

BUSINESS NEWS

FOR IMMEDIATE RELEASE

Record Q4 Caps Off Record Year for 012 Smile.Communications: Highest-Ever Quarterly & Annual Revenues, EBIT, EBITDA & Net Income

- **Q4: Revenues-NIS 298M, EPS-NIS 1.27 –**
- **2008: Revenues-NIS 1,107M, EPS-NIS 2.21 –**

PETACH TIKVA, Israel, February 26, 2009 – 012 Smile.Communications (NASDAQ Global Market and TASE: SMLC), an Israeli telecommunications service provider, today reported record financial results for the three-month and twelve-month periods ended December 31, 2008.

Highlights

- **Record results for both Q4 and 2008 across all metrics – revenues, EBIT, EBITDA and net income**
- **Continued strong cash flow from operating activities**, reaching NIS 209M (U.S. \$55M) for the year, with NIS 153 million (U.S. \$40M) free cash flow for the period
- **Ahead-of-plan penetration of domestic telephony market:** over 90,000 local telephony lines as of end of the year, representing growth of 12,000 lines in Q4
- **Regulatory progress expected to pave entry into mobile market by end of 2009**

<i>(in millions of NIS, except EPS)</i>	Q4'08	Q3'08	Q2'08	Q1'08	Q4'07	2008	2007
Revenues	298	282	264	263	271	1,107	1,103
Gross Profit	92	89	86	87	88	354	341
EBIT	35	34	33	31	27	133	115
Adjusted EBITDA	66	63	62	62	60	253	236
Net Income	32	12	6	6	6	56	40
EPS	1.27	0.49	0.23	0.22	0.28	2.21	2.05

Results for the Fourth Quarter of 2008

Revenues: Revenues for the fourth quarter of 2008 were NIS 298 million (US \$78 million), a 10% increase compared with NIS 271 million for the fourth quarter of 2007, and a 6% sequential increase over NIS 282 million for the third quarter of 2008. Revenues from broadband services increased by 13% year-over-year, while revenues from traditional telephony services increased by 7%.

Operating Results: Operating Income (EBIT) for the fourth quarter increased to a record NIS 35 million (US \$9.3 million), a 32% increase compared with the fourth quarter of 2007, and a 5% sequential increase compared to the third quarter of 2008. The increase reflected the higher revenues, the efficiencies achieved by the merger process, and the Company's ongoing efficiency efforts.

Adjusted EBITDA for the fourth quarter reached a record NIS 66 million (US \$17.3 million), a 10% increase compared with the fourth quarter of 2007, and a 5% increase compared to the third quarter of 2008. **Adjusted EBITDA margin** for the reporting quarter was 22%, unchanged from its level in the fourth quarter of 2007. *For more information regarding the use of non-GAAP financial measurements, please see the notes contained in this press release.*

Financing Income (Expenses), net: During the reporting quarter, the Company recorded financing income (net) of NIS 12 million (US \$3.2 million) compared to financial expenses (net) of NIS 14 million for the fourth quarter of 2007 and NIS 18 million for the third quarter of 2008. The shift from financial expenses to financial income reflected the **11% rise in the level of the dollar/shekel exchange rate** as of the end of the fourth quarter as compared to the end of the third quarter of 2008, reaching NIS 3.802 per dollar. This increased the shekel value of the Company's substantial dollar-denominated assets, with the resulting appreciation accounted for as financial income. This effect was compounded by the quarter's 0.5% reduction in the Israeli CPI (Consumer Price Index), which reduced the linkage expenses due on the Company's CPI-linked debentures.

Net Results: With record operating income and significant financial income (net), net income for the fourth quarter of 2008 reached a record NIS 32 million (US \$8.5million), or NIS 1.27 (US \$0.33) per share, compared with NIS 6.5 million, or NIS 0.28 per share in the fourth quarter of 2007, and NIS 12.5 million, or NIS 0.49 per share, in the third quarter of 2008.

Results for the Full Year 2008

Revenues for 2008 reached a record NIS 1,107 million (US \$291 million), a 0.4% increase compared with NIS 1,103 million for 2007 despite a 32% decrease in revenues from hubbing services (wholesale traffic) during the year and a 12.7% decline in the 2008 shekel/dollar average exchange rate as compared to 2007, a factor which significantly reduced dollar-denominated revenues. Revenues from broadband services during the period increased by 15%, while revenues from traditional telephony services declined by 11%. Excluding revenues from hubbing services, and the effect of the decrease in the average shekel/dollar exchange rate for 2008 compared to 2007, revenues from core activities increased by approximately 9% during the year.

Gross margin for 2008 increased to 31.9% from 30.9% in 2007, reflecting the change in the Company's mix of revenues, and the improved cost structure.

