

012 Smile.Communications Reports Record EBITDA of NIS 71 million

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PETACH TIKVA, Israel – August 12, 2009 – 012 Smile.Communications (NASDAQ Global Market and TASE: SMLC), an Israeli telecommunications service provider, today reported financial results for the three and six month periods ended June 30, 2009.

Results for the Second Quarter

- Second quarter revenue increased by 10% to NIS 291 million (US \$74 million)
- Broadband segment revenue increased by 14%
- International long distance (ILD) business revenue up year-over-year and quarter-over-quarter
- Operating income increased by 25% to NIS 41 million (US \$10 million)
- Net income increased by 367% to NIS 26 million (US \$6.6 million) or NIS 1.02 per share (US \$0.26 per share)
- Total of 120,000 local telephony lines as of the end of the quarter
- Cash flow from operations for the quarter increased by 30% to NIS 59 million (US \$15 million)

012 Smile.Communications reported quarterly revenues increased by 10% to NIS 291 million (US \$74 million) for the quarter ended June 30, 2009, compared to NIS 264 million for the same period in 2008. Revenue from broadband services increased 14% to NIS 150 million (US \$38 million) for the quarter ended June 30, 2009 compared to NIS 132 million for the second quarter of 2008. Revenues from traditional voice services for the quarter were NIS 141 million (US \$36 million) compared to NIS 132 million for the same period last year.

Operating income for the second quarter of 2009 increased to NIS 41 million (US \$10 million) compared with NIS 33 million for the same period last year. Operating income for the second quarter of 2009 benefited from a one-time adjustment of NIS 3.8 million (US \$1 million) relating to the reversal of the majority of a loss provision taken previously with respect to the Company's exposure in an ongoing legal dispute, which is now moving towards settlement.

Adjusted EBITDA for the second quarter of 2009 increased to a record amount of NIS 71 million (US \$18 million) compared with NIS 63 million for the same period last year. *For more information regarding the use of non-GAAP financial measures, please see the notes in this press release.*

Net income for the quarter ended June 30, 2009 increased to NIS 26 million (US \$6.6 million), or NIS 1.02 per fully diluted share, compared to NIS 6 million, or NIS 0.22 per fully diluted share, for the same period in 2008.

The Company's net financial debt decreased from NIS 302 million as of December 31, 2008 to NIS 176 million (US \$45 million) as of June 30, 2009, reflecting the positive cash flow generation of the Company.

Ms. Stella Handler, CEO of 012 Smile.Communications, said, "We are pleased to report another strong quarter characterized by on-track performance across all metrics. Financially, we have recorded significant growth in revenues from both operating segments while reducing operating expenses, enabling us to achieve strong profits across the board, including a new record EBITDA. Strategically, we have achieved the customer acquisition targets that we set for ourselves last year, and continue to seek out the best path for entering Israel's mobile market."

Ms. Handler continued, “On the macro level, we are encouraged by signs indicating that our markets are returning to a growth phase. Government statistics show a clear rebound in outgoing telephony traffic and our own ILD business is confirming the trend. The implication is that we were minimally impacted by the recession and are now ready to move to the next stage. With a strong balance sheet, lean operations and positive cash flow, we are well positioned to take advantage of growing markets and the opportunities that they will produce.”

Conference Call Information Management will host an interactive teleconference to discuss the results today, August 12, 2009, 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. 0-800-917-5108 from within the U.K., 1-866-485-2399 from Canada or +972 3 918-0610 from other international locations. The call will also be broadcast live through the company's Website, <http://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 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 June 30, 2009 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of June 30, 2009 (NIS 3.919 = 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.

