



## Corporate Profile

SHL Telemedicine Ltd., headquartered in Tel Aviv, Israel and is engaged in developing and marketing advanced personal telemedicine systems and the provision of medical call center services, with a focus on cardiovascular and related diseases, to end users and to the healthcare community. SHL Telemedicine offers its services and personal telemedicine devices to subscribers utilizing telephonic and Internet communication technology. These services save life and improve the quality of life for our subscribers, while enabling cost savings for the healthcare community.

SHL is the market leader in Israel and active internationally in Germany, the United States and APAC in one business segment, Telemedicine services. SHL is listed on the SIX Swiss Exchange (SHLTN, ISIN) and has an ADR program listed over-the counter (OTCPK: SMDCY). For more information please visit our web site at <http://www.shl-telemedicine.com>.

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# Letter to the Shareholders

## **Dear Shareholders,**

For SHL, 2015 was a year characterized by exceptional events.

First, SHL again demonstrated its ability to grow its strong business franchise through acquisitions. In March, SHL signed an agreement to acquire GPH (Gesellschaft für Patientenhilfe), based in Munich, for a cash purchase price of € 7.6 million. GPH's nationwide German telemedicine program Cordiva cares for about 10,000 chronic heart failure patients in daily regular care. GPH, a subsidiary of US-based Alere Inc., has AOK Bayern and AOK North East amongst its major clients. Following the acquisition, SHL unified its telemedicine monitoring centers in Germany. The Dusseldorf monitoring centre was transferred to Munich, a process which will lead to improved efficiency.

Second, the year was marked by SHL's announcement in August to merge with China based Shanghai Jiuchuan Investment (Group)

Co., Ltd. As it turned out, though, Shanghai Jiuchuan failed to fulfil the relevant closing conditions stipulated in the Merger Agreement. Therefore, in December SHL terminated the Merger Agreement and the transaction could not be consummated as originally planned. SHL filed a claim for breach of contract for CHF 11 million or equal to 10% of the merger consideration (USD 11 million) the outcome of which cannot be estimated yet.

Third, the financial results for 2015 were marked by extraordinary items.

While SHL's businesses in Germany and Israel performed as expected, in Germany external evaluations related to two performance based contracts demonstrated successful outcomes and an economic benefit for the health insurers, however, with an economic benefit lower than previously estimated. This required the Company to adjust its estimate of these performance-based revenues associated with the service years 2013





to 2015 and reduce the related income receivable. In addition, certain additional assets, mainly a tax receivable was written off and certain fixed and intangible assets were impaired. Also, extraordinary costs were incurred with due to the restructuring process in Germany and in the merger process with the Chinese buyer. As a result of these adjustments and extraordinary items, totalling USD 14 million, the Company has recorded an Operating and Net loss in fiscal year 2015.

On an ongoing basis, SHL recorded revenues for the year of USD 40.7 million an increase of 1.8% from 2014 revenues. At constant exchange rates\* revenues for the year were USD 45.5 million, up 13.8% compared to 2014 revenues. GPH's results are consolidated from April 1, 2015.

Adjusted EBITDA amounted to USD 0.4 million and adjusted LBIT to USD 4.7 million compared with adjusted EBITDA of USD 7.7 million and adjusted EBIT of USD 2.6 million in 2014. On a GAAP basis including the revenue adjustment

related to the performance based contracts and extraordinary items LBITDA for the year amounted to USD 6.4 million with an LBIT of USD 15.4 million.

Adjusted net loss for the year amounted to USD 6.1 million compared to an adjusted net income of USD 2.1 million in 2014. On a GAAP basis including the revenue adjustment related to the performance based contracts and extraordinary items net loss for the year amounted to USD 16.6 million.

Operating cash flow for the year amounted to USD 4.0 million, which included the collection of USD 4.7 million from a former customer in Germany, this compared to cash used in operations of USD 3.1 million in 2014. Cash, cash equivalents and marketable securities amounted to USD 8.6 million at December 31, 2015. In January 2016, the Company received a long-term loan from a bank in Germany in the amount of Euro 7.0 million.

SHL has decided to adapt the frequency of its reporting to today's common practice in Switzerland and internationally, which is audited financial statements for the full year and non-audited financial statements mid-year.

While 2015 was a year of extraordinary events, 2016 will be a year of transition.

In February, it was announced that key responsibilities were placed in the hands of Uzi Blumensohn as new Chairman of the Board of Directors and Yuval Shaked as new Chief Executive Officer - both of them signing this letter for the first time.

Uzi 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, ranked 11th on the FORTUNE 500 list, a healthcare services and information technology company following the sale of Medcon Ltd, a cardiac image and information management solutions company traded on the Tel Aviv Stock exchange, where he served as Chairman of the Board and CEO. From 2008 to 2014 Mr. Blumensohn was the CEO and Chairman of the Board of Endymed Medical Ltd. a medical technology company.

Yuval Shaked joined SHL early March 2016, replacing Erez Alroy and Yariv Alroy, the former Co-CEOs, following their long, fully committed service to SHL.

Yuval Shaked brings with him 15 years of international experience in the life sciences sector. He joined SHL from GE Healthcare where he was a General Manager of the Diagnostic

Cardiology division, leading both on- and off-shore R&D and marketing teams conducting worldwide sales of devices and IT solutions in the cardiology field. During his service, Yuval Shaked has gained extensive experience in the telemedicine space. He gained a big part of his professional experience in the U.S., a market that offers a lot of potential also for SHL.

### What comes next?

SHL's businesses in Israel and Germany provide us with a stable platform. Alongside our initiatives to further grow these two businesses, we need to further improve efficiency.

At the same time, we need to thoroughly assess the situation and define a clear way forward. We are unique in the fact that we have a complete solution to manage patients remotely with proven outcomes - devices, software and medical protocols enabling remote patient management. Our goal is to define a strategy by which these unique assets meet market needs. The good news is that we have excellent cards in our hands. But we must be mindful how to play them in order to create a focus that will lead to sustainable growth and this is what we will be doing in the coming months.

On behalf of the Board of Directors and the management team, we thank all employees for their hard work and our business partners and shareholders for the trust they have placed in SHL.



**Uzi Blumensohn**  
Chairman of the Board

Sincerely,



**Yuval Shaked**  
CEO

\* For Adjusted Financial Information and Reconciliation of Adjusted Financial Information pls. go to the Financial Overview Section on page 58.

\*\* Constant Currency - In order to enable meaningful comparison between the 2015 and 2014 results, 2015 results are also presented at constant currency exchange rates. These are calculated by translating the current period results using the average exchange rates used for calculating the 2014 results instead of the current period exchange rates. Management believes that this presentation enables a more meaningful comparison between the periods due to the significant fluctuations in NIS/USD/EUR exchange rates.

# Information for Investors

## Capital structure

The issued share capital is divided into 10,489,333 registered shares with a par value of NIS 0.01 each (excluding 389,158 ordinary shares of NIS 0.01 par value each held by SHL).

## 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.

	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.	3,245,724	29.83%	30.93%	21.24%
Alroy Group	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. Mitchell Capital LLP	340,379	3.13%	3.25%	-
SHL Treasury shares	389,158	3.58%	-	-

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, and actual holding as of December 31, 2015 calculated including ordinary shares held by SHL, all as indicated above, but does not reflect holding on a fully diluted basis. All in accordance with notifications received by the Company from shareholders and the SAG registrar as of December 31, 2015.

## Statistics on SHL Telemedicine as at December 31, 2015

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares*	10,489,333
Market price high/low (CHF)	6.30/11.25
Market capitalization high/low (CHF million)	66.1/118.0
Market capitalization 31/12/15 (CHF million)	66.4
Share capital – nominal value (NIS)	104,893

\* Excluding 389,158 ordinary shares held by SHL.

## Share price development



## Listing

All SHL shares are listed on SIX Swiss Exchange

Ticker symbol: SHLTN

Currency: CHF

Listing date: November 15, 2000

Company has an ADR program on the OTCBB

Ticker symbol: SMDCY

## Investor relations

**SHL Telemedicine Ltd.**

**Yuval Shaked, CEO**

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## Next Publications

H1 Results: August 17, 2016









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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.

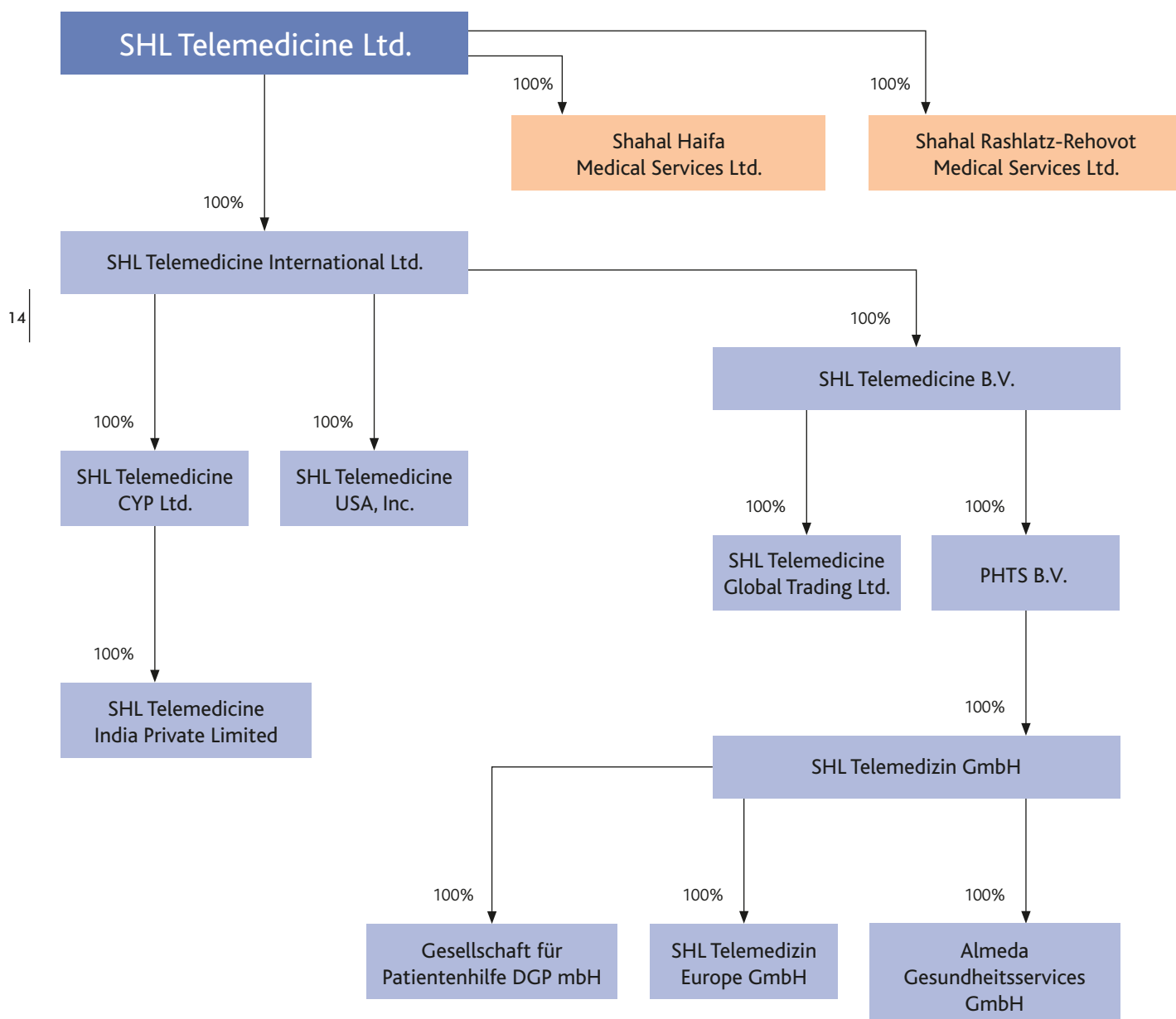
#### Non-Listed Companies Belonging to the SHL Group:

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.

