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# SHL TeleMedicine Ltd. Corporate Governance Report

## Introduction

The corporate governance framework of SHL Telemedicine Ltd. ("SHL") reflects a system of checks and balances among the powers of the shareholders, the Board of Directors and the management with the goal to safeguard the interests of SHL and its shareholders while creating sustainable value. SHL is committed to creating transparent, progressive and sustainable corporate management and strives to continuously improve these checks and balances.

**Documents related to SHL's corporate governance can be accessed at the Corporate Governance section of the SHL website (<http://www.shl-telemedicine.com/investors-relations/corporate-governance/>).**

## Changes in the Financial Year 2015

In the year under review, the Board of the Directors of the Company (the "Board") elected a new Chairman, Mr. Oren Most. Mr. Eliyahu Ayalon resigned from his position as a director of the Company, and Mr. Eli Alroy and Uzi Blumensohn were elected by the Board to fill in existing vacancies on the Board. The previously elected directors, Mr. Oren Most, Mr. Elon Shalev, Mr. Ziv Carthy, Mr. Elad Magal and Mr. Amnon Sorek as "regular directors", as well as Ms. Nehama Ronen and Dr. Ruth Ben Yakar as independent (external) directors, continued in their position in the year under review. The term of "regular" directors ended at the Annual General Meeting held on February 24, 2016 (the "AGM"). Ms. Ronen is serving her third and last three (3) year term as an independent (external) director until September 10, 2016 and Dr. Ruth Ben Yakar is serving her first three (3) year term as an independent (external) director until the Annual General Meeting in 2017.

At the AGM, Mr. Eli Alroy, Mr. Uzi Blumensohn, Mr. Amnon Sorek and Mr. Elon Shalev were re-elected as directors, and Mr. Erez Alroy, Mr. Eyal Bakshi and Dr. Amir Lerman were newly elected to the Board, all such directors to serve until the next Annual General Meeting. Mr. Ziv Carthy, Mr. Elad Magal and Mr. Oren

Most finished their service on the Board as of February 24, 2016. Resumes of newly elected directors can be viewed on the Company's website at (<http://www.shl-telemedicine.com/about-us/board-of-directors/>).

On February 25, 2016, Mr. Uzi Blumensohn was elected as the new Chairman of the Board, effective as of such date.

In 2015 Mr. Amnon Sorek was elected as a member of the Company's Audit Committee replacing Mr. Ayalon, and Mr. Eli Alroy was appointed as a member to the Company's Compensation Committee, replacing Mr. Ayalon until the AGM (for further information regarding the members of the Audit Committee and the Compensation Committee and their respective tasks, please refer to Section 3 below). Membership in such committees following the AGM has not yet determined.

Although not required under applicable law, on March 18, 2015 a committee for the examination of the Company's financial statements was appointed by the Board. Such committee was comprised of three (3) members: Ms. Nehama Ronen, Dr. Ruth Ben Yakar and Mr. Amnon Sorek, who served until the AGM (for further information regarding the members of the Committee for the Examination of the Financial Statements and the committee's tasks, please refer to Section 3 below). Membership in such committees following the AGM has not yet determined.

In July 2015 the Company entered into an Agreement and Plan of Merger with Shanghai Jiuchuan Investment (Group) Co. Ltd. ("Parent") and its Israeli subsidiary Jinoran Mergers (2015) Ltd. ("Merger Sub"), pursuant to which it had been contemplated, amongst others, that the Company would become a wholly owned subsidiary of the Parent and that each Ordinary Share and each American Depositary Share of the Company (as well as options) outstanding immediately prior to the effective time of the

merger not owned by Parent, Merger Sub or the Company would be converted into the right to receive a certain cash consideration. Parent and Merger Sub failed to consummate the proposed transaction and on December 1, 2015 the Company used its right to terminate the merger agreement. Following such termination the Company filed legal action against the Parent and the Merger Sub. (For further information, please see the Company's ad-hoc publications on July 27, 2015, August 6, 2015, September 10, 2015, October 14, 2015, November 12, 2015 and December 1, 2015).

In the year under review, a CEO Search Committee was appointed by the Board. Such committee was comprised of three (3) members: Mr. Oren Most, Dr. Ruth Ben Yakar and Mr. Eli Alroy (for further information regarding the members of the CEO Search Committee and the committee's tasks, please refer to Section 3 below).

On January 15, 2016, Mr. Yariv Alroy and Mr. Erez Alroy, the Company's previous Co-CEOs, stepped down from all their positions in the Company and its subsidiaries. This was following the expiration of their agreements with the Company after the lapse of the notice period, and a further continuation in office without consideration, inter alia in view of facilitating the merger transaction mentioned above and the smooth transfer of their respective positions.

In January 2016, following a unanimous recommendation by the CEO Search Committee, the Board appointed Mr. Yuval Shaked as the new CEO of the Company, effective as of March 2, 2016.

The Company's 2005 Executive and Key Employee Israeli Share Option Plan was extended for three (3) additional years and has been renamed the "2015 Executive and Key Employee Israeli Share Option Plan" (for further details, please see Section 2.2 below). In addition, the Company has approved certain amendments to its Office Holder Compensation Policy (for further details, please see Section 5.1 below).

On March 31, 2015 the Company completed the acquisition of GPH (Gesellschaft für Patientenhilfe DGP mbH), based in Munich, for a cash purchase price of € 7.6 million. GPH's nationwide German telemedicine program Cordiva cares for approximately 10,000 chronic heart failure patients.

## **Laws and regulations**

The principles and rules of SHL on corporate governance are laid down in the Articles of Association of SHL, the Israeli Companies Law - 1999 (the "Israeli Companies Law") and the regulations promulgated thereunder, as well as other Israeli legislation applicable to SHL. As SHL is traded on the SIX Swiss Exchange, it has additionally taken upon itself to comply with certain reporting requirements of the listing rules of the SIX Swiss Exchange. In addition, certain reporting requirements apply to it directly as a foreign issuer with a main trading market on the SIX Swiss Exchange (for further information, please refer to Section 9 below).

SHL has a Level 1 ADR Program (the "ADR Program") in place but it is currently not subject to full reporting obligations to the U.S. Securities and Exchange Commission ("SEC") in connection therewith, subject inter alia to publication of certain information in English on its website pursuant to the applicable SEC regulation (see Section 9 below).

The information presented here is updated as of December 31, 2015, unless otherwise noted, and was prepared in accordance with the Corporate Governance Directive of the SIX Swiss Exchange.

## **1. Group Structure and Shareholders**

### **1.1 Group Structure**

#### **1.1.1 Operational Group Structure:**

SHL Telemedicine Ltd. is a company incorporated in Israel whose shares are publicly traded on the SIX Swiss Exchange under the symbol SHLTN (see Section 1.1.2 for additional information on the Company). SHL and its subsidiaries develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical

data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine systems are designed to improve quality of care and life for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health.

During 2015 the Company and its subsidiaries in Israel, Germany, the U.S. and India operated in one business segment - telemedicine services.

Telemedicine services are the provision of telemedicine services and devices to subscribers utilizing telephonic and internet communication technology. SHL's telemedicine solutions offer centralized remote diagnostic and monitoring services to end-users, making use of computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platforms offer solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.

SHL Telemedizin GmbH, an indirectly wholly owned subsidiary of the Company, together with its subsidiaries Almeda Gesundheitservices GmbH, Gesellschaft für Patientenhilfe DGP mbH (acquired in the year under review) and SHL Telemedizin Europe GmbH (together "SHL Germany"), operate in the German market and provide telemedicine services to patients in Germany, mainly through German health insurers. SHL Germany is run as a stand-alone business and enjoys a high degree of autonomy, with its own management, whereby corporate headquarters at SHL provides certain central functions (such as business development and accounting), as well as oversight and control on an ongoing basis (see below).

SHL Telemedicine Ltd. and its Israeli subsidiaries Shahal Haifa - Medical Services Ltd. and Shahal Rashlatz-Rehovot Medical Services Ltd. (together "SHL Israel") operate in the Israeli market and provide telemedicine services mainly to private paying subscribers. SHL Israel is run as a stand-alone business and enjoys a high degree of autonomy, with its own management, with

corporate headquarters providing certain central functions (such as business development and accounting), as well as oversight and control on an ongoing basis.

SHL Telemedicine USA, Inc. operates in the US market ("SHL USA") and sells telemedicine devices and services to healthcare professionals and private paying subscribers. SHL USA is active mainly in business development and sales and marketing activities together with corporate management.

SHL Telemedicine India Private Limited conducts the group's activities in India ("SHL India") and sells telemedicine devices and services to healthcare professionals and private paying subscribers. SHL India is active mainly in business development and sales and marketing activities together with corporate management.

Research and development activities are conducted by SHL Telemedicine International Ltd. ("SHL INT"). Production of devices is outsourced by SHL INT to third party manufacturers with telemedicine devices being sold by SHL INT to SHL Germany, SHL Israel, SHL USA and SHL India. In addition, SHL INT provides software development and maintenance services to all group entities.

Corporate management is located at SHL Telemedicine and SHL INT and is active in performing its corporate duties, i.e. group management, business development, finance and oversight and control on an ongoing basis of its different territories (SHL Germany, SHL Israel, SHL USA, SHL India and SHL INT).

#### **1.1.2 Description of the material group companies belonging to the SHL group:**

SHL Telemedicine Ltd. ("SHL") - SHL's authorized share capital is comprised of New Israel Shekels ("NIS") 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each. As of December 31, 2015, SHL's issued and outstanding share capital was NIS 104,893,333 divided into 10,489,333 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 389,158 ordinary shares of NIS 0.01 par value each held by SHL). For additional information

regarding the implications of the purchase by a company of its own shares, see Section “The Ordinary Shares, Voting Rights” on pag 18. The registered shares of SHL are traded on the main board of the SIX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As of December 31, 2015, SHL’s market capitalization was CHF 66.4 million. SHL’s registered office is located at 90 Yigal Alon Street (Ashdar Building), Tel-Aviv, Israel. None of the issued and outstanding share capital of SHL is held by SHL’s subsidiaries.

#### Non-Listed Companies Belonging to the SHL Group:

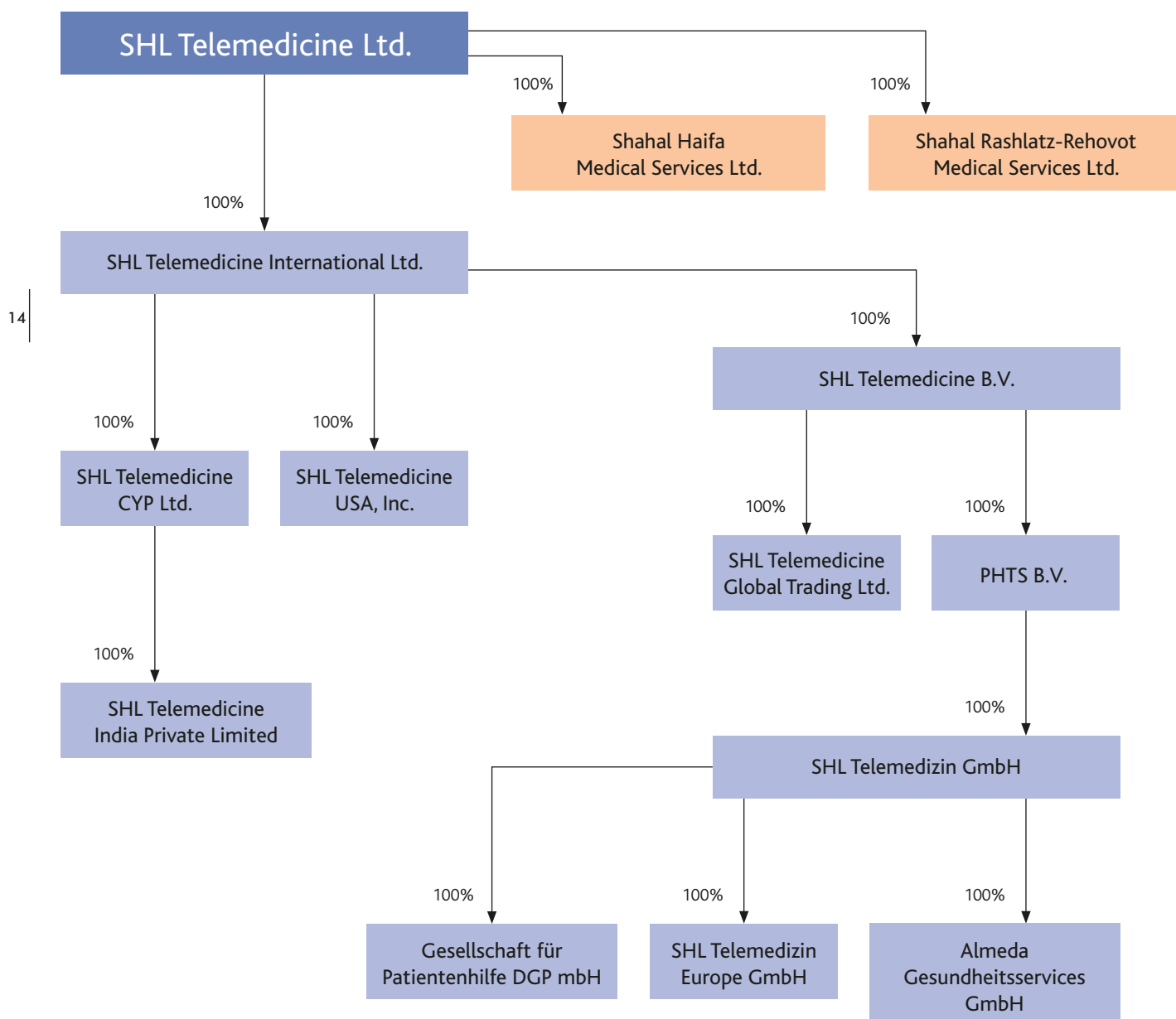
Name	Domicile	Share Capital and % of holding (directly or indirectly through wholly owned subsidiaries)
Shahal Haifa - Medical Services Ltd. (“SHL Haifa”)	Tel-Aviv, Israel	Authorized Share Capital: NIS 13,000, divided into 12,000 Ordinary Shares par value NIS 1.00 each and 1,000 Voting Shares par value NIS 1.00 each Issued Share Capital: 100 Voting Shares and 100 Ordinary Shares 100% (held by SHL)
Shahal Rashlatz-Rehovot Medical Services Ltd. (“SHL Rashlatz”)	Tel-Aviv, Israel	Authorized Share Capital: NIS 16,600 divided into 16,600 Ordinary Shares par value NIS 1.00 each Issued Share Capital: 100 Ordinary Shares 100% (held by SHL)
SHL Telemedicine International Ltd. (“SHL INT”)	Tel-Aviv, Israel	Authorized Share Capital: NIS 101,000 divided into 91,000 Ordinary Shares par value NIS 1.00 each and 10,000 Preferred A Shares par value NIS 1.00 each Issued Share Capital: 8,260 Ordinary Shares and 1,740 Preferred A Shares 100% (held by SHL)
SHL Telemedicine B.V. (“SHL BV”)	Amsterdam, Netherlands	Authorized Share Capital: EUR 75,000 divided into 300,000 Ordinary Shares par value EUR 0.25 each Issued Share Capital: 74,043 ordinary shares. 100% (held by SHL INT)
Personal Healthcare Telemedicine Services Europe B.V. (“PHTS”)	Amsterdam, Netherlands	Authorized Share Capital: EUR 4,000,000 divided into 4,000,000 Ordinary Shares par value EUR 1.00 each Issued Share Capital: 811,500 ordinary shares. 100% (held by SHL BV)
SHL IRL B.V.	Amsterdam, Netherlands	Authorized Share Capital: EUR 90,000 divided into 90,000 Ordinary Shares par value EUR 1.00 each Issued Share Capital: 18,000 ordinary shares. 100% (held by SHL BV)
SHL Telemedizin GmbH	Dusseldorf, Germany	Authorized Share Capital: EUR 300,000 divided into 2 Ordinary Shares par value EUR 25,000 and EUR 275,000. Issued Share Capital: 2 Ordinary Shares 100% (held by PHTS)
SHL Telemedicine Europe GmbH	Dusseldorf, Germany	Authorized Share Capital: EUR 25,000 divided into 1 Ordinary Share par value EUR 25,000 each. Issued Share Capital: 1 Ordinary Share. 100% (held by SHL Telemedizin GmbH)
Almeda Gesundheitservices GmbH	Munich, Germany	Authorized Share Capital: EUR 25,000 Issued Share Capital: 25,000 shares with par value EUR1.00 each 100% (held by SHL Telemedizin GmbH)
Gesellschaft für Patientenhilfe DGP mbH	Grunwald, Germany	Authorized Share Capital: EUR 25,000 divided into 2 Ordinary Shares par value EUR 24,750 and EUR 250 Issued Share Capital: 2 Ordinary shares 100% (held by SHL Telemedizin GmbH)
SHL Telemedicine Global Trading Ltd.	Shanon, Ireland	Authorized Share Capital: EUR 1,000,000 divided into 1,000,000 Ordinary Shares par value EUR 1.00 each Issued Share Capital: 1,000 ordinary shares. 100% (held by SHL BV)



SHL Telemedicine USA, Inc.	Delaware, USA	Authorized Share Capital: USD 1.00 divided into 100 Ordinary Shares par value USD 0.01 each Issued Share Capital: 100 Ordinary Shares. 100% (held by SHL INT)
SHL Telemedicine CYP Ltd.	Nicosia, Cyprus	Authorized Share Capital: EUR 100 divided into 100 Ordinary Shares par value EUR 1.00 each. Issued Share Capital: 100 Ordinary Shares. 100% (held by SHL INT)
SHL Telemedicine India Private Limited	Haryana, India	Authorized Share Capital: Rs 100,000 divided into 10,000 Equity Shares Issued Share Capital: 10,000 Equity Shares 100% (held by SHL Cyprus)

There are no companies belonging to the consolidated entities of SHL whose equity securities are listed on a stock exchange.

