Consolidated Financial Statements 2018

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

Opinion

We have audited the consolidated financial statements of SHL Telemedicine Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017, in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board ("IASB").

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

The Key Audit Matters we identified are:

	Description of Key Audit Matter and why a matter of most significance in the audit	Description of Auditor's Response
Existence and measurement of medical devices	As of December 31, 2018, the total carrying amounts of telemedicine devices in property and equipment and inventory are approximately $1.7 million and $1.3 million, respectively. These amounts are comprised of thousands of devices that are on loan to customers (property and equipment) and are being held by the Group (inventory). The Group's monitoring of the existence and measurement of these devices involves a complex interface among automated and non-automated accounting records distributed among various entities within the Group. The aforementioned factors led us to conclude that the existence and measurement of telemedicine devices are a key audit matter.	Our audit procedures included testing of physical counts of the devices and extensive detailed testing of the accounting records, including checking mathematical accuracy, to support the carrying amounts of the devices. We also performed substantive testing and examination of underlying documentation to support the costs comprising the carrying amounts, including the appropriate elimination of intercompany profit for transfers of devices between entities in the Group. We evaluated management's assessment of the valuation of the devices, including gaining an understanding and performing sensitivity analysis of management's assumptions and expectations, as reflected from its forecast, regarding sale (Inventory) or loan (property and equipment) of devices subsequent to the reporting date.
Impairment of Goodwill with respect to the Group's international operations	As of December 31, 2018, the carrying amount of Goodwill is approximately $13 million. Management performs a review of the Goodwill for impairment pursuant to IAS 36. This impairment review involved significant judgmental assumptions and estimates with respect to future cash flows from the Group's international operations. Due to the significance of the amount and the judgmental nature of management assumptions, we concluded that this is a key audit matter.	Our audit procedures included the assessment of the recoverability of Goodwill by auditing management's forecasts of revenues and cash flows to be generated from its main international operations. As part of our audit, we compared management's forecast to actual results and future budget, as well as gaining an understanding and performing sensitivity analysis of the changes in the assumptions underlying the forecast compared to prior year. In addition, we used our internal specialists to assist us in evaluating the economic assumptions and methodology used by the Group and its external experts to test impairment of the Goodwill.

Capitalization, amortization and impairment of development costs	As of December 31, 2018, the carrying amount of capitalized development costs is $4.1million. The Group recognizes eligible development costs as an intangible asset upon meeting certain criteria as described in Note 2k to the consolidated financial statements. Management performed a review for impairment of the capitalized development costs pursuant to IAS 36 while considering their expected useful life, technological validity and the Group's ability to benefit from them. Due to the significance of the amount and the judgmental nature of management assumptions, we concluded that this is a key audit matter.	Our audit procedures included updating our understanding, via meetings with management, of the nature and composition of development costs capitalized in 2018 and in prior years. We challenged the existence and value of prior years' capitalized development costs for them to still have a valid business rationale as well as valid expectations for future economic benefits to the Group. Amongst our procedures we challenged the useful life of the capitalized development costs and the need for impairment due to advances in technology.

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in The Company's 2018 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the board of directors for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the year ended December 31, 2018, and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditors' report is Mr. Itay Bar-Haim.

Tel-Aviv, Israel
March 11, 2019

Kost Forer Gabbay and Kasierer

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2018	2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	4,428	5,683
Short-term investments	6	4,422	4,711
Trade receivables	7	6,821	5,751
Prepaid expenses	8	-	756
Inventory	2e	1,303	2,208
Other accounts receivable	9	6,283	8,697
		23,257	**27,806**
NON-CURRENT ASSETS:			
Prepaid expenses	8	3,078	2,652
Long-term deposits		221	884
Deferred taxes	18d	2,662	2,880
		5,961	**6,416**
PROPERTY AND EQUIPMENT, NET:	10	3,543	4,946
GOODWILL	11	15,817	16,998
INTANGIBLE ASSETS, NET	11	6,949	9,337
Total assets		**55,527**	**65,503**

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

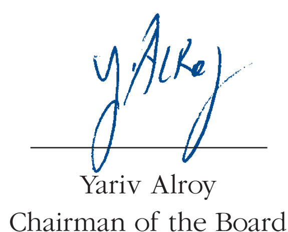
CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2018	2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities	12	932	12,920
Deferred revenues	14	1,626	1,469
Income taxes payable	18	1,531	1,588
Trade payables		1,078	958
Other accounts payable	15	11,140	15,989
		16,307	**32,924**
NON-CURRENT LIABILITIES:			
Long-term loans	13	-	1,486
Deferred revenues	14	180	369
Deferred taxes	18d	521	685
Employee benefit liabilities	17	835	830
		1,536	3,370
Total liabilities		**17,843**	**36,294**
EQUITY:	21		
Issued capital		31	31
Additional paid-in capital		96,503	95,951
Treasury shares		(2,347)	(2,429)
Foreign currency translation reserve		(2,653)	(403)
Capital reserve for remeasurement gains on defined benefit plans (2017 - including reserve for available-for-sale investments)		508	561
Accumulated deficit		(54,358)	(64,502)
Total equity		**37,684**	**29,209**
Total liabilities and equity		**55,527**	**65,503**

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

March 11, 2019

Date of approval of the financial statements



Yariv Alroy
Chairman of the Board

Yoav Rubinstein
CEO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year ended December 31, 2018	2017
Revenues for the year	22a	48,863	37,378
Cost of revenues	22b	18,649	17,785
Gross profit		30,214	19,593
Research and development costs	22c	2,911	3,015
Selling and marketing expenses	22d	7,470	7,329
General and administrative expenses	22e	7,993	7,966
Other expenses	22g	582	549
Other income	22h	(729)	(3,366)
Operating profit		11,987	4,100
Financial income	22f(1)	244	469
Financial expenses	22f(2)	(766)	(1,555)
Profit before taxes on income		11,465	3,014
Taxes on income	18b	1,324	606
Net profit		**10,141**	**2,408**
Other comprehensive income (loss) :			
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods-			
Re-measurement gains (loss) on defined benefit plans		(50)	88
		(50)	88
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		-	(268)
Gain on available-for-sale investments		-	36
Foreign currency translation reserve		(2,250)	3,038
		(2,250)	2,806
Total other comprehensive income (loss)		(2,300)	2,894
Total comprehensive income		**7,841**	**5,302**
Earnings per share:			
Basic and diluted earnings	**23**	**0.96**	**0.23**

