

BUSINESS NEWS

FOR IMMEDIATE RELEASE

012 Smile.Communications Reports Record Revenues & EBIT for Q3 2008

-- Continued High Profitability: 23% EBITDA Margin and 12% EBIT Margin for the 9-Month Period -

PETACH TIKVA, Israel, November 12, 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 three and nine-month periods ended September 30, 2008.

Highlights

- **Record revenues: NIS 282 million (\$82 million)**, up 1% year-over-year; excluding the effect of the decrease in the dollar-shekel exchange rate and the reduction in hubbing revenues, up 12%
- **Record EBIT:** up 9% year-over-year to a record of NIS 34 million (\$10 million)
- **Continued high profitability:** 23% EBITDA margin and 12% EBIT margin for the nine months ended September 30, 2008
- **Continued strong cash flow performance:** operating cash-flow for the quarter was NIS 47 million (\$14 million)
- **On-track performance in VOB-based domestic telephony business:** over 85,000 subscriber lines achieved to date in line with goals and business plan
- **Continued progress towards entry into Israel's mobile market**

Results for the Third Quarter

Revenues: Revenues for the third quarter of 2008 were NIS 282 million (\$82 million), a 1% increase as compared with NIS 280 million for the third quarter of 2007, and a 7% increase compared sequentially with NIS 264 million for the second quarter of 2008. This increase was attributable to a 14% increase in revenues from the Company's broadband services, which compensated for the 35% year-over-year decrease in low-margin hubbing services (wholesale traffic) and the decrease in the average shekel-dollar exchange rate. During the third quarter of 2008, the average shekel-dollar exchange rate declined by 16% (compared to the average exchange rate prevailing in Q3 2007), significantly reducing the shekel value of the Company's dollar-linked revenues (approximately 33% of the Company's overall revenues). Excluding the effect of the decrease in the dollar-shekel

exchange rate and the reduction in hubbing revenues, revenues were up by 12% on a year-over-year basis.

Operating Results: Operating Income (EBIT) for the third quarter increased to a record NIS 34 million (\$9.9 million), a 9% increase compared with the third quarter of 2007, and a 3% increase compared sequentially to the second quarter of 2008. Adjusted EBITDA for the third quarter was NIS 63 million (\$18.4 million), a 2% increase compared with the third quarter of 2007. Adjusted EBITDA margin increased to 22.2% from 21.9% in the comparable period of 2007. *For more information regarding the use of non-GAAP financial measurements, please see the notes contained in this press release.*

Financing Expenses: Financing expenses for the third quarter totaled NIS 18 million (\$5.3 million) compared with NIS 14 million in the third quarter of 2007. Similar to the second quarter, this reflected primarily the increase in the Israeli CPI to which the Company's bonds are linked.

Net Results: Net income for the third quarter of 2008 was NIS 12.5 million (\$3.7 million), or NIS 0.49 (\$0.15) per share, compared to NIS 12.3 million, or NIS 0.67 per share (pre IPO number of shares), for the third quarter of 2007, and to NIS 5.6 million, or NIS 0.22 per share, in the second quarter of 2008.

Segment Overview

- **Broadband:** third quarter revenues from core broadband activities were NIS 140 million (\$40.9 million), an increase of 14% compared with the third quarter of 2007, and 7% compared sequentially with the second quarter of 2008. This reflects the steady stability of the Company's broadband customers, together with the consecutive increase in the number of the company's VOB customers. Taken as a whole, broadband revenues now represent approximately 50% of the Company's total revenues compared to 44% in the third quarter of 2007. To date, the Company has enrolled over 85,000 VOB-based telephony subscribers, which is in line with its plan for reaching over 90,000 subscribers by the end of 2008 and a 5% market share by the end of 2009.
- **Traditional telephony:** third quarter revenues from traditional telephony services were NIS 142 million (\$41.4 million), representing approximately 50% of the Company's revenues. This is a 10% decrease compared with the third quarter of 2007, reflecting the 35% reduction in hubbing services, as well as the decline in the average shekel-dollar exchange rate, which decreased the shekel value of dollar-denominated sales. Excluding the effect of the decrease in the shekel-dollar exchange rate and the decline in low-margin hubbing revenues, revenues from this segment increased by 4% on a year-over-year basis.

Balance Sheet: The Company's cash, cash equivalents and short term investments as of September 30, 2008 were NIS 277 million (\$81 million), compared with NIS 24 million as of September 30, 2007 and NIS 230 million as of December 31, 2007.

Comments of Management

Commenting on the results, Ms. Stella Handler, CEO of 012 Smile.Communications, said, "We are proud to report record revenues and EBIT for the third quarter, demonstrating the stability and steadiness of our business despite the uncertain economic environment. To date, we continue to achieve on-track growth in all of our core broadband activities, including our local telephony business, which has enrolled 85,000 subscriber lines. We have also benefited from the quarter's strengthening of the shekel-dollar exchange rate (compared to the previous quarter), a trend which has continued to work in our favor during the fourth quarter."

Ms. Handler continued, "As is prudent in today's global economic environment, we have adopted an even more cautious approach towards expenses and investments. Nonetheless, we continue to prepare for a future entry into Israel's mobile market, a direction we believe has the potential to take our company to the next level."