Investor relations contacts:

Mor Dagan - Investor Relations

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

Garth Russell – KCSA Strategic Communications

grussell@kcsa.com / Tel: +1-212-896-1250

Consolidated Balance Sheets

	June 30 2009 (Unaudited) NIS thousands	December 31 2008 (Audited)	Convenience translation into US Dollars \$1 = NIS 3.919 June 30 2009 (Unaudited) \$ thousands
Current assets			
Cash and cash equivalents	60,910	60,652	15,542
Marketable securities	271,346	76,742	69,239
Trade receivables, net of allowance for doubtful accounts of NIS 12,730 and NIS 11,739 at December 31, 2008 and June 30, 2009	205,674	203,009	52,481
Prepaid expenses and other current assets	26,402	23,038	6,737
Deferred tax assets	-	17,838	-
Total current assets	564,332	381,279	143,999
Long-term trade receivables	6,400	6,350	1,633
Marketable securities	-	152,020	-
Assets held for employee severance benefits	16,577	16,499	4,230
Property and equipment, net	173,757	169,406	44,337
Other assets, net	315,673	291,607	80,549
Other intangible assets, net	162,972	174,640	41,585
Goodwill	411,171	411,171	104,917
Total assets	1,650,882	1,602,972	421,250

The accompanying notes are an integral part of the combined consolidated financial statements.

Consolidated Balance Sheets

	June 30	December 31	Convenience translation into US Dollars \$1 = NIS 3.919
	2009	2008	June 30
	(Unaudited)	(Audited)	2009
	NIS thousands		\$ thousands
Liabilities and shareholders' equity			
Current liabilities			
Current maturities of long-term obligations	62,256	99,295	15,886
Accounts payable	127,876	141,055	32,630
Loan from the parent company	112,635	111,344	28,741
Other payables and accrued expenses	136,631	115,339	34,864
Parent company payable	2,271	1,410	579
Related parties payables	433	2,228	110
Deferred tax liabilities	1,428	-	364
Total current liabilities	443,530	470,671	113,174
Long-term liabilities			
Debentures	334,783	385,919	85,426
Long-term obligations and other payables	-	143	-
Deferred tax liabilities	28,671	25,535	7,316
Liability for employee severance benefits	33,196	32,430	8,470
Total long-term liabilities	396,650	444,027	101,212
Shareholders' equity			
Ordinary shares NIS 0.1 par value	2,536	2,536	647
Additional paid-in capital	614,777	612,009	156,871
Accumulated other comprehensive income (loss)	29,996	(14,645)	7,654
Retained earnings	163,393	88,374	41,692
Total shareholders' equity	810,702	688,274	206,864
Total liabilities and shareholders' equity	1,650,882	1,602,972	421,250

Combined and Consolidated Statements of Operations

	Three month period ended June 30		Six month period ended June 30		Convenience translation into US Dollars \$1 = NIS 3.919
	2009	2008	2009	2008	Six month period ended June 30
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2009
	NIS thousands				\$ thousands
Revenue	290,905	263,607	575,305	526,964	146,799
Cost and operating expenses:					
Cost of revenue	201,821	177,367	395,394	354,057	100,892
Selling and marketing	35,304	36,048	73,097	74,564	18,652
General and administrative	12,739	15,479	25,360	28,281	6,471
Impairment and other charges	-	1,903	-	6,705	-
Total operating expenses	249,864	230,797	493,851	463,607	126,015
Operating income	41,041	32,810	81,454	63,357	20,784
Financial (income) expenses	5,222	24,758	(22,041)	47,345	(5,624)
Income before income taxes	35,819	8,052	103,495	16,012	26,408
Income tax expense, net	9,853	2,486	28,480	4,764	7,267
Net income	25,966	5,566	75,015	11,248	19,141
Earnings per share					
Basic and diluted earnings per share	1.02	0.22	2.96	0.44	0.76
Weighted average number of ordinary shares used in calculation of basic and diluted earnings per share	25,346,272	25,360,000	25,351,023	25,360,000	25,351,023