**Graphic Overview of Group Companies:**



## 1.2 Significant Shareholders

As of December 31, 2015, SHL was aware of the following shareholders with more than 3% of all voting rights in the Company:<sup>1</sup>

	2015 Number of Ordinary Shares Held	2015 % Including Treasury shares	2015 % Excluding Treasury shares	2014 % Excluding Treasury shares
Copper Valley Finance Ltd./ Prime Finance Corporation/ Eli Alroy/ Barak Capital Ltd. <sup>2</sup>	3,245,724	29.83%	30.93%	21.24%
Alroy Group <sup>3</sup>	2,782,608	25.58%	26.53%	26.66%
G.Z.Assets and Management Ltd.	921,533	8.47%	8.79%	8.81%
S.W. Mitchel Capital LLP	340,379	3.13%	3.25%	-
SHL Treasury shares	389,158	3.58%	-	-

1 With respect to Copper Valley Finance Ltd., Prime Finance Corporation, Eli Alroy and Barak Capital Ltd., the information below is based on a notification made by the aforementioned shareholders to the Disclosure Office on 5 January 2016 (the "January 5 Notification"). With respect to the Alroy Group the information below is based on the notification made to the Disclosure Office on December 9, 2015 (the "Alroy Group Notification"). With respect to S.W. Mitchell Capital LLP, the information below is based on the notification made to the Company on January 21, 2016.

2 According to the January 5 Notification, the shares of Barak Capital Ltd. are held through Barak Capital Investments 2006 Ltd. and Amatrine Limited Partnership.

3 According to the Alroy Group Notification, the Alroy Group is comprised of (i) Mr. Yoram Alroy; (ii) Nehama & Yoram Alroy Investment Ltd., (iii) Mr. Erez Alroy (the son of Mr. Yoram Alroy); (iv) Mr. Elon Shalev (the brother-in-law of Mr. Yoram Alroy); (v) Elon Shalev Investments Ltd.; (vi) Y. Alroy Family Ltd.; and (vii) Southland Holding Ltd. Further, pursuant to the Alroy Group Notification, beneficial owners include Yoram Alroy and his wife, Nehama Alroy, as well as their children Yariv Alroy, Erez Alroy and Hila Alroy, and also Elon Shalev and his wife, Ziva Shalev. The disclosed percentage excludes an aggregate number of 10,000 options to purchase the Company's Ordinary Shares held by members of the Alroy Group (for further information regarding such options, please refer to Section 2.2 below).

The above table of Significant Shareholders reflects both actual holdings as of December 31, 2015, after deducting from the total number of shares outstanding 389,158 Ordinary Shares held by SHL, (as described in Section 1.1.2 above), and actual holdings as of December 31, 2015 calculated including ordinary shares held by SHL, all as indicated above, but does not reflect holdings on a fully diluted basis.

All shareholdings that have been reported to SHL and the Disclosure Office of the SIX Swiss Exchange as per Art. 20 of the Federal Act on Stock Exchanges and Securities Trading (SESTA) and the provisions of the Stock Exchange Ordinance of the Swiss Financial

Market Supervisory Authority (SESTO-FINMA) and published on SIX Swiss Exchange AG's electronic publication platform can be viewed at (<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=SHL>)

On December 30, 2015, a voting agreement was entered into by and among Copper Valley Finance Ltd., Prime Finance Corporation, Eli Alroy and Barak Capital Ltd. (the "Voting Agreement"). The Voting Agreement contains a coordination mechanism according to which the parties shall uniformly exercise their voting rights in the general meetings of the Company, except with respect to resolutions regarding an "Exit Event" (such as a sale or issuance of the Company's share capital pursuant to which the majority of the Company's share capital will be held by a shareholder that had no holdings in the Company or held less than 50% of the Company's share capital). The Voting Agreement further provides that prior to any Annual General Meeting, Barak shall have the right to recommend the identity of one (1) nominee to be elected as a director in the Company. The Voting Agreement is in effect until December 1, 2018 (the "First Period"), unless extended by mutual written agreement. The Voting Agreement may be terminated prior to the end of the First Period, inter alia, by a prior written notice of each of the parties.

The members of the Alroy Group cooperate amongst one another in the nomination and appointment of members of the Board.

SHL is not aware of any other agreements or arrangements among its shareholders.

## 1.3 Cross-Shareholdings

There are no cross-shareholdings exceeding 5% of the share capital and voting rights by any of the Significant Shareholders and SHL.



## 2. Capital Structure

### 2.1 Capital on the Disclosure Deadline

Authorized share capital as of December 31, 2015

Number of Ordinary Shares	14,000,000
Par value	NIS 0.01 each
Share capital	NIS 140,000

Issued and outstanding share capital as of December 31, 2014

Number of Ordinary Shares	10,489,333
par value	NIS 0.01 each
Share capital	NIS 104,893.33

\* Excluding 389,158 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 18.

### 2.2 Authorized and Conditional Capital

#### General

Under Israeli law, a company's authorized share capital represents the maximum amount of shares which is authorized for issuance by the company. SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"). The issued and outstanding share capital of SHL, as of December 31, 2015, was NIS104,893.33, divided into 10,489,333 fully paid registered Ordinary Shares (excluding 389,158 Ordinary Shares held by SHL). Any increase in the authorized share capital is valid as of the date of the approval thereof by the shareholders (with respect to special majority requirements, please refer to Section [6.2] below). Authorized share capital, or any increase thereof is not limited in time. However, the shareholders may, at the General Meeting, cancel authorized but not yet issued share capital, provided that the Company did not undertake to issue shares out of such authorized but unissued share capital. Pursuant to SHL's Articles of Association, the unissued shares are under the sole control of the Board of Directors of SHL who has the authority to allot or otherwise dispose of them on such terms and conditions as it may see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

SHL approved a maximum number of up to 1,056,627 Ordinary Shares (subject to adjustments as set forth in the 2015 Share Option Plan, as such term is hereinafter

defined) reserved for issuance upon exercise of options that may be granted pursuant to the Option Plans. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" below.

#### Share Options

Share options currently outstanding are share options which were granted pursuant to SHL's 2015 Executive and Key Employee Israeli Share Option Plan (the "2015 Share Option Plan"). The plan was previously named the 2005 Executive and Key Employee Israeli Share Option Plan and was extended by three (3) years (until April 2018) and renamed in the year under review.

Pursuant to the 2015 Share Option Plan, options may be granted to executives, directors (whether executive or non-executive) and key employees of the Company or its subsidiaries, whereby the Board of Directors has full discretion to determine the specific grantees from time to time. The maximum number of Ordinary Shares which may be issued under the 2015 Share Option Plan and under any other existing or future share incentive Option Plans of the Company is 1,056,627, subject to adjustments as provided in the 2015 Share Option Plan. Pursuant to the 2015 Share Option Plan, the exercise price shall be the closing price for an Ordinary Share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors in its discretion. However, with respect to all option grants since May 2010, the Board of Directors determined in each case that the exercise price for such option grants shall be the average share price in the thirty (30) trading days preceding the date of grant. The foregoing has also been stipulated as the exercise price applicable to any grants of share-based compensation to the Company's officers pursuant to the Company's Officer Compensation Policy adopted in January 2014. Further, pursuant to a resolution of the Board as of November 7, 2010, all options issued under the 2015 Share Option Plan are exercised by way of the net exercise method. Options granted under the 2015 Share Option Plan shall

vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The Board may in its discretion reduce the relevant performance targets to zero, and has done so in all instances since June 2011. The options shall expire six (6) years from the date of grant (unless expired earlier under the terms of the 2015 Share Option Plan or the relevant award agreement). With respect to option grants to Company's officers, the Company's Officer Compensation Policy provides for certain minimum vesting periods, as follows: (a) with respect to the first option grant to an officer: vesting shall be at a minimum (i) first cliff after one (1) year from the date of grant; and (ii) full vesting after twenty-four (24) months from the date of grant; and (b) with respect to further option grants to that officer, full vesting shall occur no earlier than 36 months from the date of grant.

Information with respect to the issued and outstanding SHL share options is as follows:

	2015	Weighted Average exercise price in CHF	2014	Weighted Average exercise price in CHF
As of January 1	647,514	7.21	655,522	6.86
Granted during the year	-	-	132,000	8.51
Forfeited during the year	(18,934)	7.75	(50,306)	7.48
Exercised during the year	(112,666)	6.60	(89,702)	6.48
<b>Outstanding at the end of the year</b>	<b>515,914</b>	<b>7.32</b>	<b>647,514</b>	<b>7.21</b>
<b>Vested on December 31</b>	<b>422,021</b>	<b>7.06</b>	<b>425,787</b>	<b>6.81</b>

### 2.3 Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2013, 2014 and 2015, SHL's issued share capital was comprised of 10,435,526, 10,460,306 and 10,489,333 Ordinary Shares, respectively. The foregoing changes in the Company's share capital result from the exercise of share options previously granted under previous option plans and the repurchase of shares by SHL under its share repurchase plan, first approved by the Board on March 25, 2008, as increased and extended over time. As part of its approval of the share repurchase program (and its respective extensions and increase), the Board determined, in accordance with the requirements of the Israeli Companies Law, that the Company had sufficient profits and other surplus (as calculated under the Israeli Companies Law) in order to repurchase its Ordinary Shares traded on the SIX Swiss Exchange and that there was no reasonable concern that the repurchase would prevent SHL from satisfying its existing and foreseeable obligations as they become due. Under the approved repurchase plan, SHL was authorized to repurchase its own Ordinary Shares traded on the SIX Swiss Exchange, from time to time, in an amount of up to an equivalent of US\$ 4,000,000 (including all shares repurchased following the initial March 25, 2008 approval). The Board originally approved an initial repurchase period lasting up until June 30, 2008, and has since extended the duration of the share repurchase program several times, the latest such extension applicable to share repurchases made up until March 31, 2013. Each extension was made under reaffirmation by the Board that such repurchase by the Company of Ordinary Shares continue to satisfy the requirements of the Israeli Companies Law (as described above) at such time. The Board did not further extend the repurchase period beyond the aforementioned date.

The registration statement with respect to the Company's ADR Program, pursuant to which American Depositary Shares (each representing one (1) Ordinary Share of SHL) are traded in the U.S. over-the-counter market became effective as of January 31, 2014 (for rights of holders of American Depositary Shares, please see the following section.)

## 2.4 The Ordinary Shares and the American Depositary Receipts

### 2.4.1 The Ordinary Shares

#### General

SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 Ordinary Shares of NIS 0.01 par value each, as set forth above. All the issued Ordinary Shares rank pari passu in all respects. The Ordinary Shares do not have preemptive rights. The ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by the Articles of Association of SHL or the laws of the State of Israel. The Ordinary Shares are in book entry form only. No share certificates are issued; however, shareholders of record are entitled to receive non-negotiable confirmations from SHL evidencing their ownership of Ordinary Shares. Based on an agreement between SHL and SIX SIS AG (formerly SIS SegInterSettle AG) ("SIS"), all issued Ordinary Shares will be booked into the SIS Clearing System. All of the issued and outstanding Ordinary Shares have been fully paid up.

#### Liquidation and Dividend Rights

In the event of SHL's liquidation, after satisfaction of liabilities to creditors, SHL's liquidation proceeds will be distributed to the holders of Ordinary Shares in proportion to the nominal value of their respective holdings. This liquidation right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. Under the Israeli Companies Law, dividends may be paid out of profits and other surpluses, as calculated under the Israeli Companies Law, or as accrued over a period of two years, whichever is higher, each based on the most recent financial statements of the Company (provided that the date with respect to which such financial statements were prepared does not pre-date the distribution by more than six (6) months); provided, however, that there is no reasonable concern that the payment of such dividend will prevent the Company from satisfying its existing and foreseeable obligations as they become due. Any dividends

will be subject to Israeli withholding tax. SHL's Articles of Association provide that the Board of Directors may from time to time declare and cause SHL to pay such dividend as may appear to the Board of Directors to be justified by the profits of SHL. The shareholders entitled to receive dividends are the shareholders on the date upon which it was resolved to distribute the dividends or at such later date as shall be provided in the resolution in question. Accordingly, under the SIS Agreement, each Registered Person is entitled to dividends (for a definition of such terms, please refer to Section 2.6 below).

#### Voting Rights

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. For additional information regarding voting rights of the Ordinary Shares, see Section "Voting Rights Restrictions and Representations" on page 49.

In case a company purchases its own shares, under the Israeli Companies Law, such shares become dormant and do not confer voting or any other rights so long as such shares are held by the company. As of December 31, 2015, the Company held 389,158 of its own Ordinary Shares.

There are no preferential voting rights attached to any of the Shares of SHL.

### 2.4.2 The American Depositary Shares ("ADS")

SHL has entered into a Deposit Agreement with the Bank of New York Mellon (acting as depositary with respect to the ADR Program, the "Depositary") and all owners and holders of ADS from time to time (the "Deposit Agreement") setting forth the terms and applicable to the deposit of ordinary shares of the Company with the Depositary (or the Zurich office of UBS A.G. acting as custodian) for the purposes set forth under the Deposit Agreement, the creation of ADS representing Ordinary Shares of SHL deposited and the execution and delivery of American Depositary Receipts evidencing the ADS.

Pursuant to the Deposit Agreement (and the form of American Depositary Receipt annexed thereto), each ADS represents one (1) Ordinary Share of SHL (subject to adjustments). ADS may be certificated securities, evidenced by American Depositary Receipts, or uncertificated securities. The Depositary is required to maintain books with respect to both issuance of American Depositary Receipts and any transfer thereof, as well as delivery of ADS and transfers with respect thereto. Each owner of ADS shall be entitled to delivery of the relevant number of Ordinary Shares of SHL represented by such ADS, upon surrender by him/ her, at the offices of the Depositary, of the ADS (subject to payment of all applicable fees and charges and subject to the further terms of the Deposit Agreement).

The Depositary may treat any person registered on the books of the Depositary as owner of ADS as the absolute owner thereof for purposes of determining the person entitled to dividends or other distributions. Dividends are distributed by the Depositary to the owner of the relevant ADS in proportion to the number of ADS representing the Ordinary Shares held by such owner of ADS. The record date determining which holders of ADS shall be entitled to dividends shall be the record date determined by the Company (to the extent practicable) and if different, as close as practicable to the date fixed by the Company.

The Ordinary Shares represented by ADS are voted by the Depositary pursuant to instructions given by the relevant owner of such ADS to the Depositary. The Depositary shall inform the relevant owner, upon receipt of a notice of any meeting of shareholders of SHL, inter alia regarding the manner in which such instructions may be given and the number of Ordinary Shares represented by the ADS held by such owner. The record date with respect to determination of the owners of ADS entitled to give instructions for the exercise of voting rights shall be the date so fixed by the Company, or if a different date, then as close as practicable to the date fixed by the Company. The Depositary undertook not to vote any Ordinary Shares underlying the ADS other than in accordance

with the instructions given by the relevant owner thereof. (For information regarding notice of convocation of shareholders meetings for holders of ADS, please refer to Section 6.3 below).

In the event of a rights offering by the Company, the Depositary has discretion, upon consultation with the Company (to the extent practicable), regarding the procedure to be followed in making such rights available to the registered owners of ADS or whether to dispose of such rights and make the relevant net proceeds available to such holders instead. Where for any reason, the Depositary may not do either of the foregoing, the Depositary is allowed to let the relevant rights lapse without any further liability to registered owners of ADS or holders of ADRs.

#### **2.4.3 Duties of Shareholders**

Under the Israeli Companies Law, each shareholder has a duty to act in good faith and customary way toward the Company and other shareholders and to refrain from abusing his or her powers in the Company, such as in shareholder votes, and from discriminating other shareholders. Furthermore, specified shareholders have a duty of fairness towards the Company. These shareholders include any controlling shareholders, any shareholder who knows that he or she possesses the power to determine the outcome of a shareholders vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint an office holder or any other power with respect to the company. However, the Israeli Companies Law does not define the substance of this duty of fairness. The aforesaid duties of shareholders also apply to Registered Persons to the extent such Registered Persons exercise the rights attached to the Ordinary Shares (for a definition of the term "Registered Persons", please refer to Section 2.6 below).

In addition, under the Israeli Companies Law, the disclosure requirements that apply to an office holder in a public company with respect to a personal interest such office holder may have with respect to an existing or proposed transaction of the company also apply to a



controlling shareholder of a public company. For such purpose, a controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns twenty-five (25) percent or more of the voting rights if no other shareholder owns more than fifty (50) percent of the voting rights, and whereby a person holding more than half of the means of control of a company (including the right to appoint a majority of the directors or the right to appoint a company's general manager) is presumed to control such company. Further, any shareholder participating in a vote on an extraordinary transaction (including a private placement which is an extraordinary transaction) with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest, or the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of the directors and office holders insurance and indemnification), must notify the Company prior to the relevant vote whether or not it has a personal interest in the relevant transaction - if no such notification is made, such shareholder is not entitled to vote and any vote of such shareholder is not counted (for approval requirements in connection with controlling shareholder transactions, please refer to the Section on "Statutory Quorums" below). The same notification requirement applies to (a) shareholders that have a personal interest in the appointment of an Independent (External) Director (for election of Independent (External) Directors, please see Section 3.1 below); (b) shareholders that have a personal interest in a full purchase offer (for full purchase offers, please see Section 7.1 below), and (c) any shareholder that has a personal interest in the approval of the Compensation Policy of the Company (for further details regarding the Compensation Policy, please see Section 5.1 below).