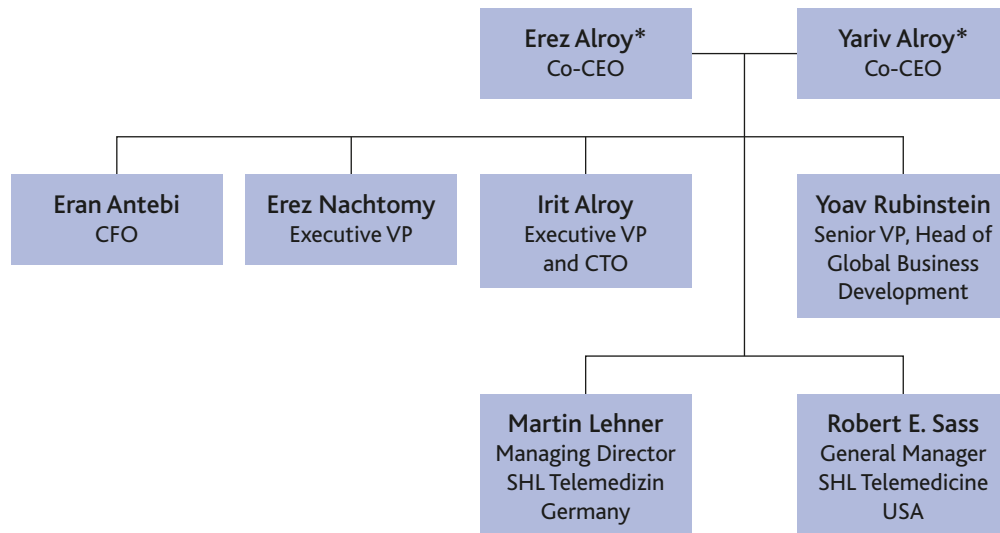
- SHL has an Internal Auditor (for further information, please refer to p. 33 above). The Internal Auditor examines the processes and controls of the Company - not only with regard to financial operations, but also with regard to compliance of management with internal and external policies - and conveys 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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# Consolidated Financial Statements 2015



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## Financial Overview

The year was marked by SHL's announcement in August to merge with China based Shanghai Jiuchuan Investment (Group) Co., Ltd. As it turned out, though, Shanghai Jiuchuan failed to fulfil the relevant closing conditions stipulated in the Merger Agreement. Therefore, in December the Merger Agreement was terminated by SHL and the transaction could not be consummated as originally planned.

In March, SHL signed an agreement to acquire GPH (Gesellschaft für Patientenhilfe), based in Munich, for a cash purchase price of EUR 7.6 million. GPH's nationwide German telemedicine program Cordiva cares for about 10,000 chronic heart failure patients in daily regular care. GPH, a subsidiary of US-based Alere Inc., has AOK Bayern and AOK North East amongst its major clients. GPH's results are consolidated from April 1, 2015.

Following the acquisition, SHL unified its telemedicine monitoring centres in Germany. The Dusseldorf monitoring centre was transferred to Munich, a process which will lead to improved efficiency.

While SHL's businesses in Germany and Israel performed as expected, in Germany external evaluations related to two performance based contracts demonstrated successful outcomes and an economic benefit for the health insurers, however, with an economic benefit lower than previously estimated. This required the Company to adjust its estimate of these performance-based revenues associated with the service years 2013 to 2015 and reduce the related income receivable. In addition, certain additional assets, mainly a tax receivable was written off and certain fixed and intangible assets were impaired. Also, extraordinary costs were incurred due to the restructuring process in Germany and the merger process with the Chinese buyerr.

As a result of these adjustments and extraordinary items, totalling USD 14 million, the Company has recorded an Operating and Net loss in fiscal year 2015.

### Adjusted Financial Results

The following tables reconcile our financial results reported in accordance with generally accepted accounting principles ("GAAP") to non-GAAP financial results. SHL has provided this non-GAAP financial information to aid investors in better understanding the company's performance.

in USD million (except per share amounts)	2015	2014	2015 % change % (constant change	2015 % change % (constant currency)	2014 % change % (constant currency)
<b>Revenues for the year</b>	<b>40.7</b>	<b>40.0</b>	<b>1.8%</b>	<b>45.5</b>	<b>13.8%</b>
Additional revenues <sup>1</sup> and change in revenue estimate <sup>2</sup>	(4.9)			(5.0)	
<b>Adjusted revenues</b>	<b>35.8</b>	<b>40.0</b>	<b>(10.5%)</b>	<b>40.5</b>	<b>1.3%</b>
<b>Adjusted LBIT/EBIT<sup>3</sup></b>	<b>(4.7)</b>	<b>2.6</b>	<b>n.a.</b>	<b>(5.6)</b>	<b>n.a.</b>
%	n.a.	6.4%		n.a.	
<b>Adjusted EBITDA<sup>3</sup></b>	<b>0.4</b>	<b>7.7</b>	<b>n.a.</b>	<b>0.5</b>	<b>n.a.</b>
%	1.1%	19.3%		1.2%	
<b>Adjusted Net income (loss)<sup>3</sup></b>	<b>(6.1)</b>	<b>2.1</b>	<b>n.a.</b>	<b>(7.2)</b>	<b>n.a.</b>
	n.a.	5.1%		n.a.	
<b>Basic Adjusted EPS/LPS</b>	<b>(0.59)</b>	<b>0.21</b>		<b>(0.69)</b>	

#### 1 Additional revenues

These are revenues earned by GPH in the period after the acquisition date (Q2 2015), relating to the period prior to the acquisition date (2013, 2014 and Q1 2015) which IFRS 3 requires them to be recorded as an additional asset, as of the acquisition date, rather than revenues.

#### 2 Change in revenue estimate

The Company received initial results of the evaluation of annual performance-based contracts, according to which the level of cost savings is lower than previously estimated. Based on these results, the Company adjusted its estimate of performance-based revenues by \$ 6.1M which relates to revenues recognized in prior periods beginning in the year 2013.

### 3 Reconciliation to Adjusted Financial Information:

	2015	2014	2015 (constant currency)
<b>LBIT/EBIT</b>	<b>(15.4)</b>	<b>1.3</b>	<b>(17.6)</b>
Additional revenue	1.2	0.0	1.5
Amortization of acquisition intangibles and stock based compensation	1.6	1.4	1.9
Restructuring charges and extraordinary expenses <sup>4</sup>	7.9	(0.1)	8.6
<b>Adjusted LBIT/EBIT</b>	<b>(4.7)</b>	<b>2.6</b>	<b>(5.6)</b>
Depreciation	5.1	5.1	6.1
<b>Adjusted EBITDA</b>	<b>0.4</b>	<b>7.7</b>	<b>0.5</b>
<b>Net income (loss)</b>	<b>(16.6)</b>	<b>0.8</b>	<b>(18.9)</b>
Additional revenue	1.2	0.0	1.5
Amortization of acquisition intangibles and stock based compensation	1.6	1.4	1.9
Restructuring charges and extraordinary expenses <sup>4</sup>	7.9	(0.1)	8.6
Taxes on the above items	(0.2)	0.0	(0.3)
<b>Adjusted Net income (loss)</b>	<b>(6.1)</b>	<b>2.1</b>	<b>(7.2)</b>

### 4 Extraordinary expenses:

	2015	2014	2015 (constant currency)
Restructuring charges	0.7	(0.1)	0.8
Write-down of other receivables	2.5	0.0	2.7
Transaction expenses	2.0	0.0	2.2
Impairment of fixed and intangible assets	2.7	0.0	2.9
<b>Restructuring charges and extraordinary expenses</b>	<b>7.9</b>	<b>(0.1)</b>	<b>8.6</b>

Constant currency - In order to enable meaningful comparison between the results, they are also presented at constant currency exchange rates. These are calculated by translating the 2015 results using the average 2014 exchange rates.

### Revenues by geographic distribution, (excluding change in revenue estimate)

	Israel		Germany		USA & ROW	
	USD m	% of total	USD m	% of total	USD m	% of total
2015	21.1	51.9%	19.5	47.9%	0.1	0.2%
2014	23.7	59.2%	16.3	40.8%	0.0	0.0%
2015 (constant currency)	22.9	50.3%	22.5	49.5%	0.1	0.2%
% change in constant currency	(3.4%)		38.0%			

### Results of Operations

#### Revenues

In fiscal year 2015 SHL recorded revenues for the year of USD 40.7 million, an increase of 1.8% from 2014 revenues. At constant exchange rates\* revenues for the year were USD 45.5 million, up 13.8% compared to 2014 revenues.

The Company received initial results of the evaluation of annual performance-based contracts, according to which the level of cost savings is lower than previously estimated. Based on these results, the Company adjusted its estimate of performance-based revenues by USD 6.1 million, which relates to revenues recognized in prior periods beginning in the year 2013. As such, GAAP revenues for fiscal year 2015 amounted to USD 34.6 million compared with revenues of USD 40.0 million for fiscal year 2014. At constant exchange rate terms, revenues for the fiscal year amounted USD 39.0 million.

On an ongoing basis, revenues from the Company's German operation amounted to USD 19.5 million (USD 22.5 million on a constant currency basis) compared to USD 16.3 million in 2014, an increase in constant currency of 38.0% year over year. This increase is attributable to the inclusion of the GPH business from April 1, 2015 offset by lower 2015 performance based revenues. Revenues from the Israeli operation amounted to USD 21.1 million (USD 22.9 million on a constant currency basis) compared USD 23.7 million in 2014.

In terms of geographic breakdown, the German business accounted for 47.9% of total revenues; with the Israeli business accounting for 51.9% of total revenues. This compared with 40.8% and 59.2% of total revenues, respectively, in 2014.

**Gross profit**

In fiscal year 2015, gross margins, excluding the adjustment related to the performance based contracts for prior years, were 49.4% compared to 55.8% in 2014. The decrease in gross margins is mainly attributable to the lower performance based revenues in Germany.