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
Balance as of January 1, 2017	**31**	**95,859**	**(2,429)**	**(3,441)**	**705**	**(66,910)**	**23,815**
Share-based payments	-	92	-	-	-	-	92
Net profit	-	-	-	-	-	2,408	2,408
Total other comprehensive income	-	-	-	3,038	(144)	-	2,894
Balance as of December 31, 2017	**31**	**95,951**	**(2,429)**	**(403)**	**561**	**(64,502)**	**29,209**
Cumulative effect of initial adoption of IFRS 9 (See Note 2y)	-	-	-	-	(3)	3	-
Balance as of January 1, 2018 (after initial adoption of IFRS 9)	31	95,951	(2,429)	(403)	558	(64,499)	29,209
Share-based payments	-	634	-	-	-	-	634
Exercise of options	-	(82)	82	-	-	-	-
Net profit	-	-	-	-	-	10,141	10,141
Total other comprehensive income	-	-	-	(2,250)	(50)	-	(2,300)
Balance as of December 31, 2018	**31**	**96,503**	**(2,347)**	**(2,653)**	**508**	**(54,358)**	**37,684**

* As of December 31, 2018, the balance is comprised of cumulative gains on defined benefit plans. As of December 31, 2017, the balance is comprised of cumulative gains on defined benefit plans in the amount of $ 558 and a reserve for available-for-sale investments in the amount of $3.

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,	
	2018	2017
Cash flows from operating activities:		
Net profit	10,141	2,408
Adjustments required to reconcile net profit to net cash provided by operating activities :		
Income and expenses not involving operating cash flows:		
Depreciation and amortization	3,982	4,519
Capital loss from sale of property and equipment	130	3
Impairment of property and equipment	28	117
Impairment of intangible assets	458	350
Change in employee benefit liabilities, net	13	(53)
Financial expenses, net	330	889
Cost of share-based payments	634	92
Other capital loss	30	-
Taxes on income	1,324	606
	6,929	6,523
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables, net	(1,433)	5,055
Decrease in inventory	513	431
Decrease in prepaid expenses	79	270
Decrease (increase) in other accounts receivable	2,036	(6,908)
Increase (decrease) in trade payables	186	(296)
Increase (decrease) in deferred revenues	65	(330)
Increase (decrease) in other accounts payable	(3,523)	7,724
	(2,077)	5,946
Cash paid and received:		
Interest received	140	137
Interest paid	(315)	(972)
Income taxes received	-	179
Income taxes paid	(2,062)	(2,377)
	(2,237)	(3,033)
Net cash provided by operating activities	12,756	11,844

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,	
	2018	2017
Cash flows from investing activities:		
Purchase of property and equipment	(540)	(489)
Investment in intangible assets	(707)	(1,113)
Proceeds from long term deposit	631	-
Proceeds from sale of property and equipment	-	9
Purchase of short-term investments	(1,241)	(2,492)
Proceeds from sale of short-term investments	1,115	2,602
Net cash used in investing activities	(742)	(1,483)
Cash flows from financing activities:		
Payment of long-term loans	(5,476)	(11,265)
Payment of short-term loans	(7,506)	-
Net cash used in financing activities	(12,982)	(11,265)
Effect of exchange rate changes on cash and cash equivalents	(287)	698
Decrease in cash and cash equivalents	(1,255)	(206)
Cash and cash equivalents at the beginning of the year	5,683	5,889
Cash and cash equivalents at the end of the year	**4,428**	**5,683**

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

NOTES TO CONSOLIDATED STATEMENTS

U.S. dollars in thousands

NOTE 1 | GENERAL

SHL Telemedicine Ltd. ("SHL" and/or "the Company") was incorporated in Israel. The registered office is located at Ashdar Building, Yigal Alon St. in Tel Aviv. Its shares are publicly-traded on the SIX Swiss Exchange under the symbol SHLTN. Effective from August 2017, the Company terminated the American Depository Receipt level 1 program listed over-the counter in the US.

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. 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.

c. 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.

d. 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.

e. 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.

f. Allowance for doubtful accounts (accounting policy applied until December 31, 2017):

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.

g. Financial instruments:

As described in Note 2y regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

The accounting policy for financial instruments applied until December 31, 2017, is as follows:

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.

The accounting policy for financial instruments applied commencing from January 1, 2018, is as follows:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.
The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

a) Debt instruments are measured at amortized cost when:
The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

b) Debt instruments are measured at fair value through profit or loss when:
A financial asset which is a debt instrument does not meet the criteria for measurement at amortized cost. After initial recognition, the financial asset is measured at fair value and gains or losses from fair value adjustments are recognized in profit or loss.

c) Equity instruments and other financial assets held for trading:
Investments in equity instruments do not meet the above criteria and accordingly are measured at fair value through profit or loss.

Other financial assets held for trading are measured at fair value through profit or loss unless they are designated as effective hedging instruments.

Dividends from investments in equity instruments are recognized in profit or loss when the right to receive the dividends is established.

2. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss.

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.
An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset.

3. Derecognition of financial assets:
A financial asset is derecognized only when the contractual rights to the cash flows from the financial asset has expired.

4. Financial liabilities:
Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method.

5. Derecognition of financial liabilities:
A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

h. 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.

i. 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.

j. 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.

k. 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 l below.

l. 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.