Further, an "interested party" in a private placement (i.e. a holder of more than five (5) percent of the shares of a company or one who may become such holder as a result of the private placement) must promptly disclose any personal interest that he or she may have and

any material information known to him or her in connection with such private placement.

Pursuant to the Swiss Federal Act on Stock Exchanges and Securities Trading ("SESTA"), any holder of a significant interest in the Company is required to notify the Company and the SIX Swiss Exchange if its holding in the Company's equity securities reaches, exceeds or falls below certain thresholds, subject to limited exceptions. The relevant thresholds triggering notification are 3%, 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% and 66 2/3% of the voting rights of the Company. Persons acting in concert must disclose their shareholdings on a consolidated basis and the holdings of all such a group's members are aggregated in order to calculate compliance with relevant thresholds. The relevant shareholdings must be notified to the Company and Disclosure Office of the Six Swiss Exchange within four (4) trading days from execution of the relevant transaction. The Company shall then publish the information received within two (2) trading days from receipt of the notification.

With respect to disclosure duties of shareholders submitting shareholder statements to the Company, please refer to Section 6.3 below.

### **2.5 Dividend-right Certificates**

No dividend-right certificates were issued by SHL as of the disclosure deadline.

### **2.6 Nominee Registrations and Limitations on Transferability**

#### **SIS Agreement and Shareholder Registration**

SHL is currently party to an agreement with SIX SIS AG ("SIS", the "SIS Agreement"), according to which SIS agrees to act as a nominee on behalf of any person registered in a Share Register maintained by SIX SAG AG ("SAG", the "Share Register"). SIS is registered in SHL's Register of Shareholders as shareholder of all of the issued and outstanding Ordinary Shares. The registration of SIS as shareholder of record is due to certain legal requirements under the Israeli Companies Law requiring a company such as SHL to keep a register of shareholders registering its shareholders of record. Under

the SIS Agreement, SIS has irrevocably agreed and instructed SHL to enable each person registered from time to time with the SAG Register (a “Registered Person”) to exercise, on behalf of SIS, with respect to such number of Ordinary Shares registered in the sub register on behalf of such Registered Person, all present and future rights and claims attached to the Ordinary Shares registered in SIS’s name in SHL’s Register of Shareholders. SHL has irrevocably acknowledged and accepted such instruction of SIS that a Registered Person is entitled to exercise all present and future rights and claims attached to the Ordinary Shares with respect to the number of Ordinary Shares registered on behalf of such person in the Share Register.

SIS undertook to execute and deliver, upon request, to any Registered Person or to SHL any and all documents reasonably necessary to enable the Registered Person to exercise all rights attached to the Ordinary Shares, including voting rights.

Upon request of a Registered Person in the Share Register, record ownership of the number of Ordinary Shares registered in the name of such person in the Share Register will be transferred to such person, as a consequence of which settlement of such Ordinary Shares may not be possible through SIS, Clearstream and Euroclear.

#### **Transfer of Ordinary Shares and ADS**

Fully paid Ordinary Shares may be transferred freely. Pursuant to SHL’s Articles of Association no transfer of shares shall be registered in SHL’s Register of Shareholders unless a proper instrument of transfer in form and substance satisfactory to the Board of Directors has been submitted to SHL together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered, SHL may continue to regard the transferor as the owner thereof. Any Registered Person who wishes to become registered in SHL’s Register of Shareholders may request SIS to sign a deed of transfer. Pursuant to SHL’s Articles of Association with regard to Ordinary Shares registered in the Register of Shareholders

in the name of SIS or any nominee substituting SIS, a written request in a form satisfactory to the Board of Directors from a Registered Person, to be registered in the Register of Shareholders instead of SIS, together with a written confirmation issued by SAG evidencing the registration of such person, including the number of Ordinary Shares registered on such person’s behalf, in the SAG Register, shall also be a proper instrument of transfer.

Subject to the terms of the Deposit Agreement, a transfer of ADS shall be registered by the Depository upon (a) in the case of ADS evidenced by an American Depositary Receipt, surrender of the receipt evidencing those ADS, by the owner of such ADS or a duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer, or (b) in the case of ADS not evidenced by a receipt, receipt from the owner of the ADS of a proper instruction, and, in either case, duly stamped as may be required by the laws of the State of New York. Thereupon the depository undertook to deliver those ADS to or upon the order of the person entitled thereto.

Except as specifically stated hereinabove, there are no statutory restrictions limiting the transferability of the Shares.

#### **2.7 Convertible Bonds and Options**

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section “Share Options” on page 16.

### **3. Board of Directors**

The primary duties of the Board are defined in the Israeli Companies Law and in the Articles of Association of SHL. For a description of powers and duties of the Board of Directors, please refer to Section 3.3 of this report.

#### **3.1 Members of the Board of Directors**

The Articles of Association provide for a Board consisting of up to nine (9) members and not less than three (3) members until otherwise determined by simple resolution of the shareholders of SHL. The Board currently consists nine (9) members, of whom two (2)



members are independent (external) directors (Ms. Nehama Ronen and Dr. Ruth Ben Yakar) (for further information on Independent Directors, please refer to the following section of this report).

#### **Independent ("External") Directors**

Israeli companies that have offered securities to the public in or outside of Israel are required to appoint two (2) Independent ("external") Directors under the provisions of the Israeli Companies Law. Each committee of a company's board of directors authorized to exercise the powers of the board of directors is required to include at least one (1) Independent Director, and pursuant to the Israeli Companies Law, the board of directors of a public company is required to appoint an audit committee and a compensation committee which must be comprised of at least three (3) directors, including all of the Independent (external) Directors. For the tasks of the audit committee and the compensation committee, respectively, and further requirements regarding the composition of the audit committee and the compensation committee, please refer to Section 3.3 below.

Independent (external) Directors shall be Israeli residents, provided that in a company whose shares are traded abroad (such as SHL), Independent (external) Directors may also be foreign residents.

Pursuant to the Israeli Companies Law, to qualify for an appointment as an Independent (external) Director, the relevant candidate must possess either financial and accounting expertise or professional skills (as such terms are defined in rules promulgated under said law), provided that at least one (1) of the Independent Directors appointed possesses financial and accounting expertise. Further, all of the following persons are prevented from serving as Independent Directors: (a) any individual that is a relative of a controlling shareholder (as such terms are defined under the Israeli Companies Law); (b) any individual who has (or any of whose relatives, partners, employer, entities controlled by him,

or someone that such individual is directly or indirectly subordinated to has) at the time of appointment or at any time during the two (2) years prior to such individual's appointment as an Independent Director, any "connection" (including, in general, employment, business and/ or professional relationships, control and/ or service as an office holder) with (i) the Company, (ii) its controlling shareholder(s) at the time of appointment, (iii) a relative of a controlling shareholder at the time of appointment, (iv) any entity whose controlling shareholder(s), at the time of appointment or during the two (2) years prior to the relevant Independent Director appointment is the Company or its controlling shareholder, or (v) the Chairman of the board, the general manager, a holder of 5% or more of the issued and outstanding share capital or voting rights in the company or the most senior financial executive in the company, at the time of appointment, and only if there is no controlling shareholder in the relevant company or a holder of at least 25% of the voting rights in the company; (c) any individual whose position or other activities create or may create a conflict of interest with his or her role as an Independent Director or may adversely affect such role, or which may compromise such individual's ability to serve as an Independent Director; (d) an employee of the Israeli securities authority or an Israeli stock exchange; (e) a director of another company, if a director of such other company serves as an Independent Director in the first company; (f) without derogating from the restrictions set forth under (b) above, any individual who has (or whose relative, partner, employer or person to whom he/ she is directly or indirectly subordinated to, or a company in which he/ she is a controlling shareholder has) business or professional relationships with any person with respect to which an affiliation is prohibited under (b) above, even if such relationship is not an ongoing, constant relationship, and excluding relationships that are negligible; or (g) any person which in his/ her service as an Independent Director received any compensation for his/ her service beyond that authorized in accordance with applicable

regulations promulgated under the Israeli Companies Law.

In addition, for a period of two (2) years following termination of the service of an Independent Director, the company in which such Independent Director served, as well as its controlling shareholder and/ or any entity under such controlling shareholder's control may not directly or indirectly provide any benefit to such Independent Director (as well as his/ her spouse and children), including without limitations appointment as an officer holder, engagement as an employee or provider of professional services against consideration, whether directly or indirectly and whether individually or through an entity controlled by such Independent Director, all with respect to the company and any entity under control of the controlling shareholder of the company. The foregoing limitations also apply to relatives (as defined under the Israeli Companies Law) of the Independent Director who are not his/ her spouse or child, but then for a period of one (1) year from termination of service.

The Independent Directors generally must be elected by a majority vote of the shareholders, provided that (a) such majority includes a majority of shares held by shareholders who are not a controlling shareholder or who do not have a personal interest in the appointment (except a personal interest which is not the result of a relationship with the controlling shareholder) and who are voting thereon, whereby abstaining votes will not be taken into account, or (b) the percentage of the voting rights held by shareholders as described under (a) and which object to the appointment is not more than two (2) percent of the voting rights of the company (the Minister of Justice may determine a different percentage; no such determination has been made to date).

The term of an Independent Director is three (3) years and may be extended by two (2) additional terms of three (3) years each. Independent Directors may be re-elected to any of the two (2) additional terms beyond their initial three (3) year term as aforesaid only

subject to fulfillment of either of the following conditions:

- (a) one or more shareholders holding one (1) percent or more of the voting rights of the company proposed such additional service period, and the appointment is approved by the general meeting with a majority of votes subject to the following: (i) the votes of controlling shareholders or anyone who has a personal interest in the appointment (excluding a personal interest which is not the result of a relationship with the controlling shareholder) and abstaining votes are not counted; (ii) the number of votes supporting the appointment (from among those shareholders which are not controlling shareholders or have a personal interest as aforesaid) amounts to more than 2% (two percent) of the overall voting rights in the Company (the Minister of Justice may determine a different percentage; no such determination has been made to date); and (iii) such Independent (external) Director may not be (A) at the time of appointment a Related or Competing Shareholder (as defined hereafter) or a relative thereof; or (B) a person with "connections" (as defined above) to a Related or Competing Shareholder at the time of appointment and the two (2) years prior thereto. "Related or Competing Shareholder" is defined under the Israeli Companies Law as (x) the shareholder proposing such appointment; or (y) a holder of shares or voting rights in the company of at least 5%; and with respect to either of the foregoing, to the extent that at the time of appointment of the Independent Director such shareholder, a controlling shareholder thereof or a company under the control of the foregoing has business connections with the company, or that it, a controlling shareholder thereof or a company under the control of the foregoing is a competitor of the company; or
- (b) the Board proposed the additional service term of such Independent Director and such appointment is approved in the same way as the appointment for the initial term is approved (see above); or
- (c) pursuant to an amendment to the Israeli Companies Law that came into effect in the year under review the independent (external)

director himself/ herself proposed his/ her re-election and the appointment is approved in accordance with the conditions described under (a) above.

At the 2014 AGM, Dr. Ruth Ben Yakar was elected to serve her first term as an Independent (external) Director. Ms. Nehama Ronen was re-elected to serve her third (and last) consecutive term as an Independent Director of SHL at the 2013 Annual General Meeting, and her term shall end on September 10, 2016.

#### Independent ("Non-Dependent") Directors

Pursuant to the Israeli Companies Law, a public company may also designate certain directors as independent (non-dependent) directors. Pursuant to the relevant provisions of the law, independent (non-dependent) directors are either (i) Independent (external) Directors as set forth above, or (ii) such persons who fulfill all of the requirements applicable to Independent (external) Directors, as confirmed by the Audit Committee, except special financial or professional qualifications, and who have not served as a director of the Company for more than nine (9) continuous years (whereby any interruption of less than two (2) years does not suffice to constitute a disruption of such continuance). Unlike independent (external) directors, independent (non-dependent) directors are not elected for three (3) year terms, but rather are re-elected each year. No special majority requirements apply with respect to their election.

As set forth below, a majority of the members of the Company's Audit Committee are required to be independent (non-dependent) directors (i.e. including the Independent (external) Directors).

The Company has currently no directors that have been designated by the audit committee as independent (non-dependent) directors.

#### Executive and Non-Executive Members of the Board

There are currently no executive directors on the Board of the Company. None of the non-executive members of the Board in the year under review was a member of the management of SHL or of any of SHL's group companies in the three (3) financial years preceding the period under review (with respect to the election of Mr. Erez Alroy, former Co-CEO of the Company, as a director as of February 24, 2016, please see page 1 above). The non-executive members of the Board have no significant business connections with SHL or SHL's group companies. For a description of the family relationship between Mr. Elon Shalev, a non-executive member of the Board (and previously its Chairman), and other members of the Alroy Group (including the previous Co-CEOs, Messrs. Yariv and Erez Alroy), see "Significant Shareholders" on page 15 and "Share Ownership" on page 47.

#### Board Members as of December 31, 2015

The following table sets forth the name, principal position, time of the first election, and the remaining term of office of each member of the Board of Directors as of December 31, 2015. For changes to the composition of the Board following December 31, 2015, please refer to page 10 above.

Name	Nationality	Position	First Election	Remaining Term*
Oren Most	Israeli	Chairman of the Board/ Non-executive member	2014	2016
Eli Alroy	Israeli	Non-executive member	2015	2016
Dr. Ruth Ben Yakar	Israeli	Non-executive member/ Independent (external) director	2014	2017
Uzi Blumenshon	Israeli	Non-executive member	2015	2016
Ziv Carthy	Israeli	Non-executive member	1997	2016
Elad Magal	Israeli	Non-executive member	2014	2016
Nehama Ronen	Israeli	Non-executive member/ Independent (external) Director	2007	2016
Elon Shalev	Israeli	Non-executive member	1987	2016
Amnon Sorek	Israeli	Non-executive member	2014	2016

\* Where the remaining term is indicated as 2016, this means until the AGM (held on February 24, 2016). For additional information regarding the election and term of office of SHL's directors please refer to section "Election of Directors and Term of Office" on page 27.

Mr. Eliyahu Ayalon who was re-elected as a Board member at the 2014 AGM submitted his resignation from the Board effective as of April 24, 2015.

Both Mr. Eli Alroy and Mr. Uzi Blumensohn were elected by the Board to fill existing vacancies on the Board in the year under review - Mr. Eli Alroy was elected as of April 26, 2015 and Mr. Uzi Blumensohn was elected as of December 3, 2015.



**Oren Most, Chairman**

Mr. Most joined the Board of Directors of SHL as a non-executive Director in 2014 and was elected as its Chairman in March 2015. Since 2010 Mr. Most has been serving as the President of Golan Telecom Ltd., an Israeli cellular operator. In addition he is the owner and Chairman of MOST Ventures Management, where he is focused on developing early-stage technology ventures. Mr. Most currently also serves as Chairman of the Tadmor Hotel Management School and Kenes International. From 2003 to 2004, Mr. Most was the President and CEO of Gilat Satellite Networks (NASDAQ: GILT), and from 1994 to 2004 he served as Deputy CEO, COO and co-founder of Cellcom, one of Israel's leading wireless carriers. From 1988 to 1994 Mr. Most was the CEO of Keter, Israel's largest book publishing and printing companies. In the past, he served as a member of the board of directors of several well known Israeli companies, and as the Chairman of the Israel Marketing Association, the Tel Aviv International Documentary Film Festival, and the Israeli Diving Federation. He holds a BA from Tel Aviv University and an MBA from New York University (NYU). Nationality: Israeli and US.



**Elon Shalev**

Mr. Shalev is the co-founder of SHL, has served as a director of SHL since its inception in 1987 and was its Chief Operating Officer from 1990 to 1993. Mr. Shalev currently serves as the Vice Chairman of the board of directors of Partner Communications Company (NASDAQ, TASE: PTNR), a leading Israeli provider of

telecommunications services from 2013. Mr. Shalev was the founder of Channel 2 news in Israel and from 1993 to 1995 served as its CEO. From 1996 to 1999, he was Editor in Chief of "Yediot Aharonot", the largest daily newspaper in Israel and from 2000-2001 he was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group. Mr. Shalev has been serving as a senior advisor to the Saban Capital Group since 2004. He was a director in several large and well known Israeli firms. Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Nationality: Israeli.



**Eli Alroy**

Mr. Alroy joined the Board of Directors as a non-executive director in 2015. Mr. Eli Alroy is the Managing Director of A.Y.R.A.D. Investment Ltd. currently engaged in consulting services primarily in the field of real estate and investment activities. From 1994 to 2012, Mr. Alroy was the Chairman of the Supervisory Board of Globe Trade Centre S.A. (GTC), a Polish real estate development company traded on the Warsaw stock exchange. From 1994 to 1997, Mr. Alroy was the CEO of Kardan Real Estate, Enterprise and Development Ltd., Israel a real estate development company. Mr. Alroy currently serves as a board member of several companies notably Globalworth Real Estate Investments Limited (Guernsey) and Ofer Investments Ltd. (Israel), as well as Bizzabo Ltd. (Israel), O.F.A Real Estate Investments Ltd. (Israel), Abeer Habar Ltd. (Israel) and Cloud Nine Wellness and Fitness Ltd. (Israel). Mr. Alroy holds a B.Sc. (Cum Laude) from the civil engineering faculty at the Israel Institute of Technology (the Technion) and an M.Sc. in engineering from Stanford University. Nationality: Israeli.