**Research and Development costs, net**

Research and development costs amounted to USD 2.7 million compared with USD 2.5 million in 2014. R&D expenses in 2015 were similar to those in 2014 and amounted to USD 1.9 (USD 2.0 million in 2014), of which USD 1.2 million was capitalized (USD 1.4 million in 2014) against USD 1.9 million of amortization of development costs (USD 1.9 million in 2014). On a constant currency basis R&D costs increased to USD 3.0 million due to higher amortization.

**Selling and Marketing Expenses**

Selling and marketing expenses for fiscal 2015 amounted to USD 10.8 million, compared with USD 11.4 million in fiscal year 2014. On a constant currency basis selling and marketing expenses increased by 6.1%. This increase is mainly a result of the GPH business, including additional amortization of acquired intangibles (contracts and customer relations) offset by a decrease in expenses related to the development of the U.S. and APAC markets. In fiscal 2015, selling and marketing expenses accounted for 26.5% of revenues compared to 28.5% of revenues in fiscal 2014.

**General and Administrative Expenses**

General and administrative expenses for fiscal year 2015 amounted to USD 8.1 million

compared to USD 7.2 million in fiscal 2014. Excluding one-time items, (in 2015 and 2014 a reversal of doubtful debt in the amount of USD 1.1 million and 1.3 million, respectively) general and administrative expenses were USD 9.2 million compared with USD 8.5 million in 2014. The increase is again attributable to the GPH acquired business offset by a decrease in expenses related to the development of the U.S. and APAC markets.

**Other expenses**

During the year SHL incurred certain extraordinary costs which are presented as other expenses. These include USD 2 million related to costs related to the acquisition process; USD 2.5 million mainly related to a reduction in a VAT receivable due to updated estimates received from our professional advisors as to the likelihood of the refunds; USD 0.7 of restructuring charges related to the unification of SHL's German business in Munich; and impairment of certain fixed and intangible assets, mainly old telemedicine devices on loan and certain R&D projects discontinued.

**Earnings/Loss before Income Tax, Depreciation and Amortization (EBITDA/LBITDA) and Earnings/Loss before Income Taxes (EBIT/LBIT)**

Adjusted EBITDA for fiscal year 2015 amounted to USD 0.4 million with an adjusted LBIT of USD 4.7 million this is compared to an adjusted EBITDA of USD 7.7 million (19.3% of revenues) and an EBIT of USD 2.6 million (6.4% of revenues) in fiscal year 2014.

On a GAAP basis including the revenue adjustment related to the performance based

contracts and extraordinary items LBITDA for the year amounted to USD 6.4 million with an LBIT of USD 15.4 million, this compared to EBITDA of USD 7.4 million and an EBIT of USD 13 million.

#### **Financial Income/Expenses**

Financial expenses, net for fiscal year 2015 amounted to USD 0.3 million compared to financial income, net of USD 0.5 million in fiscal year 2014. The change is mainly attributable to: (i) the weakening of the Euro against the NIS by almost 10% which provided for exchange rate losses on the Company's Euro cash reserves offset by a decrease in the Israeli CPI of 1.0%, which provided for lower interest on the Company's CPI linked loans.

#### **Taxes on Income**

For fiscal year 2015, taxes on income amounted to USD 0.9 million compared to USD 1.0 million in fiscal year 2014. Taxes on income include deferred tax expenses of USD 0.5 million, which is related to the Company's Israeli business and current tax expenses in the amount of USD 0.4 million related to the Israeli and German businesses.

#### **Net Income (Loss)**

Adjusted net loss for fiscal year 2015 amounted to USD 6.1 million ((0.59) per share) compared to an adjusted net income of USD 2.1 million (0.21 per share) for fiscal 2014. On a GAAP basis including the revenue adjustment related to the performance based contracts and extraordinary items net loss for the year amounted to USD 16.6 million compare with a net income of USD 0.8 million in fiscal 2014.

#### **Major Changes in Assets, Liabilities and Equity**

Although SHL's balance sheet decreased due to the AR adjustment related to the performance based contracts and write-off of and impairment of certain assets SHL's balance sheet remains strong enabling the Company to fulfill its goals. During the year GPH's assets and liabilities were consolidated from March 31, 2015. In addition the Euro depreciated significantly against the NIS and the USD by approximately 10%. As the presentation currency is the USD, such depreciation has resulted in the Euro assets and liabilities presented at a lower USD amount than in 2014, with the resulting translation differences recognized in equity as "foreign currency translation reserves".

Current assets as of December 31, 2015 were USD 21.4 million (28.7% of total assets) of which USD 8.6 million in cash, cash equivalents and short term investments and USD 7.1 in trade receivables this compared to current assets as of December 31, 2014 of USD 39.6 million (43.0% of total assets) of which USD 17.1 million in cash, cash equivalents and short term investments and USD 15.3 million in trade receivables.

Non-current assets remained stable and at USD 11.1 million compared to USD 11.2 million as of December 31, 2014.

Total liabilities, current and non-current, were USD 31.9 million as of December 31, 2015, of which short and long term loans amounted to USD 19.8 million (62.1% of total liabilities). This compared with total liabilities, current and non-current, of USD 30.7 million as of December

31, 2014, of which short and long term loans amounted to USD 23.2 million (75.6% of total liabilities).

Property and equipment, net amounts to USD 10.7 million as of December 31, 2015 compared with USD 12.7 million as of December 31, 2014. Property and equipment, net is mainly comprised of telemedicine devices on loan to the company's subscribers amounting to USD 7.1 million (66.4% of total) compared with USD 9.0 million (70.9% of total) as of December 31, 2014.

Goodwill and intangible assets Intangible as of December 31, 2015 amounted to USD 31.2 million compared with USD 28.7 million as of December 31, 2014. The increase is due to the additional intangible assets and goodwill stemming from the GPH acquisition and amounting to USD 6.6 million less amortization during the year.

Total equity as of December 31, 2015 amounted to USD 42.6 million (57.2% of balance sheet) compared with total equity at December 31, 2014 of USD 61.4 million (66.7% of balance sheet). The decrease in equity results mainly from the AR adjustment related to the performance based contracts, the write-off of and impairment of certain assets and the weakening of the Euro against the NIS and the USD (decreased foreign currency translation reserve).

#### Cash Flow

Operating cash flow for the year improved significantly with cash provided by operations amounting to USD 4.0 in fiscal 2015 compared to cash used in operation of USD 3.1 million

in fiscal 2014. During the year the Company collected USD 4.7 million from a former customer in Germany, even without such collection operating cash flow improved compared with 2014.

Net cash provided by investing activities amounted to USD 0.5 million. During the year the Company acquired GPH for USD 6.2 and invested in fixed and intangible assets USD 2.7 million. This was financed by the sale of short -term investments, net in an amount of USD 10.0 million. This compared with cash provided by investing activities of USD 0.7 million in fiscal 2014, of which investment in fixed and intangible assets amounted to USD 4.3 million, offset by proceeds from short-term investments, net in the amount of USD 3.8 million and cash received from the acquisition of almeda in the amount of USD 1.1 million.

Cash used in financing activities for fiscal 2015 amounted to USD 3.2 million of which payment of long term loans amounted to USD 3.3 million offset by cash received related to a finance lease in the amount of USD 0.1 million. This compared with the receipt of short-term bank credit, net in the amount of USD 0.8 million and the payment of long term loans in the amount of USD 3.5 million.

  
**Eran Antebi**  
 Chief Financial Office



# INDEPENDENT AUDITORS' REPORT To the Shareholders of SHL TELEMEDICINE LTD.

We have audited the accompanying consolidated financial statements of SHL Telemedicine Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The

procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2015 and 2014, and of its financial performance and cash flows for each of the years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel

April 11, 2016

*Kost Forer Gabbay and Kasierer*

**KOST FORER GABBAY & KASIERER**

A Member of Ernst & Young Global

## CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

		December 31,	
	Note	2015	2014
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	4	4,005	2,767
Short-term investments	5	4,551	14,316
Trade receivables	6	7,075	15,263
Prepaid expenses	7	1,304	1,268
Inventory		3,268	2,483
Other accounts receivable	8	1,238	3,458
		<b>21,441</b>	<b>39,555</b>
<b>NON-CURRENT ASSETS:</b>			
Prepaid expenses	7	5,735	5,558
Long-term deposits		1,357	876
Deferred taxes	18c	4,011	4,768
		<b>11,103</b>	<b>11,202</b>
<b>PROPERTY AND EQUIPMENT:</b>			
	9		
Cost		62,619	61,240
Less - accumulated depreciation		(51,915)	(48,587)
		<b>10,704</b>	<b>12,653</b>
GOODWILL	10	14,648	12,487
INTANGIBLE ASSETS, NET	10	16,558	16,230
<b>Total assets</b>		<b>74,454</b>	<b>92,127</b>

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

# CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

		December 31,	
	Note	2015	2014
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks and current maturities	11	10,351	10,244
Deferred revenues	13	1,828	66
Trade payables		1,015	983
Other accounts payable	14	6,840	5,076
		<b>20,034</b>	<b>16,369</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term loans	12	9,448	12,931
Deferred revenues	13	523	673
Deferred taxes	18c	1,076	-
Employee benefit liabilities	16	776	758
		<b>11,823</b>	<b>14,362</b>
<b>Total liabilities</b>		<b>31,857</b>	<b>30,731</b>
<b>EQUITY:</b>			
	21		
Issued capital		31	31
Additional paid-in capital		95,380	95,189
Treasury shares		(2,440)	(2,619)
Foreign currency translation reserve		(4,086)	(1,532)
Capital reserve for available-for-sale investments and remeasurement gains on defined benefit plans		660	640
Accumulated deficit		(46,948)	(30,313)
<b>Total equity</b>		<b>42,597</b>	<b>61,396</b>
<b>Total liabilities and equity</b>		<b>74,454</b>	<b>92,127</b>

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

April 11, 2016

Date of approval of the  
financial statements



Uzi Blumensohn  
Chairman of the Board



Yuval Shaked  
CEO

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands (except per share data)

	Note	Year ended December 31,	
		2015	2014
Revenues for the year		40,673	39,976
Change in revenues estimate	6a(2)	(6,092)	-
Total revenues		34,581	39,976
Depreciation and amortization		2,470	2,344
Cost of revenues	22a	18,088	15,368
<b>Gross profit</b>		<b>14,023</b>	<b>22,264</b>
Research and development costs	22b	2,690	2,492
Selling and marketing expenses	22c	10,794	11,430
General and administrative expenses	22d	8,052	7,193
Other expenses (income)	22f	7,876	(137)
Operating income (loss)		(15,389)	1,286
Financial income	22e(1)	878	2,376
Financial expenses	22e(2)	(1,261)	(1,809)
Income (loss) before taxes on income		(15,772)	1,853
Taxes on income	18b	863	1,024
<b>Net income (loss)</b>		<b>(16,635)</b>	<b>829</b>
Other comprehensive loss (net of tax effect):			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains on defined benefit plans		90	33
		<b>90</b>	<b>33</b>
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Transfer to profit or loss in respect of available-for-sale investments		(74)	(1,075)
Gain on available-for-sale investments		4	49
Foreign currency translation reserve		(2,554)	(7,680)
		<b>(2,624)</b>	<b>(8,706)</b>
<b>Total other comprehensive loss</b>		<b>(2,534)</b>	<b>(8,673)</b>
<b>Total comprehensive loss</b>		<b>(19,169)</b>	<b>(7,844)</b>
Earnings per share:			
<b>Basic and diluted earnings (loss)</b>	<b>23</b>	<b>(1.59)</b>	<b>0.08</b>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY U.S. dollars in thousands

