

BUSINESS NEWS

FOR IMMEDIATE RELEASE

012 Smile.Communications Reports Financial Results for Q4 and Full Year 2007

- ***For 2007: Record Revenues of NIS 1.1 Billion With a 14% Rise in Core Broadband Business -***
- ***Merger Paying Off: Q4 Gross Margin of 33% & Record 23% EBITDA Margin (Adjusted) -***

PETACH TIKVA, Israel, February 26, 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 fourth quarter and full year ended December 31, 2007.

2007 Highlights

- **Record revenues of NIS 1.1 billion (\$287.1 million) in line with merger projections** - core broadband revenues grew by 14% for the 12 month period
- **Significant margin improvement reflecting synergies of merger and reduced proportion of hubbing revenues-** Gross margin reached 31% for 2007 compared with 27% (pro-forma) for 2006; and 33% for the fourth quarter compared to 25% (pro-forma) for Q4 2006. Adjusted EBITDA margin rose to 22% for the year and 23% for Q4, compared to 18% (pro-forma) for the full year of 2006 and 17% for the Q4 2006.
- **VOB-based domestic telephony business growing in line with plans** - expected to become a major growth engine
- **Significant improvement in capital structure due to IPO:** Cash and equivalents increased from NIS 38.0 million at the end of 2006 to NIS 229.9 million at the end of 2007 and bank debt decreased from NIS 331.6 million to NIS 4.8 million.

Results for the Twelve Month Period

Revenues for the full year ended December 31, 2007 were NIS 1,102.9 million (\$286.7 million), an increase of 221% compared with NIS 343.1 million recorded in 2006. On a pro-forma basis, this represented an increase of 6.2%. Excluding hubbing (low margin wholesale traffic) revenues, which declined significantly in 2007 compared to 2006 according to Management decision to de-emphasize this low margin business, revenues for the year increased by 13%, reflecting a 14% increase in core broadband activities.

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 2006 with Smile.Communications' results for the same period, together with certain adjustments made according to U.S. GAAP (Generally Accepted Accounting Principles) to give effect to the Company's

acquisition of 012 Golden Lines, including amortization and financial expenses resulting from the acquisition, as if it occurred on January 1, 2006.

Adjusted EBITDA^(A) for 2007 increased by 24% to NIS 237.1 million (\$61.6) million compared with NIS 191.7 million in 2006 on a pro-forma basis. Adjusted EBITDA margin for the year was 22% compared with 18% in 2006 on a pro-forma basis.

Net income for the full year December 31, 2007 was NIS 41.0 million (\$10.7 million), or NIS 2.10 (\$0.55) per share, compared with a net loss of NIS 2.0 million, or NIS 0.11 per share, for 2006. On a pro-forma basis, the Company recorded a net loss of NIS 12.1 million, or NIS 0.55 per share, for 2006, reflecting adjustments made in accordance to U.S. GAAP to give effect to amortization and financial expenses resulting from the Company's acquisition of 012 Golden Lines.

For a detailed reconciliation of GAAP to non-GAAP financial information and for more information regarding the use of non-GAAP financial measures, please see the table titled "Reconciliation Table of Non-GAAP Measures" as well as the notes contained in this press release.

Results for the Fourth Quarter

Revenues for the fourth quarter of 2007 were NIS 271.3 million (\$70.5 million) a 179% increase compared with NIS 97.1 million for the fourth quarter of 2006, and a 3% decrease compared with pro-forma revenues for the fourth quarter of 2006. Excluding revenues from hubbing traffic, which declined significantly in the second half of 2007 compared to 2006 as explained above, revenues for the quarter increased by 11%, reflecting a 14% increase in core broadband activities.

Adjusted EBITDA^(A) for the fourth quarter increased by 30% to NIS 61.3 million (\$15.9) million compared with NIS 47.1 million in the fourth quarter of 2006 on a pro-forma basis. Adjusted EBITDA margin for the quarter was 23% compared with 17% in the fourth quarter of 2006 on a pro-forma basis.

Net income for the fourth quarter of 2007 was NIS 7.5 million (\$1.9 million), or NIS 0.33 (\$0.09) per share, compared to a net loss of NIS (12.1) million, or NIS (0.66) per share, recorded in the fourth quarter of 2006. On a pro-forma basis, the Company recorded a net loss of NIS (17.0) million, or NIS (0.77) per share, for the fourth quarter of 2006.

Segment Overview

Broadband: fourth quarter revenues from core broadband activities were NIS 131.3 million (\$34.1 million), an increase of 169% compared with NIS 48.9 million for the fourth quarter of 2006. On a pro-forma basis, this represented an increase of 14%.

The Company has ramped up the marketing of its domestic VOB-based telephony services, connecting new subscribers at a rate in line with a plan aimed at achieving 5% market share by the end of 2009. These efforts are benefiting from the number portability program launched by Israel's Ministry of Communications on December 2, 2007, an initiative designed to make it easier for customers to switch service providers.

The Company continues to build its reputation as one of the market's most technologically advanced IT integrators. During the quarter, it won a major contract to deploy an extensive Wi-Fi Internet Access system for Tel Aviv's Sheba Medical Center, and after the quarter a

major competitive tender from Israel's Airport Authority to become its exclusive provider of international telephony services. In addition, after the quarter the Company was granted a five-year license to provide endpoint network services at its customers' premises, enabling it to provide complete, end-to-end communications solutions.

- **Traditional telephony:** fourth quarter revenues from traditional telephony services were NIS 140.0 million (\$36.4 million), an increase of 190% compared with NIS 48.3 million for the fourth quarter of 2006. On a pro-forma basis, this represented a decrease of 14%.

