



Corporate Governance 2012



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SHL TeleMedicine Ltd. Corporate Governance Report

Introduction

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

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

Changes in the Financial Year 2012

In April 2012, one of the Company's controlling shareholders, Tower Holdings B.V. (“Tower”) sold all of its shares in the Company, and in connection with such sale, the director appointed by Tower, Mr. Hagai Shilo, resigned from the Board of Directors, effective as of April 29, 2012.

At the 2012 Annual General Meeting (the “AGM”), Mr. Yoram Alroy, Mr. Yariv Alroy, Mr. Erez Alroy, Mr. Elon Shalev, Mr. Ziv Carthy and Ms Dvora Kimhi were re-elected to the Board of Directors until the next annual meeting. Mr. Nissim Zvili and Ms. Nehama Ronen continued to serve as independent directors of the Company (with Ms. Ronen serving her second three (3) year term until the Annual General Meeting in 2013, and Mr. Nissim Zvili serving his second three (3) year term until the Annual General Meeting in 2014).

On December 12, 2012, an amendment to the Israeli Companies Law – 1999 (the “Amendment” and the “Israeli Companies Law”, respectively) came into effect which, inter alia, requires any Israeli public company (including the Company) to (a) adopt a compensation policy with respect to the terms of engagement of its officer holders (the “Compensation Policy”), with specific provisions having to be included and other issues as enumerated under the Israeli Companies Law to be referenced or taken into account; and (b) establish a compensation committee (the “Compensation Committee”) whose tasks shall include, amongst others, the issuance of a recommendation

to the Board of Directors regarding the Compensation Policy, examination regarding the implementation of the Compensation Policy and approval of office holder engagement terms pursuant to the provisions of the Israeli Companies Law, as amended (subject to further corporate approvals as set forth in the Israeli Companies Law). The Amendment also constitutes certain requirements with respect to the identity of the members of the Compensation Committee (such as all Independent (external) Directors being appointed thereto and comprising a majority of its members). Pursuant to the Amendment, the approval requirements previously in effect with respect to office holder engagement terms have changed, so that such terms require the approval of the newly established Compensation Committee, instead of the Audit Committee, followed by approval by the Board and the shareholders of the Company (except with respect to engagement terms of office holders who are neither directors nor the CEO nor a controlling shareholder or its relative which only require further approval by the Board), and, subject to certain limited exceptions, such terms must comply with the Compensation Policy. For further information regarding the Compensation Policy and the Compensation Committee, please refer to Section 3.3 below.

Laws and regulations

The principles and rules of SHL on corporate governance are laid down in the Articles of Association of SHL, the Israeli Companies Law and the regulations promulgated thereunder, as well as other Israeli legislation applicable to SHL. As SHL is traded on the SIX Swiss Exchange, at the time of its listing, it had additionally taken upon itself to comply with certain reporting requirements of the listing rules of the SIX Swiss Exchange. The information presented is updated as of December 31, 2012, and was prepared in accordance with the Corporate Governance Directive of the SIX Swiss Exchange.

The Swiss parliament has resolved to amend the current provisions of the Swiss Stock Exchange Act relating to the duty of shareholders in listed companies to disclose their qualified holdings and relating to mandatory take-over duties by, inter alia, making this provisions applicable to foreign companies whose shares are primarily listed on a Swiss exchange. The Swiss government is yet to resolve when the revised law will enter into force, which will not be any earlier than 1 May 2013.

Pursuant to the revised Swiss Stock Exchange Act a person, or a group of persons acting in concert, acquiring or selling directly, indirectly or in concert with third parties on its own account shares or purchase or sale rights relating to shares in SHL and thereby reaches, falls below or exceeds threshold percentages of 3, 5, 10, 15, 20, 25, 33⅓, 50 or 66⅔ % of voting rights (whether exercisable or not) in SHL, must notify SHL and the SIX Swiss Exchange. In brief, this means that a person, or a group of persons acting in concert, has or have a duty to notify, if as a result of a certain transaction or the modification of the share capital one of the above mentioned thresholds is reached, exceeded or has fallen below.

The person must notify SHL and the Disclosure Office (Offenlegungstelle) - a separate department attached to SIX Exchange Regulation - within 4 trading days from the date where the obligation to notify has been created. SHL is obliged to publish the notification within two trading days after its receipt via the electronic publication platform operated by the Disclosure Office. Further information about the Disclosure Office is available under: http://www.six-exchange-regulation.com/obligations/disclosure_en.html. The obligation to notify is created with the constitution of a right to acquire or to sell the shares in SHL.

A Person holding shares or purchase or sale rights relating to shares in SHL upon the coming into force of the revised Swiss Stock Exchange Act to an extent that obliges him to disclose its shareholdings (as explained above) will be granted a longer period than 4 trading days to fulfil this duty. That person will have to notify SHL and the Disclosure Office only within one year of the entry into force of the revised Swiss Stock Exchange Act.

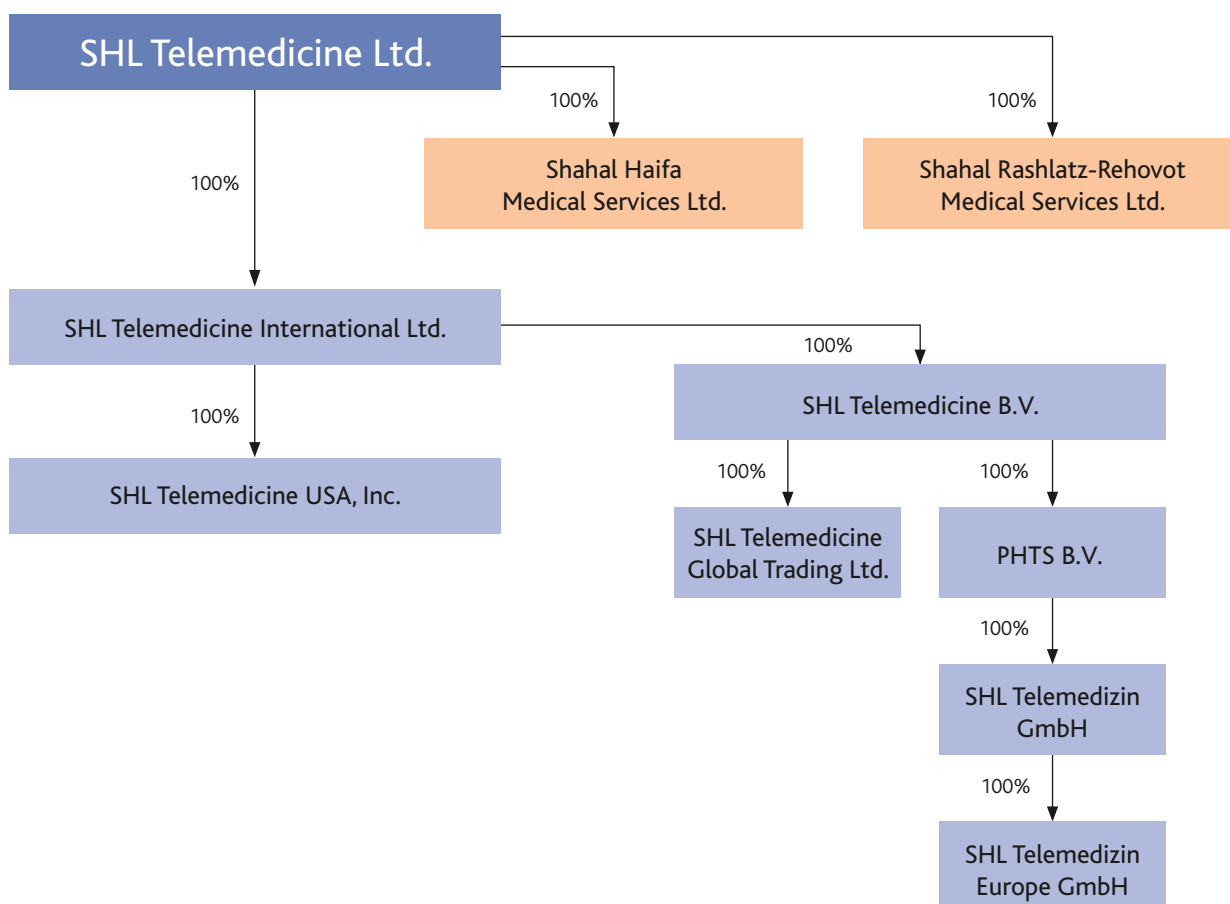
SHL is currently evaluating the effects and options in relation to the new mandatory take-over rules.

1. Group Structure and Shareholders

1.1 Group Structure

1.1.1 Management Principles:

SHL Telemedicine Ltd. is a company incorporated in Israel whose shares are publicly traded on the SIX Swiss Exchange under the symbol SHLTN (see Section 1.1.2 for additional information on the Company). SHL and its subsidiaries develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine



systems are designed to improve quality of care and life for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health.

During 2012 the Company and its subsidiaries in Israel, Germany and the U.S. operated in one business segment - telemedicine services.

Telemedicine is the use of telecommunication technology and speciality devices in order to provide healthcare from a distance. SHL's telemedicine solution offers centralized remote diagnostic and monitoring services to end-users, making use of computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.

SHL Telemedizin GmbH and SHL Telemedizin Europe GmbH (together "SHL Germany") operate in the German market and provide telemedicine services to patients in Germany, mainly through German health insurers. SHL Germany is run as a stand-alone business and enjoys a high degree of autonomy, with its own management.

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

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

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

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

SHL Telemedicine Ltd. ("SHL") - SHL's authorized share capital is comprised of New Israel Shekels ("NIS") 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each. SHL's issued and outstanding share capital is NIS 103,438.01 divided into 10,343,801 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 466,759 ordinary shares of NIS 0.01 par value each held by SHL). For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 15. The registered shares of SHL are traded on the main board of the SIX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As of December 31, 2012, SHL's market capitalization was CHF 74.7 million. SHL's registered office is located at 90 Yigal Alon Street (Ashdar Building), Tel-Aviv, Israel. None of the issued and outstanding share capital of SHL is held by SHL's subsidiaries.