**Dr. Ruth Ben Yakar  
Independent Director**

Dr. Ruth Ben Yakar joined the Board of Directors of SHL as an Independent (external) Director in 2014. Dr. Ben Yakar currently serves as the CEO of BioSight Ltd., a private pharmaceutical development company, active in the field of oncology, and the



Chairperson of RAM Technologies Ltd., which provides management and consulting services to biotech companies. From 2012 to 2015 Dr. Ben Yakar served as a Director at the Board of Directors of IATI (Israel Advanced Technologies Industries) organization. From 2012 to 2014, Dr. Ben Yakar was the CEO of Procognia Ltd. (TASE: PRCG), active in the biopharmaceutical analytics and development field and from 2011 to 2012, she served as the CEO of Thrombotech Ltd., a phase II clinical stage Israeli biotech company, active in the fields of CNS and cardiovascular therapeutics. From 2009 to 2011, Dr. Ben Yakar was the Chief Business Officer of YEDA Research and Development Ltd., the technology transfer company of the Weizmann Institute of Science, and from 2008 to 2009 she served as Vice President at the cell therapy company Gamida Cell Ltd. Dr. Ben Yakar currently also serves as a director on the Board of Directors of Collect Biomed Ltd. (TASE:CLBD). Dr. Ben Yakar was awarded a Ph.D. Cum Laude, in Life Sciences, from the Weizmann Institute of Science, and a B.Sc. Cum Laude in Life Sciences from the Tel-Aviv University. Nationality: Israeli.



#### **Uzi Blumensohn**

Mr. Blumensohn joined the Board of Directors of SHL as a non-executive Director at the end of 2015. From 2007 to 2008, Mr. Blumensohn was a VP Cardiology of McKesson Corporation (NYSE:MCK), ranked 11th on the FORTUNE 500 list, a healthcare services and information technology company. From 1995 to 2006, Mr. Blumensohn was the Chairman of the Board and CEO of Medcon Ltd., a cardiac image and information management solutions company, traded on the Tel Aviv Stock exchange and sold to McKesson Corporation. From 2008 to 2014 Mr. Blumensohn was the CEO and Chairman of the Board of Endymed Medical Ltd. (TLV:ENDY) a medical technology company that designs, develops, and commercializes energy based aesthetic treatment systems for the professional markets. He holds a B.Sc. in Mathematics & Computer Science, an MBA and an MA in Conflict Resolutions - all from the Tel-Aviv University. Nationality: Israeli.



#### **Ziv Carthy**

Mr. Carthy has served as a director on SHL's Board since 1997. Currently, Mr. Carthy manages real and financial investments, also engaging in consulting projects to companies in the area of strategy and business development. Between 2007 and 2010, he was the General Manager of Time To Know, Inc. - an educational technology company. Between 2003 and 2007 Mr. Carthy was a Senior Vice President in SAP AG, where he led the programs for software developers. From 2001 to 2003 he was the CEO and co-founder of GUI Machine Inc., a software company, which was acquired by SAP AG. Prior to that Mr. Carthy held management positions in various companies such as EMC, GTEKO and SHL Telemedicine, where he led international business development. Mr. Carthy earned an MBA from Harvard University, and a B.Sc. in Engineering from the Technion in Haifa, Israel. Nationality: Israeli.



#### **Elad Magal**

Mr. Magal joined the Board of Directors of SHL as a non-executive Director in 2014. Since the beginning of 2014, Mr. Magal has been serving as the CEO of EndyMed Medical (TASE: EndyMed), an aesthetic medical technology company. From 2005 to 2011, he served as the CEO of DuoCure Ltd., a medical device company and from 1997 to 2005, he was a founding member and CEO of Disc-O-Tech Medical Technologies Ltd., an international medical device company for orthopedic implants and new surgeries (Disc-O-Tech was acquired by Kyphon Inc. in December 2006). Prior to Disc-O-Tech, Mr. Magal worked for The Renaissance Fund (Claridge Group). [Additional board memberships?] Mr. Magal holds Law and Economic Degrees, and an MBA from Tel Aviv University. Nationality: Israeli.



**Nehama Ronen**

**Independent Director**

Ms. Ronen joined the Board of Directors of SHL as an Independent (external) Director in 2007. Ms. Ronen is currently the chairperson of Maman Cargo Terminals & Handling Ltd. (serving in this position since 2004) and of the Recycling Corp. (since 2004), both in Israel. Ms. Ronen served as a board member in Bank Hapoalim, Israel's largest bank from 2009 to 2015, as a board member in Kamur Ltd. from 2005 to 2008 and from 2008 to 2012 as a board member in Bazan Oil refineries Ltd., Israel's largest oil refinery. From 2001 to 2003 Ms. Ronen was a member of the Israeli parliament and from 1996 to 1999 she was the Director General of the Israeli Ministry of the Environment. In addition Ms. Ronen was a member of the presidency of the Israeli Chamber of Commerce from 2005 to 2009. Ms. Ronen holds a BA in Education and History and an MA in Public Administration, both from Haifa University. Nationality: Israeli.



**Amnon Sorek**

Mr. Sorek joined the Board of Directors of SHL as a non-executive Director in 2014. Mr. Sorek is the managing partner at Hamburger Evron & Co., an Israeli Law firm. Mr. Sorek is a graduate of the Tel Aviv University Law Faculty (LL.B), and a member of Tel Aviv University's association of friends of the Center of Citizen's Empowerment's Government Stabilization Forum. In addition, he has been an active member for the past 20 years at the Youth Renewal Fund, in which he serves as the fund's chairman. Nationality: Israeli.

**3.2 Election of Directors and Term of Office**

Pursuant to the Articles of Association of SHL, all members of the Board, except the two (2) Independent (external) Directors (who are to be elected as described above), are elected individually at the Annual General Meeting of the shareholders by a vote of the holders of a majority of the voting power represented at

such meeting to serve until the next Annual General Meeting. All directors of SHL, except for the Independent (external) Directors - who may only serve three (3) three-year terms (please refer to the description above) - may be re-elected with no limit.

Pursuant to the provisions of the Israeli Companies Law, each candidate for directorship in a public company is required to execute a written declaration pursuant to which such person has the requisite qualifications and is able to dedicate the required time to its service as a director, and further that none of the reasons stipulated under the Israeli Companies Law preventing such director from being eligible for service as a director (such as a court conviction of an offense of corruption, fraud or use of inside information so long as five (5) years have not yet lapsed from the date of the relevant verdict) apply. With respect to Independent (external) Directors, the proposed candidates have to further submit a declaration that they fulfill the special professional qualification requirements stipulated under the Israeli Companies Law applicable to Independent Directors (see Section 3.1 above). The foregoing declarations have to be submitted prior to the call for a shareholders' meeting at which the relevant candidate is proposed to be elected as a director.

In addition to the foregoing, a person who is a candidate to be a director of a company is required to disclose to the company, amongst others, whether the enforcement committee instituted under the Israeli Securities Law has imposed certain enforcement measures on such person preventing him/ her from serving as a director in a public company, so long as the applicable period of restriction imposed has not yet lapsed. If sanctions were imposed which prohibit service as a director in a public company, then (a) the relevant candidate will not be appointed as a director; and (b) the service of any person already serving as a director will immediately terminate with submission of notice by the relevant director regarding such enforcement measures.



Under the Israeli Companies Law, the following persons may not be appointed as Chairman of the Board of a public company: (a) neither the Chief Executive Officer himself/ herself nor any of his/her relatives (as such term is defined under the Israeli Companies Law and which does not include uncles, aunts or cousins) may at the same time serve as Chairman of the Board, unless the shareholders consent to such service, which, in any event, may not exceed three (3) year periods from the date of each such approval. Approval shall be obtained by the Audit Committee, the Board and the shareholders. Approval by the shareholders requires that either (i) the majority vote in favor of the resolution shall include the consent of at least two thirds (2/3) of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution and who are not controlling shareholders of the Company (whereby abstaining votes will not be counted), or (ii) the total shares of the shareholders who are not controlling shareholder and have no personal interest in approving the resolution voted against the resolution do not represent more than two (2) percent of the voting rights in the Company; or (b) a person directly or indirectly subordinated to the CEO. In addition, in a public company, the Chairman of the Board or his/ her relatives may not be authorized to exercise the powers of (a) the CEO, unless under the special approval requirements set forth above and each time only for a period of up to three (3) years; or (b) a person directly or indirectly subordinated to the CEO, and the Chairman is also prevented from serving in any other position in the company or an entity in its control (except service as a director or Chairman of a company under its control.) Shareholders participating in the special approvals as described above must disclose prior to the vote whether or not they have a personal interest - if no such disclosure is made, the votes of such shareholders will not be counted.

### 3.3 Internal Organizational Structure

Pursuant to the Israeli Companies Law and SHL's Articles of Association, the Board is ultimately responsible for the general policies

and management of SHL. The Board establishes the strategic, organizational, accounting and financing policies of SHL. Specifically, the Board of SHL reviews, discusses and approves the quarterly financial statements of the Company, and is updated on a regular basis regarding the development of SHL's business.

The Board meets at least once each quarter. Topics addressed in the meetings include the strategy, business reviews and major projects, investments and transactions. Each of the Board Committees conducts its meetings according to the needs of the relevant Board Committee. The Chief Executive Officer and the Chief Financial Officer of the Company are invited to Board meetings and attend such as the Board deems necessary. The Board regularly invites its external legal counsel to participate in meetings. Pursuant to the Israeli Companies Law, persons that may not be elected as members of the audit committee and the compensation committee of a company (for further information regarding persons not qualified to be audit committee or compensation committee members, please see the relevant sub-sections of this section below), respectively, may not be present at meetings of these committees unless the chairman of the committee determined that his/ her presence is required in order to present a certain topic; provided that (a) an employee of the Company (who is not a controlling shareholder or its relative) may be present at the discussion in such meeting (but not at the time any resolution is taken) if such presence was requested by the committee; and (b) the Company's legal counsel and the Company corporate secretary (who are not controlling shareholders or their relatives) may be present both at discussions and resolutions of the audit or compensation committees if so requested by such committee.

The Board has all powers vested in it according to the Israeli Companies Law and the Articles of Association, is authorized to determine the policy of SHL and to supervise the performance and actions of the CEO of the Company, and, without derogating from the above, has the following powers:

- determine SHL's plans of action, the principles for financing them and the order of priority among them;
- examine the financial status of SHL, and set the frame of credit that SHL shall be entitled to acquire;
- determine the organizational structure of SHL and its compensation policies;
- resolve to issue series of debentures;
- prepare and approve the financial statements of SHL;
- report to the Annual General Meeting of the status of SHL's affairs and of their financial outcomes;
- appoint the CEO and terminate such appointment, in accordance with the Israeli Companies Law;
- resolve in the matters on actions and transactions that require its approval according to the Israeli Companies Law and the Articles of Association;
- issue shares and convertible securities up to the total amount of the authorized share capital of SHL, in accordance with the Israeli Companies Law;
- decide on a "distribution" as set forth in Sections 307 - 308 of the Israeli Companies Law (including without limitations, dividends and share repurchases);
- express its opinion on a special tender offer, as set forth in Section 329 of the Israeli Companies Law.

Pursuant to the Articles of Association of SHL a quorum at a meeting of the Board shall be constituted by the presence in person or by telephone conference of a majority of the directors then in office who are lawfully entitled to participate in the meeting. Any director may call a meeting of the Board of Directors upon a seven (7) day notice, unless such notice has been waived by all the directors. The notice of a meeting shall include the agenda of the meeting. Pursuant to the Articles of Association of SHL the Board may meet and adjourn its meetings according to SHL's needs but at least once in every three (3) months, and otherwise regulate such meetings and proceedings as the directors think fit. During the year under review the Board held

twenty five (25) meetings. The length of such meeting depends on the agenda. Meetings of the Board may also be held telephonically or by any other means of communication, provided that each director participating in such meeting can hear and be heard by all other directors participating in such meeting. A meeting of the Board at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board. A resolution proposed at any meeting of the Board shall be deemed adopted if approved by a simple majority of the directors then in office who are lawfully entitled to participate in the meeting and vote thereon, and present when such resolution is put to a vote and voting thereon. The Board may also adopt resolutions by unanimous written consents.

The Articles of Association of SHL provide that any director may, by written notice to SHL, appoint another person to serve as an alternate director and may cancel such appointment. Any person that meets the qualifications of a director under the Israeli Companies Law may act as an alternate director. One person may not act as an alternate director for more than one director, and in a public company a person serving as a director of the company or as an alternate director may not act as an alternate director. However, a director can serve as an alternate director to a member of a committee of the board of directors, provided that the alternate director is not a member of the committee in question; and provided further that in the event the alternate director is to serve as an alternate to an Independent (external) Director, such alternate director shall have financial and accounting expertise or professional skills, dependant on the expertise and skills of the Independent (external) Director such alternate director is supposed to replace. An alternate director to an Independent (external) Director may not be otherwise appointed.

Under the Israeli Companies Law a company is entitled to have several General Managers to be appointed by the Board who shall be responsible for the day-to-day operation of the company within the limits of the policy

determined by the Board and subject to its direction. In a public company, office holders who are not directors are appointed by the General Manager/ CEO who may determine the powers and duties of such office holders.

#### **Committees of the Board and Internal Auditor**

The Articles of Association of SHL provide that the Board may delegate any or all of its powers to committees of the Board as it deems appropriate, subject to the provisions of the Israeli Companies Law. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board. The meetings and proceedings of any such committee are, mutatis mutandis, governed by the provisions contained in the Articles of Association for regulating the meetings of the Board, so far as not superseded by any regulations adopted by the Board of Directors. Any such committee authorized to execute the powers of the Board shall include at least one (1) Independent (external) Director. A committee authorized to execute the powers of the Board may only be comprised of members of the Board. A committee whose powers are limited to providing recommendations to the Board may be comprised of non members.

Pursuant to the Israeli Companies Law, a board of directors may not delegate the following matters to a committee: determination of a general policy; distribution (except for re-purchase of company shares pursuant to a framework approved by the board); determination of the board's stand on matters that require shareholder approval or on its opinion with regard to a special purchase offer; appointment of directors; issuance of securities (except for issuance to employees pursuant to an option plan approved by the board); approval of financial statements; approval of interested party transactions.

As required under the Israeli Companies Law, in the year under review, the Board of Directors has appointed an Audit Committee and a Compensation Committee. Albeit not mandatory under the provisions of the Israeli

Companies Law for a company which is not subject to reporting obligations under the Israeli Securities Law, the Board of Directors has voluntarily appointed a Committee for the Examination of the Financial Statements as of March 18, 2015. The members of such committees following the AGM have not yet been determined. In addition, in the year under review the Board appointed a CEO Search Committee which fulfilled its obligations with the appointment of the new CEO (see page 11). The committees of the Board of Directors meet as necessary and are required to take minutes, make full reports and recommendations to the Board of Directors.

Pursuant to the Israeli Companies Law, the Board of Directors also appointed an internal auditor proposed by the Audit Committee.

**Audit Committee** - Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent (external) Directors, and a majority of its members must be Independent (Non-Dependent) Directors (i.e. including the Independent (external) Directors). The following persons may not be members of the Audit Committee: (a) the Chairman of the Board; (b) any director employed by the Company; (c) any director employed by a controlling shareholder of the Company or an entity under the control of such controlling shareholder; (d) any director who provides services, on a regular basis, to the Company, a controlling shareholder or an entity under the control of a controlling shareholder; (e) a director whose main livelihood is based on a controlling shareholder; and (f) a controlling shareholder or any of its relatives. Subject to limited exceptions, any person who could not be a member of the Audit Committee may not be present at its meetings (for further details please refer to page 21 above). The Chairman of the Audit Committee shall be an Independent (external) Director not serving for more than nine (9) years. The legal quorum for any meeting of the Audit Committee shall be a majority of its members, provided that the majority of those present shall be Independent

(non-dependent) Directors (see description above), and further provided that at least one (1) Independent (external) Director shall be present.