Conference Call Information

Management will host an interactive teleconference to discuss the results today, November 12, 2008, at 09:00 a.m. EST. To participate, please call one of the following access numbers several minutes before the call begins: 1-888-407-2553 from within the U.S. or 1866-9586-867 from within Canada, 0-800-917-5108 from within the U.K., or +972 3 918-0691 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 September 30, 2008 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of September 30, 2008 (NIS 3.4210 = 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 - News) 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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Consolidated Balance Sheets

	September 30 2008 (Unaudited) NIS thousands	December 31 2007 (Audited)	Convenience translation into U.S. dollars \$1 = NIS 3.421 September 30 2008 (Unaudited) \$ thousands
Current assets			
Cash and cash equivalents	52,831	229,895	15,443
Short-term investments	223,996	-	65,477
Trade receivables, net	201,992	194,964	59,045
Parent company receivable	-	6,553	-
Related parties receivables	1,535	2,161	449
Prepaid expenses and other current assets	21,479	19,804	6,278
Deferred taxes	8,316	9,396	2,431
Total current assets	510,149	462,773	149,123
Investments			
Long-term trade receivables	3,700	3,460	1,082
Assets held for employee severance benefits	19,497	18,453	5,699
Total investments	23,197	21,913	6,781
Property and equipment, net	163,379	160,211	47,758
Other assets, net	290,514	295,592	84,921
Other intangible assets, net	181,574	202,376	53,076
Goodwill	411,171	411,171	120,190
Total assets	1,579,984	1,554,036	461,849

Consolidated Balance Sheets (cont'd)

	September 30 2008 (Unaudited) NIS thousands	December 31 2007 (Audited)	Convenience translation into U.S. dollars \$1 = NIS 3.421
			September 30 2008 (Unaudited) \$ thousands
Current liabilities			
Short-term bank credit	1,880	2,407	550
Current maturities of long-term obligations and debentures	98,187	3,558	28,701
Accounts payable	142,182	164,535	41,562
Loan from the parent company	110,016	105,733	32,159
Related parties payables	343	-	100
Other payables and accrued expenses	101,644	101,661	29,712
Total current liabilities	454,252	377,894	132,784
Long-term liabilities			
Debentures	398,895	437,460	116,602
Long-term obligations	508	2,836	149
Long-term trade and other payables	-	20,458	-
Deferred taxes	25,350	29,027	7,410
Liability for employee severance benefits	32,456	32,318	9,487
Total long-term liabilities	457,209	522,099	133,648
Total liabilities	911,461	899,993	266,432
Shareholders' equity and parent company investment	668,523	654,043	195,417
Total liabilities, shareholders' equity and parent company investment	1,579,984	1,554,036	461,849

Consolidated Statements of Operations

	Three-month period ended		Nine-month period ended		Convenience
	September 30		September 30		translation
	2008	2007	2008	2007	into dollars
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	\$1 = NIS 3.421
	NIS thousands				Nine-month
					period ended
					September 30
					2008
					(Unaudited)
					\$ thousands
Revenues	281,803	280,283	808,767	831,581	236,412
Costs and expenses					
Cost of revenues	193,156	191,352	547,213	578,704	159,957
Selling and marketing expenses	40,742	40,077	115,306	118,245	33,705
General and administrative expenses	14,118	14,916	42,399	41,440	12,394
Other charges	-	3,041	6,705	4,948	1,960
Total costs and expenses	248,016	249,386	711,623	743,337	208,016
Income from operations	33,787	30,897	97,144	88,244	28,396
Financial expenses, net	17,966	14,255	65,311	38,015	19,091
Income before tax expenses	15,821	16,642	31,833	50,229	9,305
Tax expenses	3,300	4,361	8,064	16,787	2,357
Net income	12,521	12,281	23,769	33,442	6,948
Income per share					
Basic and diluted earnings per share (in NIS)	0.49	0.67	0.94	1.82	0.27
Weighted average number of ordinary shares used in calculation of basic and diluted earnings per share	25,360,000	18,370,000	25,360,000	18,370,000	25,360,000

Reconciliation Table of Non-GAAP Measures (NIS in thousands)

	Three-month period ended		Nine-month period ended		Convenience	
	September 30		September 30		translation	
	2008	2007	2008	2007	into dollars	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	\$1 = NIS 3.421	
	NIS thousands				Nine-month	
					period ended	
					September 30	
					2008	
					(Unaudited)	
					\$ thousands	
GAAP operating income	33,787	30,897	97,144		88,244	28,396
<u>Adjustments</u>						
Amortization of acquired intangible assets	6,820	7,985	20,460		23,955	5,981
Other charges		3,041	6,705		4,948	1,960
Expenses recorded for stock compensation in accordance with SFAS 123(R)	1,239	-	2,189		-	640
Non-GAAP adjusted operating income	41,846	41,923	126,498		117,147	36,977
GAAP tax expenses (benefit), net	3,300	4,361	8,064		16,787	2,357
<u>Adjustments</u>						
Amortization of acquired intangible assets included in tax expenses, net	1,841	2,316	5,524		5,970	1,615
Non-GAAP tax expenses (benefit), net	5,141	6,677	13,588		22,757	3,972
Net income as reported	12,521	12,281	23,769		33,442	6,948
Taxes on income	3,300	4,361	8,064		16,787	2,357
Other charges	-	3,041	6,705		4,948	1,960
Expenses recorded for stock compensation in accordance with SFAS 123(R)	1,239	-	2,189		-	640
Financial expenses	17,966	14,255	65,311		38,015	19,091
Depreciation and amortization	27,541	27,513	81,047		82,631	23,691
Adjusted EBITDA	62,567	61,451	187,085		175,823	54,687