Name	Registered address	% of holding (directly or indirectly through wholly owned subsidiaries)
Shahal Haifa - Medical Services Ltd. ("SHL Haifa")	Tel-Aviv, Israel	100% (held by SHL)
Shahal Rashlatz-Rehovot Medical Services Ltd. ("SHL Rashlatz")	Tel-Aviv, Israel	100% (held by SHL)
SHL Telemedicine International Ltd. ("SHL INT")	Tel-Aviv, Israel	100% (held by SHL)
SHL Telemedicine B.V. ("SHL BV")	Amsterdam, Netherlands	100% (held by SHL INT)
Personal Healthcare Telemedicine Services Europe B.V. ("PHTS")	Amsterdam, Netherlands	100% (held by SHL BV)
SHL IRL B.V.	Amsterdam, Netherlands	100% (held by SHL BV)
SHL Telemedizin GmbH	Dusseldorf, Germany	100% (held by PHTS)
SHL Telemedicine Europe GmbH	Dusseldorf, Germany	100% (held by SHL Telemedizin GmbH)
SHL Telemedicine Global Trading Ltd.	Shanon, Ireland	100% (held by SHL BV)
SHL Telemedicine USA, Inc.	Delaware, USA	100% (held by SHL INT)
SHL Telemedicine North America, LLC	Delaware, USA	100% (held by SHL Telemedicine USA, Inc.)
Raytel Medical Corporation, LLC	Delaware, USA	100% (held by SHL Telemedicine North America, LLC)

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

1.2 Significant Shareholders

The following overview shows the shareholdings of significant shareholders as of December 31, 2012, compared to December 31, 2011:

	2012 Number	2012 %	2011 %
Alroy Group *	2,838,475	27.44%	27.24%
Tower Holdings B.V.	0	0%	14.50%
G.Z. Assets and Management Ltd.	921,533	8.91%	8.84%
Prime Finance Corporation	736,722	7.12%	0%
Copper Valley Finance Ltd.	736,722	7.12%	0%
Eli Alroy **	749,299	7.24%	5.68%
Public	4,361,050	42.17%	43.73%

* The Alroy Group is comprised of (i) Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.99% of the issued and outstanding share capital of SHL, (ii) Mr. Erez Alroy, Co-CEO of SHL that holds individually and through a company wholly owned by him 0.18% of the issued and outstanding share capital of SHL, (iii) Mr. Elon Shalev, brother-in-law of Mr. Yoram Alroy, that holds, individually and through Elon Shalev Investments Ltd., a private company wholly owned by Mr. Elon Shalev, approximately 7.01% of the issued and outstanding share capital of SHL, (iv) Y. Alroy Family Ltd., a private company wholly owned by Mr. Yoram Alroy, Mr. Elon Shalev and members of their family, that holds approximately 5.16% of the issued and outstanding share capital of SHL, and (v) Southland Holding Ltd., a private company owned by Mr. Erez Alroy, Mr. Yariv Alroy and Mr. Elon Shalev, holding approximately 8.11% of the issued and outstanding share capital of SHL.

**Eli Alroy is not a member of the Alroy Group

The above table of Significant Shareholders reflects actual holdings as of December 31, 2012, after deducting from the total number of shares outstanding 466,759 Ordinary Shares held by SHL (as described in Section 1.1.2 above), and does not reflect holdings on a fully diluted basis.

Pursuant to the Shareholders Agreement (the "Shareholders Agreement") originally entered between SHL, the Alroy Group, Royal Philips Electronics, Tower and G.Z. Assets and Management Ltd., the aforementioned shareholders of the Company agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include three (3) nominees determined by the Alroy Group, two (2) nominees determined by Royal Philips Electronics, one (1) nominee determined by Tower, and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of

the Alroy Group, Tower and G.Z. Assets and Management Ltd. had the right to nominate directors as long as it would hold at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics had the right to nominate two (2) directors as long as it would hold at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it would hold at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics' rights under the Shareholders Agreement were transferred to the Alroy Group in 2010 as a consequence of the purchase by the Alroy Group of shares previously held by Royal Philips Electronics, and Tower has sold all of its shareholdings in SHL in the year under review. Accordingly, the Shareholder Agreement is currently in effect only between SHL, the Alroy Group and G.Z. Assets and Management Ltd.. Additionally, the Shareholders Agreement provides that any committee of the Board of Directors shall include one (1) of the members of the Board of Directors nominated by the Alroy Group, one (1) member of the Board of Directors nominated by Royal Philips Electronics (such right having been transferred to the Alroy Group as a consequence of the purchase by the Alroy Group of shares previously held by Royal Philips Electronics in 2010) and one (1) of the members of the Board of Directors nominated by G.Z. Assets and Management Ltd. (following the sale by Tower of all of its holdings in SHL in the year under review). The Shareholders Agreement is effective for a period of two (2) years commencing as of November 2011, and shall be automatically renewed for additional two (2) year periods unless either party provides a three (3) months written notice to terminate the Shareholders Agreement.

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

1.3 Cross-Shareholdings

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

2. Capital Structure

2.1 Capital on the Disclosure Deadline

Authorized share capital as of December 31, 2012

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

Issued and outstanding share capital as of December 31, 2012

Number of Ordinary Shares	10,343,801*
par value	NIS 0.01 each
Share capital	NIS 103,438.01

* Excluding 466,759 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 16.

2.2 Authorized and Conditional Capital

General

Under Israeli law, a company's authorized share capital represents the maximum amount of shares which is authorized for issuance by the company. SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"). The issued and outstanding share capital of SHL, as of December 31, 2012, was NIS 103,438.01, divided into 10,343,801 fully paid registered Ordinary Shares (Excluding 466,759 Ordinary Shares held by SHL). Any increase in the authorized share capital is valid as of the date of the approval thereof by the shareholders (with respect to special majority requirements, please refer to Section 6.2 below). Authorized share capital, or any increase thereof is not limited in time. However, the shareholders may, at the General Meeting, cancel authorized but not yet issued share capital, provided that the Company did not undertake to issue shares out of such authorized but unissued share capital. Pursuant to SHL's Articles of Association, the unissued shares are under the sole control of the Board of Directors of SHL who has the authority to allot or otherwise dispose of them on such terms and conditions as it may see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

SHL approved a maximum number of up to 1,056,627 Ordinary Shares (subject to adjustments as set forth in the 2005 Key Employee Share Option Plan, as such term is hereinafter defined) reserved for issuance upon exercise of options that may be granted pursuant to the Option Plans. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 34.

Share Options

The only share options currently outstanding are share options which were granted pursuant to SHL's Option Plans, which are described below.

In September 2000, SHL approved a maximum pool of up to 856,627 Ordinary Shares reserved for issuance upon exercise of Options to be granted pursuant to the now expired 2000 Share Option Plan (the "Option Pool").

In October 2003, due to a tax reform in Israel that changed the tax regime with respect to Options granted to employees and directors, SHL adopted the 2003 Share Option Plan (the "2003 Share Option Plan") for the issuance of Options to employees, directors, consultants and contractors of SHL and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2000 Share Option Plan shall further serve for purposes of the 2003 Share Option Plan. The options are valid for a term of ten (10) years from the date of their grant, subject to early termination due to cessation of employment or service of the option holder. Options issued pursuant to the 2003 Share Option Plan are exercised by either a cash or a net exercise method, at the discretion of the relevant option holder pursuant to a resolution of the Board of Directors of SHL as of November 7, 2010.

In May 2005, SHL adopted the 2005 Key Employee Share Option Plan (the "2005 Share Option Plan"). The maximum number of Ordinary Shares which may be issued under the 2005 Share Option Plan and under any other existing or future share incentive Option Plans of the Company was set at 856,627 Ordinary Shares at the time of adoption of the plan, subject to adjustments as provided in the 2005 Share Option Plan. The exercise price shall be the closing price for an Ordinary Share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors and, pursuant to a resolution of the Board of Directors of SHL as of November 7, 2010, all options issued under the 2005 Share Option Plan are exercised by way of the net exercise method. Options granted under the 2005 Share Option Plan shall vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board of Directors, contingent upon the achievement of certain market

and performance conditions which, unless determined otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The Board of Directors of SHL may in its discretion reduce the relevant performance targets to zero, and has done so in several instances. The options shall expire six (6) years from the date of grant (unless expired earlier under the terms of the 2005 Share Option Plan or the relevant award agreement).

In May 2007, SHL approved the allocation of an additional pool of 200,000 Ordinary Shares which may be issued under the 2005 Share Option Plan and under any other existing or future share incentive Option Plan, bringing the total number of Ordinary Shares available for issuance under any Option Plan to 1,056,627.

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

	Weighted Average exercise price in		Weighted Average exercise price in	
	2012	CHF	2011	CHF
As at January 1	820,853	6.52	895,295	6.85
Granted during the year	207,189	6.91	156,078	6.32
Forfeited during the year	(75,515)	6.96	(227,164)	7.58
Exercised during the year	(26,303)	5.32	(3,356)	5.90
Outstanding at the end of the year	926,224	6.61	820,853	6.52
Vested at December 31	532,648	6.53	444,429	6.44
		Weighted Average exercise price in CHF		Vested
	2012			
Under the 2003 Share Option Plan	269,080	6.03	269,080	
Under the 2005 Share Option Plan	657,144	6.84	263,568	
	926,224	6.61	532,648	

2.3 Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2010, 2011 and 2012, SHL's issued share capital was comprised of 10,527,136, 10,419,589 and 10,343,801 Ordinary Shares, respectively. The foregoing changes in the Company's share capital result from the exercise of share options previously granted under SHL's Option Plans and the repurchase of shares by SHL under its share repurchase plan first approved by the Board of Directors of the Company on March

25, 2008, as increased and extended on August 23, 2011. As part of its approval of the share repurchase program (and its respective extensions and increase), the Board of Directors determined, in accordance with the requirements of the Israeli Companies Law, that the Company had sufficient profits and other surplus (as calculated under the Israeli Companies Law) in order to repurchase its Ordinary Shares traded on the SIX Swiss Exchange and that there was no reasonable concern that the repurchase would prevent SHL from satisfying its existing and foreseeable obligations as they become due. Under the approved repurchase plan (as amended), SHL is authorized to repurchase its own Ordinary Shares traded on the SIX Swiss Exchange, from time to time, in an amount of up to an equivalent of US\$4,000,000 (including all shares repurchased following the initial March 25, 2008 approval). The Board originally approved an initial repurchase period lasting up until June 30, 2008, and has since extended the duration of the share repurchase program several times, the latest such extension applicable to share repurchases made up until March 31, 2013. Each extension was made under reaffirmation by the Board that such repurchase by the Company of Ordinary Shares continues to satisfy the requirements of the Israeli Companies Law (as described above).

