

012 Smile.Communications Reports Results: Third Quarter Revenues Reach NIS 294 Million

- - -

278% Increase in Net Income for Nine Month Period

PETACH TIKVA, Israel – November 18, 2009 – 012 Smile.Communications (NASDAQ Global Market and TASE: SMLC), an Israeli telecommunications service provider, today reported financial results for the three and nine month periods ended September 30, 2009.

Results for the Third Quarter

- Total revenues increased by 4% to NIS 294 million (US \$78 million)
- Revenues from the Broadband segment increased by 6%
- Operating income increased by 11% to NIS 37 million (US \$10 million)
- Net income increased by 19% to NIS 15 million (US \$4 million) or NIS 0.59 per share (US \$0.16 per share)
- Total of 136,000 local telephony lines as of the end of the quarter
- Cash flow from operations for the quarter increased by 36% to NIS 64 million (US\$17 million)

Revenues for the third quarter increased by 4% to NIS 294 million (US \$78 million) compared with NIS 282 million for the parallel period of 2008. Revenues from broadband services increased by 6% to NIS 148 million (US \$39 million) for the period compared with NIS 140 million for the third quarter of 2008. Revenues from traditional voice services totaled NIS 146 million (US \$39 million) compared to NIS 142 million for the same period in 2008.

Operating income for the third quarter increased by 11% to NIS 37 million (US \$10 million) compared with NIS 34 million for the third quarter of 2008.

Adjusted EBITDA for the third quarter increased by 11% to NIS 70 million (US \$19 million) compared with NIS 63 million for the parallel period of 2008. *For more information regarding the use of non-GAAP financial measures, please see the notes in this press release.*

Net income for the quarter increased by 19% to NIS 15 million (US \$4 million), or NIS0.59 per fully diluted share, compared to NIS 13 million, or NIS 0.49 per fully diluted share, for the third quarter of 2008.

The Company's net financial debt as of September 30, 2009 was NIS 145 million (US \$39 million), a decrease of NIS 157 million from NIS 302 million as of the end of 2008. The reduction reflects the Company's ability to pay down its debt due to the positive cash flow it generated during the first nine months of 2009.

Comments of Management

Commenting on the results, Ms. Stella Handler, CEO of 012 Smile.Communications, said, "We are pleased to report another quarter of strong revenues and EBITDA, demonstrating the continued progress of our operating segments, both of which are focused on increased efficiency and growth. The combination of higher revenues and reduced operating expenses has enabled us to deliver a 278% increase in our net income for the nine-month period despite the strengthening of the shekel against the U.S. dollar, a macroeconomic factor that has increased our financing expenses significantly. In parallel, we have achieved the customer acquisition targets that we set for ourselves last year and are benefiting from a steady increase in our retention rates."

Ms. Handler continued, "As previously announced, we recently entered into an agreement to acquire the controlling stake of Bezeq, The Israel Telecommunication Corp., Israel's largest telecommunications provider (TASE: BZEQ). In addition, as reported earlier this week, we signed an agreement with a wholly owned subsidiary of Ampal-American Israel Corporation (Nasdaq: AMPL) to sell 012 Smile.Communication's current ongoing business for NIS 1.2 billion, or approximately \$318 million. This sale represents an important step in finalizing 012 Smile.Communication's agreement to acquire the controlling stake of Bezeq, which we expect to occur prior to April 25, 2010."

Conference Call Information: Management will host an interactive teleconference to discuss the results today, November 18, 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 September 30, 2009 have been presented in thousands of U.S. dollars, translated at the representative rate of exchange as of September 30, 2009 (NIS 3.75 = 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 75.3% 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 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 www.012.net.

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.

For further information, please contact:

012 Smile.Communications Ltd
+972-72-2003848
i.azulay@smile.net.il

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

	September 30 2009	December 31 2008	Convenience translation into US Dollars \$1 = NIS 3.758 September 30 2009
	NIS thousands	NIS thousands	\$ thousands
Current assets			
Cash and cash equivalents	62,427	60,652	16,612
Marketable securities	315,585	76,742	83,977
Trade receivables, net of allowance for doubtful accounts of NIS 12,730 and NIS 13,139 at December 31, 2008 and September 30, 2009	188,852	203,009	50,253
Prepaid expenses and other current assets	20,667	23,038	5,499
Deferred tax assets	-	17,838	-
Total current assets	587,531	381,279	156,341
Long-term trade receivables	6,260	6,350	1,666
Marketable securities	-	152,020	-
Assets held for employee severance benefits	20,547	16,499	5,468
Property and equipment, net	177,204	169,406	47,154
Other assets, net	316,960	291,607	84,343
Other intangible assets, net	157,138	174,640	41,814
Goodwill	411,171	411,171	109,412
Total assets	1,676,811	1,602,972	446,198

