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INTERNET GOLD GOLDEN LINES LTD

Form 6-K

August 12, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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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 August 2004

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

1 Alexander Yanai Street Petach-Tikva, 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.

6-K Items

1. Press Release re Internet Gold Reports Record Operating Income of NIS 8.7  
Million in the Second Quarter of 2004 dated August 12, 2004.

Press Release

Source: Internet Gold

Internet Gold Reports Record Operating Income of NIS 8.7 Million in the Second Quarter of 2004

Thursday August 12, 7:30 am ET

Revenues up by 21% compared with the same quarter in 2003

The new 015 International telephony service is up and running

PETACH TIKVA, Israel, Aug. 12 /PRNewswire-FirstCall/ -- Internet Gold, (Nasdaq: IGLD - News) today reported its unaudited financial results for the second quarter of 2004.

Key Highlights:

- \* International telephony service was launched successfully on August 7th, along with an aggressive advertising campaign.
- \* Broadband customer base up by 31% during the first half of 2004.
- \* Operating income increased to NIS 8.7 million (US\$1.9 million), a 69% increase compared with the same quarter in 2003 and a 14% increase compared with the previous quarter.
- \* Revenues in the second quarter of 2004 increased to NIS 53.2 million (US\$11.8 million), a 21% increase compared with the same quarter of 2003 and a 4% increase compared with the previous quarter.
- \* Gross profit rate in the second quarter of 2004 continued to rise to a record high of 59.4% up from 46.6% in the second quarter of 2003 and 55.7% in the previous quarter.
- \* Gold Mind, Internet Gold's wholly owned subsidiary, reported a 140% revenue increase compared with the same quarter of 2003 and a 27% revenue increase compared with the previous quarter.
- \* MSN Israel, Internet Gold's successful partnership with Microsoft, reported a 94.8% increase in net income compared with the previous quarter.
- \* MSN Messenger reached 630,000 users, up 26% from the previous quarter.

Internet Gold's CEO, Eli Holtzman, commented, "We are very pleased to report another successful quarter during which we sustained good financial results while increasing our Broadband customer base. Our operating income, as well as our gross profit rate reached a new record high. Cash flow from operations in the second quarter totaled NIS 15.6 million (US\$3.5 million), a 36.8% increase compared with the previous quarter. Despite our competitive market we continued to increase our Broadband customer base by 10% during the second quarter and by 31% during the first half of 2004."

"Gold Mind Ltd., our wholly owned subsidiary specializing in development and sales of value added services and rich Internet content, successfully achieved a 140% increase in sales in the second quarter compared with the same quarter in 2003. The demand for our Value Added Services continued to grow and Gold Mind's revenues reached a new record high."

"Internet Gold International, Internet Gold's subsidiary specializing in international Internet and communication services that holds a 15.2% interest in

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Compulink, a Greek ISP, recorded an additional impairment charge of NIS 0.9 million (US\$0.2 million) this quarter due to Compulink's deteriorating financial situation. With this latest impairment charge Internet Gold International has written off its entire investment in Compulink and its operations can no longer adversely influence our results."

"MSN Israel, Internet Gold's partnership with Microsoft, continued its positive operating trend, reporting an increase of 94.8% in net income compared with the previous quarter and a 19% increase in operating income compared with the previous quarter. Its gross profit rate in the second quarter of 2004 continued to rise to a record high of 57.9% up from 43% in the previous quarter. We believe that the increase in the Israeli e-advertising and search engine markets will continue to grow."

"Another complimentary activity in our strategy is Gold Trade Ltd. in which we currently hold 48.3%. Gold Trade results are reported in our financials on an equity basis. Gold Trade provides a variety of online shopping and transactional opportunities directly to consumers through its well known P-1000 brand and also reach its existing client list with outgoing telemarketing. Gold Trade's new management is currently evaluating its activities and its revenues structure and is considering focusing on its online activity."