2.4 The Ordinary Shares

General

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

Liquidation and Dividend Rights

In the event of SHL's liquidation, after satisfaction of liabilities to creditors, SHL's liquidation proceeds will

be distributed to the holders of Ordinary Shares in proportion to the nominal value of their respective holdings. This liquidation right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. Under the Israeli Companies Law, dividends may be paid out of profits and other surpluses, as calculated under the Israeli Companies Law, or as accrued over a period of two years, whichever is higher, each based on the most recent financial statements of the Company (provided that the date with respect to which such financial statements were prepared does not pre-date the distribution by more than six (6) months); provided, however, that there is no reasonable concern that the payment of such dividend will prevent the Company from satisfying its existing and foreseeable obligations as they become due. Any dividends will be subject to Israeli withholding tax. SHL's Articles of Association provide that the Board of Directors may from time to time declare and cause SHL to pay such dividend as may appear to the Board of Directors to be justified by the profits of SHL. The shareholders entitled to receive dividends are the shareholders on the date upon which it was resolved to distribute the dividends or at such later date as shall be provided in the resolution in question. Accordingly, under the SIS Agreement, each Registered Person is entitled to dividends (for a definition of such terms, please refer to Section 2.6 below).

Voting Rights

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. For additional information regarding voting rights of the Ordinary Shares, see Section "Voting Rights Restrictions and Representations" on page 35.

In case a company purchases its own shares, under the Israeli Companies Law, such shares become dormant and do not confer voting or any other rights so long as such shares are held by the company. As of December 31, 2012, the Company held 466,759 of its own Ordinary Shares.

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

For information on the Shareholders Agreement between certain shareholders of SHL, please refer to the Section on "Significant Shareholders" on page 13.

Duties of Shareholders

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

In addition, under the Israeli Companies Law, the disclosure requirements that apply to an office holder in a public company with respect to a personal interest such office holder may have with respect to an existing or proposed transaction of the company also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns twenty-five (25) percent or more of the voting rights if no other shareholder owns more than fifty (50) percent of the voting rights.

Further, any shareholder participating in a vote on an extraordinary transaction (including a private placement which is an extraordinary transaction) with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest, or the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of the directors and office holders insurance and indemnification), must notify the Company prior to the relevant vote whether or not it has a personal interest in the relevant transaction – if no such notification is made, such shareholder is not entitled to vote and any vote of such shareholder is not counted (for approval requirements in connection with controlling shareholder transactions, please refer to the Section on "Statutory Quorums" below). The same notification requirement applies to (a) shareholders that have a personal interest in

the appointment of an Independent Director (for election of Independent Directors, please see Section 3.1 below); (b) shareholders that have a personal interest in a full purchase offer (for full purchase offers, please see Section 7.1 below), and (c) following the recent Amendment to the Israeli Companies Law, any shareholder that has a personal interest in the approval of the Compensation Policy of the Company (for further details regarding the Compensation Policy, please see Section 3.3 below).

Further, an “interested party” in a private placement (i.e. a holder of more than five (5) percent of the shares of a company or one who may become such holder as a result of the private placement) must promptly disclose any personal interest that he or she may have and any material information known to him or her in connection with such private placement.

2.5 Dividend-right Certificates

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

2.6 Limitations on Transferability and Nominee Registrations

Transfer of Ordinary Shares

Fully paid Ordinary Shares may be transferred freely. Pursuant to SHL’s Articles of Association no transfer of shares shall be registered in SHL’s Register of Shareholders unless a proper instrument of transfer in form and substance satisfactory to the Board of Directors has been submitted to SHL together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered, SHL may continue to regard the transferor as the owner thereof. Any Registered Person who wishes to become registered in SHL’s Register of Shareholders may request SIS to sign a deed of transfer. Pursuant to SHL’s Articles of Association with regard to Ordinary Shares registered in the Register of Shareholders in the name of SIS or any nominee substituting SIS, a written request in a form satisfactory to the Board of Directors from a Registered Person, to be registered in the Register of Shareholders instead of SIS, together with a written confirmation issued by SAG evidencing the registration of such person, including the number of Ordinary Shares registered on such person’s behalf, in the SAG Register, shall also be a proper instrument of transfer.

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

SIS Agreement and Shareholder Registration

SHL is currently party to an agreement with SIX SIS AG (“SIS”, the “SIS Agreement”), according to which SIS agrees to act as a nominee on behalf of any person registered in a Share Register maintained by SIX SAG AG (“SAG”, the “Share Register”). SIS is registered in SHL’s Register of Shareholders as shareholder of all of the issued and outstanding Ordinary Shares. The registration of SIS as shareholder of record is due to certain legal requirements under the Israeli Companies Law requiring a company such as SHL to keep a register of shareholders registering its shareholders of record. Under the SIS Agreement, SIS has irrevocably agreed and instructed SHL to enable each person registered from time to time with the SAG Register (a “Registered Person”) to exercise, on behalf of SIS, with respect to such number of Ordinary Shares registered in the sub register on behalf of such Registered Person, all present and future rights and claims attached to the Ordinary Shares registered in SIS’s name in SHL’s Register of Shareholders. SHL has irrevocably acknowledged and accepted such instruction of SIS that a Registered Person is entitled to exercise all present and future rights and claims attached to the Ordinary Shares with respect to the number of Ordinary Shares registered on behalf of such person in the Share Register.

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

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

2.7 Convertible Bonds and Options

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section “Share Options” on page 14.

3. Board of Directors

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

3.1 Members of the Board of Directors

The Articles of Association provide for a Board of Directors consisting of up to nine (9) members and not less than three (3) members until otherwise determined by simple resolution of the shareholders of SHL. The Board of Directors of SHL currently consists of eight (8) members, of whom two (2) members are independent directors (Ms. Nehama Ronen and Mr. Nissim Zvili) (for further information on Independent Directors, please refer to the following section of this report).

Independent Directors

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

Pursuant to the Israeli Companies Law, to qualify for an appointment as an Independent Director, the relevant candidate must possess either financial and accounting expertise or professional skills (as such terms are defined in rules promulgated under said law), provided that at least one (1) of the Independent Directors appointed possesses financial and accounting expertise. Further, all of the following persons are prevented from serving as Independent Directors: (a) any individual that is a relative of a controlling shareholder (as such terms are defined under the Israeli Companies Law); (b) any individual who has (or any of whose relatives, partners, employer, entities controlled by him, or someone that such individual is directly or indirectly subordinated to has) at the time of appointment or at any time during the two (2) years prior to such individual’s appointment as an Independent Director, any affiliations (including, in general, employment, business and/ or professional relationships, control and/ or service as an office holder) with (i) the Company, (ii) its controlling shareholder(s) at the time of appointment, (iii) a relative of a controlling shareholder at the time of appointment, (iv)

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

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

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

The term of an Independent Director is three (3) years and may be extended by two (2) additional terms of three (3) years each. Independent Directors may be appointed to any additional term beyond their initial three (3) year term as aforesaid only subject to fulfillment of either of the following conditions: (a) one or more shareholders holding one (1) percent or more of the voting rights of the company proposed such additional service period, and the appointment is approved by the general meeting with a majority of votes subject to the following: (i) the votes of controlling shareholders or anyone who has a personal interest in the appointment (excluding a personal interest which is not the result of a relationship with the controlling shareholder) and abstaining votes are not counted; and (ii) the number of votes supporting the appointment (from among those shareholders which are not controlling shareholders or have a personal interest as aforesaid) amounts to more than 2% (two percent) of the overall voting rights in the Company (the Minister of Justice may

determine a different percentage; no such determination has been made to date); or (b) the Board proposed the additional service term of such Independent Director and such appointment is approved in the same way as the appointment for the initial term is approved (see above).

Ms. Nehama Ronen serves her second consecutive term as an Independent Director of SHL until the Annual General Meeting of 2013, and may be re-elected for one (1) additional three year term, subject to the conditions set forth above. Mr. Nissim Zvili serves his second term as an Independent Director of SHL until the Annual General Meeting of 2014, and may be re-elected for one (1) additional three (3) year term, subject to the above.

Executive and Non-Executive Members of the Board

The only executive members of the Board of Directors are Mr. Yoram Alroy, Mr. Erez Alroy and Mr. Yariv Alroy. None of the current non-executive members of the Board of Directors was a member of the management of SHL or of any of SHL's group companies in the three (3) financial years preceding the period under review. The non-executive members of the Board of Directors have no significant business connections with SHL or SHL's group companies. For a description of the family relationship between Mr. Elon Shalev and other members of the Alroy Group, see "Significant Shareholders" on page 13 and "Share Ownership" on page 34.