In general, the Company's incoming and outgoing international long-distance telephony activities continue to be a strong and steady cash generator for the Company. In contrast, its revenues from hubbing activities are subject to market fluctuations and contract opportunities available to the Company at any specific point in time. Although Management intends to continue pursuing hubbing contracts as an avenue for profiting from its existing network capacity, it does not view hubbing as a core activity, and expects hubbing revenues to continue to vary from quarter to quarter.

Comments of Management

Commenting on the results, Ms. Stella Handler, CEO of 012 Smile.Communications, said, "2007 was an exciting year during which we completed the merger of our two companies, launched domestic telephony services, listed our shares on the Nasdaq and TASE exchanges, and carried out an optimization process on our operating structure – all while achieving strong, continuous growth of our core broadband services. The success of these efforts has established our company as one of Israel's major communications providers, and 012 Smile as one of the market's strongest brands. Our goal in the year ahead is to take full advantage of our brand, technological leadership and lean cost structure as we expand the market share of our existing businesses, establish a strong presence in the domestic telephony market, and continue to examine WiMAX feasibility."

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.

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, 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 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 December 31, 2007 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of December 31, 2007 (NIS 3.8460 = 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>.

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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

	December 31		Convenience translation into U.S. dollars \$1 = NIS 3.846
	2007	2006	December 31
	(Unaudited)	(Audited)	2007
	NIS thousands		\$ thousands
Current assets			
Cash and cash equivalents	229,895	37,987	59,775
Short-term investments	-	883	-
Trade receivables, net	190,604	193,852	49,559
Parent company receivable	6,553	325	1,704
Related parties receivables	2,161	2,012	562
Prepaid expenses and other current assets	19,804	21,920	5,149
Deferred taxes	7,247	3,445	1,884
Total current assets	<u>456,264</u>	<u>260,424</u>	<u>118,633</u>
Investments			
Long-term trade receivables	3,460	2,951	900
Deferred taxes	14,648	15,650	3,809
Assets held for employee severance benefits	18,453	15,924	4,798
Total Investments	<u>36,561</u>	<u>34,525</u>	<u>9,507</u>
Property and equipment, net	<u>160,211</u>	<u>155,367</u>	<u>41,656</u>
Other assets, net	295,592	276,219	76,857
Other intangible assets, net	202,376	234,871	52,620
Goodwill	411,171	410,156	106,909
Total assets	<u><u>1,562,175</u></u>	<u><u>1,371,562</u></u>	<u><u>406,182</u></u>

Consolidated Balance Sheets (cont'd)

	December 31		Convenience translation into U.S. dollars \$1 = NIS 3.846
	2007 (Unaudited) NIS thousands	2006 (Audited)	December 31 2007 (Unaudited) \$ thousands
Current liabilities			
Short-term bank credit	4,750	331,639	1,235
Current maturities of long-term obligations	3,558	11,497	925
Payables in respect of 012 acquisition	-	584,621	-
Account payables	156,332	149,020	40,648
Loan from the Parent Company	105,733	-	27,492
Other payables and accrued expenses	102,096	66,322	26,546
Total current liabilities	372,469	1,143,099	96,846
Long-term liabilities			
Debentures	437,460	-	113,744
Long-term obligations	2,836	2,871	737
Long-term trade and other payables	20,458	1,365	5,320
Deferred taxes	41,526	49,855	10,797
Liability for employee severance benefits	32,318	29,823	8,403
Total long-term liabilities	534,598	83,914	139,001
Total liabilities	907,067	1,227,013	235,847
Shareholders' equity and parent company investment	655,108	144,549	170,335
Total liabilities shareholders' equity and parent company investment	1,562,175	1,371,562	406,182

Consolidated Statements of Operations

	Year ended December 31			Convenience translation into U.S. dollars \$1 = NIS 3.846
	2007	2006	2005	Year ended December 31
	(Unaudited)	(Audited)	(Audited)	2007
	NIS thousands			(Unaudited) \$ thousands
Revenues	1,102,888	343,086	244,376	286,762
Costs and expenses				
Cost of revenues	760,705	224,565	136,856	197,791
Selling and marketing expenses	157,304	59,864	60,595	40,901
General and administrative expenses	57,984	22,921	22,859	15,076
Impairment and other charges	10,433	10,187	-	2,713
Total costs and expenses	986,426	317,537	220,310	256,481
Income from operations	116,462	25,549	24,066	30,281
Financial expenses, net	52,043	17,266	5,342	13,532
Income before tax expenses	64,419	8,283	18,724	16,749
Tax expenses	23,462	10,315	6,972	6,100
Net income (loss)	40,957	(2,032)	11,752	10,649
Income (loss) per share				
Basic and diluted earnings (loss) per share (in NIS)	2.1	(0.11)	0.64	0.55
Weighted average number of ordinary shares used in Calculation of basic and diluted earnings (loss) per share	19,493,329	18,370,000	18,370,000	19,493,329

Reconciliation Table of Non-GAAP Measures

	Year ended December 31	
	2007	2006
	(Unaudited)	
	NIS thousands	
GAAP operating income	116,462	25,549
Adjustments		
Amortization of acquired intangible assets	31,938	-
Non-recurring expenses	10,433	10,187
Non-GAAP adjusted operating income	158,833	35,736
GAAP tax expenses (benefit), net	23,462	10,315
Adjustments		
Amortization of acquired intangible assets included in tax expenses, net	9,262	-
Non-GAAP tax expenses (benefit), net	32,724	10,315
Net income (loss) as reported	40,957	(2,032)
Taxes on income	23,462	10,315
Non-recurring expenses	10,433	10,187
Financial expenses	52,043	17,266
Depreciation and amortization	110,243	11,297
Adjusted EBITDA	237,138	47,033