Consolidated Balance Sheets

	September 30 2009	December 31 2008	Convenience translation into US Dollars \$1 = NIS 3.758 September 30 2009
	NIS thousands	NIS thousands	\$ thousands
Liabilities and shareholders' equity			
Current liabilities			
Current maturities of long-term obligations	67,884	99,295	18,064
Accounts payable	133,405	141,055	35,499
Loan from the parent company	113,225	111,344	30,129
Other payables and accrued expenses	118,726	115,339	31,593
Parent company payable	2,577	1,410	686
Related parties payables	1,923	2,228	512
Deferred tax liabilities	3,448	-	918
Total current liabilities	<u>441,188</u>	<u>470,671</u>	<u>117,401</u>
Long-term liabilities			
Debentures	342,810	385,919	91,221
Long-term obligations and other payables	-	143	-
Deferred tax liabilities	25,995	25,535	6,917
Liability for employee severance benefits	36,093	32,430	9,604
Total long-term liabilities	<u>404,898</u>	<u>444,027</u>	<u>107,742</u>
Shareholders' equity			
Ordinary shares NIS 0.1 par value	2,536	2,536	675
Additional paid-in capital	616,016	612,009	163,921
Accumulated other comprehensive income (loss)	33,925	(14,645)	9,027
Retained earnings	178,248	88,374	47,432
Total shareholders' equity	<u>830,725</u>	<u>688,274</u>	<u>221,055</u>
Total liabilities and shareholders' equity	<u><u>1,676,811</u></u>	<u><u>1,602,972</u></u>	<u><u>446,198</u></u>

Consolidated Statements of Operations

	Three-month period ended		Nine-month period ended		Convenience translation into US Dollars \$1 = NIS 3.758
	September 30		September 30		Nine month period ended
	2009	2008	2009	2008	September 30
	NIS thousands				\$ thousands
Revenue	293,703	281,803	869,008	808,767	231,242
Cost and operating expenses:					
Cost of revenue	206,742	193,156	602,136	547,213	160,227
Selling and marketing	35,695	40,742	108,792	115,306	28,949
General and administrative	13,919	14,118	39,279	42,399	10,452
Impairment and other charges	-	-	-	6,705	-
Total operating expenses	256,356	248,016	750,207	711,623	199,628
Operating income	37,347	33,787	118,801	97,144	31,614
Financial (income) expenses	21,740	17,966	(301)	65,311	(80)
Income before income taxes	15,607	15,821	119,102	31,833	31,694
Income tax expense, net	753	3,300	29,233	8,064	7,780
Net income	14,854	12,521	89,869	23,769	23,914
Earnings per share					
Basic and diluted earnings per share	0.59	0.49	3.55	0.94	0.94
Weighted average number of ordinary shares used in calculation of basic and diluted earnings per share	25,340,770	25,360,000	25,347,593	25,360,000	25,347,593

Consolidated Statements of Cash Flows (cont'd)

	Three month period ended		Nine month period ended		Convenience
	September 30		September 30		translation
	2009	2008	2009	2008	into US Dollars
	NIS thousands				\$1 = NIS 3.758
					Nine-month
					period ended
					September 30
					2009
					\$ thousands
Cash flows from financing activities:					
Changes in short-term bank credit, net	-	1,880	-	(527)	-
Payments in respect of long-term finance arrangement	(10,048)	(6,046)	(36,599)	(19,018)	(9,739)
Purchase of treasury shares at cost	-	-	(468)	-	(125)
Repayment of debentures	-	-	(99,960)	-	(26,599)
Net cash used in financing activities	(10,048)	(4,166)	(137,027)	(19,545)	(36,463)
Changes in cash and cash equivalents	1,236	(43,746)	(4,192)	(152,235)	(1,115)
Effect of exchange rate changes	281	2,499	5,967	(24,829)	1,588
Cash and cash equivalents at beginning of the year	60,910	94,078	60,652	229,895	16,139
Cash and cash equivalents at end of year	62,427	52,831	62,427	52,831	16,612

Reconciliation Table of Non-GAAP Measures

	Three month period ended		Nine month period ended		Convenience translation into US Dollars \$1 = NIS 3.758
	September 30		September 30		Nine-month period ended September 30
	2009	2008	2009	2008	2009
	NIS thousands				\$ thousands
GAAP operating income	37,347	33,787	118,801	97,144	31,614
<u>Adjustments</u>					
Amortization of acquired intangible assets	5,720	6,820	17,160	20,460	4,565
Other charges	-	-	-	6,705	-
Expenses recorded for stock compensation in accordance with ASC 718 (previously SFAS 123(R))	1,239	1,239	3,717	2,189	989
Non-GAAP adjusted operating income	<u>44,306</u>	<u>41,846</u>	<u>139,678</u>	<u>126,498</u>	<u>37,168</u>
GAAP tax expenses, net	753	3,300	29,233	8,064	7,780
<u>Adjustments</u>					
Amortization of acquired intangible assets Included in tax expenses, net	8,787	1,841	11,761	5,524	3,128
Non-GAAP tax expenses, net	<u>9,540</u>	<u>5,141</u>	<u>40,994</u>	<u>13,588</u>	<u>10,908</u>
Net income as reported	14,854	12,521	89,869	23,769	23,914
Taxes on income	753	3,300	29,233	8,064	7,780
Other charges	-	-	-	6,705	-
Expenses recorded for stock compensation in accordance with SFAS 123(R)	1,239	1,239	3,717	2,189	989
Financial (income) expenses	21,740	17,966	(301)	65,311	(80)
Depreciation and amortization	31,086	27,541	86,828	81,047	23,104
Adjusted EBITDA	<u>69,672</u>	<u>62,567</u>	<u>209,346</u>	<u>187,085</u>	<u>55,707</u>