Combined and Consolidated Statements of Cash Flows

	Three month period ended June 30		Six month period ended June 30		Convenience translation into US Dollars \$1 = NIS 3.919
	2009	2008	2009	2008	Six month period ended June 30
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2009
	NIS thousands				(Unaudited)
					\$ thousands
Cash flows from operating activities:					
Net income	25,966	5,566	75,015	11,248	19,141
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	28,405	26,963	55,742	53,506	14,224
Stock-based compensation	1,239	950	2,478	950	632
Deferred tax expenses (benefit)	5,295	298	8,282	(65)	2,113
Accrued interest on debentures	4,624	5,958	5,420	11,239	1,383
Increase (decrease) in allowance for doubtful accounts, net	-	178	(991)	178	(253)
Increase (decrease) in employee severance benefits, net	656	464	688	(944)	175
Linkage and interest differences on long-term obligations, exchange rate difference and other	3,464	19,401	(245)	38,323	(63)
Realized and unrealized income on marketable securities, net	(22,455)	(4,075)	(23,969)	(4,506)	(6,116)
Changes in assets and liabilities, net of effects of acquisition:					
Trade receivables including non current portion	(1,671)	1,299	(1,724)	(1,295)	(440)
Prepaid expenses and other current assets	20,001	6,368	(3,364)	(157)	(858)
Other assets, net	109	125	215	233	55
Accounts payable	(20,144)	(9,792)	(21,318)	(39,708)	(5,440)
Receivables (payables) from parent company and related parties, net	215	1,359	(934)	5,303	(238)
Other payables and accrued expenses	13,202	(9,650)	21,292	17,819	5,434
Net cash provided by operating activities	58,906	45,412	116,587	92,124	29,749
Cash flows from investing activities:					

Purchase of property and equipment and other assets	(14,991)	(10,779)	(35,943)	(23,497)	(9,171)
Investment in trading marketable securities	(82,998)	(126,398)	(113,028)	(198,654)	(28,841)
Proceeds from sale of marketable securities	124,029	36,917	153,935	36,917	39,279
Net cash provided by (used in) investing activities	26,040	(100,260)	4,964	(185,234)	1,267

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

	Three month period ended June 30		Six month period ended June 30		Convenience translation into US Dollars \$1 = NIS 3.919
	2009	2008	2009	2008	Six month period ended June 30
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2009 (Unaudited)
	NIS thousands				\$ thousands
Cash flows from financing activities:					
Changes in short-term bank credit, net	(21,170)	(61,080)	-	(2,407)	-
Payments in respect of long-term finance arrangement	(9,511)	(9,260)	(26,551)	(12,972)	(6,775)
Purchase of treasury shares at cost	(273)	-	(468)	-	(119)
Repayment of debentures	-	-	(99,960)	-	(25,507)
Net cash used in financing activities	(30,954)	(70,340)	(126,979)	(15,379)	(32,401)
Changes in cash and cash equivalents	53,992	(125,188)	(5,428)	(108,489)	(1,385)
Effect of exchange rate changes	(62)	(10,489)	5,686	(27,328)	1,451
Cash and cash equivalents at beginning of the year	6,980	229,755	60,652	229,895	15,476
Cash and cash equivalents at end of year	60,910	94,078	60,910	94,078	15,542

Reconciliation Table of Non-GAAP Measures

	Three month period ended June 30		Six month period ended June 30		Convenience translation into US Dollars \$1 = NIS 3.919
	2009	2008	2009	2008	Six month period ended June 30 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS thousands				\$ thousands
GAAP operating income	41,041	32,810	81,454	63,357	20,784
<u>Adjustments</u>					
Amortization of acquired intangible assets	5,606	6,820	11,440	13,640	2,919
Other charges	-	1,903	-	6,705	-
Expenses recorded for stock compensation in accordance with SFAS 123(R)	1,239	950	2,478	950	632
Non-GAAP adjusted operating income	47,886	42,483	95,372	84,652	24,335
GAAP tax expenses, net	9,853	2,486	28,480	4,764	7,267
<u>Adjustments</u>					
Amortization of acquired intangible assets included in tax expenses, net	1,487	1,842	2,974	3,683	759
Non-GAAP tax expenses, net	11,340	4,328	31,454	8,447	8,026
Net income as reported	25,966	5,566	75,015	11,248	19,141
Taxes on income	9,853	2,486	28,480	4,764	7,267
Other charges	-	1,903	-	6,705	-
Expenses recorded for stock compensation in accordance with SFAS 123(R)	1,239	950	2,478	950	632
Financial (income) expenses	5,222	24,758	(22,041)	47,345	(5,624)
Depreciation and amortization	28,405	26,963	55,742	53,506	14,224
Adjusted EBITDA	70,685	62,626	139,674	124,518	35,640