Operating income (EBIT) for 2008 increased by 15% to a record NIS 133 million (US \$34.9 million) compared with NIS 115 million in 2007. Adjusted EBITDA for the year increased by 7% to a record NIS 253 million (US \$66.5 million) compared with NIS 236 million in 2007, representing an Adjusted EBITDA margin of 22.8%, compared to 21.4% in 2007. *For more information regarding the use of non-GAAP financial measurements, please see the notes contained in this press release.*

Net income for 2008 increased by 40% to a record NIS 56.0 million (US \$14.7 million), or NIS 2.21 (US \$0.58) per share, compared to NIS 39.9 million, or NIS 2.05 per share (using a weighted average number of shares) for 2007.

Balance Sheet

The Company's cash, cash equivalents, short term and long term investments as of December 31, 2008 totaled NIS 289 million (US \$76.1 million), compared with NIS 230 million as of December 31, 2007. In parallel, the Company's net financial debt decreased by 9% to NIS 300 million (US \$78.8 million) as of the end of the 2008 from NIS 329 million as of December 31, 2007. As of December 31, 2008, the Company's primary balance sheet and operational ratios showed significant improvement as compared to prior years:

<i>As of December 31,</i>	2008	2007	2006
Ratio of Shareholders' Equity to Total Assets	43.5%	42.1%	10.6%
Ratio of Net Debt to EBITDA	1.2	1.4	7
Adjusted EBITDA margin	22.8%	21.4%	18.5%
Current Ratio <i>(Current Assets divided by Current Liabilities)</i>	0.8	1.2	0.2

Segment Overview

- **Broadband:** Q4 revenues from core broadband activities totaled NIS 148 million (US \$39 million) representing approximately 50% of the Company's revenues. This is a 13% increase compared with Q4 2007 and a 6% sequential increase compared with Q3 2008. In 2008, broadband service revenues increased by 15% to NIS 550 million (US \$145 million), representing approximately 50% of total 2008 revenues compared with 43% in 2007.

The increase reflects:

- ***Continued expansion of the Company's local telephony subscriber base.***

As of the end of the year, 012 Smile.Communications had enrolled over 90,000 local telephony lines. This is ahead of the Company's plan for reaching a 5% market share by the end of 2009.

- ***Continued expansion of Internet subscriber base*** in a stable pricing environment.

- **Traditional telephony:** Q4 revenues from traditional telephony services were NIS 150 million (US \$39.4 million), representing approximately 50% of the Company's revenues. This is a 7% increase compared with Q4 2007, and a 6% increase compared with Q3 2008. For 2008, traditional telephony services accounted for approximately 50% of the Company's total revenues, compared with 57% in 2007.

In February 2008 the Company merged its brands under the 012 Smile umbrella, and throughout the year has succeeded in strengthening the recognition of the 012 Smile brand. This reflects the benefit of the merger, which enabled the consolidation of the Company's sales and marketing efforts, as well as the Company's strategic decision to continue its investments in sales and marketing.

Comments of Management

Commenting on the results, Ms. Stella Handler, CEO of 012 Smile.Communications, said, "The fourth quarter was a strong end to a challenging year. Financially, we delivered record revenues and profits and continued to generate strong cash flow – all while completing a complex merger process, beginning a successful penetration of the local telephony market and preparing to enter the mobile market. Despite uncertain macro markets, as strong believers in the resilience and long-term potential of the Israeli communications market, we continued to expand our marketing investments, thereby strengthening our brand recognition significantly. In parallel, with the belief that our shares and bonds are undervalued, at the end of the year we initiated two buyback programs, a move that will further strengthen our financial platform."

Ms. Handler continued, "The combination of these activities has improved our positioning significantly as we enter 2009. Our goals for the year ahead include the further increase in our penetration of the local telephony market, the growth of our customer base, the continual improvement of our customer support services and the entry into the mobile market as soon as the MVNO regulatory environment allows. Given today's uncertain macro-markets, we expect that the revenues of some of our services will be impacted over the next few quarters. Nonetheless, with a strong financial platform, efficient operations and proven sales and marketing capabilities, we believe we are positioned to continue building our business in all market conditions and to take full advantage of the Israeli market's substantial long-term growth potential."

Buyback Programs

- **Share Buyback Program:** On December 30, 2008, the Company's Board of Directors announced a share buyback program under which Management is authorized to repurchase up to US \$10 million of 012 Smile.Communications' ordinary shares.
- **Bond Buyback Program:** On November 25, 2008, the Company's Board of Directors announced that it had authorized the repurchase of up to NIS 100 million of the Company's Series A bonds. As of December 31, 2008, the Company had utilized approximately NIS 16 million (US \$4.2 million) in the repurchase of these bonds. These transactions generated a profit of approximately NIS 2.9 million, which was recorded in financial income (net). As of today, NIS 408,848,857 par value of the bonds remain outstanding.