	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Capital reserve for available-for-sale investments and cumulative gains on defined benefit plans**)	Accumulated deficit	Total
<b>Balance as of January 1, 2014</b>	<b>31</b>	<b>95,014</b>	<b>(2,774)</b>	<b>6,148</b>	<b>1,633</b>	<b>(31,142)</b>	<b>68,910</b>
Exercise of options	*-	(147)	155	-	-	-	8
Share-based payments	-	322	-	-	-	-	322
Net income	-	-	-	-	-	829	829
Total other comprehensive loss	-	-	-	(7,680)	(993)	-	(8,673)
<b>Balance as of December 31, 2014</b>	<b>31</b>	<b>95,189</b>	<b>(2,619)</b>	<b>(1,532)</b>	<b>640</b>	<b>(30,313)</b>	<b>61,396</b>
Exercise of options	*-	(170)	179	-	-	-	9
Share-based payments	-	361	-	-	-	-	361
Net loss	-	-	-	-	-	(16,635)	(16,635)
Total other comprehensive loss	-	-	-	(2,554)	20	-	(2,534)
<b>Balance as of December 31, 2015</b>	<b>31</b>	<b>95,380</b>	<b>(2,440)</b>	<b>(4,086)</b>	<b>660</b>	<b>(46,948)</b>	<b>42,597</b>

\* Represents an amount lower than \$ 1.

\*\* As of December 31, 2015 the capital reserve for available for sale investments amounts to \$ 188 (2014 - \$ 258) and the cumulative gains on defined benefit plans amounts to \$ 472 (2014 - \$ 382).

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS U.S. dollars in thousands

	Year ended December 31,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income (loss)	(16,635)	829
<b>Adjustments required to reconcile net income to net cash provided by (used in) operating activities:</b>		
<b>Income and expenses not involving operating cash flows:</b>		
Depreciation and amortization	6,336	6,076
Capital gain from sale of property and equipment	(26)	(59)
Impairment of property, plant and equipment	877	-
Impairment of intangible assets	1,800	-
Change in employee benefit liabilities, net	20	43
Financial expenses (income), net	383	(567)
Cost of share-based payments	361	322
Taxes on income	863	1,024
	10,614	6,839
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in trade receivables, net	9,118	(6,533)
Increase in inventory	(387)	(1,119)
Increase in prepaid expenses	(238)	(563)
Decrease in other accounts receivable	2,183	206
Decrease in trade payables	(739)	(696)
Decrease in deferred revenues	(126)	(42)
Increase (decrease) in other accounts payable	790	(1,662)
	10,601	(10,409)
<b>Cash paid and received:</b>		
Interest received	223	677
Interest paid	(758)	(975)
Income taxes paid	(65)	(78)
	(600)	(376)
Net cash provided by (used in) operating activities	3,980	(3,117)

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS U.S. dollars in thousands

	Year ended December 31,	
	2015	2014
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(1,230)	(2,268)
Investment in intangible assets	(1,520)	(2,011)
Long term deposit	(516)	-
Acquisition of Almeda <sup>1</sup>	-	1,149
Acquisition of GPH <sup>a</sup>	(6,236)	-
Proceeds from sale of property and equipment	32	65
Purchase of short-term investments	(1,326)	(13,943)
Proceeds from sale of short-term investments	11,328	17,731
<b>Net cash provided by investing activities</b>	<b>532</b>	<b>723</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of options	8	8
Short-term bank credit, net	-	840
Proceed from long-term loans	138	-
Payment of long-term loans	(3,313)	(3,451)
<b>Net cash used in financing activities</b>	<b>(3,167)</b>	<b>(2,603)</b>
Effect of exchange rate changes on cash and cash equivalents	(107)	(384)
Increase (decrease) in cash and cash equivalents	1,238	(5,381)
Cash and cash equivalents at the beginning of the year	2,767	8,148
<b>Cash and cash equivalents at the end of the year</b>	<b>4,005</b>	<b>2,767</b>
<b>(a) Acquisition of GPH:</b>		
Working capital (excluding cash)	179	-
Property and equipment, net	(1,169)	-
Intangible assets	(6,562)	-
Deferred taxes	1,316	-
	<b>(6,236)</b>	<b>-</b>
<b>(b) Non-cash transactions:</b>		
Purchase of property and equipment	77	-

<sup>1</sup> During 2014, the Company collected a receivable from the former owner of Almeda in the amount of \$ 1,149.

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

# NOTES TO CONSOLIDATED STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 1 | GENERAL

SHL Telemedicine Ltd. (“SHL” and/or “the Company”) was incorporated in Israel. Its shares are publicly-traded on the SIX Swiss Exchange under the symbol SHLTN and it has an American Depository Receipt level 1 program listed over-the counter in the US under the symbol: SMDCY. SHL and its subsidiaries (“the Group”) 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.

## NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of presentation of the financial statements:

**1. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).**

The Group’s financial statements have been prepared on a cost basis, except for marketable securities (available for sale investments and financial assets presented at fair value through profit or loss) which are measured at fair value. The Group has elected to present the statement of comprehensive income using the function of expense method.

### 2. Consistent accounting policies:

The accounting policies adopted in the financial statements have been applied consistently for all periods presented.

### b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

#### 1. Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgment which has the most significant effect on the amounts recognized in the financial statements:

#### • Impairment of available-for-sale investments:

The Group assesses at the end of each reporting period whether there is objective evidence that the asset has been impaired and an impairment loss has been incurred. In evaluating impairment, the Group makes judgments as to indicators of objective evidence relating to the extent of the percentage of decline in fair value and of the duration of the period of the decline in fair value. See also h.

#### • Determining the fair value of share-based payment transactions:

The fair value of share-based payment transactions is determined upon initial recognition using an acceptable option-pricing model. The inputs to the model include the share price, exercise price and risk-free interest rate, and assumptions regarding expected volatility, expected life of share options and, expected dividend.

#### 2. Estimates and assumptions:

The preparation of these financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.



- **Legal claims:**

In estimating the likelihood of outcome of legal claims filed against the Group, the Group relies on the opinion of its legal counsel. These estimates are based on legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates; see also Notes 20c and 18g.

- **Impairment of goodwill:**

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows. Further details are given in j and Note 10 below.

- **Deferred tax assets:**

Deferred tax assets are recognized for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in m below and Note 18c.

- **Development costs:**

Development costs are capitalized in accordance with the accounting policy in l. In testing for impairment, management makes assumptions regarding the expected cash flows from the asset being developed, the discount rate and the expected period of benefits. See also note 10 below.

- **Intangible assets:**

Intangible assets (mainly customer contracts and customer relations) acquired in a business combination are included at fair value at the acquisition date. In testing for impairment of these assets, management makes assumptions regarding the expected cash flows from the

customer, the discount rate and the expected period of benefits. See also note 10 below.

- **Pensions and other post-employment benefits:**

The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, future salary increases and employee turnover rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 16.

- **Performance based contracts:**

The Group is engaged in certain contracts in which the remuneration for the services provided is determined based on the level of health cost savings to the customer using annual performance data.

In determining estimated revenues from such performance based contracts, management makes assumptions of the expected cost savings for each customer, based on data received and experience with group of individuals with similar health conditions.

However, due to the inherent variability of the various factors that can affect the level of cost savings, actual cost savings can be different from the estimated amounts and the variations may be material. See also note 6a.

- c. Consolidated financial statements:**

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the

Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

#### **d. Functional currency and presentation currency:**

##### **1. Functional currency and presentation currency:**

The presentation currency of the financial statements is the U.S. dollar.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group entity and is used to measure its financial position and operating results. The functional currency of the Company is the NIS. When a Group entity's functional currency differs from the presentation currency, that entity's financial statements are translated so that they can be included in the consolidated financial statements as follows:

- a) Assets and liabilities of foreign operations, including goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of said foreign operation, are translated at the closing rate at the end of the reporting period.
- b) Income and expenses for each period presented in the statement of income are translated at average exchange rates for the presented periods.
- c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.
- d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions (such as dividend) during the period are translated as described in b) and c) above.
- e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "foreign currency translation reserve".

##### **2. Transactions, assets and liabilities in foreign currency:**

Transactions denominated in foreign currency (other than the functional currency) are recorded at the exchange rate at the date of

the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences are recognized in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the exchange rate at the date of the transaction.

##### **3. Index-linked monetary items:**

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalized to qualifying assets or carried to equity in hedge transactions, are recognized in profit or loss.

##### **e. Cash equivalents:**

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

##### **f. Inventory:**

Inventory of telemedicine devices for sale is presented at the lower of cost or net realizable value. Cost is determined using the "first-in, first-out" method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

##### **g. Allowance for doubtful accounts:**

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible.

##### **h. Financial instruments:**

###### **1. Financial assets:**

Financial assets within the scope of IAS 39 are

initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

a) Short-term receivables:

Short-term receivables are investments with fixed or determinable payments that are not quoted in an active market. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

b) Available-for-sale investments:

Available-for-sale financial assets are (non-derivative) financial assets that are designated as available for sale or are not classified in any of the three following categories: Financial assets at fair value through profit or loss, Held-to-maturity investments and Loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for interest, exchange rate differences that relate to debt instruments and dividends from an equity instrument, are recognized in other comprehensive income. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is transferred to profit or loss.

c) Financial assets at fair value through profit or loss:

This category includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Gains and losses of financial assets at fair value through profit or loss are recognized in profit and loss when incurred.

## 2. Financial liabilities:

Financial liabilities are initially recognized at fair value. After initial recognition, loans and other liabilities are measured at amortized cost based on their terms net of directly attributable transaction costs using the effective interest method.

### i. Leases:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles set out in IAS 17. Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Lease agreements are classified as a finance lease when substantially all the risks and rewards incidental to ownership of the leased assets are transferred to the Group. At the commencement of the lease term, the leased asset is measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The leased asset is depreciated over the shorter of its useful life and the lease term.

### j. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the date of acquisition with the addition of non-controlling interests in the acquiree.