Mr. Holtzman concluded: "I am proud to note that the above strong financial results were achieved along with the completion of our preparations to provide international telephony services. A few days ago, we successfully launched our international telephony service which we believe will start contributing to the company's financial results in the fourth quarter of this year. We are currently executing an aggressive penetration advertising campaign which will increase our marketing expense in the third quarter and anticipate that we will achieve a substantial market share in the international telephony market in Israel."

### Financial Results

Internet Gold's revenues totaled NIS 53.2 million (US\$11.8 million) in the second quarter of 2004, compared with NIS 51 million (US\$11.3 million) in the previous quarter and NIS 44 million (US\$9.8 million) in the comparable quarter of 2003.

Gross profit for the second quarter increased to NIS 31.6 million (US\$7.0 million) from NIS 28.4 million (US\$6.3 million) in the previous quarter and NIS 20.5 million (US\$4.6 million) in the comparable quarter of 2003.

Cash flow from operations in the second quarter totaled NIS 15.6 million (US\$3.5 million) compared with NIS 11.4 million (US\$2.5 million) in the previous quarter and NIS 3.3 million (US\$0.7 million) in the comparable quarter of 2003.

Second quarter sales and marketing expenses totaled NIS 17.4 million (US\$3.9 million) versus NIS 14.9 million (US\$3.3 million) in the previous quarter and NIS 9.9 million (US\$2.2 million) in the comparable quarter of 2003. The increase is due to Internet Gold's advertising campaigns over TV, radio and the Internet to counter the sharp competition in Israel's broadband Internet market.

Operating income for the second quarter totaled NIS 8.7 million (US\$1.9 million), compared with NIS 7.7 million (US\$1.7 million) for the previous quarter (restated) and NIS 5.2 million (US\$1.2 million) for the comparable quarter of 2003. Operating income for the first half of 2004 totaled NIS 16.4

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million (US\$3.6 million), compared with NIS 10.0 million (US\$2.2 million) for the comparable period of 2003.

Second quarter net income was NIS 5.7 million (US\$1.3 million), or NIS 0.31 (US\$ 0.07) per share, compared with NIS 6 million (US\$1.3 million) (restated), or NIS 0.32 (US\$0.07) per share (restated), in the previous quarter. The net income for the first half of 2004 was NIS 11.6 million (US\$2.6 million), or NIS 0.63 (US\$ 0.14) per share, compared with NIS 3.2 million (US\$0.7 million), or NIS 0.17 (US\$0.04) per share, in the comparable period of 2003.

### About Internet Gold

Internet Gold is a leading Internet service provider in Israel. The Company provides a wide array of Internet services tailored to the needs of residential and business subscribers, including Internet access and related value-added services, as well as content through its portals. The Company provides the full variety of Internet access services including Broadband access via DSL lines and cables, dial-up and private lines. Internet Gold is also an International Telephony operator providing its services to all Israeli consumers under the prefix of 015.

Internet Gold operates the leading portal in Israel through its MSN Israel subsidiary (50.1%) with Microsoft Corp. and is a leading e-Commerce provider in Israel through its e-Commerce joint venture, Gold Trade (48.3%). In addition, Internet Gold has two wholly owned subsidiaries, Gold Mind, focusing on Internet value added services, and Internet Gold International, specializing in international internet and communication services.

For additional information about Internet Gold, please visit our Website at <http://www.igld.com>.

Certain statements made herein that use the words "estimate," "project," "intend," "expect," "believe" and similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks and uncertainties which could cause the actual results, performance or achievements of the Company to be materially different from those which may be expressed or implied by such statements, including, among others, changes in general economic and business conditions and specifically, decline in demand for the Company's services, inability to timely develop and introduce new technologies, services and applications and loss of market share and pressure on prices resulting from competition. For additional information regarding these and other risks and uncertainties associated with the Company's business, reference is made to the Company's Annual Report filed with the Securities and Exchange Commission and its other reports as filed from time to time with the Securities and Exchange Commission.