Conference Call Information

Management will host an interactive teleconference to discuss the results today, February 26, 2009, at 09:00 a.m. EST. To participate, please call one of the following access numbers several minutes before the call begins: 1-866-345-5855 from within the U.S. or 1-866-958-6867 from within Canada, 0-800-404-1418 from within the U.K., or +972 3 918-0609 from other international locations. The call will also be broadcast live through the company's Website, www.012.net, and will be available there for replay during the next 30 days.

Notes:

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.

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.

Convenience Translation to Dollars

For the convenience of the reader, the reported NIS figures of December 31, 2008 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of December 31, 2008 (NIS 3.802 = 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.

For further information, please contact:

Mor Dagan - Investor Relations

mor@km-ir.co.il / Tel:+972-3-516-7620

Consolidated Balance Sheets

	December 31		Convenience translation into U.S. dollars \$1 = NIS 3.802
	2008	2007	December 31
	(Unaudited)	(Audited)	2008
	NIS thousands	NIS thousands	\$ thousands
Current assets			
Cash and cash equivalents	60,652	229,895	15,953
Marketable securities	76,742	-	20,185
Trade receivables, net	203,009	194,964	53,395
Parent company receivable	-	6,553	-
Related parties receivables	-	2,161	-
Prepaid expenses and other current assets	23,038	19,804	6,059
Deferred taxes	10,851	9,396	2,854
	<u>374,292</u>	<u>462,773</u>	<u>98,446</u>
Total current assets			
Investments			
Long-term trade receivables	6,350	3,460	1,670
Assets held for employee severance benefits	16,499	18,453	4,340
Marketable securities	152,020	-	39,984
	<u>174,869</u>	<u>21,913</u>	<u>45,994</u>
Total investments			
Property and equipment, net	<u>169,406</u>	<u>160,211</u>	<u>44,557</u>
Other assets, net	<u>293,276</u>	<u>295,592</u>	<u>77,137</u>
Other intangible assets, net	<u>174,640</u>	<u>202,376</u>	<u>45,934</u>
Goodwill	<u>411,171</u>	<u>411,171</u>	<u>108,146</u>
Total assets	<u><u>1,597,654</u></u>	<u><u>1,554,036</u></u>	<u><u>420,214</u></u>

Consolidated Balance Sheets (cont'd)

	December 31		Convenience translation into U.S. dollars \$1 = NIS 3.802
	2008	2007	December 31
	(Unaudited)	(Audited)	2008
	NIS thousands		\$ thousands
Current liabilities			
Short-term bank credit	-	2,407	-
Current maturities of long-term obligations and debentures	99,295	3,558	26,116
Accounts payable	141,055	164,535	37,100
Loan from the parent company	111,344	105,733	29,286
Parent company payables	1,410	-	371
Related parties payables	2,228	-	586
Other payables and accrued expenses	107,732	101,661	28,336
Total current liabilities	463,064	377,894	121,795
Long-term liabilities			
Debentures	381,141	437,460	100,247
Long term obligations and other payables	143	23,294	38
Deferred taxes	25,116	29,027	6,606
Liability for employee severance benefits	32,430	32,318	8,530
Total long-term liabilities	438,830	522,099	115,421
Total liabilities	901,894	899,993	237,216
Shareholders' equity and parent company investment	695,760	654,043	182,998
Total liabilities, shareholders' equity and parent company investment	1,597,654	1,554,036	420,214

Consolidated Statements of Operations

	Year ended December 31			Convenience translation into U.S. dollars \$1 = NIS 3.802
	2008	2007	2006	Year ended December 31
	(Unaudited)	(Audited)	(Audited)	2008
		NIS thousands		(Unaudited) \$ thousands
Revenues	1,106,993	1,102,888	343,086	291,161
Costs and expenses				
Cost of revenues	753,416	762,205	224,565	198,163
Selling and marketing expenses	158,435	157,304	59,864	41,672
General and administrative expenses	55,913	57,984	22,921	14,706
Impairment and other charges	6,705	10,433	10,187	1,764
Total costs and expenses	974,469	987,926	317,537	256,305
Income from operations	132,524	114,962	25,549	34,856
Financial expenses, net	53,172	52,043	17,266	13,985
Income before tax expenses	79,352	62,919	8,283	20,871
Tax expenses	23,384	23,027	10,315	6,150
Net income (loss)	55,968	39,892	(2,032)	14,721
Income (loss) per share				
Basic and diluted income (loss) per share (in NIS)	2.21	2.05	(0.11)	0.58
Weighted average number of ordinary shares used in Calculation of basic and diluted earnings per share	25,360,000	19,493,329	18,370,000	25,360,000