2. Development 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.

m. 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.

n. 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.

o. 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 17).

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

p.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.

q. Revenue recognition:

As described in Note 2y regarding the initial adoption of IFRS 15, "Revenue from Contracts with Customers" ("the Standard"), the Company elected to adopt the provisions of the Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

The accounting policy for revenue recognition applied until December 31, 2017, is as follows:

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 as the intallation is performed.

Certain service contracts include remuneration, in part or in whole, based on the level of health cost savings to the customer ("performance-based" contracts). Due to the significant variability of the various factors that can affect the level of cost savings and the resulting difficulty in measuring such cost savings reliably, the Company recognizes revenues from performance-based contracts only after receiving final data as to the actual cost savings.

Incremental 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.

The accounting policy for revenue recognition applied commencing from January 1, 2018, is as follows:

Revenue recognition:

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the

consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

Revenue from rendering of services:

Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. Revenue is recognized in the reporting periods in which the services are rendered. Revenues from the installation fees are recognized as the intallation is performed.

The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before the service is performed, the Company recognizes the resulting contract or liability (deferred revenues), and recognizes revenue in profit or loss when the work is performed. The Company has elected to apply the practical expedient allowed by the Standard and does not separate the financing component in transactions in which the period between receipt of the advance payment and the performance of the service is expected to be less than one year.

Revenue from the sale of telemedicine devices:

Revenue from sale of telemedicine devices is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

Variable consideration:

Certain service contracts ("performance-based" contracts) include remuneration, in part or in whole, based on the level of health cost savings to the customer (variable consideration). According to the Standard, variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Due to the significant variability of the various factors that can affect the level of cost savings and the resulting difficulty in measuring such cost savings reliably, the Company recognizes revenues from performance-based contracts only after receiving final data as to the actual cost savings.

Costs of obtaining a contract:

Costs incurred in obtaining subscription contracts which would not have been incurred if the contract had not been obtained (incremental costs) and which the Company expects to recover are recognized as an asset (prepaid expenses). The asset is amortized over the estimated average service period of subscriber contracts, adjusted for cancellations.

r. Interest income:

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

s. 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.

t. 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.

u. 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.

v. 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.

w. 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).

x. Exchange rates and linkage basis:

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:

For the year ended	Israeli CPI	Exchange rate of €	U.S. $	CHF
	Points*	NIS		
December 31, 2018	223.3	4.29	3.75	3.81
December 31, 2017	221.6	4.15	3.46	3.55
December 31, 2016	220.7	4.04	3.85	3.77

Change during the year	%			
2018	0.7	3.4	8.4	7.3
2017	0.4	2.7	(9.8)	(5.6)

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

y. Changes in accounting policies - initial adoption of new financial reporting and accounting standards:

1. Initial adoption of 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 has been applied for the first time in these financial statements retroactively without restatement of comparative data.

The effect of the initial adoption of IFRS 9 on the consolidated financial statements is as follows:

Classification and measurement - As of December 31, 2017, short-term investments included certain investments in securities that were classified as available-for-sale, for which unrealized gains and losses on these investments were recorded in other comprehensive income. Under IFRS 9, the Company has elected to measure these investments at fair value through profit or loss.

The adoption of IFRS 9 resulted in a reclassification in equity of $3 from capital reserves to accumulated deficit as of January 1, 2018.

2. Initial adoption of IFRS 15, "Revenue from Contracts with Customers":

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("the new Standard") in May 2014. The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", 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 new Standard introduces a five-step model that applies to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the distinct performance obligations in the contract

Step 3: Determine the transaction price, including reference to variable consideration, significant financing components, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the distinct performance obligations on a relative stand-alone selling price basis using observable prices, if s available, or using estimates and assessments.

Step 5: Recognize revenue when a performance obligation is satisfied, either at a point in time or over time.

The new Standard has been applied for the first time in these financial statements. The Company elected to adopt the provisions of the new Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

The adoption of the new Standard had no material effect on the consolidated financial statements.

NOTE 3 | SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN PREPARATION OF THE FINANCIAL STATEMENTS

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

a. Judgments:

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

- **Capitalization of development costs**

  Development costs are capitalized in accordance with the accounting policy described in Note 2k, which is based on the criteria set forth in IAS 38. The assessment of whether development costs meet the criteria for recognition as an intangible asset requires significant management judgment, in particular with respect to technical feasibility, generation of future economic benefits, and ability to measure reliably the costs attributable to the intangible asset.

b. 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.

- **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 Notes 2i and 11.

- **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 Notes 2m and 18c.

- **Impairment of intangible assets (other than goodwill):**
  In testing for impairment of these assets (development costs, customer contracts and customer relations), management makes assumptions regarding the expected cash flows, the discount rate and the expected period of benefits. See also Notes 11 and 22g.

NOTE 4 | DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. 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 expense 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.

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 believes that it will apply the modified retrospective approach upon the initial adoption of the new Standard.

Under the modified retrospective approach, the balance of the liability as of the date of initial application of the new Standard will be calculated using the lessee's incremental borrowing rate of interest on the date of initial application of the new Standard. As for the measurement of the right-of-use asset, the Company will recognize an asset in an amount equal to the lease liability, with certain adjustments.

The initial adoption of the new Standard in 2019 is not expected to have a material impact on the Company's total assets, total liabilities, operating income, income before income taxes and cash flows from operating and financing activities as compared to had the Company continued to apply the provisions of IAS 17.

The Company has elected to apply the practical expedient permitted in the new Standard and did not take into account in the calculation of the aforementioned effects lease contracts that are expected to end during 2019.

b. IFRIC 23, "Uncertainty over Income Tax Treatments":
In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement to reflect uncertainty involving income taxes in the financial statements and accounting for changes in facts and circumstances underlying the uncertainty.