For further information, please contact:  
Ms. Idit Azulay, Internet Gold +972 3 939-9848 [idita@co.zahav.net.il](mailto:idita@co.zahav.net.il)

Consolidated Balance Sheets

|         |         |             |  |
|---------|---------|-------------|--|
|         |         |             | Convenience<br>translation<br>into<br>U.S. dollars<br>NIS 4.497=US\$ 1 |
| June 30 | June 30 | December 31 | June 30  |

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|                                      | 2004<br>(Unaudited)                | 2003<br>(Unaudited) | 2003<br>(Audited) | 2004<br>(Unaudited)  |
|--------------------------------------|------------------------------------|---------------------|-------------------|----------------------|
|                                      | New Israeli Shekels - in thousands |                     |                   | US\$ in<br>thousands |
| Current assets                       |                                    |                     |                   |                      |
| Cash and cash equivalents            | 94,918                             | 79,950              | 81,891            | 21,107               |
| Trade receivables, net               | 40,241                             | 31,135              | 35,569            | 8,948                |
| Other receivables                    | 9,143                              | 12,139              | 12,769            | 2,033                |
| Deferred taxes                       | 620                                | 986                 | 1,914             | 138                  |
| Total current assets                 | 144,922                            | 124,210             | 132,143           | 32,226               |
| Investments                          |                                    |                     |                   |                      |
| Deferred taxes                       | 14                                 | 1,479               | 21                | 3                    |
| Long-term investments                | -                                  | 4,159               | 1,550             | -                    |
| Long-term loans                      | -                                  | 4,014               | -                 | -                    |
|                                      | 14                                 | 9,652               | 1,571             | 3                    |
| Property and equipment,<br>net       | 33,402                             | 29,018              | 29,160            | 7,428                |
| Other assets and deferred<br>charges | 88,937                             | 1,606               | 51,130            | 19,777               |
| Total assets                         | 267,275                            | 164,486             | 214,004           | 59,434               |

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|   | June 30<br>2004<br>(Unaudited)     | June 30<br>2003<br>(Unaudited) | December 31<br>2003<br>(Audited) | Convenience<br>translation<br>into<br>U.S. dollars<br>NIS 4.497=US\$ 1<br>June 30<br>2004<br>(Unaudited) |
|---|------------------------------------|--------------------------------|----------------------------------|--|
|   | New Israeli Shekels - in thousands |                                |                                  | US\$ in<br>thousands   |
| Current liabilities   |                                    |                                |                                  |  |
| Short-term bank loans   | 6,620                              | 4,123                          | 5,259                            | 1,472  |
| Accounts payable  | 60,535                             | *21,148                        | *37,091                          | 13,461   |
| Other payables  | 13,541                             | *11,647                        | *13,537                          | 3,011  |
| Total current liabilities   | 80,696                             | 36,918                         | 55,887                           | 17,944   |
| Long-term liabilities   |                                    |                                |                                  |  |
| Long-term obligations under<br>lease agreement                          | 41,840                             | 711                            | 27,389                           | 9,304  |
| Deferred revenues   | 14                                 | 69                             | 23                               | 3  |
| Liability for termination of<br>employer-<br>employee relations, net    | 5,447                              | 4,161                          | 4,928                            | 1,211  |
| Company's share in excess of<br>liabilities over assets in<br>investees | 9,566                              | 15,694                         | 7,706                            | 2,127  |

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|  |          |           |          |          |
|--|----------|-----------|----------|----------|
| Total long-term liabilities                | 56,867   | 20,635    | 40,046   | 12,645   |
| Shareholders' equity                       |          |           |          |          |
| Ordinary shares                            | 197      | 197       | 197      | 44       |
| Additional paid in capital                 | 215,040  | 215,040   | 215,040  | 47,819   |
| Accumulated deficit                        | (85,525) | (108,304) | (97,166) | (19,018) |
| Total shareholders' equity                 | 129,712  | 106,933   | 118,071  | 28,845   |
| Total liabilities and shareholders' equity | 267,275  | 164,486   | 214,004  | 59,434   |
| * Reclassified                             |          |           |          |          |

Internet Gold - Golden Lines Ltd.