Direct acquisition costs are carried to the income statement as incurred.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

### k. Property and equipment:

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses. Cost includes spare parts and

auxiliary equipment that can be used only in connection with the property and equipment. Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Medical equipment	10 - 15 (mainly 15)
Motor vehicles and ambulances	15 - 20 (mainly 20)
Office furniture and equipment	6 - 7 (mainly 6)
Computers and peripheral equipment	15 - 33 (mainly 20)
Leasehold improvements	see below
Telemedicine devices on loan to customers	10

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including any extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

#### **I. Intangible assets:**

Intangible assets acquired in a business combination are included at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in profit or loss.

Gains or losses arising from the derecognition

of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

The useful life of intangible assets is as follows:

	Years
Developments costs	5 - 10
Computer software	5
Contracts and customer relations	1.75-10

#### **Research and development expenditures:**

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from development or from the development phase of an internal project is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. As for the testing of impairment, see m below.

#### **m. Impairment of non-financial assets:**

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent

cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are applied in assessing impairment of these specific assets:

#### **1. Goodwill related to subsidiaries:**

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

The Company reviews goodwill for impairment once a year or more frequently if events or changes in circumstances indicate that there is impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

In 2015 and 2014, no impairment loss was recorded.

#### **2. Development and other costs capitalized during the development period:**

The impairment test is performed annually, on December 31, or more frequently if events or

changes in circumstances indicate that there is impairment.

In 2015, the Group recognized an impairment loss of \$ 1,800 (2014-nil). See also note 10 and 22f.

#### **3. Property and equipment:**

The impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is impairment.

In 2015, the Group recognized an impairment loss of \$ 877 (2014-nil). See also note 9 and 22f.

#### **n. Taxes on income:**

Taxes on income in the statement of comprehensive income comprise current and deferred taxes. Current or deferred taxes are recognized in the statement of income except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity. In such cases, the tax effect is also recognized in the relevant item.

#### **1. Current taxes:**

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

#### **2. Deferred taxes:**

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized outside of profit or loss.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the

extent that it is not probable that they will be utilized. Also, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, "taxes on income". Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Group's policy not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

**o. Share-based payment transactions:**

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions (see details in Note 21).

**Equity-settled transactions:**

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model, additional details are given in Note 21d. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account. The only conditions taken into account in estimating fair value are market conditions and non-vesting conditions. As for other

service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognized in profit or loss represents the movement in the cumulative expense recognized at the end of the reporting period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Group modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

**p. Employee benefit liabilities:**

The Group has several employee benefit plans:

**1. Short-term employee benefits:**

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

**2. Post-employment benefits:**

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law in Israel. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relation is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with term of the benefit obligation.

In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits presented in the balance sheet reflects the present value of the defined benefit obligation less the fair value of the plan assets (see details in Note 16).

Remeasurements of the net liability are recognized as other comprehensive income (loss) in the period in which they occur.

**q. Treasury shares:**

Company shares held by the Company are recognized at cost of purchase and deducted from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

**r. Revenue recognition:**

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Revenues from the rendering of services:**

Revenues from services are recognized as the services are performed. Revenues from the installation fees are recognized ratably over the estimated average service period of subscriber contracts, adjusted for cancellations.

Certain service contracts include remuneration, in part or in whole, based on the level of health cost savings to the customer ("performance-based" contracts). The performance-based revenues from such contracts are recognized as the services are provided based on the Group's past experience with similar types of services. Changes in the estimated amounts to be received are recognized as an adjustment of revenues in the period in which additional evidence as to expected cost savings is obtained. Such changes are recorded until the cost savings are finalized with the customer.

Expenses incurred in obtaining subscription contracts are deferred and recognized ratably over the estimated average service period of subscriber contracts, adjusted for cancellations.

Consideration received for services not yet performed as of balance sheet date, is recorded as deferred revenue, which is recognized as the services are performed.

**Revenues from sale of telemedicine devices:**

Revenues from sale of telemedicine devices are recognized when all significant risks and rewards of ownership of the devices have passed to the buyer. The delivery date is usually the date on which ownership passes.

**Interest income:**

Interest income on financial assets is recognized as it accrues using the effective interest method.

**s. Finance income and expenses:**

Finance income comprises interest income on amounts invested (including available-for-sale financial assets), gains from sale of financial assets classified as available-for-sale, changes in fair value of financial assets and exchange rate gains recognized in profit or loss.

Finance expenses comprise interest expense on borrowings, changes in the fair value and exchange rate differences.

**t. Earnings per share:**

Basic earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

For diluted earnings per share, the weighted average of shares outstanding is adjusted, assuming conversion of potential dilutive shares (employee options), except when such conversion has an anti-dilutive effect.

**u. Provisions:**

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

**Onerous contracts:**

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group from the contract. The provision is measured at the lower of the present value of the anticipated cost of exiting from the contract and the present value of the net anticipated cost of fulfilling it.

**v. Advertising expenses:**

Expenditures incurred on advertising, marketing or promotional activities, such as production of catalogues and promotional pamphlets, are recognized as an expense when the Group has the right of access to the advertising goods or when the Group receives those services.

**w. Presentation of statement of comprehensive income:**

The Group has elected to present a single statement of comprehensive income which includes both the items of the statement of income and the items of other comprehensive income.

**x. Fair value measurement:**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:



Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

#### **y. Disclosure of new IFRSs in the period prior to their adoption:**

##### **1. IFRS 9, "Financial Instruments"**

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company is evaluating possible impact of the adoption of IFRS 9 but is presently unable to assess their effect, if any, on the financial statements.

##### **2. IFRS 15, "Revenue from Contracts with Customers":**

IFRS 15 ("the Standard") was issued by the IASB in May 2014.

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts, and the related Interpretations: IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The Standard introduces a five-step model that applies to revenue from contracts with customers. IFRS 15 also establishes the accounting treatment of incremental costs involving obtaining a contract and the costs directly related to fulfilling a contract. The Standard will apply retrospectively to annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Standard may be applied to existing contracts beginning with the current period and thereafter. No restatement of the comparative periods will be required.

The Company is evaluating the possible impact of the adoption of IFRS 15 but is presently unable to assess their effect, if any, on the financial statements.

##### **3. Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:**

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

The amendments are effective for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

##### **4. IFRS 16, "Leases":**

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

##### **According to the new Standard:**

Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expenses separately.

Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

In the event of change in variable lease payments that are CPI-linked, lessees are

required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.

The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

The Company is evaluating the possible impact of IFRS 16 but is presently unable to assess its effect, if any, on the financial statements.

**z. Exchange rates and linkage basis:**

1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rate as published by the Bank of Israel on December 31, 2015.
2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

Data regarding Israeli CPI and exchange rates of the U.S. dollar, the Euro and the Swiss Franc in relation to the NIS is as follows:

	Israeli CPI	Exchange rate of		
		€	U.S. \$	CHF
For the year ended	Points *	NIS		
<b>December 31, 2015</b>	<b>221.1</b>	<b>4.25</b>	<b>3.9</b>	<b>3.92</b>
December 31, 2014	223.4	4.72	3.89	3.93
December 31, 2013	223.8	4.78	3.47	3.89
Change during the year		%		
<b>2015</b>	<b>(1)</b>	<b>(9.9)</b>	<b>0.25</b>	<b>(0.25)</b>
2014	(0.2)	(1.3)	12	1

\* The index on an average basis of 1993 = 100.

**NOTE 3 | ACQUISITION OF GPH  
(Gesellschaft für Patientenhilfe)**

On March 20, 2015, the Company, through its wholly owned German subsidiary (SHL Telemedizin GmbH), signed a definitive agreement to acquire 100% of GPH (Gesellschaft für Patientenhilfe) shares, a company based in Munich, providing telemedicine services to German health insurers. The cash consideration for GPH was Euro 7,690 (\$ 8,256). Closing occurred on March 31, 2015 and GPH's assets and liabilities are consolidated from that date.

The fair values of the assets and liabilities acquired as of the date of acquisition (March 31, 2015) are as follows:

Cash and cash equivalents	2,020
Trade and other receivables	2,366
Property and equipment	1,169
Intangible assets	784
Customers contracts	3,598
Accounts and other payables	(803)
Deferred revenues	(1,742)
Deferred tax liability, net	(1,316)
<b>Total identifiable assets at fair value</b>	<b>6,076</b>
Goodwill arising on acquisition	2,180
<b>Total purchase price</b>	<b>8,256</b>

The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a valuation conducted by an independent valuation specialist. The intangible assets (customer contract) are amortized over their estimated useful life (1.75-6.75 years) using the straight-line method.

The excess of the purchase price over the net tangible and identifiable intangible assets paid was recorded as goodwill which comprises the expected synergies arising from the acquisition. A deferred tax liability of \$ 872 was recorded for the difference between the fair value and the tax base of the net intangible assets acquired.

Acquisition costs that are directly attributable to the transaction of approximately \$ 75 were carried as an expense to general and administrative expenses.

If the business combination had taken place at the beginning of the year, the consolidated net loss would have been \$ 16,360 and the consolidated revenues would have been \$ 37,212 for the year ended December 31, 2015.

## NOTE 4 | CASH AND CASH EQUIVALENTS

	December 31,	
	2015	2014
Cash in banks (mainly in Eur)	3,920	1,962
Short-term deposits (mainly in NIS)	85	805
	<b>4,005</b>	<b>2,767</b>

## NOTE 5 | SHORT-TERM INVESTMENTS

	December 31,	
	2015	2014
Marketable securities:		
Available for sale investments (Mainly in NIS)	1,663	4,608
Financial assets at fair value through profit or loss (Mainly in NIS)	2,888	9,708
	<b>4,551</b>	<b>14,316</b>

## NOTE 6 | TRADE RECEIVABLES

### a. Composition:

	December 31,	
	2015	2014
Gross amount <sup>1</sup>	7,446	16,814
Allowance for doubtful accounts	(371)	(1,551)
	<b>7,075</b>	<b>15,263</b>

1 Includes a balance of income receivable as of December 31, 2015, in the amount of \$ 2,732 (2014 - \$ 7,903), of which an amount of \$ 1,443 (2014-\$ 6,272) is related to annual performance based contracts.

2 After the balance sheet date, in 2016, the Company received initial results of the evaluation of annual performance-based contracts, according to which the level of cost savings is lower than previously estimated. Based on these results, the Company adjusted its estimate of performance-based revenues and reduced income receivable by \$ 6,092 which adjustment is reflected in the above balance as of December 31, 2015. The adjustment relates to revenues recognized primarily in 2013-2014.

b. The movement in the allowance for doubtful accounts is as follows:

	USD in thousands
Balance at January 1, 2014	7,949
Reversal of doubtful accounts	(1,327)
Write-off as bad debts	(4,719)
Currency translation differences	(352)
Balance at December 31, 2014	1,551
Reversal of doubtful accounts <sup>1</sup>	(1,110)
Currency translation differences	(70)
Balance at December 31, 2015	<b>371</b>

1 During 2015 the Company collected Euro 4,200 from a former customer in Germany in respect of a debt for services rendered in the past that was not paid. The Company reversed an accrual for doubtful accounts in the amount of Euro 1,000 (\$ 1,110) and recognized additional revenues in the amount of Euro 600 (\$ 664).