The Interpretation is to be applied in financial statements for annual periods beginning on January 1, 2019. Early adoption is permitted. Upon initial adoption, the Company will apply the Interpretation using one of two approaches:

1. Full retrospective adoption, without restating comparative data, by recording the cumulative effect through the date of initial adoption in the opening balance of retained earnings.
2. Full retrospective adoption including restatement of comparative data.

The Company does not expect the Interpretation to have any material impact on the financial statements.

NOTE 5 | CASH AND CASH EQUIVALENTS

	December 31,	
	2018	2017
Cash in banks (mainly in EUR)	2,767	5,569
Short-term deposits (in NIS)	1,661	114
	4,428	**5,683**

NOTE 6 | SHORT-TERM INVESTMENTS

	December 31,	
	2018	2017
Marketable securities:		
Available for sale investments (Mainly in USD)	-	225
Financial assets at fair value through profit or loss (Mainly in NIS)	3,419	3,486
Short-term deposit (in USD)	1,003	1,000
	4,422	**4,711**

NOTE 7 | TRADE RECEIVABLES

a. Composition:

	December 31,	
	2018	2017
Accounts receivable[1]	6,470	5,397
Other	351	354
	6,821	5,751

1 The terms of billed accounts receivable are generally 30-60 days. As of December 31, 2018 and 2017, there were no material billed receivables that were past due but not impaired.

NOTE 8 | PREPAID EXPENSES

Amortization of prepaid expenses (costs of obtaining contracts - see Note 2q) amounted to $713 in the year ended December 31, 2018 (2017- $ 730).

NOTE 9 | OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2018	2017
Employees	6	16
Interest receivable	28	23
Government institutions*	5,756	8,259
Others	493	399
	6,283	8,697

* In October 2017 a subsidiary of the Company received from the VAT authorities in Germany a binding ruling for VAT Exemption (the "Exemption") for specific medical services that the subsidiary provides to its customers in Germany. Since the subsidiary's last VAT assessment was concluded for the years up to and including 2011, the ruling also states that the Exemption is effective retrospectively commencing from the year 2012.
Accordingly, the subsidiary is entitled to claim a refund for the years 2012 to 2017 for the VAT collected (output tax) for services charged to its customers, net of a deduction for the VAT paid (input tax) for purchases from its suppliers in connection with the services rendered to the above customers. As of December 31, 2018, the subsidiary is entitled to receive a net VAT amount of $ 5,756 from the VAT authorities, for which an account receivable has been recognized in the financial statements.
According to the ruling, the subsidiary is required to refund the output tax, in the amount of $ 9,305 to its relevant customers for the years 2012 to 2017. However, pursuant to agreements that the subsidiary has with its customers, regarding the reimbursement due to the subsidiary for costs incurred in connection with the ruling, the output tax refund is offset by the input tax paid by the subsidiary and by additional costs in a total amount of $ 3,621. The net amount due to the customers in the amount of $ 5,684 is presented as part of other accounts payable in the financial statements.
The Company is currently in the process of revision and resubmission of its revised invoices and VAT refund claim to the relevant VAT authorities.

NOTE 10 | PROPERTY AND EQUIPMENT

	Computers and peripheral equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance as of January 1, 2017	14,883	4,837	1,226	1,803	2,411	38,399	63,559
Additions during the year	241	32	7	2	142	65	489
Disposals during the year	(26)	-	-	(102)	-	(30)	(158)
Transfer to inventory, net	-	-	-	-	-	(74)	(74)
Currency translation differences	1,741	529	134	193	268	4,296	7,161
Balance as of December 31, 2017	16,839	5,398	1,367	1,896	2,821	42,656	70,977
Additions during the year	286	-	8	1	4	241	540
Disposals during the year	(1)	-	-	-	-	(399)	(400)
Transfer to inventory, net	-	-	-	-	-	172	172
Currency translation differences	(1,147)	(405)	(103)	(143)	(211)	(3,014)	(5,023)
Balance as of December 31, 2018	**15,977**	**4,993**	**1,272**	**1,754**	**2,614**	**39,656**	**66,266**
Accumulated depreciation:							
Balance as of January 1, 2017	13,197	4,636	892	1,320	1,849	36,141	58,035
Additions during the year	587	66	56	204	261	339	1,513
Disposals during the year	(26)	-	-	(99)	-	(21)	(146)
Transfer to inventory, net	-	-	-	-	-	(50)	(50)
Impairment (see Note 22g)	-	-	-	-	-	117	117
Currency translation differences	1,557	508	99	148	214	4,036	6,562
Balance as of December 31, 2017	15,315	5,210	1,047	1,573	2,324	40,562	66,031
Additions during the year	523	62	47	166	267	745	1,810
Disposals during the year	(1)	-	-	-	-	(269)	(270)
Transfer to inventory, net	-	-	-	-	-	(84)	(84)
Impairment (see Note 22g)	-	-	-	-	-	28	28
Currency translation differences	(1,022)	(393)	(79)	(124)	(160)	(3,014)	(4,792)
Balance as of December 31, 2018	**14,815**	**4,879**	**1,015**	**1,615**	**2,431**	**37,968**	**62,723**
Depreciated cost as of December 31, 2018	**1,162**	**114**	**257**	**139**	**183**	**1,688**	**3,543**
Depreciated cost as of December 31, 2017	**1,524**	**188**	**320**	**323**	**497**	**2,094**	**4,946**

NOTE 11 | GOODWILL AND INTANGIBLE ASSETS, NET

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill[1]
As of January 1, 2018, net of accumulated amortization	5,076	3,834	427	9,337	16,998
Additions during the year	707	-	-	707	-
Amortization during the year	(885)	(1,075)	(212)	(2,172)	-
Impairment (see Note 22g)	(458)	-	-	(458)	-
Currency translation differences	(320)	(135)	(10)	(465)	(1,181)
As of December 31, 2018, net of accumulated amortization	**4,120**	**2,624**	**205**	**6,949**	**15,817**
As of December 31, 2018:					
Cost	36,070	8,040	3,161	47,271	15,817
Accumulated amortization	(31,950)	(5,416)	(2,956)	(40,322)	-
Net carrying amount	**4,120**	**2,624**	**205**	**6,949**	**15,817**