The role of the Audit Committee includes, amongst others, the following: (a) to examine flaws in the business management of the Company, in consultation with the Internal Auditor and the external auditors, and to propose remedial measures to the Board; (b) to determine whether an interested party transaction is an ordinary or extraordinary transaction (where extraordinary transactions are subject to special approval requirements) (for special approval requirements with respect to controlling shareholder and director engagement terms, please refer to the Section on "Compensation, Shareholdings and Loans" below); (c) to approve interested party transactions, where so required under the Israeli Companies Law; and (d) to examine the existing internal control measures of the Company and the functioning of the Internal Auditor (see below). The Audit Committee is also charged with (a) prescribing with respect to transactions with controlling shareholders or another person in which a controlling shareholder has a personal interest (even if they are determined by the Audit Committee not to be extraordinary transactions), as well as with respect to the engagement terms of controlling shareholders and their relatives, the obligation to conduct either (i) a competitive process under the supervision of either the Audit Committee or who else the Audit Committee may determine in respect thereof pursuant to the criteria set by it; or (ii) other processes as determined by the Audit Committee, prior to the relevant transaction, and all in accordance with the type of transaction in question, and the Audit Committee may set the relevant criteria therefor once a year in advance; and (b) to determine the manner of approval of transactions with controlling shareholders or another person in which a controlling shareholder has a personal interest and to determine kinds of such transactions which require the approval of the Audit Committee, all with respect to such transactions which pursuant to the determination of the Audit

Committee are not extraordinary transactions but also not negligible - the Audit Committee may so determine with respect to types of transactions according to criteria it may set one a year in advance. The Audit Committee also determines whether a director or candidate for director fulfills the requirements for being classified as an independent (non-dependent) director. Neither the Israeli Companies Law nor the Company's Articles of Association prescribe a certain frequency at which meetings of the Audit Committee are to take place. Accordingly, the Audit Committee meets from time to time when deemed necessary. Pursuant to the Israeli Companies Law, the Internal Auditor (see below) may request the chairperson of the Audit Committee to convene a meeting and the chairperson shall then convene such meeting if it deems it fit. In addition, should the Audit Committee find that there is a material flaw in the business management of the Company, it shall hold at least one meeting with respect to such material flaw in the presence of the Internal or external auditor, as the case may be, without any office holders that are not members of the committee present; provided that an office holder may be present for the purpose of presenting an opinion with respect to a matter which is in his/ her field of responsibility. The duration of the meetings varies in accordance with the topics discussed. During the year under review the Audit Committee did not hold any meetings.

Until Mr. Eli Ayalon's resignation the Audit Committee was composed of the following members: Mr. Eliyahu Ayalon, Ms. Nehama Ronen and Dr. Ruth Ben Yakar. Mr. Sorek replaced Mr. Ayalon as an Audit Committee member following Mr. Ayalon's resignation. In the year under review, Ms. Nehama Ronen served as its chairperson. The foregoing members served until the AGM. Membership in the committee following the AGM has not yet been determined.

**Compensation Committee** - Pursuant to the Israeli Companies Law, an Israeli public company is obligated to appoint a Compensation Committee, which shall be comprised of at least three

(3) members and of which all Independent (external) Directors shall be members and constitute a majority. The remaining members of the Compensation Committee shall be such whose engagement terms correspond to the rules of compensation set forth under applicable regulations under the Companies Law with respect to Independent (external) Directors. Persons who may not be members of the Audit Committee (see description above) may also not be members of the Compensation Committee. The Chairman of the Compensation Committee shall be an Independent (external) Director not serving for more than nine (9) years. The Audit Committee and the Compensation Committee may have identical members and an Audit Committee fulfilling the above requirements may at the same time also serve as the Compensation Committee.

The role and authority of the Compensation Committee shall include (a) the issuance of a recommendation to the Board of Directors regarding the Compensation Policy, (b) issuance of a recommendation to the Board of Directors once every three (3) years regarding the extension of the Compensation Policy; (c) recommendation to the Board of Directors from time to time regarding any amendments to the Compensation Policy, as well as examination regarding its implementation; (d) approval of transactions with office holders (including controlling shareholders) regarding the terms of their engagement with the Company as required under the Israeli Companies Law; and (e) exemption of certain transactions from the shareholder approval requirement which may otherwise apply pursuant to the Israeli Companies Law. Neither the Israeli Companies Law nor the Company's Articles of Association prescribe a certain frequency at which meetings of the Compensation Committee are to take place. Accordingly, the Compensation Committee meets from time to time when deemed necessary. During the year under review it held six (6) meetings. The duration of the meetings varies in accordance with the topics discussed. In the year under review the average meeting duration was approximately one (1) hour.

Until Mr. Eli Ayalon's resignation, the Compensation Committee was composed of the following members: Mr. Eliyahu Ayalon, Ms. Nehama Ronen and Dr. Ruth Ben Yakar. Mr. Eli Alroy replaced Mr. Ayalon as a Compensation Committee member following Mr. Ayalon's resignation. In the year under review, Ms. Nehama Ronen served as its chairperson. The foregoing members served until the AGM. Membership in the committee following the AGM has not yet been determined.

**Committee for the Examination of the Financial Statements ("FS Committee")** - Pursuant to the Israeli Companies Law, only companies which are "reporting companies" (for such purpose only companies subject to reporting obligations to the Israeli Securities Authority) must establish a FS Committee. However, the Board has voluntarily appointed a FS Committee as of March 18, 2015. Pursuant to regulations promulgated under the Israeli Companies Law, the FS Committee shall be comprised of at least three (3) members and those persons which may not serve on the Audit Committee are also prevented from serving on the FS Committee. The majority of its members must be independent (non-dependent) directors (i.e. including independent (external) directors). The committee's chairperson shall be an Independent (external) Director. All members must be able to read and understand financial reports and at least one of the Independent (non-dependent) Directors must be a director with financial and accounting expertise (as such term is defined under applicable regulations promulgated under the Israeli Companies Law). The Audit Committee may at the same time serve as the FS Committee if all of the legal requirements with respect to the committee members are met.

The task of the FS Committee is to examine the financial statements of the Company prior to their approval by the Board. In particular, the financial statements shall only be brought to the Board for approval, if all of the following have been complied with: (A) The FS Committee shall have discussed and submitted its recommendations to the Board on



all of the following items: (a) evaluations and estimations that were made in connection with the financial statements; (b) internal controls over financial reporting; (c) completeness and fairness of disclosures made under the financial statements; (d) the financial guidelines adopted and financial treatment implemented with respect to material matters of the Company; and (e) valuations, including assumptions and estimations on which they are based, on which the financial statements rely; (B) the external auditor shall be invited to all meetings of the FS Committee, and the Internal Auditor of the Company shall receive notices of its meetings and may participate therein; (C) the FS Committee shall have submitted its recommendation regarding the approval of the financial statements a reasonable time prior to the discussion thereof by the Board and shall have reported to the Board regarding all defects or problems which it may have discovered during its examination of the financial statements; and (D) the Board shall discuss the recommendations of the FS Committee.

During the year under review the FS Committee held four (4) meetings. In the year under review the average meeting duration was approximately one and a half (1.5) hours.

The members of the FS Committee in the year under review were Ms. Nehama Ronen, Dr. Ruth Ben Yakar and Mr. Amnon Sorek, who served until the AGM. Membership in the committee following the AGM has not yet been determined. In the year under review, Ms. Nehama Ronen served as its chairperson.

**CEO Search Committee** - On March 23, 2015, the Board appointed a CEO Search Committee which fulfilled its task with the appointment of the new CEO. The CEO Search Committee was appointed by the Board to be in charge of searching for new candidates for the position of CEO of the Company. During the year under review, the CEO Search Committee held 3 meetings. The average meeting duration was approximately 2 hours.

The CEO Search Committee was initially composed of Dr. Ben Yakar and Mr. Most. Mr. Eli Alroy joined the CEO Search Committee following his election to the Board.

**Internal Auditor** - Pursuant to the Israeli Companies Law, the Board of a public company shall appoint an internal auditor. Such appointment is made upon recommendation of the Audit Committee. Neither an interested party nor an officer of the company, any relatives of the foregoing or the external auditor or anyone on its behalf may serve in such position. The role of the Internal Auditor is to examine, among other things, whether SHL's activities comply with the law and orderly business procedure. Pursuant to the Israeli Internal Audit Law - 1992, together with the Israeli Companies Law, the Internal Auditor is authorized to demand and receive any kind of document and/ or information that is in the Company's or its employees' possession, which he deems necessary for the performance of his role, and he is to have access to all databases or data processing programs of the Company. Pursuant to the Israeli Companies Law, the Chairman of the Board or the Chairman of the Audit Committee may order the Internal Auditor to conduct an internal audit on matters where an urgent need for examination arose. In addition, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings. The Internal Auditor has no decision making powers. Pursuant to the Israeli Companies Law and the Company's Articles of Association, the internal auditor has to submit a work program to the Company's Audit Committee for approval.

Mr. Gil Ruguzinski has been serving as SHL's Internal Auditor since December 2013.

### **3.4 Definition of Areas of Responsibility of Management; Information and Control Instruments Vis-À-Vis Senior Management**

The senior management of SHL implements the general policies and strategic decisions of the Board. It manages the day-to-day business operations of SHL, including:

- Regularly assessing the achievement of targets set for the Company's business;



- Implementing the corporate policies, strategies and strategic plans given by the Board;
- Ensuring the efficient operation of the Company and achievement of optimized results;
- Ensuring that management capacity, financial and other resources are used efficiently.

The Board controls the actions of Senior Management through a variety of control mechanisms:

- The CEO(s) and CFO inform the Board regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board and CEO(s) and CFO as deemed necessary.
- Control over financial management is exercised by the FS Committee and the Board, which invite the CFO to each meeting at which financial results are discussed, as well as SHL's external auditors, as deemed necessary (for further information on the Company's external auditors, please refer to

the Section titled "Auditors" on p. 53). The FS Committee and the Board discuss with the CFO and the auditors (to the extent applicable) not only the financial statements themselves but also their assessment of the internal controls and whether any material weaknesses have come to their attention.

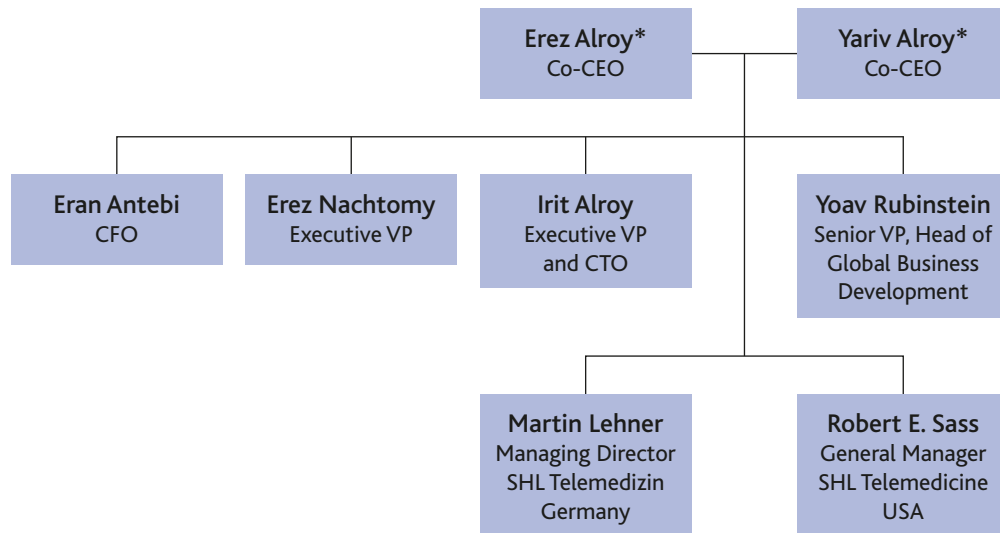
- SHL has an Internal Auditor (for further information, please refer to p. 33 above). The Internal Auditor examines the processes and controls of the Company - not only with regard to financial operations, but also with regard to compliance of management with internal and external policies - and conveys his findings to the Chairman of the Board, the CEO(s) and the Chairman of the Audit Committee.

## 4. Senior Management

### 4.1 Members of Senior Management; Other Activities and Vested Interests

#### 4.1.1 Organizational Structure as of December 31, 2015

For changes following December 31, 2015, please refer to pages 10-11.



\* In January 2016, the Board appointed Mr. Yuval Shaked as the new CEO of the Company, effective as of March 2, 2016, see page 11 above.

#### 4.1.2 Developments in the Year under Review

As of May 10, 2015, the service agreements with the Company's previous Co-CEOs, Mr. Yariv Alroy and Mr. Erez Alroy, expired after the lapse of the relevant notice period. They continued in office without consideration for the remainder of the year and resigned from all positions with the Company and its subsidiaries as of January 15, 2016.

Prof. Arie Roth who had served as SHL's Chief Medical Consultant since its start of operations passed away on August 31, 2015.

For further developments following December 31, 2015, please refer to pages 1-2 above.

#### 4.1.3 Members of Senior Management as of December 31, 2015

For changes following the year under review, please refer to pages 1-2 above.



**Yariv Alroy, Co-CEO**

Mr. Yariv Alroy served as the Company's Co-CEO from 2000 until January 15, 2016. He previously served as managing director of SHL INT from 1997 to 2000 and as Chief

Operating Officer of SHL from 1993 to 1997. Mr. Yariv Alroy also previously served on the Board between 2001 and 2006, and between 2010 and 2014. Before joining SHL, Yariv Alroy worked for a leading Israeli law firm from 1989 to 1993, with his last position being a senior partner. Yariv Alroy holds an LL.B from Tel Aviv University. Nationality: Israeli.



**Erez Alroy, Co-CEO**

Mr. Erez Alroy served as Co-CEO of SHL from 2000 until January 15, 2016. Mr. Erez Alroy served in executive positions in SHL since its inception.

Prior to holding the position of Co-CEO, he served as the General Manager of SHL's operations in Israel from 1997 to 2000. Before that he served as SHL's Vice President of Marketing, Israel (from 1993 to 1997) and Sales Manager, Israel (from 1987 to 1993). Mr. Erez

Alroy also served as a director of the Company from 2008 to 2014 and in the year under review also served as a director of Shahal Haifa, Shahal Rishon and SHL INT (from which positions he resigned as of January 15, 2016). Mr. Erez Alroy holds an MBA from the Hebrew University in Jerusalem. Nationality: Israeli.



**Eran Antebi, Chief Financial Officer**

Mr. Antebi has been serving as the CFO of the SHL Group since 2008. Mr. Antebi joined SHL in May 2004 as CFO of Shahal Israel. Prior to joining SHL, from 2000 to 2004, Mr. Antebi was a manager with Ernst & Young in Israel. Mr. Antebi is a certified public accountant (CPA) in Israel and holds a B.A. in Accounting and Economics from Tel Aviv University. Nationality: Israeli.



**Irit Alroy, Executive Vice-President and CTO**

Ms. Alroy has been serving as SHL's Executive Vice-President and Chief Technology Officer since SHL's inception. Prior to that Mrs. Alroy held different positions in the field of IT development in Israel. Ms. Alroy holds a B.Sc. in Geology and Biology from the Hebrew University of Jerusalem, Israel and an MBA from the Interdisciplinary Center, Israel. Nationality: Israeli.



**Erez Nachtomy, Executive Vice-President**

Mr. Nachtomy has been serving as Executive Vice President in SHL since March 2004. From 2001 to 2004, Mr. Nachtomy held the position of Vice President in SHL. Before joining SHL, from 1990 to 2001, Mr. Nachtomy worked for one of the leading law firms in Israel with his last position being a senior partner (Corporate and M&A). Mr. Nachtomy holds an LL.B. from Tel-Aviv University. Nationality: Israeli.



**Yoav Rubinstein - Senior Vice-President, Head of Global Business Development and Acting as Interim CEO from 16 January 2016 until 2 March 2016**

Mr. Rubinstein has been serving as Senior Vice-President, Head of Global Business Development since March 2012, and was appointed as interim CEO as of January 2016 until the newly elected CEO, Mr. Shaked, commences his employment with the Company on March 2, 2016. Before joining SHL, Mr. Rubinstein worked in the private equity industry, for 9.5 years as a Principal for Apax Partners (from 2000 to 2010) and then as a Senior Advisor to Saban Capital Group from 2010 to 2012. Mr. Rubinstein holds a B.A. in Business Administration from the Interdisciplinary Center, Israel. Nationality: Israeli and American.



**Martin Lehner, Managing Director - SHL Telemedizin, Germany**

Mr. Lehner joined SHL as Managing Director, SHL Germany in May 2014. Prior to joining SHL, from 2008 to 2012, Mr. Lehner served as CEO & President of the Amoena Group, Germany, a world market leading medical products company, as Vice President at Elan Group, Slovenia from 1997 to 2008 and CEO and co-owner of Profeet Functional Wear GmbH, Germany from 2012 to 2014, both internationally renowned consumer goods brands. Mr. Lehner holds a B.A. from the Hochschule für Technik und Wirtschaft Kempten, Germany. Nationality: German.



**Mr. Robert E. Sass, General Manager - SHL Telemedicine USA**

Mr. Sass has been serving as General Manager of SHL Telemedicine, USA since the end of 2013. Prior to joining SHL, from 2007 to 2012, he spent six years with Philips Healthcare in a variety of executive leadership assignments in Remote Patient & Home Monitoring. Mr. Sass came to Philips through the acquisition of Raytel Cardiac Services, formerly owned by

SHL. Mr. Sass has over thirty years of experience in the medical industry including being one of the founding corporate officers of Viterion Telehealthcare where he served from 2002 to 2005. Mr. Sass also served as a board member (for six years) and President (from 2011 to 2012), of the Remote Cardiac Services Provider Group, an industry association. Mr. Sass holds a B.Sc. in Business Administration from the University of Dayton, Ohio. Mr. Sass was recently appointed to the Dean's Advisory Counsel of the University of Dayton, School of Business, for a period of three years. Nationality: U.S.

The late Prof. Arie Roth, served as SHL's Chief Medical Consultant since its start of operations and until his passing on August 31, 2015.

#### 4.2 Management Contracts

SHL has not entered into management contracts with third parties, except as set forth below:

In March 2001 SHL entered into a management contract with Erez Nachtomy pursuant to which Mr. Nachtomy is to provide SHL with services as an Executive Vice President. The aforesaid management contract may be terminated by either party, at any time, by providing the other party ninety (90) days prior written notice. The compensation paid to Mr. Nachtomy pursuant to this agreement is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in Section 5.2 below.