Current Board Members

The following table sets forth the name, principal position, time of the first election, and the remaining term of office of each member of the Board of Directors:

Name	Nationality	Position	First Election	Remaining Term*
Yoram Alroy	Israeli	Executive member/ President	1987	2013
Elon Shalev	Israeli	Non-executive member/ Chairman of the Board	1987	2013
Erez Alroy	Israeli	Executive member/ Co-CEO	2008	2013
Yariv Alroy	Israeli	Executive member/ Co-CEO	2010**	2013
Ziv Carthy	Israeli	Non-executive member	1997	2013
Nehama Ronen	Israeli	Non-executive member/ Independent Director	2007	2013
Nissim Zvili	Israeli	Non-executive member/ Independent Director	2008	2014
Dvora Kimhi	Israeli	Non-executive member	2010***	2013

* For additional information regarding the election and term of office of SHL's directors please refer to section "Election of Directors and Term of Office" on page 21.

** Mr. Yariv Alroy has previously served on the Board of Directors of the company from 2001 to 2006.

*** Ms. Dvora Kimhi has previously served on the Board of Directors as an Independent (external) Director from 2001 to 2007.

Mr. Hagai Shilo, a non-executive member of the Board of Directors, resigned from his directorship position effective as of April 29, 2012.



Yoram Alroy, President

Yoram Alroy founded SHL in 1987. Commencing in 1987 and until September 2003 he has served as CEO and Chairman of SHL's Board of Directors. As of September 2003 and until the 2011 AGM, Mr. Alroy served both as the President of SHL and the Chairman of SHL's Board. At the 2011 AGM, Mr. Alroy stepped down from his position as Chairman, but continues to serve the Company as President. Prior to founding SHL, Mr. Alroy served for eighteen (18) years as an employee of IBM Israel. After assignment at IBM Europe he was nominated to be a member of IBM Israel's Executive Committee. Mr. Alroy is also a member of the Board of Trustees of the Ofek College for Engineering. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and SHL INT. Nationality: Israeli



Elon Shalev, Chairman of the Board

Elon Shalev is co-founder of SHL, has served as a director of SHL since its inception in 1987 and started serving as the Company's Chairman as of the 2011 AGM. From 1990 to 1993, he was SHL's Chief Operating Officer. Mr. Shalev was the founder of Channel 2 news in Israel and from 1993 to 1995 served as its CEO. From 1996 to 1999, he was Editor in Chief of "Yediot Aharonot", the largest daily newspaper in Israel and from 2000-2001 he was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group. Mr. Shalev serves as a senior advisor to the Saban Capital Group and serves as a director in Partner Communications Company (NASDAQ, TASE: PTNR), leading Israeli provider of telecommunications services (cellular, fixed-line telephony and internet services) under the orange™ brand and was director in several large and well known Israeli firms like Bezeq (the Israeli national telecommunications provider, TASE: BEZQ), Yes (a multi channel satellite broadcast company) and Bezeq International (a long distance telecommunications provider). Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and SHL INT. Nationality: Israeli



Erez Alroy, Co-CEO

Erez Alroy has been an executive manager of SHL since its inception. Prior to holding his current position of Co-CEO, he served as the General Manager of SHL's operation in Israel. Before that he served as SHL's Sales Manager and Vice President of Marketing in Israel. Mr. Alroy holds an MBA from the Hebrew University in Jerusalem. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and SHL INT. Nationality: Israeli.



Yariv Alroy

Yariv Alroy, has previously served as managing director of SHL Telemedicine International and chief operating officer of SHL Telemedicine. Before joining SHL, Yariv Alroy served as a senior partner in a large Israeli law firm. Yariv Alroy holds a degree in law from the University of Tel Aviv. Nationality: Israeli. Mr. Yariv Alroy has previously served on the Board of Directors of the company between 2001 and 2006.



Ziv Carthy

Ziv Carthy has served as a director of SHL since 1997. Between 1994 and 1997 Mr. Carthy served as a member of SHL's executive management team. From 1999 to 2000 Mr. Carthy was the COO of GTEKO (a software firm). From 2001 to 2003 he was the CEO and co-founder of GUI Machine Inc., a software company, which was acquired by SAP AG. Between 2003 and 2007 Mr. Carthy held leadership positions in SAP AG in the US. His recent roles were Senior Vice President in the ERP Group, and Vice President of Developer Programs. Between 2007 and 2010, he was the General Manager of Time To Know, Inc. – an educational technology firm. In addition he served as a consultant and a Board member for technology startups in the Silicon Valley and Israel. Mr. Carthy holds an MBA from Harvard University, and a B.Sc. in Engineering from the Technion in Haifa, Israel. Nationality: Israeli.



Nehama Ronen – Independent Director

Nehama Ronen joined the Board of Directors of SHL as an Independent Director in 2007. Ms. Ronen is currently the chairperson of Maman Cargo Terminals & Handling Ltd.

and of the Recycling Corp., both in Israel. In addition, Ms. Ronen currently serves as a director in Bank Hapoalim, Israel's largest bank and in Logisticare Ltd. Ms. Ronen previously served as a board member in other well known Israeli corporations such as Kamur Ltd. and Bazan Oil refineries Ltd., Israel's largest oil refinery. From 2001 to 2003 Ms. Ronen was a member of the Israeli parliament and from 1996 to 1999 she was the Director General of the Israeli Ministry of the Environment. In addition Ms. Ronen was a member of the presidency of the Israeli Chamber of Commerce. Ms. Ronen holds a BA in Education and History and an MA in Public Administration, both from Haifa University. Nationality: Israeli.



Nissim Zvili – Independent Director

Nissim Zvili joined the Board of Directors of SHL as an Independent Director in 2008. Mr. Zvili currently serves as the President of Alstom Israel, as the local representative of the French global infrastructure

group. From 1992 to 1999 Mr. Zvili served as a member of the Israeli parliament, and from 1992 until 1998 he also performed the function of the secretary general of the Israeli Labour Party. Mr. Zvili was appointed as the Israeli ambassador to France in 2002, in which position he served until 2005. Mr. Zvili's educational background includes the graduation from Agricultural High School in Nahalat Yehuda, as well as courses in political science at Bar Ilan University, and courses in public administration at Oxford and Cambridge Universities. Mr. Zvili has previously served on the Board of Directors as an Independent director from December 2001 until November 2002. Nationality: Israeli.



Dvora Kimhi

Ms. Kimhi served in the past as an Independent (external) director of the Company for two (2) consecutive three (3) year terms ending in 2007. Ms. Kimhi is currently VP for legal and regulation affairs for Israel's

Channel 10 TV station and serves as a Board member at Ananey Communications Ltd. Ms. Kimhi holds an LL.B from Tel-Aviv University. Ms. Kimhi specializes in contract law, communication regulation and legislative representation for television, satellite and communication companies. Nationality: Israeli.

3.2 Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, all members of the Board of Directors, except the two (2) Independent Directors (who are to be elected as described above), are elected individually at the Annual General Meeting of the shareholders by a vote of the holders of a majority of the voting power represented at such meeting to serve until the next Annual General Meeting. All directors of SHL, except for the Independent Directors - who may only serve three (3) three-year terms (please refer to the description above) - may be re-elected with no limit.

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

In addition to the foregoing, a person which is a candidate to be a director of a company is required to disclose to the company, amongst others, whether the enforcement committee instituted under the Israeli Securities Law has imposed certain enforcement measures on such person preventing it from serving as a director in a public company, so long as the applicable period of restriction imposed has not yet lapsed. If sanctions were imposed which prohibit service as a director in a public company, then (a) the

relevant candidate will not be appointed as a director; and (b) the service of any person already serving as a director will immediately terminate with submission of notice regarding such enforcement measures by the relevant director.

Pursuant to the Shareholders Agreement (for a complete description of the Shareholders Agreement, please refer to the Section on “Significant Shareholders”, on page 13) currently in effect between SHL, the Alroy Group and G.Z. Assets and Management Ltd., the aforementioned shareholders of the Company agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include the respective number of nominees provided under the Shareholders Agreement determined by the Alroy Group and G.Z. Assets and Management Ltd., respectively, for as long as they fulfill the required minimum shareholding requirements.

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

General Manager, and the Chairman is also prevented from serving in any other position in the company or an entity in its control (except service as a director or Chairman of a company under its control.) Shareholders participating in the special approvals as described above must disclose prior to the vote whether or not they have a personal interest – if no such disclosure is made, the votes of such shareholders will not be counted.

3.3 Internal Organizational Structure

Pursuant to the Israeli Companies Law and SHL’s Articles of Association, the Board of Directors is ultimately responsible for the general policies and management of SHL. The Board of Directors establishes the strategic, organizational, accounting and financing policies of SHL. Specifically, the Board of Directors of SHL reviews, discusses and approves the quarterly financial statements of the Company, and is updated on a regular basis regarding the development of SHL’s business.

The Board meets at least once each quarter. Topics addressed in the meetings include the strategy, business reviews and major projects, investments and transactions. Each of the Board Committees conducts its meetings according to the needs of the relevant Board Committee. The Chief Executive Officers and the Chief Financial Officer of the Company are invited to all meetings and regularly attend. The Board of Directors invites from time to time its external legal counsel to participate in meetings, as it deems necessary.

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

- determine SHL’s plans of action, the principles for financing them and the order of priority among them;
- examine the financial status of SHL, and set the frame of credit that SHL shall be entitled to acquire;
- determine the organizational structure of SHL and its compensation policies;
- resolve to issue series of debentures;
- prepare and approve the financial statements of SHL;
- report to the Annual General Meeting of the status of SHL’s affairs and of their financial outcomes;
- appoint the General Manager and terminate such appointment, in accordance with the Israeli Companies Law;

- resolve in the matters on actions and transactions that require its approval according to the Israeli Companies Law and the Articles of Association;
- issue shares and convertible securities up to the total amount of the authorized share capital of SHL, in accordance with the Israeli Companies Law;
- decide on a “distribution” as set forth in Sections 307 – 308 of the Israeli Companies Law (including without limitations, dividends and share repurchases);
- express its opinion on a special tender offer, as set forth in Section 329 of the Israeli Companies Law.