## NOTE 7 | PREPAID EXPENSES

Prepaid expenses are recognized in the statement of comprehensive income in future years, as follows:

	December 31,	
	2015	2014
First year prepaid expenses - short-term	1,304	1,268
Second year	1,126	1,048
Third year	992	940
Fourth year	892	869
Fifth year	782	766
Thereafter	1,943	1,935
Prepaid expenses - long-term	5,735	5,558
<b>Total prepaid expenses</b>	<b>7,039</b>	<b>6,826</b>

## NOTE 8 | OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2015	2014
Employees	32	144
Interest receivable	37	110
Institutions (1)	641	2,701
Others	528	503
	<b>1,238</b>	<b>3,458</b>

1 Balance relates to receivable in respect of VAT refunds from prior years pending approval from the VAT authorities. At the end of 2015, the receivable was reduced in the amount of \$ 2,033 due to updated estimates received from professional advisors as to the likelihood of the refunds to be approved.

## NOTE 9 | PROPERTY AND EQUIPMENT

	Computers and peripheral equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
<b>Cost:</b>							
Balance as of January 1, 2014	14,436	5,154	1,277	2,073	2,662	44,011	69,613
Additions during the year	791	268	39	367	71	732	2,268
Transfer to inventory	-	-	-	-	-	(2,162)	(2,162)
Disposals during the year	-	(162)	-	(335)	-	-	(497)
Currency translation differences	(1,582)	(498)	(124)	(208)	(259)	(5,311)	(7,982)
<b>Balance as of December 31, 2014</b>	<b>13,645</b>	<b>4,762</b>	<b>1,192</b>	<b>1,897</b>	<b>2,474</b>	<b>37,270</b>	<b>61,240</b>
Additions during the year	508	16	14	255	8	506	1,307
Acquisition of a subsidiary (see note 3)	281	-	-	-	-	888	1,169
Disposals during the year	-	-	-	(290)	-	(104)	(394)
Currency translation differences	(173)	(17)	(4)	(6)	(8)	(495)	(703)
<b>Balance as of December 31, 2015</b>	<b>14,261</b>	<b>4,761</b>	<b>1,202</b>	<b>1,856</b>	<b>2,474</b>	<b>38,065</b>	<b>62,619</b>
<b>Accumulated depreciation:</b>							
Balance as of January 1, 2014	12,793	4,864	784	1,620	1,689	31,881	53,631
Additions during the year	818	138	62	172	152	1,920	3,262
Transfer to inventory	-	-	-	-	(1,595)	(1,595)	
Disposals during the year	-	(162)	-	(329)	-	-	(491)
Currency translation differences	(1,377)	(454)	(78)	(149)	(185)	(3,977)	(6,220)
<b>Balance as of December 31, 2014</b>	<b>12,234</b>	<b>4,386</b>	<b>768</b>	<b>1,314</b>	<b>1,656</b>	<b>28,229</b>	<b>48,587</b>
Additions during the year	732	120	58	173	131	2,004	3,218
Disposals during the year	-	-	-	(284)	-	-	(284)
Impairment (see note 22f)	-	-	-	-	-	877	877
Currency translation differences	(350)	(15)	(3)	(3)	(6)	(106)	(483)
<b>Balance as of December 31, 2015</b>	<b>12,616</b>	<b>4,491</b>	<b>823</b>	<b>1,200</b>	<b>1,781</b>	<b>31,004</b>	<b>51,915</b>
<b>Depreciated cost as of December 31, 2015</b>	<b>1,645</b>	<b>270</b>	<b>379</b>	<b>656</b>	<b>693</b>	<b>7,061</b>	<b>10,704</b>
<b>Depreciated cost as of December 31, 2014</b>	<b>1,411</b>	<b>376</b>	<b>424</b>	<b>583</b>	<b>818</b>	<b>9,041</b>	<b>12,653</b>

## NOTE 10 | GOODWILL AND INTANGIBLE ASSETS, NET

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill <sup>1</sup>
As of January 1, 2015, net of accumulated amortization	8,714	4,498	3,018	16,230	12,487
Additions during the year	1,247	273	-	1,520	-
Acquisition of GPH (see note 3)	784	3,598	-	4,382	2,180
Amortization during the year	(1,931)	(881)	(306)	(3,118)	-
Impairment (see note 22f)	(1,018)	(782)	-	(1,800)	-
Currency translation differences	(56)	(292)	(308)	(656)	(19)

**As of December 31, 2015, net of accumulated amortization**      **7,740**      **6,414**      **2,404**      **16,558**      **14,648**

As of December 31, 2015:

Cost	31,373	7,644	3,005	42,022	14,648
Accumulated amortization	(23,633)	(1,230)	(601)	(25,464)	-

**Net carrying amount**      **7,740**      **6,414**      **2,404**      **16,558**      **14,648**

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill <sup>1</sup>
As of January 1, 2014, net of accumulated amortization	10,158	5,109	3,803	19,070	14,076
Additions during the year	1,499	512	-	2,011	-
Amortization during the year	(1,911)	(537)	(366)	(2,814)	-
Currency translation differences	(1,032)	(586)	(419)	(2,037)	(1,589)

**As of December 31, 2014, net of accumulated amortization**      **8,714**      **4,498**      **3,018**      **16,230**      **12,487**

As of December 31, 2014:

Cost	25,418	5,470	3,384	34,272	12,487
Accumulated amortization	(16,704)	(972)	(366)	(18,042)	-

**Net carrying amount**      **8,714**      **4,498**      **3,018**      **16,230**      **12,487**

1 The recoverable amount of the cash generating units to which the goodwill mainly relates has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 15.8% (2014 - 15.5%) and cash flows beyond the 5-year period are extrapolated using a 2% growth rate (2014 - 2%).

The value in use of the cash generating units exceeds the recoverable amount: A reasonably possible change in forecasted revenues could result in an impairment.

## NOTE 11 | CREDIT FROM BANKS AND CURRENT MATURITIES

	Interest rate	December 31,	
		2015	2014
	%		
Credit from banks:			
NIS - unlinked	Prime (1) + 0.5 - 0.8	6,962	6,943
Current maturities of			
long-term loans (see Note 12) -			
linked to the Israeli CPI	3.8 - 3.9	3,389	3,301
		<b>10,351</b>	<b>10,244</b>

1 The Prime rate as of December 31, 2015 - 1.6% (December 31, 2014 - 1.75%).

## NOTE 12 | LONG-TERM LOANS

In July 2011, the Company received long-term loans from financing institutions in the aggregate amount of \$ 29,300 (NIS 100,000 thousand) to be repaid in 96 equal monthly installments. The loans are denominated in NIS, bear an annual interest of 3.8%-3.9% and are linked to the Israeli CPI.

The loans contain certain general default and financial covenants related to the Company's Israeli operations: (i) tangible equity to total assets of at least 20%; (ii) net debt to EBITDA of 1:5 at the maximum; and (iii) a limit on the amount of customers' future standing orders/ credit card debits that can be pledged to third parties. As of December 31, 2015 the Company is in compliance with these covenants.

As to a loan received after the balance sheet date, see note 25.

## NOTE 13 | DEFERRED REVENUES

	December 31,	
	2015	2014
Total	2,351	739
Less - long-term deferred revenues	523	673
	<b>1,828</b>	<b>66</b>

## NOTE 14 | OTHER ACCOUNTS PAYABLE

	December 31,	
	2015	2014
Employees and payroll accruals	2,718	1,982
Accrued expenses	2,969	2,003
Government authorities	628	240
Other	525	851
	<b>6,840</b>	<b>5,076</b>

## NOTE 15 | FINANCIAL INSTRUMENTS

The Group's principal financial liabilities are comprised of short-term credit and long-term loans from banks and trade payables. The main purpose of these financial liabilities is for financing of the Group's operations. The Group has various financial assets such as trade receivables, short-term investments, cash and deposits.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk, market risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

**a. Interest rate risk:**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group's policy is to manage its interest costs by using a combination of fixed and variable rate debts.

**b. Concentration of credit risks:**

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash, cash equivalents, short-term investments and trade receivables. Cash, cash equivalents and short-term investments are deposited with major banks. Management believes that the financial institutions that hold the Group's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

The Group's trade receivables mainly derived from sales to customers in Germany and Israel. The Group has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers. The Group performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

**c. Foreign currency risk:**

The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. Thus certain revenues and expenses are denominated in currencies other than the functional currency of the relevant entity in the Group. Group management regularly monitors its foreign exchange risk and attempts to limit such risks by making adequate decisions regarding cash and credit positions.

**d. Market risk:**

The Group has investments in marketable financial instruments that are classified as available-for-sale financial assets and financial assets at fair value through profit and loss in respect of which the Group is exposed to risk

of fluctuations in the security price that is determined by reference to the quoted market price (level 1 of the fair value hierarchy). As of December 31, 2015, the balance of these investments is \$ 4,551 (2014 - \$ 14,316).

The following table demonstrates the sensitivity to a reasonably possible change in the market price with all other variables held constant, of the Group's profit before tax (due to changes in the carrying amount of marketable securities).

	Increase/ decrease in price	Effect on profit before tax
2015	+5%	228
	-5%	(228)
2014	+5%	716
	-5%	(716)

**e. Fair value of financial instruments:**

The carrying amounts of cash and cash equivalents, trade and other receivables, long-term deposits, credit from banks, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

Management believes that the carrying amount of long term loans approximate their fair value.

**f. Liquidity risk:**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations.

The Group has long-term loans repayable in monthly equal installments until July, 2019.

Total yearly payments including interest amounts to approximately \$ 3,728.

**g. Israeli CPI risk:**

The Group has long-term loans and revenues from customers that are linked to the changes in the Israeli CPI. The net amount of the financial instruments that are linked to the Israeli CPI and for which the Group is exposed to changes in the Israeli CPI amounts to a liability of approximately \$ 9,227 (December 31, 2014 - a liability of \$ 8,037). With all other variables held constant, the effect of an increase



or decrease of 1% in the CPI on the Company's profit before tax will be a decrease or increase of \$ 92, respectively.