The compensation paid to the late Prof. Roth pursuant to his agreement is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in Section 5.2 below.

On November 30, 2005, SHL entered into management services agreements with T.N.S.A Consulting and Management Ltd. and A.T.A.A Consulting and Management Ltd, both companies domiciled in Tel Aviv, Israel and wholly owned by Mr. Yariv Alroy and Mr. Erez Alroy, respectively (each - a "Service Provider"; together - the "Service Providers" for purposes of this paragraph). Pursuant to the said

management services agreements, the Service Providers, through each of Mr. Yariv Alroy and Mr. Erez Alroy, exclusively, had provided SHL with management and consulting services as the Co-CEOs of SHL. Said agreements expired in the year under review. The compensation paid to Service Providers under these agreements until May 2015 is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in Section 5.2 below. In addition, each Service Provider was entitled to reimbursement of all direct expenses reasonably incurred in connection with the performance of the services.

In March 2012 SHL entered into a management contract with Yoav Rubinstein pursuant to which Mr. Rubinstein provides SHL with services as Senior Vice President, Head of Global Business Development. The aforesaid management contract may be terminated by either party, at any time, by providing the other party sixty (60) days prior written notice. The compensation paid to Mr. Rubinstein pursuant to this agreement is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in Section 5.2 below.

For information regarding Share Options please refer to section "Share Options" on page 16.

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 45.

## **5. Compensation, Shareholdings and Loans**

### **5.1 Content and Method of Determining the Compensation and of the Shareholding Programs – Compensation Policy**

Pursuant to the Israeli Companies Law, an Israeli public company is required to adopt a compensation policy with respect to the terms of engagement of its officer holders (as such term is defined under the Israeli Companies Law and including without limitations, directors and controlling shareholders engaged as

officers of the Company)(the "Compensation Policy"), subject to limited exceptions set forth in the regulations promulgated under the Israeli Companies Law in connection therewith (which are not applicable to SHL). The adoption of the Compensation Policy requires approval by the shareholders of the Company, further to approval by the Board which has to take into consideration the recommendations issued by the Compensation Committee in this respect. The relevant shareholder approval is subject to a special majority requirement of either (a) the majority vote in favor of the resolution including the consent of at least a majority of the shareholders' voting power represented at the meeting in person or by proxy and voting thereon who are neither controlling shareholders of the Company nor have a personal interest in approving the Compensation Policy (not including abstaining votes), or (b) the total number of votes of those shareholders described in (a) above and objecting to the adoption of the Compensation Policy not representing more than 2% (two percent) of the voting rights in the Company. Any shareholder participating in the vote on the adoption of the Compensation Policy has to inform the company prior to the relevant vote whether or not he/she/it has a personal interest therein. Votes of shareholders who did not notify the Company on whether or not they have a personal interest in accordance with the foregoing are not be counted.

Notwithstanding the aforesaid shareholder approval requirement, the Compensation Policy may also be approved, despite objection by the Company's shareholders in the event that after renewed consideration of the Compensation Policy and based on detailed reasons, both the Compensation Committee and thereafter the Board resolve that the adoption of such Compensation Policy despite the shareholders' objection is in the Company's best interest.

SHL's Compensation Policy was brought to the approval of the shareholders of the Company at the 2013 AGM, but failed to obtain the relevant special majority approval as set forth above. In January 2014, the Compensation

Committee and the Board approved the Compensation Policy despite the objection of the general meeting after having reconsidered the Compensation Policy and having determined that the adoption thereof is in the Company's best interest, all in accordance with the provisions of the Israeli Companies Law, as described above. The Compensation Policy requires renewed approval, once every three (3) years (i.e. in January 2017). Certain amendments of the Compensation Policy were approved by the Company's Compensation Committee and Board, as well as by the Special General Meeting of the shareholders held in September 2015 (the "2015 SGM"), including (a) granting the Compensation Committee and the Board authority to accelerate the vesting of outstanding options in the event of a Corporate Transaction (as defined under the Company's 2015 Share Option Plan); (b) granting the Compensation Committee and the Board discretion to determine an exercise price different from the usual exercise price equal to the average trading price during the thirty (30) days prior to grant in exceptional circumstances or special cases as laid out by the Compensation Committee and the Board; and (c) granting the Compensation Committee and the Board authority to grant a cash compensation in lieu of an option grant under the 2015 Option Plan (equal to the sum which would have been received if such options had been granted), subject to applicable law.

In addition, the Board is required to examine from time to time whether any amendments to the Compensation Policy are necessary in light of changing circumstances or for any other reason, and similarly, the Compensation Committee shall issue recommendations to the Board in this respect from time to time. The Israeli Companies Law provides that the Compensation Policy shall be determined under consideration, amongst others, of the following points: (a) furtherance of the Company's objectives, its business plan and policies, with a long term view; (b) creation of adequate incentives for officer holders of the Company under consideration of the Company's risk management policy; (c) size of the Company

and the nature of its operations; and (d) with respect to variable compensation components - the contribution of the office holder to the achievement of the Company's targets and increase in revenues, all with a long term view and in accordance with the position of the relevant office holder.

Further, the Compensation Policy shall deal with the following matters: (a) education, qualifications, expertise, professional experience and achievements of the relevant office holder; (b) the position of the office holder, his/ her responsibilities and previous engagements signed with him/ her; (c) the relation between the engagement terms of the relevant office holder to the engagement terms of the other employees and/ or subcontractors of the Company and particularly, the relation to the average salary and to the median (i.e. 50th percentile) salary of such employees and the impact of the difference between the foregoing on the working relationships in the Company; (d) in the event officer engagement terms include variable components - the possibility of reducing such components in the discretion of the Board of Directors, as well as the possibility to determine ceilings for the value of variable components which are not paid in cash; and (e) in the event the officer engagement terms include retirement grants - the period of engagement of the office holder, the applicable engagement terms during such time period, the performance of the Company during such period, the contribution of the officer holder to the achievement of the Company's targets and increase of its revenues, as well as the circumstances of retirement. At last, the Compensation Policy must contain the following provisions: (a) with respect to variable compensation components: (i) such must be based on the achievement of long-term performance goals and objectively measurable criteria (although with respect to an immaterial part of such components, or all such components, if the total amount does not exceed three monthly salaries per year the Company may resolve that such shall be granted based on criteria not objectively measurable under consideration of the officer



holder's contribution to the Company); pursuant to a recent amendment to the Israeli Companies Law, this provision does not apply to office holders that report to the CEO, and (ii) the proportion between fixed and variable compensation components must be set, as well as a ceiling for the value of variable components at the time of payment (provided that with respect to variable components which are not paid in cash, a ceiling needs to be fixed at the time of grant); (b) a provision pursuant to which an office holder will repay to the Company any sums paid to him/ her as part of his/ her compensation if such sum was paid based on data which later turned out to be faulty and which was restated under the Company's financial statements, all on such conditions as set forth under the Compensation Policy; (c) a minimum holding and vesting period for variable compensation components in the form of equity, under reference to adequate incentives with a long-term view; and (d) a ceiling with respect to retirement grants.

SHL's Compensation Policy as adopted stipulates that its main principles and objectives are as follows: (a) to promote SHL's mission, long term goals and targets; (b) to create appropriate incentives for SHL's officers with the aim of aligning such officers' compensation with SHL's mission and goals, taking into account, inter alia, SHL's risk management policy; (c) to adapt a compensation package combination that matches the size of SHL and the nature of its activities; and (d) to comply with the provisions of the law by compensating those eligible pursuant to the Compensation Policy, based on their contribution and their efforts to the development of SHL's business and promotion of its goals, in the short and long term.

The Compensation Policy further provides that in general, the compensation terms of officers shall be examined while taking, inter alia, the following parameters into account: (i) the education, qualifications, expertise, seniority (in SHL in particular, and in the officer's profession in general), professional experience and achievements of the officer; (ii) the officer's position, and his previous agreements; (iii) the

officer's contribution to SHL's business, profits and stability; (iv) the degree of responsibility imposed on the officer; (v) SHL's need to retain officers who have skills, know-how or unique expertise; (vi) SHL's global nature; (vii) the ratio between the officer's employment terms and conditions of and other Company employees and/or contract workers employed by SHL and in particular the ratio between such officer's compensation to the average wage and the median wage in the Company and the impact of the differences on labor relations in the Company.

Pursuant to the Compensation Policy, SHL is entitled to grant to some or all of its officers (who are not directors) a compensation package including any or all of the following: signing bonus, base salary, commissions, annual cash bonus, retirement grant, share-based compensation. The compensation for each officer may also include additional standard benefits such as social benefits, pension insurance, managers insurance, study fund, severance payment, car allowance, mobile phone allowance, and medical insurance, provided that, in any event, the aggregate amount and/or update of such additional benefits shall not exceed 50% of the officer's base salary (except with respect to such officers whose company car tax liability is grossed up, in which case such additional benefits shall not exceed 70% of the officer's base salary). The Compensation Policy further provides that SHL's officers shall be entitled to benefit from insurance, exculpation and indemnification arrangements to be approved from time to time pursuant to applicable law and the Articles of Association of the Company. The Compensation Policy also stipulates that the Compensation Committee and the Board shall be entitled to update the base salary of each of its officers based on the parameters specified above. In general, updating the base salary at a rate that exceeds 8% per year, of the base salary prior to such update (without taking into account any linkage differentials) will be deemed a "material change" and shall be considered as a deviation from the Compensation Policy. Pursuant to the provisions of the Companies Law, an immaterial



change to existing compensation terms of office holders who are not directors or controlling shareholders only requires approval of the Company's Compensation Committee, whereas a material change to such terms would also require approval by the Board (for approval requirements, please also refer to Section 5.2 of this report below). In addition, approval of such compensation terms not in accordance with the Compensation Policy may only be approved by the Compensation Committee and the Board under limited circumstances specified under the Israeli Companies Law and in general, such transaction would be also subject to shareholder approval with a special approval requirement (a limited exception exists under the Israeli Companies Law).

With respect to retirement terms, the Compensation Policy provides, inter alia, that (a) any advance notice period shall not exceed six (6) months, except with respect to the Co-CEOs who shall be entitled to a nine (9) month advance notice; and (b) the amount or value of any retirement grant, if granted, shall not exceed an additional six (6) months of base salary in addition to the advance notice period; provided that overall, the combination of the advance notice and retirement grant (if applicable) shall not exceed a period of twelve (12) months altogether.

Pursuant to the Compensation Policy, any annual cash bonus granted to an officer shall not exceed twelve (12) times such officer's monthly base salary and in any event, the aggregate amount of all annual cash bonuses paid together to the Company's officers (on an annual basis), on the date of payment thereof, shall not exceed the gross sum of US\$ 1,000,000 with respect to all of the Company's officers (excluding the previous Co-CEOs, Mr. Yariv and Mr. Erez Alroy, whose bonus ceiling was a gross sum of US\$ 1,250,000 with respect to both of the Co-CEOs, together). Further, the Compensation Policy provides that any annual cash bonus shall be based mainly (at least 80%) on measurable criteria (including overall revenue growth and in Germany specifically; entry by SHL into new markets; launch of

new products; increase in the number of patients serviced in Germany; increase in the number of subscribers and/ or users in India; regulatory standing; and the meeting of consolidated budget targets), and, with respect to its less significant part (up to 20%), in the Board's sole discretion based on non-measurable criteria (including the contribution of the officer to the Company's business, its profitability and stability; the officer's unique contribution to the Company; satisfaction with the officer's performance (including the degree of involvement of the officer and devotion of efforts in the performance of his duties); the officer's ability to work in coordination and cooperation with other employees of the Company; and the officer's contribution to an appropriate control environment and ethical environment). Notwithstanding the foregoing, the Compensation Policy confirms that under the management agreements with entities controlled by Mr. Yoram Alroy (previously expired), Mr. Erez Alroy and Mr. Yariv Alroy (expired in the year under review) (see also Section 4.2 above) the foregoing were entitled, together, to a profit based annual bonus, with respect to the preceding year or any part thereof, which is equal to 3.75% of the Company's yearly profits before taxes and excluding capital gains, as such profits are reflected in the Company's audited financial statements for the relevant fiscal year, provided that the aggregate amount of any bonus paid together to the foregoing persons shall not exceed the amount of US\$ 1,250,000 per year.

With respect to share based compensation, the Compensation Policy provides that the Company shall be entitled to grant its officers options, restricted stock units or any other share-based compensation pursuant to an equity plan as adopted or shall be adopted, from time to time and subject to any applicable law. The aggregate fair value of such share-based compensation, measured at the time of grant, for all of the officers of the Company as a group, in a three (3) year period, shall not exceed a fair value of US\$ 2,500,000, and individually for each officer shall not exceed a fair value which is the higher of: (i) three

(3) times such officer's yearly base salary; or (ii) US\$ 300,000, whereby the fair value of the share-based compensation shall be calculated, at the time of grant, in accordance with the costs recorded in the Company's financial statements. Any share based compensation, if granted, shall mature in installments or vesting periods (or depend on meeting milestones) which shall take into account the appropriate incentive, in light of the Company's objectives in the years following the approval of the grant, and in any event the vesting shall be at a minimum as follows: (i) first cliff following one (1) year from the date of grant; and (ii) full vesting following twenty-four (24) months from the date of an officer's first grant. As of the second grant to an officer, full vesting shall occur no earlier than 36 months from the date of such grant. Pursuant to the Compensation Policy, the applicable exercise price of share based compensation shall be equal to the average closing price of the SHL's share during the thirty (30) trading day period preceding the date of grant; however, pursuant to an amendment approved in the year under review, the Compensation Committee and the Board have discretion to determine a different price under special circumstances and in exceptional cases, as laid out in their decision.

The Compensation Policy also stipulates that with respect to SHL's directors who also serve as executive officers compensation shall be subject to the limitations as set forth in the Compensation Policy (see description above).

With respect to the Company's non-executive directors (including also Independent (external) Directors and Independent (non-dependent) Directors), compensation shall be in accordance with the Rules Regarding the Compensation and Expenses of an External Director - 2000 (as promulgated under the Israeli Companies Law)(the "Director Compensation Regulations"). Subject to applicable law, compensation shall be allowed in amounts higher than what is stated in the Director Compensation Regulations, if any of such Independent (external) Directors or Independent (non-dependent) Directors is a professional director, an expert director or a director who makes a unique contribution to

the Company. Further, SHL shall also be entitled to pay to its non-executive directors share-based compensation (subject to applicable law and the restrictions applicable thereto in general under the Compensation Policy, as described above), but in any event the aggregate fair value of the share-based compensation, measured at the time of a new grant, for all of such non-executive directors, as a group, in any three (3) year period, shall not exceed a fair value of US\$ 500,000.

As stated under the Compensation Policy, the Compensation Committee has also resolved that the ratio between the fixed and variable components of compensation with respect to the Company's officers and non-executive directors shall not exceed a ratio of 1:3.

## 5.2 Approval Requirements

### Board of Directors

Except for limited circumstances provided for under regulations promulgated under the Israeli Companies Law, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment (including the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, require the approval of the Compensation Committee, the Board and the shareholders (by a simple majority) and the relevant approvals by the Compensation Committee and the Board need to be made in accordance with the Compensation Policy (subject to a limited exception). Further, pursuant to the Israeli Companies Law, approval by the shareholders of the terms of engagement of a controlling shareholder as an office holder (including as a director) or employee (and subject to the limited circumstances provided for under regulations promulgated under the Israeli Companies Law in which such shareholder approval is not required), requires either (i) that the majority vote in favor of the resolution shall include the consent of at least a majority of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including

abstaining votes), or (ii) that the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than 2% (two percent) of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

Pursuant to the provisions of the Israeli Companies Law, as a general rule, any person that has a personal interest in a transaction (including approval of the terms of office of a director) may not participate or vote at the relevant Board, Audit Committee, or (with respect to the approval of engagement terms) Compensation Committee meeting where the transaction is discussed; provided that office holders who have a personal interest in a transaction may be present for the purpose of presenting such transaction, if the Chairman of the Audit Committee, the Chairman of the Board or the Chairman of the Compensation Committee, as the case may be, determined that such presence is required. In addition, if the majority of the members of the Board of Directors, the Audit Committee or the Compensation Committee, as applicable, have a personal interest in the terms of office of such a director, then the relevant director may be present during the deliberations and may vote on his terms of office, and in such event, shareholder approval is also required.

The compensation payable to the directors of the Company is approved annually, except with respect to the compensation payable to Independent (external) Directors, which compensation is approved at the time of his/her election (Independent (external) Directors are elected for a term of three (3) years). Pursuant to regulations promulgated under the Israeli Companies Law, all Independent (external) Directors shall be entitled to the same compensation. Accordingly, in the event a newly elected Independent (external) Director is entitled to compensation higher than that of an already serving Independent (external) Director, identical compensation to such already serving director must be approved.

At the 2014 AGM, the shareholders of the Company approved the payment of a compensation to the then elected (or re-elected) non-executive directors (except the Chairman) - namely, Mr. Most (at the time not serving as Chairman), Mr. Magal, Mr. Sorek, Mr. Carthy and Mr. Ayalon - or an entity controlled by such director or the shareholder appointing such director, as the case may be and at such person's request, for their service equivalent in amount to that paid to Independent (external) Directors of the Company. Non-executive directors are currently not entitled to any performance based compensation. The approved compensation included inter alia the grant of 18,000 options to purchase 18,000 ordinary shares of SHL under SHL's 2015 Share Option Plan with respect to the then newly elected non-executive directors, Mr. Most, Mr. Magal and Mr. Sorek (subject to receipt of all required approvals with respect thereto).