Pursuant to the Articles of Association of SHL a quorum at a meeting of the Board of Directors shall be constituted by the presence in person or by telephone conference of a majority of the directors then in office who are lawfully entitled to participate in the meeting. Any director may call a meeting of the Board of Directors upon a seven (7) day notice, unless such notice has been waived by all the directors. The notice of a meeting shall include the agenda of the meeting. Pursuant to the Articles of Association of SHL the Board of Directors may meet and adjourn its meetings according to SHL’s needs but at least once in every three (3) months, and otherwise regulate such meetings and proceedings as the directors think fit. During the year under review the Board of Directors held 11 meetings. The length of such meeting depends on the agenda. Meetings of the Board of Directors may be held telephonically or by any other means of communication provided that each director participating in such meeting can hear and be heard by all other directors participating in such meeting. A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board of Directors. A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a simple majority of the directors then in office who are lawfully entitled to participate in the meeting and vote thereon and present when such resolution is put to a vote and voting thereon. The Board of Directors may also adopt resolutions by unanimous written consents.

The Articles of Association of SHL provide that any director may, by written notice to SHL, appoint another person to serve as an alternate director and may cancel such appointment. Any person that meets the qualifications of a director under the Israeli Companies Law may act as an alternate director. One person may not act as an alternate director for more than one director,

and in a public company a person serving as a director of the company or as an alternate director may not act as an alternate director. However, a director can serve as an alternate director to a member of a committee of the board of directors, provided that the alternate director is not a member of the committee in question; and provided further that in the event the alternate director is to serve as an alternate to an Independent Director, such alternate director shall have financial and accounting expertise or professional skills, dependant on the expertise and skills of the Independent Director such alternate director is supposed to replace. An alternate director to an Independent Director may not be otherwise appointed.

Under the Israeli Companies Law a company is entitled to have several General Managers to be appointed by the Board of Directors who shall be responsible for the day-to-day operation of the company within the limits of the policy determined by the Board of Directors and subject to its directors. In a public company, office holders who are not directors are appointed by the General Manager who may determine the powers and duties of such office holders.

Committees of the Board and Internal Auditor

The Articles of Association of SHL provide that the Board of Directors may delegate any or all of its powers to committees of the Board of Directors as it deems appropriate, subject to the provisions of the Israeli Companies Law. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. Any such committee authorized to execute the powers of the Board of Directors shall include at least one (1) Independent Director. A committee authorized to execute the powers of the Board may only be comprised of members of the Board of Directors. A committee whose powers are limited to providing recommendations to the Board of Directors may be comprised of non members. The Shareholders Agreement, as currently in effect, provides that any committee of the Board of Directors shall include two (2) of the members of the Board of Directors nominated by the Alroy Group, and one (1) of the members of the Board of Directors nominated by G.Z. Assets and Management Ltd. (for a complete description of the Shareholders Agreement, please refer to Section 1.2 above).

Pursuant to the Israeli Companies Law a board of directors may not delegate the following matters to a committee: determination of a general policy; distribution (except for

re-purchase of company shares pursuant to a framework approved by the board); determination of the board's stand on matters that require shareholder approval or on its opinion with regard to a special purchase offer; appointment of directors; issuance of securities (except for issuance to employees pursuant to an option plan approved by the board); approval of financial statements; approval of interested party transactions.

As required under the Israeli Companies Law, the Board of Directors has appointed an Audit Committee, and in addition, pursuant to the recent Amendment to the Companies Law, the Board of Directors has appointed a Compensation Committee. The Board of Directors had also previously appointed a compensation committee in charge of recommendations regarding controlling shareholder compensation (for further details, please see below) (the "Old Compensation Committee"). The committees of the Board of Directors meet regularly and are required to make full reports and recommendations to the Board of Directors. Pursuant to the Israeli Companies Law, the Board of Directors also appointed an internal auditor proposed by the Audit Committee.

Audit Committee – Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent Directors, and a majority of its members must be Independent (autonomous) Directors (i.e. either (i) Independent (external) Directors as set forth above, or (ii) such persons which fulfill all of the requirements applicable to Independent (external) Directors, except special financial or professional qualifications, as confirmed by the Audit Committee, and who have not served as a director of the company for more than nine (9) years in a row). The following persons may not be members of the Audit Committee: (a) the Chairman of the Board of Directors; (b) any director employed by the Company; (c) any director employed by a controlling shareholder of the Company or an entity under the control of such controlling shareholder; (d) any director who provides services, on a regular basis, to the Company, a controlling shareholder or an entity under the control of a controlling shareholder; (e) a director whose main livelihood is based on a controlling shareholder; and (f) a controlling shareholder or any of its relatives. Subject to limited exceptions, any person who could not be a member of the Audit Committee may not be present at its meetings. The Chairman of the Audit Committee shall be an Independent (external) Director not serving

for more than nine (9) years. The legal quorum for any meeting of the Audit Committee shall be a majority of its members, provided that the majority of those present shall be Independent (autonomous) Directors (see description above), and further provided that at least one (1) Independent (external) Director shall be present.

The role of the Audit Committee includes, amongst others, the following: (a) to examine flaws in the business management of the Company, in consultation with the Internal Auditor and the independent accountants, and to propose remedial measures to the Board of Directors; (b) to determine whether an interested party transaction is an ordinary or extraordinary transaction (where extraordinary transactions are subject to heightened approval requirements) (for special approval requirements with respect to controlling shareholder and director engagement terms, please refer to the Section on "Compensation, Shareholdings and Loans" below); (c) to approve interested party transactions, where so required under the Israeli Companies Law; and (d) to examine the existing internal control measures of the Company and the functioning of the Internal Auditor (see below). The Audit Committee meets from time to time when deemed necessary. During the year under review it held 1 meeting.

Currently, the Audit Committee is composed of the following members: Ms. Dvora Kimhi, Ms. Nehama Ronen and Mr. Nissim Zvili.

Compensation Committee – Pursuant to the recent Amendment to the Israeli Companies Law, an Israeli public company is obligated to appoint a Compensation Committee, which shall be comprised of at least three (3) members and of which all Independent (external) Directors shall be members and constitute a majority. The remaining members of the Compensation Committee shall be such whose engagement terms correspond to the rules of compensation set forth under applicable regulations under the Companies Law with respect to Independent (external) Directors. Persons who may not be members of the Audit Committee (see description above) may also not be members of the Compensation Committee. The Chairman of the Compensation Committee shall be an Independent (external) Director not serving for more than nine (9) years.

The role and authority of the Compensation Committee shall include (a) the issuance of a recommendation to

the Board of Directors regarding the Compensation Policy, (b) issuance of a recommendation to the Board of Directors once every three (3) years regarding the extension of the Compensation Policy; (c) recommendation to the Board of Directors from time to time regarding any amendments to the Compensation Policy, as well as examination regarding its implementation; (d) approval of transactions with office holders (including controlling shareholders) regarding the terms of their engagement with the Company as required under the Israeli Companies Law; and (e) exemption of certain transactions from the shareholder approval requirement which may otherwise apply pursuant to the Israeli Companies Law, following the recent Amendment.

The current members of the Compensation Committee are Ms. Nehama Ronen, Ms. Dvora Kimhi and Mr. Nissim Zvili.

Old Compensation Committee – the Board of Directors had previously appointed, prior to appointment of the Compensation Committee pursuant to the Amendment (see above), a compensation committee composed of the following members: Ms. Dvora Kimhi, Ms. Nehama Ronen and Mr. Nissim Zvili. Such compensation committee was appointed by the Board of Directors for the purpose of referring to it for its recommendations to the Board of Directors all matters regarding the compensation and terms of employment of any of SHL's controlling shareholders who are employed by the Company. Such compensation committee does not have decision making powers. The compensation committee met from time to time when deemed necessary. During the year under review it held 1 meeting. With the recent Amendment to the Israeli Companies Law, the Old Compensation Committee was replaced by the Compensation Committee (see description above) which has broader authorities.

Pursuant to the Articles of Association, the committees shall, in performing their functions, conform to any regulations imposed on them by the Board of Directors. The meetings and proceedings of any such committee are, *mutatis mutandis*, governed by the provisions contained in the Articles of Association for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors.

Internal Auditor – According to the Israeli Companies Law, neither an interested party nor an officer of the company, any relatives of the foregoing or the external

auditor or anyone on its behalf may serve in such position. The role of the Internal Auditor is to examine, among other things, whether SHL's activities comply with the law and orderly business procedure. Pursuant to the Israeli Internal Audit Law, 1992, in connection with the Israeli Companies Law, the Internal Auditor is authorized to demand and receive any kind of document and/ or information that is in the Company's or its employees' possession, which he deems necessary for the performance of his role, and he is to have access to all databases or data processing programs of the Company. Pursuant to the Israeli Companies Law, the Chairman of the Board of Directors or the Chairman of the Audit Committee may order the Internal Auditor to conduct an internal audit on matters where an urgent need for examination arose. Pursuant to the Companies Law, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings. The Internal Auditor has no decision making powers.

3.4 Definition of areas of responsibility; information and control instruments vis-à-vis senior management

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

- Regularly assessing the achievement of targets set for the Company's business;
- Drawing up detailed corporate policies, strategies and strategic plans within the framework given by the Board of Directors;
- Ensuring the efficient operation of the Company and achievement of optimized results;
- Ensuring that management capacity, financial and other resources are used efficiently.

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

- The CEOs and CFO inform the Board of Directors regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board of Directors and CEOs and CFO as deemed necessary.
- Control over financial management is exercised by the Board together with SHL's external auditors (for further information on the Company's external auditors, please refer to the Section titled "Auditors" on page 38) through quarterly discussions of SHL's results, which

are part of the external auditors' authorization of the Company's financial statements. The Board discusses with the auditors not only the financial statements themselves but also their assessment of the internal controls and whether any material weaknesses have come to the auditors' attention during their audit or review. Additionally, the Company's accountant and CFO are invited to Board meetings where financial statements are discussed and approved.

