099	50,525	193,852	53,102
Parent company receivable	15,147	638	325	3,774
Related parties receivables	2,552	641	2,012	636
Prepaid expenses and other current assets	17,550	10,198	22,803	4,373
Deferred taxes	7,602	2,272	3,445	1,895
<b>Total current assets</b>	<u>279,673</u>	<u>64,274</u>	<u>260,424</u>	<u>69,692</u>
<b>Investments</b>				
Long-term trade receivables	1,950	-	2,951	486
Deferred taxes	16,430	17,759	15,650	4,094
Assets held for employee severance benefits	18,095	6,240	15,924	4,509
<b>Total Investments</b>	<u>36,475</u>	<u>23,999</u>	<u>34,525</u>	<u>9,089</u>
<b>Property and equipment, net</b>	<u>157,156</u>	<u>32,424</u>	<u>155,367</u>	<u>39,162</u>
Other assets, net	292,211	103,467	276,219	72,816
Other intangible assets, net	210,525	126	234,871	52,460
Goodwill	410,156	-	410,156	102,207
<b>Total assets</b>	<u>1,386,196</u>	<u>224,290</u>	<u>1,371,562</u>	<u>345,426</u>

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

	September 30 2007 (Unaudited)	September 30 2006 (Unaudited) NIS thousands	December 31 2006 (Audited)	Convenience translation into U.S. dollars \$1 = NIS 4.013 September 30 2007 (Unaudited) \$ thousands
<b>Current liabilities</b>				
Short-term bank credit	136,202	26	331,639	33,940
Current maturities of long-term obligations	4,805	-	11,497	1,197
Payables in respect of 012 acquisition	-	-	584,621	-
Account payables	154,652	40,146	149,020	38,538
Other payables and accrued expensed	85,142	25,178	66,322	21,217
<b>Total current liabilities</b>	<b>380,801</b>	<b>65,350</b>	<b>1,143,099</b>	<b>94,892</b>
<b>Long-term liabilities</b>				
Debentures	437,454	-	-	109,009
Loan from the Parent Company	104,260	-	-	25,981
Long-term obligations	3,481	4,186	2,871	867
Long-term trade and other payables	21,797	-	1,365	5,432
Deferred taxes	46,450	-	49,855	11,575
Liability for employee severance benefits	32,521	12,402	29,823	8,104
<b>Total long-term liabilities</b>	<b>645,963</b>	<b>16,588</b>	<b>83,914</b>	<b>160,968</b>
<b>Total liabilities</b>	<b>1,026,764</b>	<b>81,938</b>	<b>1,227,013</b>	<b>255,860</b>
<b>Parent Company investment</b>	<b>359,432</b>	<b>142,352</b>	<b>144,549</b>	<b>89,566</b>
<b>Total liabilities and Parent Company investment</b>	<b>1,386,196</b>	<b>224,290</b>	<b>1,371,562</b>	<b>345,426</b>

**Consolidated Statements of Operations**

	Nine month period ended		Three month period ended		Year ended	Convenience translation into Dollars \$1 = NIS 4.013
	September 30		September 30		December 31	Nine month period ended
	2007	2006	2007	2006	2006	September 30
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	2007
			NIS thousands			\$ in thousands
<b>Revenues</b>	<b>831,581</b>	245,973	<b>280,283</b>	87,883	343,086	<b>207,222</b>
<b>Costs and expenses</b>						
Cost of revenues	<b>578,704</b>	159,236	<b>191,352</b>	57,536	224,565	<b>144,207</b>
Selling and marketing expenses	<b>118,245</b>	43,889	<b>40,077</b>	13,535	59,864	<b>29,466</b>
General and administrative expenses	<b>41,440</b>	16,946	<b>14,916</b>	5,612	22,921	<b>10,327</b>
Impairment and other charges	<b>4,948</b>	1,490	<b>3,041</b>	1,523	10,187	<b>1,233</b>
<b>Total costs and expenses</b>	<b>743,337</b>	221,561	<b>249,386</b>	78,206	317,537	<b>185,233</b>
<b>Income from operations</b>	<b>88,244</b>	24,412	<b>30,897</b>	9,677	25,549	<b>21,989</b>
Financial expenses, net	<b>38,015</b>	9,499	<b>14,255</b>	7,187	17,266	<b>9,473</b>
<b>Income before tax expenses</b>	<b>50,229</b>	14,913	<b>16,642</b>	2,490	8,283	<b>12,516</b>
Tax expenses	<b>16,787</b>	4,856	<b>4,361</b>	756	10,315	<b>4,183</b>
<b>Net income</b>	<b>33,442</b>	10,057	<b>12,281</b>	1,734	(2,032)	<b>8,333</b>
<b>Income (loss) per share</b>						
Basic and diluted earnings per share (in NIS)	<b>1.82</b>	0.55	<b>0.67</b>	0.09	(0.11)	<b>0.45</b>
Weighted average number of ordinary shares used in Calculation of basic and diluted earnings per share	<b>18,370,000</b>	18,370,000	<b>18,370,000</b>	18,370,000	18,370,000	<b>18,370,000</b>

**012 Smile.Communication Ltd.****Reconciliation Table Of Non-GAAP Measures****(NIS In thousands)**

	Nine Months Period Ended September 30,		Three Months Period Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
GAAP operating income	88,244	24,412	30,897	9,677
<u>Adjustments</u>				
Amortization of acquired intangible assets	23,955	-	7,985	-
Non-recurring expenses	4,948	-	3,041	-
<b>Non-GAAP adjusted operating income</b>	<b>117,147</b>	<b>24,412</b>	<b>41,923</b>	<b>9,677</b>
GAAP tax expenses (benefit), net	16,787	4,856	4,361	756
<u>Adjustments</u>				
<u>Amortization of acquired intangible assets</u>				
Included In tax expenses, net	5,970	-	2,316	-
<b>Non-GAAP tax expenses (benefit), net</b>	<b>22,757</b>	<b>4,856</b>	<b>6,674</b>	<b>756</b>
Net Income As Reported	33,442	10,057	12,281	1,734
Taxes On Income	16,787	4,856	4,361	756
Non-recurring Expenses	4,948	-	3,041	-
Financial Expenses	38,015	9,499	14,255	7,187
Depreciation & Amortization	82,631	15,922	27,513	5,357
<b>Adjusted EBITDA</b>	<b>175,823</b>	<b>40,334</b>	<b>61,451</b>	<b>15,034</b>