In the year under review, the Compensation Committee and the Board approved the payment of a compensation to Mr. Eli Alroy (effective as of his appointment) and Mr. Elon Shalev (effective as of the 2014 AGM), or a corporate entity on their behalf, at their request, for their service as non-executive directors, equivalent in amount equal to that paid to Independent (external) Directors of the Company (not including option grants). No shareholder approval was required pursuant to an exemption available under regulations promulgated under the Israeli Companies Law.

The compensation payable to Mr. Oren Most (or an entity controlled by him) for his service as the Chairman of the Board (instead of and not in addition to the previously approved non-executive director compensation) was approved by the Compensation Committee, the Board and at the 2015 SGM, effective as of his election as Chairman.

There are currently no executive directors on the Board of Directors. The applicable compensation paid to the non-executive directors and the Chairman in the year under review pursuant to the foregoing is reflected in

the table on “Compensation for Acting Members of Governing Bodies” on page 45 below.

The Independent (external) Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the Director Compensation Regulations in accordance with the Company’s Compensation Policy (please refer to Section 5.1 above), which compensation is comprised of reimbursement of reasonable expenses and a fixed annual fee plus a participation fee per each Board or Committee meeting attended, all as set forth in the Director Compensation Regulations. Independent (external) Directors are not entitled to any performance based compensation. The Director Compensation Regulations provide, inter alia, for specific minimum, “set” and maximum amounts with respect to the annual fee and the participation fee to be paid to Independent Directors, dependent on the relevant company’s “rank”, as determined based upon the company’s shareholders’ equity as such appears in the company’s audited balance sheet for the preceding year. In the event a public company chooses to pay to the independent directors an annual fee and a participation fee in an amount between the “set” amount and the maximum amount set under the regulations, then such compensation is not subject to approval by the shareholders of the company. The foregoing exception to the shareholder approval requirement does not apply with respect to compensation in the form of securities of a company. The payment of an annual fee in an amount between the “set” and the maximum amount, as well as a participation fee per meeting in the “set” amount, as stipulated under the Director Compensation Regulations was previously approved with respect to Ms. Nehama Ronen (or an entity controlled by her) at the 2013 Annual General Meeting, and with respect to Dr. Ruth Ben Yakar (or an entity controlled by her) such payment was approved at the 2014 AGM. The approved compensation included also the grant to Dr. Ben Yakar of 18,000 options to purchase 18,000 ordinary shares of SHL under SHL’s 2015 Share Option Plan (subject to receipt of all required approvals with respect thereto). For more information

on share options, see also Section 2.2 “Share Options” on page 16).

Directors are reimbursed for travel and other reasonable expenses related to their capacity as directors of SHL and all directors (including directors that are not compensation for their services) are entitled to indemnification and D&O insurance coverage, all as approved by the Compensation Committee, the Board and the shareholders at the 2014 AGM in general and as part of the compensation package of those non-executive and Independent (external) Directors elected at the 2014 AGM and in the year under review in particular.

(For more information on director compensation, see also Section “Compensation for Acting Members of Governing Bodies” on page 45).

#### **Senior Management (Other Than Co-CEOs)**

Pursuant to the Israeli Companies Law, the engagement terms of office holders of the Company that are not directors, controlling shareholders or their relatives, or the CEO of the Company (including indemnification undertakings and officer insurance coverage) require approval by the Board following approval by the Compensation Committee, and the approval by the Board and the Compensation Committee shall be in accordance with the Compensation Policy (subject to a limited exception). Pursuant to the Israeli Companies Law, the salaries and emoluments of the executives of SHL are governed by the Compensation Policy, taking into account with respect to each executive, the parameters set forth in the Compensation Policy and the framework set forth thereunder (for a further description thereof, please refer to Section 5.1 of this report).

The relevant criteria are weighed by the CEO(s) in their discretion and are brought before the Compensation Committee and Board for further approval taking into account the guidelines set forth in the Compensation Policy and described in Section 5.1 above. In general, compensation terms are reviewed when the CEO(s) or the Board deem it necessary to review such terms,

e.g. when market conditions change etc. Per the Company's Compensation Policy, any increase of the base salary (with respect to office holders that are not directors or controlling shareholders) of up to 8% requires only approval of the Company's Compensation Committee. For approval requirements regarding higher increases, please refer to Section 5.1 above. Any such approvals made by the Compensation Committee only are brought to the attention of the Board.

In the year under review, the annual compensation of senior management, other than of the previous Co-CEO(s) (whose terms are more detailed in the immediately following Section title "Co-CEOs"), was comprised of a base salary component, a performance based cash bonus equal to an amount up to several monthly base salaries and share option incentive awards, all in accordance with the Company's Compensation Policy. In addition to the foregoing, all members of senior management were entitled to additional benefits in the form of a company car and a mobile phone. All members of senior management that were employed by the Company (and not engaged through service agreements) are also entitled to customary contributions to pension funds and severance pay funds, as well as to "Study Funds" and some also have Disability Insurance. Such contributions amount on the Company's side to 5% for the pension component, 833% to the severance pay component, 75% to the Study Fund, and 25% to the Disability Insurance (if applicable).

Base salary and performance based cash bonus are subject to the Company's Compensation Policy and the conditions stipulated in such policy and are subject to the aforesaid corporate approval requirements for persons considered office holders, including office holders who may be deemed controlling shareholders, under the Israeli Companies Law. Share option incentive awards are subject to Compensation Committee approval in accordance with the Company's Compensation Policy and further Board approval and such additional corporate approvals as set forth above with respect to office holders. Parameters taken into account related to the composition of the compensation packages of

senior management members are set forth in SHL's Compensation Policy (for a list of such parameters, please refer to Section 5.1 above). For limitations applicable to annual cash bonuses, please refer to the description of the Company's Compensation Policy under Section 5.1 above. Overall, the compensation of senior management in the year under review was comprised, on an average to approximately 76% of a cash base salary and 24% of cash bonuses and share options granted (i.e. performance based compensation amounted to between 21% and 22% of the base salary).

#### **Co-CEOs**

Notwithstanding the foregoing, with respect to the engagement terms of controlling shareholders and their relatives, special approval requirements apply. In general, the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of directors' and office holders' insurance and indemnification, subject to a limited exception), requires the approval of the Compensation Committee, the Board and the shareholders, and such approval by the Compensation Committee and the Board of Directors shall be made in accordance with the Compensation Policy (subject to a limited exception). Pursuant to the Israeli Companies Law, the shareholder approval must include at least a majority of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this special majority approval if the total shares of shareholders having no personal interest in the transaction and voted against the transaction do not represent more than 2% (two percent) of the voting rights in the Company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). Certain exceptions exist to the foregoing shareholder approval requirement, provided that the relevant terms have been approved by the Compensation Committee and the Board under confirmation that the circumstances triggering the relevant exception exist. Such exceptions include, amongst others, if the monthly salary paid to the controlling shareholder (or its relative) does not exceed the average monthly



salary in the market and is reasonable under the circumstances under consideration of the scope of the engagement, the type of position and the qualifications of the controlling shareholder (or its relative) with respect to the performance of the position; provided that no more than two (2) persons may be so employed by the Company under use of this exception at the same time. In any event, controlling shareholder engagement terms which are for a time period exceeding three (3) years require approval in accordance with the foregoing once every three (3) years.

The proposed compensation package of Mr. Yariv Alroy and Mr. Erez Alroy as Co-CEOs, who then might have been deemed controlling shareholders of the Company, was not approved by the 2014 AGM and their agreements with the Company expired in the year under review. Mr. Yariv Alroy and Mr. Erez Alroy continued serving the Company as Co-CEOs during the year under review for no consideration. (For further information, see also Section 4.1.2 above).

Overall, the compensation of the Co-CEOs in the year under review was comprised, to 100% of a base salary and 0% of cash bonuses and share options granted (i.e. there was no performance based compensation in the year under review).

For more information on director and senior management compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies" below).

#### **Shareholding Programs**

The grant of share options to employees, directors and consultants of SHL and its subsidiaries is in the sole discretion of the Board which may determine from time to time and subject to the provisions of the 2015 Share Option Plan, additional grantees of options under the plan and any matter related to the administration of the 2015 Share Option Plan. Notwithstanding the aforesaid, pursuant to the provisions of the Israeli Companies Law, should such options be granted to the directors or a controlling shareholder as part of their compensation, such grant shall require the approval of the

Compensation Committee, the Board and the shareholders, and with respect to office holders who are not directors, the CEO or controlling shareholders of the Company or their relatives, such grant shall require approval by the Compensation Committee, followed by approval by the Board, all of the foregoing approvals of the Compensation Committee and the Board to be made in accordance with the Compensation Policy. Pursuant to the Israeli Companies Law, the qualified majority described above (please refer to Section 5.2 - sub-section "Co-CEOs") with respect to the approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee is also required for the approval by the shareholders of the grant of share options to a controlling shareholder as part of its compensation. Further, SHL's Compensation Policy prescribes certain ceilings with respect to the value of any share-based compensation granted to (a) any individual officer; (b) the officers of SHL as a group; and (c) the non-executive directors as a group, in each case with respect to any three (3) year period (for more details regarding such ceilings, please refer to Section 5.1 above). The Compensation Policy also requires that the Compensation Committee and the Board, when discussing the grant, shall consider whether such grant is a suitable incentive for increasing SHL's value in the long term, the economic value of the grant, the exercise price and the other terms.

For vesting conditions applicable to options, please refer to Section 2.2 "Share Options", above.

#### **Compensation for Acting Members of Governing Bodies in the Year under Review**

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which is payable to the members of the Board of Directors and the Senior Management for their service or employment, as the case may be, during the year under review, was as follows:

All figures are disclosed in their US dollar equivalent, based on a NIS/ US\$ exchange rate of NIS 3.89 = US \$1.

## Board of directors

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised	Total
Oren Most <sup>1</sup>	Chairman/ non-executive member	39,797	-	-	39,797
Eli Alroy <sup>2</sup>	Non-executive member	24,768	-	-	24,768
Eliyahu Ayalon <sup>3</sup>	Non-executive/ non-dependent director	7,931	-	-	7,931
Dr. Ruth Ben Yakar	Non-executive member/ Independent director	42,749	-	-	42,749
Uzi Blumensohn <sup>2</sup>	Non-executive member	1,437	-	-	1,437
Ziv Carthy	Non-executive member	28,223	-	-	28,223
Elad Magal	Non-executive member	26,506	-	-	26,506
Nehama Ronen	Non-executive member/ Independent director	29,816	-	-	29,816
Elon Shalev <sup>4</sup>	Non-executive member	33,242	-	-	33,242
Amnon Sorek	Non-executive member	30,726	-	-	30,726
<b>Total for all Board Members:</b>		<b>265,195</b>	<b>-</b>	<b>-</b>	<b>265,195</b>

1 The compensation figure for Mr. Most includes compensation as the Chairman of the Board, retroactively from the time of his election as Chairman, as approved at the 2015 SGM.

2 These members were elected during the year under review. Compensation figures reflect compensation paid for service from such time.

3 Mr. Ayalon resigned during the year under review. The compensation figure reflects compensation paid for services rendered until such resignation.

4 The Compensation figure for Mr. Shalev includes compensation paid retroactively for service as a non-executive director following the 2014 AGM.

## Senior Management

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised*	Total
Martin Lehner	Managing Director – SHL Telemedizin	261,956	64,934	-	326,890
<b>Total for all Members of Senior Management:</b>		<b>1,806,721</b>	<b>387,276</b>	<b>174,587</b>	<b>2,368,584</b>

The highest total compensation payable to a member of the governing bodies is to the SHL Telemedizin GmbH, Germany, Managing Director, Mr. Martin Lehner (see above).

\* Represents the fair value of the share options exercised in the year under review based on the value of options exercised in the year under review.

The aforesaid compensation of Senior Management includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section 4.2 “Management Contracts” on page 36.

Pursuant to the Israeli Companies Law, the Compensation Committee, the Board and the shareholders of SHL re-approved and confirmed the existing directors’ and officers’ insurance provided, and indemnification undertaking issued by, the Company in favor of all of its officers and directors (including controlling shareholders) at the 2014 AGM and authorized the management of the Company to negotiate and execute, and to periodically renew and keep in force, for and on behalf of the Company, a liability insurance policy for all of the Company’s directors and officers, as shall be in office from time to time, for a coverage of up

to US\$ 15 million. Accordingly, the undertaking by SHL to indemnify all directors and officers, in office from time to time, to the extent and limitations set forth in the indemnification letters issued to such persons, in an aggregate sum of up to US\$ 15 million was re-confirmed. The entitlement to insurance, exculpation and indemnification arrangements, as may be approved by the Company from time to time, is also set forth in the Compensation Policy.

#### **Compensation for Former Members of Governing Bodies**

Mr. Eliyahu Ayalon, a former member of the Board, was paid US\$ 7,931 as compensation in the year under review for his service until his resignation.

#### **Share Allotment in the Year Under Review**

No Ordinary Shares of SHL were allotted to the executive or to the non-executive members of the Board, or to the management or parties closely linked to any such person during the year under review, except for Ordinary Shares issued pursuant to the exercise of Options previously allotted. For information on option allotments to directors and management members, please refer to the Section immediately following.

#### **Share Ownership as of December 31, 2015**

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2015, by the members of the Board and Senior Management and parties closely linked to such persons amounted in the aggregate to 3,531,907 Ordinary Shares. For information on options allotted to the members of the Board and senior management, please refer to the table below.

Eli Alroy, a non-executive member of the Board, holds, as of December 31, 2015, 749,299 Ordinary Shares. Mr. Eli Alroy is also a party to the Voting Agreement. The parties to the Voting Agreement hold, as of December 31, 2015, an aggregate number of 3,245,724 Ordinary Shares. For further information please refer to the Section entitled "Significant Shareholders" on page 15.

Elon Shaley, a non-executive member of the Board, and both Yariv and Erez Alroy, the previous Co-CEOs of the Company, are members

of the Alroy Group. The Alroy Group holds, as of December 31, 2015, an aggregate number of 2,782,608 Ordinary Shares. For information regarding the shareholding percentages of the Alroy Group, please refer to the Section entitled "Significant Shareholders" on page 15.

Ziv Carthy, a non-executive member of the Board as of December 31, 2015, is a controlling shareholder of G.Z. Assets and Management Ltd., which holds, as of December 31, 2015, an aggregate of 921,533 Ordinary Shares per the Company's Share Register. For information regarding the shareholding percentage of G.Z. Assets and Management Ltd., please refer to Section 1.2 entitled "Significant Shareholders" above.

No other non-executive member of the Board of Directors or parties closely linked to such person hold, pursuant to the Share Register, as of December 31, 2015, Ordinary Shares.

#### **Share Options**

Information with regard to Options granted in the year under review and held pursuant to the Option Plans as of December 31, 2015 by the non-executive and executive members of the Board of Directors and Senior Management, as well as parties closely linked to such persons, is as set forth below.

Name	Function	Share Options outstanding at December 31, 2015	Weighted Average exercise price in CHF	Granted during the year	Exercise price of options granted	Vested	Exercised
Erez Alroy	Co-CEO	-	-	-	-	-	30,424
Yariv Alroy	Co-CEO	-	-	-	-	-	30,424
Elon Shalev	Non-executive member	-	-	-	-	-	-
Ziv Carthy	Non-executive member	-	-	-	-	-	-
Nehama Ronen	Non-executive member/ Independent director	18,000	CHF 7.78	-	-	12,000	-
Dr. Ruth Ben Yakar	Non-executive/ non-dependent director	18,000	CHF 8.15	-	-	6,000	-
Oren Most	Non-executive/ non-dependent director	18,000	CHF 8.15	-	-	6,000	-
Elad Magal	Non-executive member	18,000	CHF 8.15	-	-	6,000	-
Amnon Sorek	Non-executive member	18,000	CHF 8.15	-	-	6,000	-
Eran Antebi	CFO	55,000	CHF 6.70	-	-	55,000	-
Erez Nachtomy	Executive vice president	72,395	CHF 6.49	-	-	72,395	-
Irit Alroy	Executive Vice President and CTO	10,000	CHF 8.15	-	-	3,438	10,440
Yoav Rubinstein	Senior Vice President	100,000	CHF 7.08	-	-	100,000	-
Martin Lehner	Managing Director – SHL Telemedizin Germany	50,000	CHF 9.11	-	-	16,667	-
Arie Roth	Chief Medical Manager	-	-	-	-	-	10,000

For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section “Share Options” on page 16 above.

#### **Additional Honorariums and Remuneration**

None of the members of the Board and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2015 to SHL or to any of its subsidiaries for additional services performed during the year under review.

#### **Loans Granted to Governing Bodies**

No guarantees, outstanding loans, advances or credits were granted during the year under review by SHL and its subsidiaries to executive members of the Board of Directors, Senior Management or parties closely linked to such persons.

## 6. Shareholder Participation

### 6.1 Voting Rights Restrictions and Representation Restrictions

There are currently no voting-rights and representation restrictions in place. For voting rights of Ordinary Shares and ADS in general, please refer to Section 2.4 above.

The voting rights of the Ordinary Shares in general may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights if authorized in the future, such an authorization requires a majority of sixty-six (66) percent of the voting power present at the General Meeting pursuant to the Company's Articles of Association. The quorum required for any meeting of shareholders is at least two (2) shareholders present in person or by proxy who together hold or represent at least thirty-three and one third (33 1/3) percent of the outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power present and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two (2) shareholders present in person or by proxy, regardless of the number of Ordinary Shares represented.