**h.** Linkage terms of monetary balances in the consolidated balance sheets of the Group are as follows:

	In or linked to					Total
	U.S.\$	CHF	Euro	Israeli CPI	NIS	
<b>December 31, 2015</b>						
<b>Assets:</b>						
Cash and cash equivalents	133	69	3,279	-	524	4,005
Short-term investments	1,030	-	-	2,333	1,188	4,551
Trade receivables	-	-	4,071	-	3,004	7,075
Other accounts receivable	230	-	4	1,212	1,004	2,450
Long-term deposits	-	-	775	-	582	1,357
	<b>1,393</b>	<b>69</b>	<b>8,129</b>	<b>3,545</b>	<b>6,302</b>	<b>19,438</b>
<b>Liabilities:</b>						
Credit from banks and current maturities	-	-	-	3,389	6,962	10,351
Trade payables	22	-	276	-	717	1,015
Long-term loans	-	-	-	9,383	65	9,448
Other short and long-term liabilities	620	-	3,557	-	5,014	9,191
	<b>642</b>	<b>-</b>	<b>3,833</b>	<b>12,772</b>	<b>12,758</b>	<b>30,005</b>
<b>December 31, 2014</b>						
<b>Assets:</b>						
Cash and cash equivalents	508	87	786	-	1,386	2,767
Short-term investments	4,097	-	-	7,213	3,006	14,316
Trade receivables	-	-	11,674	-	3,589	15,263
Other accounts receivable	217	-	-	982	3,241	4,440
Long-term deposits	-	-	292	-	584	876
	<b>4,822</b>	<b>87</b>	<b>12,752</b>	<b>8,195</b>	<b>11,806</b>	<b>37,662</b>
<b>Liabilities:</b>						
Credit from banks and current maturities	-	-	-	3,301	6,943	10,244
Trade payables	34	-	193	-	756	983
Long-term loans	-	-	-	12,931	-	12,931
Other short and long-term liabilities	611	-	1,515	-	2,641	4,767
	<b>645</b>	<b>-</b>	<b>1,708</b>	<b>16,232</b>	<b>10,340</b>	<b>28,925</b>

## NOTE 16 | EMPLOYEE BENEFIT LIABILITIES

### a. Changes in the defined benefit obligation and fair value of plan assets:

2015:

	Expenses recognized in profit or loss				Payments from the plan	Gain (loss) from remeasurement in other comprehensive income				Contributions	
	Balance at January 1, 2014	Current service cost	Net interest expense	Total expense recognized in profit or loss for the period		Actuarial gain (loss) arising from changes in financial assumptions	Actuarial gain (loss) arising from experience adjustments	Total effect on other comprehensive income for the period	Effect of changes in foreign exchange rates	Balance at December 31, 2014	
	USD in thousands										
<b>Defined benefit obligation</b>	(5,891)	(477)	(219)	(696)	415	83	132	215	(72)	-	(6,029)
<b>Fair value of plan assets</b>	5,133	-	205	205	(391)	-	(125)	(125)	94	337	5,253
<b>Net defined benefit liability (asset)</b>	<b>(758)</b>	<b>(477)</b>	<b>(14)</b>	<b>(491)</b>	<b>24</b>	<b>83</b>	<b>7</b>	<b>90</b>	<b>22</b>	<b>337</b>	<b>(776)</b>

2014:

	Expenses recognized in profit or loss				Payments from the plan	Gain (loss) from remeasurement in other comprehensive income				Contributions	
	Balance at January 1, 2014	Current service cost	Net interest expense	Total expense recognized in profit or loss for the period		Actuarial gain (loss) arising from changes in financial assumptions	Actuarial gain (loss) arising from experience adjustments	Total effect on other comprehensive income for the period	Effect of changes in foreign exchange rates	Balance at December 31, 2014	
	USD in thousands										
<b>Defined benefit obligation</b>	(6,084)	(527)	(244)	(771)	343	77	(118)	(41)	662	-	(5,891)
<b>Fair value of plan assets</b>	5,279	-	230	230	(293)	-	74	74	(605)	448	5,133
<b>Net defined benefit liability (asset)</b>	<b>(805)</b>	<b>(527)</b>	<b>(14)</b>	<b>(541)</b>	<b>50</b>	<b>77</b>	<b>(44)</b>	<b>(33)</b>	<b>57</b>	<b>448</b>	<b>(758)</b>

b. Disaggregation of the fair value of the plan assets:

	Year ended December 31,	
	2015	2014
Insurance contracts	5,253	5,133

c. The principal assumptions underlying the defined benefit plan:

	2015	2014
	%	
Discount rate	4.04	3.97
Expected rate of salary increase	4.54	4.8

d. Amount, timing and uncertainty of future cash flows:

Below are reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions are constant:

Change in defined benefit obligation  
USD in thousands

December 31, 2015:

Sensitivity test for changes in the expected rate of salary increase:	
The change as a result of:	
Salary increase of 10 % (instead of 4.54%)	73

Sensitivity test for changes in the discount rate of the plan assets and liability:

The change as a result of:	
Increase of 1 % in discount rate	(35)
Decrease of 1 % in discount rate	42

## NOTE 17 | INVESTMENTS IN SUBSIDIARIES

Principal subsidiaries:

	Country of incorporation	Percentage in equity
		%
Shahal Haifa - Medical Services Ltd.	Israel	100
SHL Telemedicine International Ltd.	Israel	100
Shahal Rashlatz Rehovot Medical Services Ltd.	Israel	100
SHL Telemedicine B.V.	Netherlands	100
SHL Telemedicine Global Trading Ltd.	Ireland	100
SHL Telemedicine North America LLC.	U.S.A.	100
SHL Telemedicine U.S.A. Inc.	U.S.A.	100
Personal Healthcare Telemedicine Services B.V.	Netherlands	100
SHL Telemedizin GmbH	Germany	100
SHL IRL B.V.	Netherlands	100
SHL Telemedizin Europe GmbH	Germany	100
almeda GmbH	Germany	100
SHL Telemedicine CYP Ltd.	Cyprus	100
SHL Telemedicine india (PVT) Ltd.	India	100
Gesellschaft für Patientenhilfe DGP GmbH	Germany	100

## NOTE 18 | TAXES ON INCOME

a. Tax rates applicable to the income of the Group companies:

### 1. Companies in Israel:

The Israeli corporate tax rate was 26.5% in 2014 and 25% in 2013.

The deferred taxes are computed at the average tax rate of 26.5% (2014 - 26.5%), based on the tax rates that are expected to apply upon realization.

In January 2016, the corporate tax rate in Israel was reduced from 26.5% to 25% commencing from 2016. The effect of the change in tax rates is immaterial.

### 2. Foreign subsidiaries:

The principal tax rates applicable to the major subsidiaries whose place of incorporation is outside Israel are:

The U.S.	tax at the rate of 34%.
Germany	tax at the rate of 31.4%.

b. Taxes on income (tax benefit) included in the statements of comprehensive income:

	Year ended December 31,	
	2015	2014
Current taxes	378	202
Deferred taxes	485	822
	<b>863</b>	<b>1,024</b>

c. **Deferred tax assets (liabilities):**

Composition and changes in deferred taxes, as presented in the consolidated balance sheet, are as follows:

	Balance sheet items					
	Fixed and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Short-term Investments	Others	Total
Balance at January 1, 2014	(3,606)	323	9,305	-	168	6,190
Amount included in statement of comprehensive income	(402)	14	(133)	(242)	(59)	(822)
Currency translation differences	420	(36)	(989)	19	(14)	(600)
Balance at December 31, 2014	(3,588)	301	8,183	(223)	95	4,768
Changes due to newly consolidated company	(1,397)	-	80	-	-	(1,317)
Amount included in statement of comprehensive income	247	(24)	(626)	(27)	(55)	(485)
Currency translation differences	221	-	(253)	1	-	(31)
<b>Balance at December 31, 2015</b>	<b>(4,517)</b>	<b>277</b>	<b>7,384</b>	<b>(249)</b>	<b>40</b>	<b>2,935</b>

d. The deferred taxes are reflected in the balance sheet as follows:

	Year ended December 31,	
	2015	2014
Non-current assets	4,011	4,768
Non-current liabilities	(1,076)	-
	<b>2,935</b>	<b>4,768</b>

e. A reconciliation of the theoretical tax expense assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax expense is as follows:

	Year ended December 31,	
	2015	2014
<b>Income (loss) before taxes on income</b>	<b>(15,772)</b>	<b>1,853</b>
<b>Statutory tax rate in Israel</b>	<b>26.5%</b>	<b>26.5%</b>
<b>Tax computed at the statutory tax rate</b>	<b>(4,180)</b>	491
Increase (decrease) in taxes resulting from:		
Utilization of previously unrecognized tax losses	-	(1,283)
Increase in unrecognized tax losses	461	-
Tax adjustment in respect of inflation in Israel	(6)	(5)
Non-deductible expenses	767	21
Different tax rates	(119)	217
Loss for which deferred taxes were not recognized	3,852	1,649
Utilization of previously unrecognized capital tax losses	-	(79)
Other	88	13
<b>Total tax expense reported in the consolidated statements of comprehensive income</b>	<b>863</b>	<b>1,024</b>

**f. Carry forward tax losses:**

The carry forward losses for tax purposes as of December 31, 2015 amount to \$ 42,260 (2014 - \$ 38,963) in Israel (which may be carried forward indefinitely) and \$ 26,392 (2014 - \$ 29,715) in Europe. In the U.S., SHL USA has federal and state net operating losses and credits of \$ 6,568 (2014 - \$ 5,903), which expire at various times.

Deferred tax assets relating to carry forward tax losses in Israel as described above, and deductible temporary differences in the aggregate amount of \$ 15,959 (2014 - \$ 16,705) and all other carry forward losses are not included in the consolidated financial statements as the management presently believes that it is not probable that these deferred taxes will be realized in the foreseeable future.

**g. Tax assessment**

On December 31, 2012, the Company was issued tax assessments in Israel for the years 2006-2008 in the aggregate amount of approximately \$ 9,300. The Company had contested the assessments and, on February 28, 2013, filed an appeal against them.

On February 27, 2014 the Company was issued an updated tax assessment related to these years in the amount of \$ 6,400 (\$ 9,800 - including linkage differences and interest). On March 13, 2014 the Company filed an appeal. Further court deliberations were conducted with both parties providing additional documentation and information to the court. In the opinion of management, the provision in the accounts is sufficient to cover this liability.

**NOTE 19 | TRANSACTIONS WITH RELATED PARTIES**

**a. Transactions:**

	Year ended December 31,	
	2015	2014
<b>Rent expense to shareholders</b>	-	<b>20</b>

**b. Compensation of key management personnel:**

<b>Short-term employee benefits<sup>1</sup></b>	<b>665</b>	<b>1,410</b>
<b>Share-based payment</b>	<b>24</b>	<b>15</b>

<sup>1</sup> Represents payments to 5 individuals.

## NOTE 20 | COMMITMENTS AND CONTINGENT LIABILITIES

### a. Charges:

As collateral for the Group's liabilities, fixed charges have been placed on specific accounts receivable.

### b. Lease commitments:

Certain of the Group's facilities are rented under operating leases for various periods ending through 2020.

Future minimum lease commitments in the years subsequent to December 31, 2015, under non-cancelable operating lease are as follows:

	2015	2014
First year	1,768	1,595
Second to fifth years	5,763	4,668
	<b>7,531</b>	<b>6,263</b>

### c. Contingent liabilities:

The Group, from time to time, is party to various claims and disputes associated with its ongoing business operations. In management's opinion, based on the opinion of its legal counsels, none of these claims or disputes is expected, either individually or in the aggregate, to have a material adverse effect on the Group's financial position, results of operations or cash flows.