- SHL has an Internal Auditor (for further information, please refer to page 25 above) who is appointed by the Board of Directors, upon recommendation by the Audit Committee. The Internal Auditor examines the processes and controls of the Company - not only with regard to financial operations, but also with regard to compliance of management with internal and external policies - and conveys his findings to the Audit Committee and the external auditors

4. Senior Management

4.1 Members of Senior Management

The following table sets forth the names and principal positions of those individuals who serve as members of SHL's management as of the disclosure deadline:

Name	Nationality	Position
Yoram Alroy	Israeli	President
Yariv Alroy	Israeli	Co-CEO
Erez Alroy	Israeli	Co-CEO
Eran Antebi	Israeli	CFO
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Yoav Rubinstein	Israeli	Senior Vice-President, Head of Global Business Development
Georg F. von Oppen	German	Managing Director – SHL Telemedizin Germany
Arie Roth	Israeli	Chief Medical Manager

* As of January 1, 2013 Mr. Eyal Lewin no longer holds the position of Co-Managing Director, SHL Telemedizin Germany

Yoram Alroy, President

For additional information see Section "Members of the Board of Directors" on page 17.

Yariv Alroy, Co-CEO

For additional information see Section "Members of the Board of Directors" on page 17.

Erez Alroy, Co-CEO

For additional information see Section "Members of the Board of Directors" on page 17.



Eran Antebi, Chief Financial Officer

Eran Antebi joined SHL in May 2004 as CFO of Shahal Israel. Prior to joining SHL, Mr. Antebi was a Manager with Ernst & Young in Israel. Mr. Antebi is a certified public accountant (CPA) in Israel and has a B.A. in accounting and economics from the Tel Aviv University. Nationality: Israeli.



Irit Alroy, Executive Vice-President and CTO

Irit Alroy has served as SHL's Executive Vice-President and Chief Technology Officer since SHL's inception. Prior to that Mrs. Alroy held different positions in the field of IT development in Israel. Mrs. Alroy holds a B.Sc. from the Hebrew University of Jerusalem, Israel. Nationality: Israeli.



Erez Nachtomy, Executive Vice-President

Erez Nachtomy joined SHL in March 2001 as an Executive Vice President. Before joining SHL, Mr. Nachtomy served as a senior partner (Corporate and M&A) in one of the leading law firms in Israel. Mr. Nachtomy holds an LL.B. from Tel-Aviv University, Israel. Nationality: Israeli.



Yoav Rubinstein - Senior Vice-President, Head of Global Business Development

Yoav Rubinstein joined SHL in March 2012 as Senior Vice President, Head of Global Business Development. Before joining SHL, Mr. Rubinstein worked in the private equity industry, for 9.5 years as a Principal for

Apax Partners and then as a Senior Advisor to Saban Capital Group. Mr. Rubinstein holds a BA in Business Administration from the Interdisciplinary Center, Israel. Nationality: Israeli and American.



Georg F. von Oppen, Managing Director - SHL Telemedizin, Germany

Georg F. von Oppen became Co-Managing Director of SHL Telemedizin in Germany in January 2011. Mr. von Oppen has more than 25 years of experience in Business Development in Mobile Communications in Europe and America. As a Senior Manager he successfully acquired Mobile Communications licenses across Europe and Latin America for BellSouth International. He was furthermore founding Partner of a Consulting Company in the US. Since 2008 Mr von Oppen has been a Partner in the Management Consulting Company MCG in Munich. Nationality: German



Prof. Arie Roth, MD, Chief Medical Manager

Prof. Arie Roth has served as SHL's Chief Medical Consultant since its start of operations. Prof. Roth who received his medical degree from the Sackler School of Medicine of the University of Tel-Aviv, Israel is the director of the Cardiac Intensive Care Unit in the department of cardiology at the Tel-Aviv Sourasky Medical Center, and is a Professor of cardiology in the Sackler Faculty of Medicine, University of Tel-Aviv, Israel. Nationality: Israeli.

Management Contracts

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

In March 2001 SHL entered into a management contract with Erez Nachtomy pursuant to which Mr. Nachtomy is to provide SHL with services as an Executive Vice-President. The aforesaid management contract may be terminated by either party, at any time, by providing the other party ninety (90) days prior written notice.

In January 1990 SHL entered into a management contract with Prof. Arie Roth, pursuant to which Prof. Roth is to provide SHL with services as Chief Medical Manager. The initial term of the aforesaid management contract was for a period of two (2) years and it is thereafter renewable for additional periods of one (1) year each,

unless either party thereto provides the other party with six (6) months advance written notice of its wish not to renew the management contract as aforesaid.

On September 21, 2003, SHL entered into a management services agreement with Alroy Yoram Consulting and Management Ltd., an Israeli based company wholly owned by Mr. Yoram Alroy (who had previously been an employee of the Company) (the "Service Provider"), pursuant to which the Service Provider, through Mr. Alroy exclusively, shall provide SHL with management and consulting services as the President of SHL, which was amended (effective as of the 2011 Annual General Meeting) and approved by the Audit Committee, the Board of Directors and the shareholders of the Company in 2011 pursuant to the provisions of the Israeli Companies Law as then in effect.. The initial term of the aforesaid management agreement ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by Service Provider); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement. For information regarding applicable approval requirements with respect to compensation of office holders following the Amendment, please refer to Section 5.2 below.

On November 30, 2005, SHL entered into management services agreements with T.N.S.A Consulting and Management Ltd. and A.T.A.A Consulting and Management Ltd, Israeli based companies wholly owned by Mr. Yariv Alroy and Mr. Erez Alroy, respectively (who had previously been employees of the Company)(each – a "Service Provider"; together - the "Service Providers"), pursuant to which the Service Providers, through each of Mr. Yariv Alroy and Mr. Erez Alroy, exclusively, shall provide SHL with management and consulting services as the CO-CEOs of SHL, such agreements amended (effective as of the 2011 Annual General Meeting) and approved as amended by the Audit Committee, the Board and the shareholders of the Company in 2011 in accordance with the provisions of the Israeli Companies Law then in effect. The initial term of each of the aforesaid management agreements ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by one

of the Service Providers); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement. For information regarding applicable approval requirements with respect to compensation of office holders following the Amendment, please refer to Section 5.2 below

Effective as of the 2011 Annual General Meeting, the Company entered into a service agreement with an entity controlled by Mr. Elon Shalev (for purposes of this paragraph, the "Service Provider") pursuant to which the Service Provider shall provide services to the Company as the Company's Chairman through Mr. Shalev exclusively. Such agreement shall be in effect for as long as Mr. Shalev shall serve as the Company's Chairman; provided that, pursuant to and following the recent Amendment to the Companies Law, such agreement requires re-approval by the Compensation Committee (instead of the Audit Committee), the Board and the shareholders of the Company once every three (3) years subject to special majority shareholder approval requirements and in accordance with the Compensation Policy (for further information, please refer to the section on compensation of "Senior Management" on page 31 below).

In March 2012 SHL entered into a management service agreement with Mr. Yoav Rubinstein pursuant to which Mr. Rubinstein is to provide SHL with services as Senior Vice-President. The aforesaid management contract may be terminated by either party, at any time, by providing the other party sixty (60) days prior written notice.

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 33.

5. Compensation, Shareholdings and Loans

5.1 Content and Method of Determining the Compensation and of the Shareholding Programs - General

The goal of SHL's compensation schemes is to attract and retain qualified and motivated senior executives, employees and board members and at the same time pay for performance as a guiding strategy.

SHL aims at rewarding those who excel and achieve competitive business results together in keeping with the

Company's values and business culture. The compensation strategy strives to strengthen the performance-oriented culture and reinforce entrepreneurial behavior resulting in contributions that motivated and dedicated employees make to sustain superior business results.

5.2 Compensation Policy

Pursuant to the recent Amendment to the Israeli Companies Law, an Israeli public company is required to adopt a Compensation Policy with respect to the terms of engagement of its officer holders (including without limitations, directors and controlling shareholders engaged as officers of the Company), such Compensation Policy to be adopted by September 12, 2013. The adoption of the Compensation Policy requires approval by the shareholders of the Company, further to approval by the Board of Directors which has to take into consideration the recommendations issued by the Compensation Committee in this respect. The relevant shareholder approval is subject to a special majority requirement of either (a) the majority vote in favor of the resolution including the consent of at least a majority of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who are neither controlling shareholders of the Company nor have a personal interest in approving the Compensation Policy (not including abstaining votes), or (b) the total number of votes of those shareholders described in (a) above and objecting to the adoption of the Compensation Policy not representing more than 2% (two percent) of the voting rights in the Company. Notwithstanding the foregoing, the Compensation Policy may also be approved despite objection by the Company's general meeting in the event that after renewed consideration of the Compensation Policy and based on detailed reasons, both the Compensation Committee and thereafter the Board of Directors resolved that the adoption of such Compensation Policy despite the shareholders' objection is in the Company's best interest.

In the event the Compensation Policy is adopted with respect to a time period exceeding three (3) years, such Compensation Policy requires renewed approval, in accordance with the above, once every three (3) years. In addition, the Board of Directors is required to examine from time to time whether any amendments to the Compensation Policy are necessary in light of changing circumstances or for any other reason, and similarly, the Compensation Committee shall issue recommendations to the Board of Directors in this respect from time to time.