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill[1]
As of January 1, 2017, net of accumulated amortization	5,042	4,578	770	10,390	15,256
Additions during the year	1,113	-	-	1,113	-
Amortization during the year	(1,636)	(1,095)	(275)	(3,006)	-
Impairment (see Note 22g)	-	(203)	(147)	(350)	-
Currency translation differences	557	554	79	1,190	1,742
As of December 31, 2017, net of accumulated amortization	**5,076**	**3,834**	**427**	**9,337**	**16,998**
As of December 31, 2017:					
Cost	37,780	8,410	3,306	49,496	16,998
Accumulated amortization	(32,704)	(4,576)	(2,879)	(40,159)	-
Net carrying amount	**5,076**	**3,834**	**427**	**9,337**	**16,998**

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 recoverable amounts of the cash generating units relate to the following cash generating units:

	December 31, 2018	December 31, 2017
Israel	2,858	3,090
International	12,959	13,908
	15,817	**16,998**

The pre-tax discount rate applied to cash flow projections are as follows:

	December 31, 2018	December 31, 2017
Israel	15%	15%
International	12%-18.8%	11.8%-16.8%

The cash flows beyond the 5-year period are extrapolated using the following growth rates:

	December 31, 2018	December 31, 2017
Israel	1%	1%
International	2%	2%

The value in use of the cash generating units exceeds their recoverable amount.

NOTE 12 | CREDIT FROM BANKS AND CURRENT MATURITIES

	Interest rate	December 31,	
	%	2018	2017
Credit from banks:			
NIS - unlinked	Prime[1] + 0.5 - 0.8	4	7,788
Long-term portion of loan presented in current liabilities due to breach of covenant – see Note 13a		-	991
Current maturities of long-term loans (see Note 13) - linked mainly to the Israeli CPI	3.8 - 3.9	928	4,141
		932	12,920

1 The Prime rate as of December 31, 2018 – 1.75% (December 31, 2017 - 1.6%).

NOTE 13 | LONG-TERM LOANS

a. 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 until July 2019. 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 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, 2018 and 2017 the Company is in compliance with these covenants, besides "change in control" covenant, as descriibed below.
On September 6, 2018 the Company made an early repayment of the remaining balance of a loan originally scheduled to be fully repaid by July 2019 in the amount of $ 2,237. The impact of the early repayment on the financial statements was immaterial.

As of December 31, 2018 and 2017, the Company was in breach of a "change in control" covenant in respect of one of the above loans, which allows the lender to demand immediate repayment of the loan. Accordingly, the contractual long-term portion of that loan in the amount of $ 991 as of December 31, 2017, is presented in current liabilities - see Note 12. As of December 31, 2018, the balance of the above loan is presented in the current liabilities, as per the contractual payment schedule.

b. In January 2016, the Company's German subsidiary received a long-term loan from a bank in Germany in the amount of Euro 7 million ($ 7,700) which was to be repaid in 32 equal quarterly installments. The loan bears an annual interest of 3.45%.
On December 29, 2017 the Company made an early repayment of the entire loan. The impact of the early repayment on the financial statements was immaterial.

NOTE 14 | DEFERRED REVENUES

	December 31,	
	2018	2017
Total	1,806	1,838
Less - long-term deferred revenues	180	369
	1,626	1,469

Deferred revenues are substantially all in respect of contracts in which the period between receipt of the advance payment and the performance of the service is expected to be less than one year.

NOTE 15 | OTHER ACCOUNTS PAYABLE

	December 31,	
	2018	2017
Employees and payroll accruals	3,002	2,969
Accrued expenses	1,797	3,935
VAT to customers and suppliers – see Note 9	5,684	8,259
Government authorities	185	360
Other	472	466
	11,140	15,989

NOTE 16 | FINANCIAL INSTRUMENTS

The Group's principal financial liabilities are comprised of short-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 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. 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.

b. Foreign currency risk:

The Group is subject to foreign exchange risk as it operates and has sales in different countries mainly Germany. 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.

c. Market risk:

The Group has investments in marketable financial instruments that commencing from January 1, 2018 are classified as financial assets at fair value through profit or 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, 2018, the balance of these investments is $ 3,420 (2017 - $ 3,711).

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
2018	+5%	171
	-5%	(171)
2017	+5%	186
	-5%	(186)

d. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, trade and other receivables, 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 and deposits approximate their fair value.

e. 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 annual contractual undiscounted payments including interest amounts to approximately $ 13,269.

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

	In or linked to					
	U.S.$	CHF	Euro	Israeli CPI	NIS	Total
December 31, 2018						
Assets:						
Cash and cash equivalents	201	1	2,035	-	2,191	4,428
Short-term investments	2,056	-	-	877	1,489	4,422
Trade receivables	5	-	4,783	-	2,033	6,821
Other accounts receivable	199	-	5,757	-	173	6,129
Long-term deposits	-	-	221	-	-	221
	2,461	**1**	**12,796**	**877**	**5,886**	**22,021**
Liabilities:						
Credit from banks and current maturities	-	-	-	928	4	932
Trade payables	23	-	384	-	671	1,078
Other short and long-term liabilities	604	-	8,634	-	3,433	12,671
	627	-	9,018	928	4,108	14,681
December 31, 2017						
Assets:						
Cash and cash equivalents	240	-	3,655	-	1,788	5,683
Short-term investments	2,092	-	-	1,042	1,577	4,711
Trade receivables	42	-	3,423	-	2,286	5,751
Other accounts receivable	212	-	8,355	-	130	8,697
Long-term deposits	-	-	229	-	655	884
	2,586	-	15,662	1,042	6,436	25,726
Liabilities:						
Credit from banks and current maturities	-	-	-	5,110	7,810	12,920
Trade payables	24	-	371	-	563	958
Long-term loans	-	-	-	1,486	-	1,486
Other short and long-term liabilities	684	-	12,882	-	4,011	17,577
	708	**-**	**13,253**	**6,596**	**12,384**	**32,941**

g. Changes in liabilities arising from financing activities

	January 1, 2018	Cash flows	Foreign exchange movement	Other	December 31, 2018
Credit from banks and long-term loans	14,406	(12,982)	(552)	60	932
Total liabilities from financing activities	14,406	(12,982)	(552)	60	932