Under SHL's Articles of Association all resolutions submitted to the shareholders, unless provided for otherwise in the Articles of Association or under any applicable law, shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon. For resolutions that require special majority, see Section "Statutory Quorums" below.

### 6.2 Statutory Quorums

Pursuant to the Company's Articles of Association, the following resolutions require a special majority of sixty-six (66) percent of the voting power represented at the shareholders meeting: (a) increase of authorized share capital;

and (b) creation of shares with special rights or modifications of share rights. Furthermore, under Israeli law and under SHL's Articles of Association, a voluntary winding-up would require a majority of seventy-five (75) percent of the voting power represented at the shareholders meeting. For special majority requirements with respect to the adoption of the Company's Compensation Policy, please refer to Section 5.1 above, with respect to controlling shareholder transactions, please refer to Section 5.2 above, and with respect to the election of Independent (external) Directors to the Board of Directors, please refer to Section 3.1 above.

### 6.3 Convocation of the General Meeting of Shareholders

Under SHL's Articles of Association, an Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board. All General Meetings other than Annual General Meetings are called "Special General Meetings". Pursuant to the Articles of Association of the Company and the Israeli Companies Law, the Board may, whenever it thinks fit, convene a Special General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board. Special General Meetings may also be convened upon requisition of either of the following (a) two (2) directors, or one fourth of the directors in service; or (b) one or more shareholders, holding not less than 5% of the issued and outstanding share capital of the Company and not less than 1% of the voting rights in the Company; or one or more shareholders holding not less than 5% of the voting rights of the Company. If a meeting shall be requisitioned as aforesaid, then the meeting shall be held not later than thirty-five (35) days from the time notice of such meeting is given to shareholders (unless otherwise required for a meeting at which matters may be voted on by ballot - see below).

Not less than twenty-one (21) days prior notice shall be given to any General Meeting and



shall be published in one newspaper in Israel and in one newspaper in Switzerland or in accordance with the rules and regulations of the stock exchange on which SHL's shares are listed. However, shareholders may vote on certain matters (such as the election or removal of directors or transactions between a company and any of its officers or controlling shareholders or in which such persons may have a personal interest) by submitting a written ballot with respect thereto (the "Ballot") (but may vote thereon in person or by Proxy). In the event such matters are included in the agenda of a General Meeting then not less than thirty five (35) days' prior notice shall be given, unless to the company's best knowledge, at the time of the resolution regarding convening of the meeting, a controlling shareholder of the company will hold, as of the record date, such number of votes which will enable the controlling shareholder to pass the required resolution, even if all other shareholders participate and vote against (i.e. in general more than 50% of the voting rights). Pursuant to relevant regulations promulgated under the Israeli Companies Law, in the event that a topic on the agenda requires also approval by the Board, then the relevant newspaper and shareholder notices shall not be published or sent, as the case may be, later than ninety (90) days following such Board approval. In connection with the establishment of the ADR Program and pursuant to the Deposit Agreement, SHL has further undertaken to provide the Depositary at least thirty-five (35) days prior notice of any general meeting and details concerning the matters to be voted upon. In addition, SHL and SAG will, pursuant to an agreement between SHL and SAG, take all necessary steps to ensure that notices will be sent to the persons registered in the SAG Register. Pursuant to the Deposit Agreement, the Depositary is obligated to provide, if requested by SHL, as soon as practicable after receipt of notice of any meeting of shareholders, a notice to the owners of SHL's ADS containing (a) such information as is contained in such notice of meeting received by the Depositary from SHL; (b) a statement that the owners of ADS as of a specified record date will be entitled, subject to applicable law and the Articles of Association of

SHL, to instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Ordinary Shares represented by their ADS; and (c) a statement as to the manner in which such instructions may be given. Pursuant to the Israeli Companies Law, the notice of the General Meeting shall include the agenda. Pursuant to regulations promulgated under the Israeli Companies Law, the notice of a general meeting in a public company must in addition include the type of meeting, place and time thereof, a summary of the resolutions proposed to be adopted, the majority required with respect thereto and the record date. The company must also include the phone number and address of its registered office and the times at which the full version of the proposed resolutions may be reviewed. In the event the agenda includes matters which may be voted on by Ballot, then additional details are required to be included in the notice, including, inter alia, the deadline for submitting shareholder statements to the Company and the deadline for submitting Ballots.

A Proxy must be delivered to the registered office of SHL or to SAG not later than 48 hours prior to the Annual Meeting. A Ballot must be delivered to the registered office of SHL or to SAG not later than four (4) hours prior to the General Meeting. For the Ballot to become effective: (i) any shareholder whose shares are registered with the Company's registrar of shareholders must enclose a copy of such shareholder's identity card, passport or certificate of incorporation, as the case may be; and (ii) any shareholder whose shares are registered with SAG must enclose a written confirmation from SAG as to its ownership of the voting shares.

The aforementioned regulations also stipulate that any shareholder wishing to state his position with respect to any of the said matters on the agenda may do so by requesting the Company to deliver such position to the other shareholders (the "Shareholder Statement"). The Shareholder Statement must be delivered to the registered office of the Company or to SAG not later than ten (10) days prior to the general meeting as such date is determined

by the Board. A Shareholder Statement shall be delivered to all shareholders no later than one (1) day following receipt thereof. Should a company elect to state its position with respect to such Shareholder Statement, it shall deliver such position (the "Company Statement") to the shareholders, no later than five (5) days prior to the General Meeting. Any such Statement must be written in a clear and simple language, and shall include no more than 500 words per subject matter. A Shareholder Statement shall detail the identity of such shareholder, as well as his percentage interest in the Company; a shareholder who is a corporate entity shall detail the identity of its controlling shareholder(s), as well as additional holdings (if any) of such controlling shareholder(s) in shares of the Company, to the best knowledge of the shareholder submitting the Shareholder Statement. A shareholder submitting the Shareholder Statement, who acts in consort with others with respect to voting in shareholder meetings, whether in general or with respect to certain matter(s) on the agenda, shall indicate so in the Shareholder Statement, and shall describe the aforementioned arrangements and the identity of the shareholders so acting in consort. Any shareholder (as well as any shareholder acting in consort with such shareholder) having a personal interest in any matter on the agenda, shall describe the nature of such personal interest. Any shareholder may revoke his/hers/its Ballot by submitting a cancellation notice (the "Cancellation Notice"). The Cancellation Notice together with sufficient proof as to the identity of such canceling shareholder, to the absolute discretion of an officer of the Company, must be delivered to the registered office of the Company or to not later than 24 hours prior to the General Meeting. Any such shareholder submitting a Cancellation Notice may only vote by attending the General Meeting in person or by Proxy. One or more shareholders holding, at the Record Date, shares representing five percent (5%) or more of the total voting power in the Company, as well as any holder of such percentage out of the total voting power not held by the controlling shareholder(s), as such term is defined under

Section 268 of the Israeli Companies Law, may, following the General Meeting, in person or by proxy, inspect the Ballots and the record thereof at the Company's registered office. The competent court may, at the request of any shareholder who does not hold, at the Record Date, the aforementioned percentage, instruct the Company to allow the inspection of said documents and records, in whole or in part, on terms and conditions determined by the court.

#### 6.4 Agenda

Pursuant to the Israeli Companies Law, the agenda at a General Meeting shall be determined by the Board.

Pursuant to the Israeli Companies Law, any one or more shareholders holding at least 1% of the voting rights in the Company may request the directors to include a certain topic in the agenda of the general meeting, provided that such topic is suitable to be discussed at a general meeting. Pursuant to regulations promulgated under the Israeli Companies Law, (i) with respect to general meetings which include topics which may be voted on by Ballot (see above), such shareholder request needs to be submitted not later than seven (7) days from convening of the shareholder meeting; and (ii) with respect to other general meetings, such request needs to be submitted not later than three (3) days from convening of the shareholder meeting. In the event that the Board deems a suggested topic fit for inclusion in the agenda of the general meeting, the Company shall prepare an updated agenda and shall publish such agenda (both by newspaper notice and by notice to shareholders) not later than seven (7) days after the last date on which requests for amendments to the meeting agenda could have been submitted. The foregoing does not apply in the event the Company publishes a preliminary notice of its intention to convene a general meeting, such preliminary notice to be published by shareholder notice at least twenty-one (21) days prior to the publication of the actual notice of the general meeting. In such preliminary notice, the Company shall describe the expected agenda topics and shall notify shareholders that Company shall be entitled

not to examine any requests of shareholders to include additional topics on the agenda in the event such were received later than fourteen (14) days from the publication of the preliminary notice of the general meeting.

At a General Meeting, resolutions may be adopted only on subjects that were specified in the agenda for the particular General Meeting.

### 6.5 Registration in the Share Register

The shareholders entitled to participate in and to vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, such date shall not, pursuant to regulations promulgated under the Israeli Companies Law, be earlier than forty (40) days prior the date of the General Meeting and not later than four (4) days prior to the date of such General Meeting (provided that with respect to General Meetings the agenda of which includes topics which may be voted on by Ballot (see above), such date shall be not later than twenty-eight (28) days prior to the General Meeting), or different periods as shall be permitted by applicable law. A determination of shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting. The record date with respect to determination of the owners of ADS entitled to give instructions for the exercise of voting rights shall be the date so fixed by the Company, or if a different date, then as close as practicable to the date fixed by the Company.

## 7. Changes of Control and Defense Measures

### 7.1 Duty to Make an Offer

Under Swiss law a person acquiring shares, participation or bonus certificates or any other participation rights in a company either directly, indirectly or in concert with third parties and in so doing reaches, in combination with his previously acquired equity securities in that company, a threshold of 33 % of the voting rights - regardless of whether this person can actually exercise those voting rights - is obliged to make a public takeover offer (the

“Public Takeover Offer”) for all of the listed securities of such company. The acquirer must therefore make an offer to purchase or exchange securities in the company. In addition, a person who owns directly, indirectly or acting in concert with third parties securities which give him more than 33 % but less than 50% voting rights in the company, will have to make a Public Takeover Offer upon excess of the 50% threshold. The same applies to a person that reduces its stake under 50% and thereafter again exceeds the threshold of 50%. However, any person holding more than 50% of the voting rights of a company will be entitled to raise its stake without making a Public Takeover Offer.

To the understanding of the Company, it is exempt from Israeli law provisions relating to special tender offers, but certain tender offer rules with respect to full tender offers under the Israeli Companies law apply to it. These include that, if as result of an acquisition of shares an acquirer will hold more than ninety (90) percent of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. Further pursuant to the Israeli Companies Law, all of the shares of the minority shareholders will be transferred to the offeror in the event that either (a) such number of shares are tendered to the offeror so that more than ninety-eight (98) percent of the outstanding shares are held by it; or (b) such number of shares are tendered to the offeror so that more than ninety-five (95) percent of the outstanding shares are held by it and more than half of the shareholders that do not have a personal interest in the acceptance of the purchase offer tendered their shares.

SHL's Articles of Association do not contain provisions regarding opting out or opting up.

### 7.2 Clauses on Changes of Control

There are no clauses on changes of control in agreements and plans benefiting members of the Board of Directors and/or members of the Management and/or other members of SHL's cadre.

## 8. Auditors

### 8.1 Duration of the Mandate and Term of Office of the Head Auditor

Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent shareholder resolution. SHL's auditors were last re-appointed at the 2014 Annual General Meeting.

Mr. Yaki Buaron (CPA) was the head auditor within Kost, Forer, Gabbay & Kasierer responsible for the auditing of SHL until the 2014 audit. Mr. Itay Bar-Haim is the head auditor beginning with the 2015 audit.

### 8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2015 approximately USD 287 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group.

### 8.3 Additional Honorariums

In addition, Ernst & Young charged approximately USD 36 thousand for additional services performed for the SHL Group in the field of management consulting, tax advice, due diligence and other auditing activities. The aforesaid sums include payments made to other member firms of Ernst & Young outside of Israel.

### 8.4 Supervisory and Control Instruments vis-a-vis the Auditors

Pursuant to the Israeli Companies Law, the external auditors of the Company shall be independent, both directly and indirectly, from the Company. In the event that the Board of Directors becomes aware of any connection between the external auditors and the Company which constitutes a dependency, the Board shall instruct the auditors to immediately cease such connection. If the auditors do not adhere to this instruction, the Board shall call for a special general meeting of shareholders,

within a reasonable time, in order to remove the auditors.

The Company may not condition the compensation of the external auditor that may limit the performance of the audit or that links between the compensation and the outcome of the audit.

The external auditor may at any time review Company documents which it requires to perform its tasks, and to receive explanations with respect thereto. The auditor is entitled to participate in all annual meetings at which the financial statements audited by auditor are presented, and at all board meetings with respect to approval of such financial statements.

If the auditor becomes aware of a material flaw in the financial controls of the Company, it must report such flaw to the Chairman of the Board.

In 2015 the Board has held one (1) meeting with the Company's External Auditor as part of the authorization of the Annual Financial Statements. The FS Committee has held three (3) meetings at which the Company's External Auditor was present as part of the discussion of the Annual and Interim Financial Statements.

## 9. Information Policy

SHL is committed to a policy of open and effective communications with customers, partners, shareholders and staff alike (within constraints imposed by confidentiality obligations and applicable law). SHL's investor relations program features regular publication of relevant information for the benefit of the public and the capital markets. **SHL publishes price-sensitive information in accordance with the obligation to disclose price-sensitive facts (ad-hoc publicity) as required by the SIX Swiss Exchange, and conducts regular communication briefings with media representatives and financial analysts in addition to its Annual General Meeting.**

Pursuant to the relevant U.S. regulations applicable to SHL's ADR Program, SHL shall publish in English, on its web site or through an electronic information delivery system generally available to the public in Switzerland,

information that, since the first day of its most recently completed fiscal year, it: (A) has made public or been required to make public pursuant to the laws of Israel (currently there is no information which so needs to be published); (B) has filed or been required to file with the SIX Swiss Exchange and which has been made public by the SIX Swiss Exchange; and (C) has distributed or been required to distribute to its security holders.

SHL maintains an insider trading and management transactions disclosure policy. The insider trading provisions are applicable to members of the Board, officers, employees, representatives and consultants of the company, as well as the immediate family members and household members of such persons, in addition to any other person which may receive inside information with respect to the company. Amongst others, the insider trading policy forbids trading in SHL's securities by the aforementioned persons while in possession of inside information, and additionally provides that board members and certain senior management members may only trade in SHL's securities during specifically stipulated "open periods". The provisions regarding disclosure and reporting of management transactions apply to members of the Board and members of Senior Management ("Management Members"). According to the policy, Management Members are obliged to report a transaction in the company's securities (as further described hereafter) if it has a direct or indirect effect on their assets. Transactions executed by related parties (including spouses, individuals living in the same household, and legal entities, partnerships and fiduciary institutions if the Management Member holds a management position in such entity or institution, controls it or is its beneficiary) must also be reported, if such transactions were carried out under the significant influence of the Management Member. Transactions required to be reported are all transactions (purchase and sale of rights) in (a) shares of SHL, (b) any conversion, purchase or sale rights that provide for or permit actual delivery of shares of SHL or conversion or sale rights of SHL, or (c) financial instruments on shares of SHL (options, forward contracts or contracts for difference) which provide for or permit cash

settlement. Shares or options acquired under an employee share option plan do not have to be reported, except if there was an election right whether to receive cash or shares/options, however, any sale of shares or exercise of options acquired under an employee share option plan must be reported. Reports of transactions are made to SHL's CFO who must then file such reports with the SIX Swiss Exchange.

SHL informs interested parties through a variety of corporate publications including annual and half-yearly reports, which can be ordered or downloaded from [www.shl-telemedicine.com](http://www.shl-telemedicine.com). These reports feature operational reviews as well as consolidated balance sheets, profit & loss statements and cash flow statements as of December 31 and June 30 respectively. The actual share price, press releases and presentations are also available on the website. SHL maintains two (2) websites offering up-to-date corporate and product information: [www.shl-telemedicine.com](http://www.shl-telemedicine.com) and [www.shahal.co.il](http://www.shahal.co.il).

The Company's ad-hoc reports and press releases may be retrieved at <http://www.shl-telemedicine.com/newsroom/press-release-2015/>. Persons that wish to be included in the Company's distribution list with respect to ad-hoc notices may do so at <http://www.shl-telemedicine.com/about-us/investorrelations/ir-contact/>.

#### Investor's calendar

H1 Results	August 17, 2016
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#### Contact person for Investor Relations

**Yuval Shaked**, CEO

[yuval@shl-telemedicine.com](mailto:yuval@shl-telemedicine.com)

**Eran Antebi**, Chief Financial Officer

[erana@shl-telemedicine.com](mailto:erana@shl-telemedicine.com)

**Martin Meier-Pfister**, IRF Communications

[shl@irfcom.ch](mailto:shl@irfcom.ch)

Tel. ++41 43 244 8140

#### SHL Telemedicine Ltd.

90 Yigal Alon St., Tel Aviv 67891, Israel

Tel. ++972 3 561 2212

Fax: ++972 3 624 2414





SHL TeleMedicine Ltd.  
Ashdar Building  
90 Igal Alon St.  
Tel Aviv 67891  
Israel  
Tel. +972 3 561 2212  
Fax. +972 3 624 2414  
E-mail: [shl@shl-telemedicine.com](mailto:shl@shl-telemedicine.com)  
[www.shl-telemedicine.com](http://www.shl-telemedicine.com)