Reconciliation Table of Non-GAAP Measures

	Year ended December 31	
	2008	2007
	(Unaudited)	
	NIS thousands	
GAAP operating income	132,524	114,962
Adjustments		
Amortization of acquired intangible assets	27,280	31,938
Impairment and other charges	6,705	10,433
Expenses recorded for stock based compensation in accordance with SFAS 123(R)	3,429	-
Non-GAAP adjusted operating income	169,938	157,333
GAAP tax expenses (benefit), net	23,384	23,027
Adjustments		
Amortization of acquired intangible assets included in tax expenses, net	7,365	9,262
Non-GAAP tax expenses, net	30,749	32,289
Net income as reported	55,968	39,892
Taxes on income	23,384	23,027
Non-recurring expenses	6,705	10,433
Expenses recorded for stock based compensation in accordance with SFAS 123(R)	3,429	-
Financial expenses, net	53,172	52,043
Depreciation and amortization	110,054	110,243
Adjusted EBITDA	252,712	235,638

Combined and Consolidated Statements of Cash Flows (in thousands)

	Year ended December 31			Convenience translation into US dollars
	2008	2007	2006	Year ended December 31 2008
	NIS	NIS	NIS	US\$
Cash flows from operating activities:				
Net income (loss)	55,968	39,892	(2,032)	14,721
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	110,054	110,981	21,433	28,946
Stock-based compensation expenses	3,429	-	-	902
Deferred tax benefit	(485)	(11,129)	(94)	(128)
Accrued interest on debentures	21,061	20,458	-	5,539
Increase in allowance for doubtful accounts, net	436	5,931	1,102	115
Increase in employee severance benefits, net	2,066	(34)	(135)	543
Impairment and other charges	-	-	8,202	-
Linkage and interest differences on long-term obligations, exchange rate difference and other	42,922	24,592	(1,361)	11,289
Income from redemption of debentures	(2,886)	-	-	(759)
Realized and unrealized income (expenses) on marketable securities, net	9,518	883	(79)	2,503
Changes in assets and liabilities, net of effects of acquisition:				
Trade receivables including non current portion	(11,371)	(7,552)	(8,489)	(2,991)
Prepaid expenses and other current assets	(1,931)	2,116	(364)	(508)
Other assets, net	483	(52)	1,234	127
Accounts payable	(35,766)	7,102	18,947	(9,407)
Receivables (payables) from parent company, net	3,825	(5,274)	(918)	1,006
Other payables and accrued expenses	11,563	34,236	659	3,041
Net cash provided by operating activities	208,886	222,150	38,105	54,941
Cash flows from investing activities:				
Purchase of property and equipment and other assets	(56,135)	(50,808)	(11,175)	(14,765)
Purchase of a subsidiary company, net of cash acquired	-	(585,636)	(5,118)	
Investment in marketable securities	(358,224)	-	-	(94,220)
Proceeds from sale of marketable securities	100,417	-	-	26,412
Net cash used in investing activities	(313,942)	(636,444)	(16,293)	(82,573)

Combined and Consolidated Statements of Cash Flows (in thousands) (cont'd)

	Year ended December 31			Convenience translation into US dollars
	2008	2007	2006	Year ended December 31 2008
	NIS	NIS	NIS	US\$
Cash flows from financing activities:				
Changes in short-term bank credit, net	(2,407)	(329,232)	41,552	(633)
Loan from parent company	-	100,640	-	-
Payments in respect of long-term finance arrangement	(25,835)	(50,247)	(35,421)	(6,795)
Issuance of debentures, net of issuance expense	-	423,779	-	-
Redemption of debentures	(15,913)	-	-	(4,186)
Contribution from Parent Company	-	170,238	10,044	-
Proceeds from issuance of shares, net	-	299,364	-	-
Net cash (used in) provided by financing activities	(44,155)	614,542	16,175	(11,614)
Changes in cash and cash equivalents	(149,211)	200,248	37,987	(39,245)
Effect of exchange rate changes	(20,032)	(8,340)	-	(5,269)
Cash and cash equivalents at beginning of the year	229,895	37,987	-	60,467
Cash and cash equivalents at end of year	60,652	229,895	37,987	15,953
Supplemental information:				
Interest paid	3,564	11,463	382	937
Income taxes paid	12,480	8,000	-	3,282
Non-cash investing activities:				
Acquisition of property and equipment and other assets on credit	12,286	13,063	7,545	3,231
012 acquisition	-	-	584,621	-