	January 1, 2017	Cash flows	Foreign exchange movement	Other	December 31, 2017
Credit from banks and long-term loans	23,483	(11,265)	2,161	27	14,406
Total liabilities from financing activities	23,483	(11,265)	2,161	27	14,406

NOTE 17 | EMPLOYEE BENEFIT LIABILITIES

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

2018:

		Expenses recognized in profit or loss				Gain (loss) from remeasurement in other comprehensive income				Contributions	
	Balance at January 1, 2018	Current service cost	Net interest expense	Total expense recognized in profit or loss for the period	Payments from the plan	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	by employer	Balance at December 31, 2018
	USD in thousands										
Defined benefit obligation	(5,761)	(365)	(170)	(535)	529	148	(133)	15	424	-	(5,328)
Fair value of plan assets	4,931	-	154	154	(456)	-	(65)	(65)	(353)	282	4,493
Net defined benefit liability (asset)	(830)	(365)	(16)	(381)	73	148	(198)	(50)	71	282	(835)

2017:

		Expenses recognized in profit or loss				Gain (loss) from remeasurement in other comprehensive income				Contributions	
	Balance at January 1, 2017	Current service cost	Net interest expense	Total expense recognized in profit or loss for the period	Payments from the plan	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	by employer	Balance at December 31, 2017
	USD in thousands										
Defined benefit obligation	(5,832)	(382)	(205)	(587)	1,240	(133)	51	(82)	(500)	-	(5,761)
Fair value of plan assets	4,942	-	186	186	(1,108)	-	169	169	401	341	4,931
Net defined benefit liability (asset)	(890)	(382)	(19)	(401)	132	(133)	220	87	(99)	341	(830)

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

	Year ended December 31,	
	2018	2017
Insurance contracts	4,493	4,931

c. The principal assumptions underlying the defined benefit plan:

	2018	2017
	%	
Discount rate	3.91	3.27
Expected rate of salary increase	4.61	4.53

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, 2018:	
Sensitivity test for changes in the expected rate of salary increase:	
The change as a result of:	
Salary increase of 10 % (instead of 4.61%)	(58)
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	(23)
Decrease of 1 % in discount rate	28

NOTE 18 | TAXES ON INCOME

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

1. **Companies in Israel:**
   The Israeli corporate income tax rate was 24% in 2017 and 23% in 2018.
   The deferred taxes are computed at the average tax rate of 23% (2017 - 23%), based on the tax rates that are expected to apply upon realization.

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 21%.
   Germany - tax at the rate of 31.4%.

b. Taxes on income included in the statements of comprehensive income:

	Year ended December 31,	
	2018	2017
Current taxes	1,347	228
Deferred taxes	(136)	463
Taxes in respect of prior years	113	(85)
	1,324	606

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	Total
Balance at January 1, 2017	(3,119)	255	5,350	(55)	2,431
Amount included in statement of comprehensive income	362	(9)	(865)	49	(463)
Currency translation differences	(363)	28	566	(4)	227
Balance at December 31, 2017	(3,120)	274	5,051	(10)	2,195
Amount included in statement of comprehensive income	317	25	(230)	24	136
Currency translation differences	183	(21)	(353)	1	(190)
Balance at December 31, 2018	**(2,620)**	**278**	**4,468**	**15**	**2,141**

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

	Year ended December 31,	
	2018	2017
Non-current assets	2,662	2,880
Non-current liabilities	(521)	(685)
	2,141	**2,195**

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,	
	2018	2017
Income before taxes on income	**11,465**	**3,014**
Statutory tax rate in Israel	**23%**	**24%**
Tax computed at the statutory tax rate	2,637	723
Increase (decrease) in taxes resulting from:		
Taxes in respect of previous years	113	(85)
Tax adjustment in respect of inflation in Israel	(3)	(4)
Non-deductible expenses (non-taxable income)	54	(24)
Different tax rates	269	56
Loss for which deferred taxes were not recognized	852	409
Utilization of previously unrecognized tax losses	(2,575)	(490)
Other	(23)	21
Total tax expense reported in the consolidated statements of comprehensive income	**1,324**	**606**

f. Carry forward tax losses:
The carry forward losses for tax purposes as of December 31, 2018 amount to NIS 258,319,000 ($ 68,922) (2017 -NIS 238,464,000, $ 68,781) in Israel (which may be carried forward indefinitely) and EUR 19,034,000 ($ 21,794) (2017 - EUR 28,287,000, $ 33,880) in Europe. In the U.S., SHL USA has federal and state net operating losses and credits of $ 7,429 (2017 - $ 7,307), 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 NIS 86,689,000 ($ 23,129) (2017 - NIS 90,898,000, $ 26,218) and all other carry forward losses are not included in the consolidated financial statements as management presently believes that it is not probable that these deferred taxes will be realized in the foreseeable future.