## NOTE 21 | EQUITY

### a. Composition of share capital:

	December 31, 2015		December 31, 2014	
	Authorized	Issued and outstanding*	Authorized	Issued and outstanding*
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,489,333	14,000,000	10,460,909

\* Net of treasury shares.

#### b. Movement in share capital:

Issued and outstanding share capital (net of treasury shares):

	Number of shares	NIS par value
<b>Balance at January 1, 2014</b>	<b>10,436,129</b>	<b>0.01</b>
Treasury shares sold against exercise of options	24,780	0.01
<b>Balance at December 31, 2014</b>	<b>10,460,909</b>	<b>0.01</b>
Treasury shares sold against exercise of options	28,424	0.01
<b>Balance at December 31, 2015</b>	<b>10,489,333</b>	<b>0.01</b>

#### c. Treasury shares:

The Company holds 389,158 shares (417,582 shares as of December 31, 2014) at a total cost of \$ 2,440 as of December 31, 2015 (\$ 2,619 as of December 31, 2014).

#### d. Share option plans:

In May 20, 2014, the Board of Directors approved the grant of 50,000 options to an employee, under the 2005 Share Option Plan. The options shall vest over a period of 3 years after the grant date (33% each year). The weighted average fair value of options granted is CHF 3.935 (\$ 4.411). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 9.68; exercise price - CHF 9.11; expected volatility - 51.26%; risk free interest rate - 0.29%; expected dividend -0%; and expected average life of options - 3.65 years. On October 10, 2014, the Board of Directors approved the grant of 10,000 options to an employee, under the 2005 Share Option Plan. The options shall vest over a period of 3 years after the grant date (25% after 1 year, and 9375% each quarter thereafter). The weighted average fair value of options granted is CHF 3.705 (\$ 3.853). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.98; exercise price - CHF 8.15; expected volatility - 50.95%; risk free interest rate - 0.15%; expected dividend -0%; and expected average life of options - 3.5 years.

In October 10, 2014, the Board of Directors approved the grant of 72,000 options to certain directors, under the 2005 Share Option Plan. The options shall vest over a period of 3 years after the grant date (33% each year). The weighted average fair value of options granted is CHF 3.921 (\$ 4.07). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 9.39; exercise price - CHF 8.15; expected volatility - 49.87%; risk free interest rate - 0.04%; expected dividend -0%; and expected average life of options - 3.64 years.

All options are exercisable for a period of 6 years from grant date.

In May 2015, the Board of Directors approved to rename and re-adopt the share options plan as "2015 Executive and Key Employee Israeli Share Option Plan", and to extend the term of the Plan for a period of three (3) years as of April 18, 2015.

In the years ended December 31, 2015 and 2014, the Group recorded share-based compensation in the statements of comprehensive income in the amount of \$ 361 and \$ 322, respectively.

e. The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options during the year.

	2015		2014	
	No. of options	WAEP (CHF)	No. of options	WAEP (CHF)
Outstanding at the beginning of the year	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>Exercisable at the end of the year</b>	<b>422,021</b>	<b>7.06</b>	<b>425,787</b>	<b>6.81</b>

\* The weighted average share price at the date of exercise of these options was CHF 8.82 (2014 - CHF 8.84).

\*\*As of December 31, 2015 all outstanding options are under the 2005 Key Employee Share Option Plan.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2015 was 2.56 years (as of December 31, 2014 - 3.41 years).

f. On November 7, 2010, the Board of Directors of the Company determined that all exercise of options shall be effectuated by way of net exercise for all currently outstanding options and all new options to be granted under the 2005 Key Employee Share Option Plan, which was renamed later to: “2015 Executive and Key Employee Israeli Share Options Plan” (see d above).



## NOTE 22 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF COMPREHENSIVE INCOME

### a. Cost of revenues:

	Year ended December 31,	
	2015	2014
Salaries and related benefits	12,443	11,075
Rental fees and maintenance	2,103	2,142
Others	3,542	2,151
	<b>18,088</b>	<b>15,368</b>

### b. Research and development costs:

Salaries and related benefits	1,761	1,892
Amortization of development costs	1,931	1,911
Others	148	113
	<b>3,840</b>	<b>3,916</b>
Less - capitalization of development costs	1,150	1,424
	<b>2,690</b>	<b>2,492</b>

### c. Selling and marketing expenses:

Salaries and related benefits	5,683	6,009
Marketing and related expenses	1,166	1,501
Depreciation and amortization	1,521	1,311
Rental fees and maintenance	434	495
Maintenance of vehicles	700	740
Others	1,290	1,374
	<b>10,794</b>	<b>11,430</b>

### d. General and administrative expenses:

Salaries and related benefits	4,208	3,993
Rental fees and office expenses	1,106	1,159
Professional fees	1,833	1,856
Allowance for doubtful and bad debts <sup>1</sup>	(1,110)	(1,327)
Depreciation and amortization	381	366
Others	1,634	1,146
	<b>8,052</b>	<b>7,193</b>

1 See Note 6b.

### e. Financial income (expenses):

#### 1. Financial income:

	Year ended December 31,	
	2015	2014
Exchange rate differences	437	1,122
Gain on marketable securities, net	315	560
Interest	126	503
Others	-	191
	<b>878</b>	<b>2,376</b>

#### 2. Financial expenses:

Exchange rate differences	(430)	(624)
Interest	(594)	(925)
Others	(237)	(260)
	<b>(1,261)</b>	<b>(1,809)</b>

### f. Other expenses:

Impairment of intangible assets <sup>1</sup> - see note 10	1,800	-
Impairment of fixed asset <sup>2</sup> -see note 9	877	-
Restructuring costs <sup>3</sup>	707	-
Adjustment to VAT receivable-see note 8	2,033	-
Transaction related costs <sup>4</sup>	1,967	-
Other costs	492	-
	<b>7,876</b>	<b>-</b>

1 Impairment of development and other costs in connection with projects for which management decided in 2015 to discontinue development due to changes in economic and market strategies.

2 Impairment in respect of telemedicine devices on loan to customers for which management decided in 2015 to discontinue their use due to technological obsolescence.

3 During the year, the Company implemented an efficiency plan regarding its operations in Germany. The restructuring plan was drawn up and announced to the employees on March 2015. The restructuring was completed in October 2015. Total restructuring costs amounted to \$ 707.

4 On July 27, 2015 the Company announced that Shanghai Jiuchuan Investment (Group) Co. Ltd., a Shanghai based private investment firm, will acquire the entire share capital of SHL. On December 1, 2015 the Company announced it has terminated the agreement ("sale agreement") with Shanghai Jiuchuan Investment (Group) Co. Ltd. since the latter failed to fulfill the relevant closing conditions stipulated in the agreement. During the year, the Company incurred transaction related costs in the amount of \$ 1,967.

On December 20, 2015, the Company filed a claim in a court in Israel against Shanghai Jiuchuan Investment (Group) Co. Ltd. for breach of the sale agreement in the amount of NIS 43,870 (\$ 11,250). Due to the uncertainty of the outcome, no income in respect of the claim has been recorded in the financial statements.

## NOTE 23 | NET EARNINGS PER SHARE

a. Details of the number of shares and net income (loss) used in the computation of net earnings per share:

	Year ended December 31,			
	2015		2014	
	Weighted number of shares In thousands	Net loss	Weighted number of shares In thousands	Net income
Number of shares and net income for the computation of basic net earnings	10,481	(16,635)	10,450	829
Effect of dilution - share options	-	-	106	-
For the computation of diluted net earnings	10,481	(16,635)	10,556	829

b. To compute diluted net earnings per share, options (dilutive potential Ordinary shares), detailed below, have not been taken into account since their conversion increases (decreases) the basic earnings (loss) per share (anti-dilutive effect): 515,914 (2014 - 100,710) options to employees under share-based payment plans.

## a. Reporting on geographic segments:

	Year ended December 31,	
	2015	2014
<b>1. Revenues:</b>		
Sales to external customers:		
Europe	13,414	16,259
Rest of world	98	55
Israel	21,069	23,662
<b>Total revenues in financial statements</b>	<b>34,581</b>	<b>39,976</b>
<b>2. Segment profit:</b>		
Europe	(7,233)	2,450
Rest of world	(2,928)	(3,090)
Israel	(81)	3,784
	(10,242)	3,144
Corporate, R&D and other expenses	(5,147)	(1,858)
Operating income (loss)	(15,389)	1,286
Financial income (expenses), net	(383)	567
<b>Income (loss) before taxes on income</b>	<b>(15,772)</b>	<b>1,853</b>

## NOTE 24 | SEGMENT INFORMATION

The Group operates in three geographical segments: Israel, Europe (principally Germany) and Rest of the world.

Management monitors the operating results of its geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit. SG&A Group expenses and some research and development expenses are mostly allocated to the separate geographic units. Some corporate expenses, some research and development expenses, finance costs and finance income and income taxes are managed on a group basis and are not allocated to the geographic segments.

Revenues are allocated based on the location of the end customer.

Segment assets do not include deferred taxes and loans to associates, as these assets are managed on a group basis.

Segment liabilities do not include deferred taxes, current tax liability and loans, as these liabilities are managed on a group basis.

Capital expenditures consist of additions to property and equipment and intangible assets-including R&D.

**b. Additional information:**

	Europe	Israel	Rest of world	Total
Year ended December 31, 2015:				
Capital expenditures	1,025	1,398	327	2,750
Depreciation and amortization <sup>1</sup>	2,756	5,445	812	9,013
Year ended December 31, 2014:				
Capital expenditures	722	2,919	638	4,279
Depreciation and amortization	1,505	4,571	-	6,076
1 Includes impairment				
As of December 31, 2015:				
Segment assets	19,908	44,788	535	65,231
Unallocated assets				9,223
Segment liabilities	5,065	6,121	827	12,013
Unallocated liabilities				19,844
As of December 31, 2014:				
Segment assets	20,024	53,385	1,051	74,460
Unallocated assets				17,667
Segment liabilities	2,258	4,552	746	7,556
Unallocated liabilities				23,175

**NOTE 25 | SUBSEQUENT EVENT****Long term loan**

In January 2016, the Company's German subsidiary received a long-term loan from a bank in Germany in the amount of Euro 7,000 (\$ 7,700) to be repaid in 32 equal quarterly installments. The loan bears an annual interest of 3.45%.

The loan contains certain general default and financial covenants related to the Company's German operations: (i) tangible equity to total assets of at least 18% in 2016, and 20% for the following years; (ii) net debt to EBITDA at the maximum of 1.3 in 2016, 1.2.75 until June 30, 2017 and 1.25 in each following period.

**Appointment of New CEO**

In January 2016, the Company's Board of Directors has appointed Yuval Shaked as the Company's Chief Executive Officer effective March 2, 2016 to replace Erez Alroy and Yariv Alroy, the acting Co-CEOs, who stepped down on January 15, 2016.



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