The Amendment provides that the Compensation Policy shall be determined under consideration, amongst others, of the following: (a) furtherance of the Company's objectives, its business plan and policies, with a long term view; (b) creation of adequate incentives for officer holders of the Company under consideration of the Company's risk management policy; (c) size of the Company and the nature of its operations; and (d) with respect to variable compensation components – the contribution of the office holder to the achievement of the Company's targets and increase in revenues, all with a long term view and in accordance with the position of the relevant office holder. Further, the Compensation Policy shall deal with the following matters: (a) education, qualifications, expertise, professional experience and achievements of the relevant office holder; (b) the position of the office holder, his/ her responsibilities and previous engagements signed with him/ her; (c) the relation between the engagement terms of the relevant office holder to the engagement terms of the other employees and/ or subcontractors of the Company and particularly, the relation to the average salary and to the median (i.e. 50th percentile) salary of such employees and the impact of the difference between the foregoing on the working relationships in the Company; (d) in the event officer engagement terms include variable components – the possibility of reducing such components in the discretion of the Board of Directors, as well as the possibility to determine ceilings for the value of variable components which are not paid in cash; and (e) in the event the officer engagement terms include retirement grants – the period of engagement of the office holder, the applicable engagement terms during such time period, the performance of the Company during such period, the contribution of the officer holder to the achievement of the Company's targets and increase of its revenues, as well as the circumstances of retirement. At last, the Compensation Policy must contain the following provisions: (a) with respect to variable compensation components: (i) such must be based on the achievement of long-term performance goals and objectively measurable criteria (although with respect to an immaterial part of such components, the Company may resolve that such shall be granted based on criteria not objectively measurable under consideration of the officer holder's contribution to the Company); and (ii) the proportion between fixed and variable compensation components must be set, as well as a ceiling for the value of variable components at the time of payment (provided

that with respect to variable components which are not paid in cash, a ceiling needs to be fixed at the time of grant); (b) a provision pursuant to which an office holder will repay to the Company any sums paid to him/ her as part of his/ her compensation if such sum was paid based on data which later turned out to be faulted and which was restated under the Company's financial statements, all on such conditions as set forth under the Compensation Policy; (c) a minimum holding and vesting period for variable compensation components in the form of equity, under reference to adequate incentives with a long-term view; and (d) a ceiling with respect to retirement grants.

As of the date of this report, the Company has not yet adopted a Compensation Policy in accordance with the above but is taking steps to do so within the prescribed timeframe, and to review existing office holder engagement terms in connection therewith.

5.3 Approval Requirements Board of Directors

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

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

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

At the AGM, the shareholders of the Company approved the payment of a compensation to the non-executive directors (except the Chairman), or an entity controlled by such director or the shareholder appointing such director, as the case may be, for their service equivalent in amount to that paid to Independent (external) Directors of the Company (see below). The compensation payable to Mr. Elon Shalev (or an entity controlled by him) for his service as the Chairman of the Board was previously approved at the 2011 Annual General Meeting in accordance with the special approval requirements applicable to controlling shareholder compensation terms (see above), all following corresponding approval thereof by the Audit Committee (acting, with respect to Mr. Shalev, also in its capacity as the Old Compensation Committee) and the Board, all in accordance with the Israeli Companies Law as in effect prior to the Amendment. The executive directors are currently not compensated for their service as members of the Board of Directors of SHL. The applicable compensation paid to the directors and the Chairman in the year under review pursuant to the foregoing

is reflected in the table on "Compensation for Acting Members of Governing Bodies" on page 33 below.

The Independent Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto, which compensation is comprised of a fixed annual fee plus a participation fee per each Board or Committee meeting attended. The regulations promulgated under the Israeli Companies Law provide, inter alia, for minimum, "set" and maximum amounts with respect to the annual fee and the participation fee to be paid to Independent Directors, dependent on the relevant company's "rank", as determined based upon the company's shareholders' equity as such appears in the company's audited balance sheet for the preceding year. In the event a public company chooses to pay to the independent directors an annual fee and a participation fee in an amount between the "set" amount and the maximum amount set under the regulations, then such compensation is not subject to approval by the shareholders of the company. The foregoing exception to the shareholder approval requirement does not apply with respect to compensation in the form of securities of the company. The payment of an annual fee in an amount between the "set" and the maximum amount, as well as a participation fee per meeting in the "set" amount, as stipulated under the relevant regulations, was previously approved with respect to Mr. Nissim Zvili (or an entity controlled by him) at the 2011 Annual General Meeting and with respect to Ms. Nehama Ronen (or an entity controlled by her) at the 2010 Annual General Meeting, followed by approval of an adjustment to the fee payable to her for it to be equal to the fees approved with respect to Mr. Zvili in 2011 (pursuant to relevant regulations promulgated under the Israeli Companies Law which require that all Independent Directors are entitled to the same compensation) at the 2011 Annual General Meeting. All of the foregoing terms were approved by the Audit Committee and the Board prior to the requisite shareholder approval (as required under the Israeli Companies Law, prior to the Amendment).

Directors are reimbursed for travel and other expenses related to their capacity as Directors of SHL and are entitled to indemnification and D&O insurance coverage, all as re-approved and confirmed by the Audit Committee, the Board and the shareholders at the 2011 Annual General Meeting pursuant to the Israeli Companies Law as in effect prior to the Amendment.

(For more information on director compensation, see also Section "Compensation for Acting Members of Governing Bodies" on page 33.

Senior Management (other than controlling shareholders)

Pursuant to the Articles of Association the salaries and emoluments of the executives of SHL are currently determined by the Chief Executive Officers. Further, pursuant to the recent Amendment to the Israeli Companies Law, the engagement terms of office holders of the Company which are not directors, controlling shareholders or their relatives, or the CEO of the Company (including indemnification undertakings and officer insurance coverage) require approval by the Board of Directors following approval by the Compensation Committee (whereas prior to the Amendment, approval by the Audit Committee instead of the Compensation Committee was required), and the approval by the Board of Directors and the Compensation Committee shall be in accordance with the Compensation Policy (subject to a limited exception). Notwithstanding the foregoing, the aforesaid engagement terms may also be approved despite objection by the Company's general meeting in special cases in the event such are approved by the Compensation Committee and the Board of Directors after renewed consideration of the relevant terms and based on detailed reasons, after discussion of, amongst others, the objection by the Company's shareholders.

Following the Amendment, the terms of engagement of a CEO of a public company (who is not also a director and not a controlling shareholder or relative thereof) are subject to special approval requirements. However, as the Co-CEOs of SHL are deemed controlling shareholders of the company, their respective engagement terms are currently subject to the approval requirements applicable to engagement terms of controlling shareholders, as set forth below.

Notwithstanding the foregoing, a transaction with an office holder (including the CEO, but excluding controlling shareholders and their relatives) which constitutes a change to existing engagement terms of such office holder solely requires approval by the Compensation Committee in the event that the Compensation Committee resolved that such change is immaterial.

In the year under review, the annual compensation of senior management, other than the President and Co-

CEO's, was comprised of a base salary component, a performance based cash bonus equal to an amount up to several monthly base salaries and share option incentive awards. In addition to the foregoing, all members of senior management were entitled to additional benefits in the form of a company car and a mobile phone.

Base salary and performance based cash bonus were subject to the discretion of the Company's Co-CEOs. Share option incentive awards are subject to Board approval.

Factors taken into account related to the composition of the compensation packages of senior management members in the year under review included seniority of such management members, responsibilities taken on and an analysis of comparative compensation packages based on market conditions for such position in the relevant territory. Such analysis of comparative compensation packages is done in Israel based on surveys published on the web, information disclosed on the TASE of compensation of senior management taking into account relevant parameters such as size, turnover, number of employees, years of experience etc. and discussion with relevant professional HR firms and headhunters as to current market compensation conditions. In Germany such analysis was performed mainly by discussion with relevant professional HR firms and headhunters as to acceptable compensation packages for each relevant position.

Overall, the compensation of senior management in the year under review was comprised, on an average of approximately 74% of a cash base salary and 26% of cash bonuses and share options granted.

Co-CEO's and President

Notwithstanding the foregoing, with respect to the engagement terms of controlling shareholders and their relatives, special approval requirements apply. In general, following the recent Amendment, the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of directors' and office holders' insurance and indemnification), requires the approval of the Compensation Committee (whereas prior to the Amendment, Audit Committee approval was required instead), the Board and the shareholders, and, further to the Amendment, such approval by the Compensation Committee and the Board of Directors shall be made in accordance with the Compensation Policy (subject to a limited exception). Pursuant to the Israeli Companies Law, the shareholder approval must include

at least a majority of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this special majority approval if the total shares of shareholders having no personal interest in the transaction and voted against the transaction do not represent more than 2% (two percent) of the voting rights in the Company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). Certain exceptions exist to the foregoing shareholder approval requirement, provided that the relevant terms have been approved by the Audit Committee and the Board under confirmation that the circumstances triggering the relevant exception exist. Such exceptions include, amongst others, if the monthly salary paid to the controlling shareholder (or its relative) does not exceed the average monthly salary in the market and is reasonable under the circumstances under consideration of the scope of the engagement, the type of position and the qualifications of the controlling shareholder (or its relative) with respect to the performance of the position; provided that no more than two (2) persons may be so employed by the Company under use of this exception at the same time. In any event, controlling shareholder engagement terms which are for a time period exceeding three (3) years require approval in accordance with the foregoing once every three (3) years.

Further, all matters regarding the compensation and terms of employment of any of SHL's controlling shareholders who are employed by the Company, as well as their compensation as directors of SHL, are referred to the Old Compensation Committee for its recommendations to the Board of Directors.

The compensation packages of Mr. Yariv Alroy and Mr. Erez Alroy were amended pursuant to recommendations from outside compensation consultants in 2011, and such amended compensation terms were approved by the shareholders of SHL in accordance with the above approval requirements as then in effect, at the 2011 Annual General Meeting, following recommendations and approval by the Audit Committee (acting also in its capacity as the Old Compensation Committee) and the Board. Further, in accordance with the foregoing, the engagement terms of Mr. Yoram Alroy as President of the Company were amended effective as of the 2011 Annual General Meeting by the relevant organs of the Company.

Overall, the compensation of the Co-CEO's and President in the year under review was comprised, on an average

of approximately 100% of a cash base salary and 0% of cash bonuses and share options granted.

For more information on director and senior management compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies" on page 33).