### Consolidated Statements of Operations

|  | Six month period ended<br>June 30 |                     | Three month period ended<br>June 30 |                     |
|--|-----------------------------------|---------------------|-------------------------------------|---------------------|
|  | 2004<br>(Unaudited)               | 2003<br>(Unaudited) | 2004<br>(Unaudited)                 | 2003<br>(Unaudited) |
| New Israeli Shekels - in thousands         |                                   |                     |                                     |                     |
| Revenues                                   | 104,175                           | 87,860              | 53,199                              | 43,955              |
| Costs and expenses:                        |                                   |                     |                                     |                     |
| Cost of revenues                           | 44,191                            | 47,735              | 21,625                              | 23,468              |
| Selling and marketing expenses             | 32,285                            | 19,541              | 17,370                              | 9,917               |
| General and administrative expenses        | 11,311                            | 10,552              | 5,481                               | 5,408               |
| Total costs and expenses                   | 87,787                            | 77,828              | 44,476                              | 38,793              |
| Income from operations                     | 16,388                            | 10,032              | 8,723                               | 5,162               |
| Financing expenses, net                    | 89                                | 6,780               | 549                                 | 5,722               |
| Other expenses, net                        | 1,498                             | 16                  | 856                                 | 12                  |
| Net income (loss) after financing expenses | 14,801                            | 3,236               | 7,318                               | (572)               |
| Income tax                                 | 1,301                             | (2,465)             | 782                                 | (2,465)             |
| Net income after income tax                | 13,500                            | 5,701               | 6,536                               | 1,893               |
| Company's share in net loss of investees   | 1,859                             | 2,536               | 885                                 | 1,844               |
| Net income                                 | 11,641                            | 3,165               | 5,651                               | 49                  |
| Income per share                           |                                   |                     |                                     |                     |

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|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Net income per<br>NIS 0.01 par value of<br>shares (in NIS)            | 0.63   | 0.17   | 0.31   | 0.003  |
| Weighted average<br>number of shares<br>outstanding<br>(in thousands) | 18,432 | 18,432 | 18,432 | 18,432 |

|  | Year ended<br>December 31<br>2003<br>(Audited) | Convenience<br>translation<br>into<br>U.S. dollars<br>NIS 4.497=US\$ 1<br>Six month period<br>ended June 30<br>2004<br>(Unaudited)<br>US\$ in thousands |
|--|--|---|
|  | New Israeli Shekels - in thousands             |   |
| Revenues   | 179,642  | 23,165  |
| Costs and expenses:  |  |   |
| Cost of revenues   | 92,871   | 9,827   |
| Selling and<br>marketing<br>expenses                       | 41,393   | 7,179   |
| General and<br>administrative expenses                     | 21,908   | 2,515   |
| Total costs and expenses                                   | 156,172  | 19,521  |
| Income from operations                                     | 23,470   | 3,644   |
| Financing expenses, net                                    | 3,235  | 20  |
| Other expenses, net  | 2,592  | 333   |
| Net income (loss) after<br>financing expenses              | 17,643   | 3,291   |
| Income tax   | (1,935)  | 289   |
| Net income after income tax                                | 19,578   | 3,002   |
| Company's share<br>in net loss of investees                | 5,275  | 413   |
| Net income   | 14,303   | 2,589   |
| Income per share   |  |   |
| Net income per NIS 0.01<br>par value of shares<br>(in NIS) | 0.78   | 0.14  |
| Weighted average<br>number of shares<br>outstanding        |  |   |

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(in thousands)

18,432

18,432

SIGNATURES

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/Eli Holtzman

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Eli Holtzman  
Chief Executive Officer

Date: August 12, 2004