NOTE 19 | COMPENSATION OF KEY MANAGEMENT PERSONNEL (INCLUDING DIRECTORS)

	Year ended December 31	
	2018	2017
Short-term employee benefits	1,894	2,349
Share-based payment benefits	596	70
Total	**2,490**	**2,419**

Following the decision of the Swiss Takeover Board on September 1, 2018, declaring that the voting rights of the shares of the Company held by Himalaya (Cayman Islands) TMT Fund, Himalaya Asset Management Ltd, Xiang Xu, Kun Shen and Mengke Cai are suspended with immediate effect until the publication of a mandatory tender offer approved by the Swiss Takeover Board, the Special General Meeting of the shareholders of the Company held on December 10, 2018, changed the composition of the Board.

On December 13, 2018, the Board of directors of the Company elected Mr. Yariv Alroy as the new Chairman of the Board of directors.

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 2021.
Future minimum lease commitments in the years subsequent to December 31, 2018, under non-cancelable operating lease are as follows:

	2018
First year	1,212
Second to fourth years	31
	1,243

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, 2018		December 31, 2017	
	Authorized	Issued and outstanding*	Authorized	Issued and outstanding*
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,503,152	14,000,000	10,491,213

* Net of treasury shares.

b. Movement in share capital:

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

	Number of shares
Balance at January 1, 2017 and 2018	**10,491,213**
Treasury shares sold upon exercise of options	11,939
Balance at December 31, 2018	**10,503,152**

c. Treasury shares:

The Company holds 375,339 shares (387,278 shares as of December 31, 2017) at a total cost of $ 2,347 as of December 31, 2018 ($ 2,429 as of December 31, 2017).

d. Share option plans:

On January 5, 2017, the Board of Directors approved the grant of 18,000 options to a director, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years after appointment (33% on February 24, 2017, and 8.33% each quarter thereafter). The weighted average fair value of options granted is CHF 2.077 ($ 2.037). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.88; exercise price – CHF 6.73; expected volatility - 46.76%; risk free interest rate - 0%; expected dividend -0%; and expected average life of options - 2.44 years.

On August 6, 2017, the Board of Directors approved the grant of 176,841 options to directors and senior managers of the Company, under the 2015 Executive and Key Employee Israeli Share Option Plan. The vesting terms of the options are as follows:

		Weighted average fair value		
Quantity	Vesting terms	CHF	USD	Expected average life
36,000	33% on June 28, 2018, and 8.33% each quarter thereafter	2.31	2.40	3.22 years
140,841	25% on August 6, 2018, and 8.33% each quarter thereafter	2.36	2.46	3.40 years

The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.20; exercise price – CHF 7.04; expected volatility - 44.36%; risk free interest rate - 0%; and expected dividend – 0%.

On January 2, 2018, the Board of Directors approved the grant of 240,876 options to the Company's CEO, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years from the date of his appointment as CEO in 2017 (25% on June 1, 2018, and 9.375% each quarter thereafter). The weighted average fair value of options granted is CHF 1.293 ($ 1.332). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.31; exercise price – CHF 6.85; expected volatility - 40.42%; risk free interest rate - 2.24%; expected dividend -0%; and expected average life of options - 3.15 years.

On June 28, 2018, the Board of Directors approved the grant of 150,260 options to the Company's CEO, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years from the date of his appointment as CEO in 2017 (25% on June 1, 2018, and 9.375% each quarter thereafter). The weighted average fair value of options granted is CHF 1.612 ($ 1.616). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.50; exercise price – CHF 7.70; expected volatility - 37.91%; risk free interest rate - 2.24%; expected dividend -0%; and expected average life of options - 2.81 years.

On December 10, 2018, the Board of Directors approved the grant of 18,000 options to a director, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years after appointment (33% on February 24, 2017, and 8.33% each quarter thereafter). The weighted average fair value of options granted is CHF 1.65 ($ 1.67). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.88; exercise price – CHF 7.70; expected volatility - 36.48%; risk free interest rate - 0%; expected dividend -0%; and expected average life of options - 3.75 years.

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

On April 16, 2018, the Board of Directors approved to extend the term of the Plan for a period of one (1) year until April 18, 2019.

In the years ended December 31, 2018 and 2017, the Group recorded share-based compensation in the statements of comprehensive income in the amount of $ 634 and $ 92, respectively.

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

	2018		2017	
	No. of options	WAEP (CHF)	No. of options	WAEP (CHF)
Outstanding at the beginning of the year	614,838	7.11	1,000,240	7.11
Granted during the year	409,136	7.20	194,841	7.03
Forfeited during the year	(103,000)	6.97	(580,243)	7.08
Exercised during the year*	(100,000)	6.97	-	-
Outstanding at the end of the year	**820,974**	**7.19**	**614,838**	**7.11**
Exercisable at the end of the year	**426,696**	**7.25**	**315,498**	**7.25**

* The weighted average share price at the date of exercise of these options was CHF 7.88.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2018 was 4.51 years (as of December 31, 2017 - 3.59 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 "2015 Executive and Key Employee Israeli Share Option Plan".

NOTE 22 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF COMPREHENSIVE INCOME

a. Revenues for the year:

	Year ended December 31,	
	2018	2017
Revenues for services performed during the period	39,039	36,037
Revenues from sale of devices	1,198	927
Performance-based revenues[1]	8,626	414
	48,863	**37,378**

1 Commencing in 2016, due to the significant variability of the various factors that can affect the level of cost savings and the resulting difficulty in measuring such cost savings reliably, the Company recognizes revenues from performance-based contracts only after receiving final data as to the actual cost savings. In the current reporting period the Company recognized performance-based revenues in respect of cost savings arising from the years 2015, 2016 and 2017.

b. Cost of revenues:

	Year ended December 31,	
	2018	2017
Salaries and related benefits	11,676	11,836
Rental fees and maintenance	1,912	1,995
Depreciation and amortization	1,354	825
Others	3,707	3,129
	18,649	17,785

c. Research and development costs:

	2018	2017
Salaries and related benefits	1,853	2,360
Amortization of development costs	885	1,636
Others	880	132
	3,618	4,128
Less - capitalization of development costs	707	1,113
	2,911	3,015

d. Selling and marketing expenses:

	2018	2017
Salaries and related benefits	4,229	3,720
Marketing and related expenses	604	575
Depreciation and amortization	1,523	1,672
Rental fees and maintenance	290	284
Maintenance of vehicles	376	403
Others	448	675
	7,470	7,329

e. General and administrative expenses:

	2018	2017
Salaries and related benefits	4,310	4,096
Rental fees and office expenses	811	943
Professional fees	2,224	1,902
Depreciation and amortization	220	386
Others	428	639
	7,993	7,966

f. Financial income (expenses):

1. Financial income:

	2018	2017
Exchange rate differences	102	101
Gain on marketable securities, net	-	246
Interest	134	122
Others	8	-
	244	469

2. Financial expenses:

	Year ended December 31,	
	2018	2017
Exchange rate differences	(44)	(198)
Loss on marketable securities, net	(137)	-
Interest	(301)	(976)
Interest to the tax authorities	(27)	(141)
Others	(257)	(240)
	(766)	(1,555)

g. Other expenses:

	Year ended December 31,	
	2018	2017
Impairment of intangible assets:		
- see Note 11		
Development costs[1]	458	-
Customer relations and contracts[2]	-	350
Impairment of property and equipment[3]		
- see Note 10	28	117
Other expenses	96	82
	582	549

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

2 Impairment of intangible assets relating to customer relations and contracts due to managements revised estimates of future cash flows to be generated by these assets. The discount rate applied to these cash flow projections - 9.6%.

3 Impairment in respect of telemedicine devices available for loan to customers for which management decided to discontinue their use due to technological and commercial obsolescence.

h. Other income:

In 2018 the Company has received non-recurring refunds from suppliers in the amount of $ 729.

In June 2017, the District Court of Tel Aviv ruled in favor of the Company with regards to its claim against Shanghai Jiuchuan Investment (Group) Co. Ltd. in connection with the merger agreement terminated on December 1, 2015. In its decision, the court ruled that the complete pre-agreed compensation for breach of contract in the amount of NIS 43.87 million, representing 10% of the merger consideration, shall be paid to the Company along with interest, legal fees and other expenses. The court ordered that the related funds in escrow in Israel in the amount of $ 3,366, will be paid to the Company

within seven days and deducted from the total amount awarded. This amount was received by the Company in June 2017 and recorded in other income in profit or loss. The Company continues to pursue the collection of the balance awarded and is examining different possibilities, but presently cannot estimate the probability of successful collection. Accordingly, due to the uncertainty, the balance of the award due to the Company has not been recorded in the financial statements as of December 31, 2018.

NOTE 23 | NET EARNINGS PER SHARE

a. Details of the number of shares and net profit used in the computation of net earnings per share:

	Year ended December 31,			
	2018		2017	
	Weighted number of shares	Net profit	Weighted number of shares	Net profit
	In thousands		In thousands	
Number of shares and net profit for the computation of basic net earnings	10,503	10,141	10,491	2,408
Effect of dilution - share options	14	-	6	-
For the computation of diluted net earnings	10,517	10,141	10,497	2,408

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 the basic earnings (anti-dilutive effect): 91,923 (2017 -61,894) options to employees under share-based payment plans.

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. The Group presents disaggregated revenue information based on types of customers: Individual customers and communities, Institutions and payers (income from service agreements with institutions, insurance companies and HMOs), and others.

a. Segment revenues:

	Individuals and communities	Institutions and payers	Others	Total
Year ended December 31, 2018:				
Europe*	-	27,556	-	27,556
Israel	19,533	1,120	22	20,675
Others	-	-	632	632
Total revenues	**19,533**	**28,676**	**654**	**48,863**

	Individuals and communities	Institutions and payers	Others	Total
Year ended December 31, 2017:				
Europe*	-	16,634	-	16,634
Israel	19,164	1,313	-	20,477
Others	-	-	267	267
Total revenues	**19,164**	**17,947**	**267**	**37,378**

* Includes performance based revenues in 2018 and 2017 of $ 8,626 and $ 414, respectively.

b. Reporting on geographic segments:

	Year ended December 31, 2018	2017
Segment profit (loss):		
Europe*	10,588	576
Israel	4,194	4,494
Others	(134)	(1,069)
	14,648	**4,001**
Unallocated income and expenses:		
Corporate, R&D and other expenses	(2,541)	(3,267)
Other income (expenses)	(120)	3,366
Operating profit	11,987	4,100
Financial expenses, net	(522)	(1,086)
Profit before taxes on income	**11,465**	**3,014**

* Includes performance based revenues in 2018 and 2017 of $ 8,626 and $ 414, respectively.

c. Additional information:

	Europe	Israel	Others	Total
Year ended December 31, 2018:				
Depreciation and amortization[1]	2,122	2,338	8	4,468
Year ended December 31, 2017:				
Depreciation and amortization[1]	**2,640**	**2,286**	**60**	**4,986**

1 Includes impairment

d. Additional information about revenues:

Revenues from major customers which each account for 10% or more of total revenues as reported in the financial statements:

	Year ended December 31, 2018	2017
Customer A – Institutions and Payers	10,559	3,628
Customer B – Institutions and Payers	8,096	5,537

NOTE 25 | SUBSEQUENT EVENTS

a. On January 15, 2019, the Managing Director of the Company's German subsidiary, Martin Lehner, stepped down from his position. Mr. Lehner will serve a notice period of 9 months' in his current position, to the extent required, and will transition to the Company's German subsidiary Advisory Board where he will continue to support the German subsidiary.

b. On February 21, 2019, the Special General Meeting approved the grant of 18,000 options to a director, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years after appointment (33% on December 10, 2019, and 8.33% each quarter thereafter). On the date of the grant, the share price was CHF 6.88, and the exercise price was CHF 7.70.

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