Shareholding Programs

SHL's Option Plans are reviewed regularly by the Board of Directors for compliance with the Company's compensation goals (for a full description of the Option Plans, please refer to the Section titled "Share Options", on page 14). The grant of share options to employees, directors and consultants of SHL and its subsidiaries is in the sole discretion of the Board of Directors which may determine from time to time and subject to the provisions of the 2005 Share Option Plan, additional grantees of options under the plan and any matter related to the administration of the 2005 Share Option Plan. Notwithstanding the aforesaid, further to the Amendment, should such options be granted to the directors or any of the controlling shareholders as part of their compensation, such grant shall require the approval of the Compensation Committee, the Board of Directors and the shareholders, and with respect to office holders who are not directors, the CEO or controlling shareholders of the Company or their relatives, such grant shall require approval by the Compensation Committee, followed by approval by the Board of Directors, all of the foregoing approvals of the Compensation Committee and the Board of Directors to be made in accordance with the Compensation Policy. Pursuant to the Israeli Companies Law, the qualified majority described above with respect to the approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee is also required for the approval by the shareholders of the grant of share options to the controlling shareholders as part of their compensation.

The vesting of options granted to a particular grantee pursuant to the 2005 Share Option Plan is, with regard to 50% of such options, subject to the achievement of performance goals with regard to the increase of the market price of SHL's shares, and, with regard to the other 50% of such options, subject to performance goals in connection with earnings per share figures. The Board of Directors of SHL may in its discretion reduce the relevant performance targets to zero, and has done so in several instances.

Compensation for Acting Members of Governing Bodies

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

Board of directors

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised	Total
Yoram Alroy	Executive member/ President	See compensation figures in Senior management compensation table			
Yariv Alroy	Executive member/ Co-CEO	See compensation figures in Senior management compensation table			
Erez Alroy	Executive member/ Co-CEO	See compensation figures in Senior management compensation table			
Elon Shalev ¹	Non-executive member / Chairman of the Board	62,208	-	-	62,208
Ziv Carthy	Non-executive member	20,279	-	-	20,279
Nehama Ronen	Non-executive member/ Independent director	20,666	-	-	20,666
Hagai Shilo*	Non-executive member/ Independent director	23,552	-	-	23,552
Nissim Zvili	Non-executive member/ Independent director	18,592	-	-	18,592
Dvora Kimhi	Non-executive member/ Independent director	20,279	-	-	20,279

* Mr. Shilo resigned from his position as a director of the Company, effective as of April 29, 2012. The above compensation figure represents compensation paid to him with respect to the time period up until resignation.

Senior Management

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised ³	Total
Yoram Alroy	President	31,104	²	-	31,104
Yariv Alroy	Co-CEO	519,157	²	-	519,157
Erez Alroy	Co-CEO	519,194	²	-	519,194
Irit Alroy	CTO	183,460	23,328	-	206,788
Other members of senior management ⁴		1,141,933	166,495	285,304	1,593,732

The highest total compensation payable to a member of the governing bodies is to the Company's Co-CEO's Mr. Yariv Alroy and Mr. Erez Alroy.

- 1 Mr. Elon Shalev is the brother-in-law of Mr. Yoram Alroy. Compensation figures represent Mr. Shalev's fees for his service as a director and as the Chairman of the Board.
- 2 Pursuant to their respective engagement terms as in effect in the year under review, (a) Mr. Yoram Alroy is entitled to an annual profit based bonus of up to 3% of the Company's profits before taxes; and (b) each of Mr. Yariv Alroy and Mr. Erez Alroy is entitled to a profit based annual bonus of up to 3.75% of the Company's profits before taxes; provided that the aggregate and joint annual profit based bonus to all of Yoram Alroy, Erez Alroy and Yariv Alroy (the "Service Providers") together shall be equal to 3.75% of the Company's profits. In addition, each of Erez Alroy and Yariv Alroy may be entitled to special bonuses in the sole discretion of the Board in connection with the achievement of quantitative and/ or qualitative goals in accordance with the business plan and budget of the Company, as well as in connection with special corporate events and/ or other special events or occasions as the Board may deem fit, all as approved by, and subject to the sole discretion of, the Board, such Board approval to be made following and subject to corresponding recommendations of the Company's Audit. In any event, the aggregate bonus sums paid to all three Service Providers together (including both the profit based bonus and any special bonuses to Mr. Yariv Alroy and/ or Mr. Erez Alroy as aforesaid and as may be approved by the Board) shall not exceed a cap of US\$1,250,000 per year. The profit based bonus payable to all three Service Providers for 2012 amounts to USD zero.
- 3 Represents the fair value of the share options granted in the year under review based on the binominal share option valuation method or the value of options exercised in the year under review.
- 4 Includes compensation paid to Mr. Eyal Lewin in his capacity as Co-Managing Director - SHL Telemedizin, Germany.

None of the executive members of the Board of Directors received any compensation for their service as directors during the year under review. The aforesaid compensation of Senior Management includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section "Management Contracts" on page 27.

Pursuant to the Israeli Companies Law as in effect prior to the Amendment, the Audit Committee, the Board and the shareholders of SHL re-approved and confirmed the existing directors' and officers' insurance provided, and indemnification undertaking issued by, the Company in favor of its officers and directors (including controlling shareholders) at the 2011 Annual General Meeting. Accordingly, (i) the Company was authorized to renew and/or purchase an insurance policy with respect to all directors and officers, in office from time to time, in a total coverage of up to US\$ 15 million; and (ii) the undertaking by SHL to indemnify all directors and officers, in office from time to time, to the extent and limitations set forth in the indemnification letters issued to such persons, in an aggregate sum of up to USD 15 million was re-confirmed. The grant of insurance coverage and the indemnification undertaking as aforesaid have been approved with respect to the directors elected to office in the year under review at the AGM.

Compensation for Former Members of Governing Bodies

As mentioned in Section 3.1 above Mr. Hagai Shilo, a non-executive director, has resigned from his office effective April 29, 2012. The total compensation paid to Mr. Hagai Shilo for his service as a member of the Board of Directors in 2012 amounted to USD 24 thousands.

Share Allotment in the Year Under Review

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

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2012, by the executive members of the Board of Directors and Senior

Management and parties closely linked to such persons amounted in the aggregate to 2,838,475. For information on options allotted to the Board and senior management, please refer to the section of this report below. Elon Shalev, a non-executive member of the Board of Directors is a member of the Alroy Group. The Alroy Group holds, as of December 31, 2012, an aggregate number of 2,838,475 Ordinary Shares. For information regarding the shareholdings of the Alroy Group, please refer to the Section entitled "Significant Shareholders" on page 13.

Ziv Carthy, a non-executive member of the Board of Director, is a controlling shareholder of G.Z. Assets and Management Ltd., which holds, as of December 31, 2012, an aggregate of 921,533 Ordinary Shares. No other non-executive member of the Board of Directors or parties closely linked to such person hold, pursuant to the Share Register, as of December 31, 2012, Ordinary Shares.

Share Options

Information with regard to Options held pursuant to the Option Plans as of December 31, 2012 by the non-executive and executive members of the Board of Directors and Senior Management and parties closely linked to such persons is as set forth below.

Name	Function	Share Options outstanding at December 31, 2012	Weighted Average exercise price in CHF	Granted during the year	Exercise price of options granted	Vested	Exercised
Yoram Alroy	President	32,560	CHF 6.89	-	-	32,560	-
Erez Alroy	Co-CEO	60,664	CHF 6.02	-	-	40,381	-
Yariv Alroy	Co-CEO	90,904	CHF 5.98	-	-	70,261	-
Elon Shalev	Non-executive member/ Chairman of the Board	-	-	-	-	-	-
Ziv Carthy	Non-executive member	-	-	-	-	-	-
Nehama Ronen	Non-executive member/ Independent director	14,603	CHF 8.50	-	-	14,603	-
Nissim Zvili	Non-executive member/ Independent director	5,604	CHF 8.30	-	-	5,604	-
Dvora Kimhi	Non-executive member	18,000	CHF 7.65	-	-	12,000	-
Eran Antebi	CFO	66,283	CHF 6.82	-	-	47,950	-
Erez Nachtomy	Executive vice president	90,661	CHF 6.37	-	-	60,731	10,000
Irit Alroy	Executive Vice President and CTO	29,118	CHF 5.98	-	-	22,158	-
Yoav Rubinstein	Senior Vice President	100,000	CHF 7.08	85,000	CHF 6.95	10,000	-
Georg F. von Oppen	Managing Director - SHL Telemedizin Germany	50,000	CHF 6.46	-	-	16,667	-
Arie Roth	Chief Medical Manager	15,760	CHF 6.47	-	-	12,427	-

For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section “Share Options” on page 14 above.

As of December 31, 2012 parties closely linked to the non-executive members of the Board of Directors hold 1,413 Options with an exercise price of CHF 5.90 each, pursuant to the Option Plans.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2012 to SHL or to any of its subsidiaries for additional services performed during the year under review which reach or exceed half of the ordinary remuneration of the member in question.

Loans Granted to Governing Bodies

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

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

6. Shareholder Participation

6.1 Voting Rights Restrictions and Representation Restrictions

There are currently no voting-rights and representation restrictions in place. Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SIS Agreement each person registered in the SAG Register is entitled to vote the number of shares registered in his name in the SAG Register. The voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights if authorized in the future, such an authorization requires a majority of sixty-six (66) percent of the voting power present at the General Meeting. The quorum required for any meeting of shareholders is at least two (2) shareholders present in person or by proxy who together hold or represent at least thirty-three and one third (33 1/3) percent of the outstanding share capital. A meeting adjourned for lack of a quorum is adjourned

to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power present and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two (2) shareholders present in person or by proxy, regardless of the number of Ordinary Shares represented.

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

6.2 Statutory Quorums

The following resolutions require a special majority of sixty-six (66) percent of the voting power represented at the shareholders meeting: (a) increase of authorized share capital; and (b) creation of shares with special rights or modifications of share rights. Furthermore, under Israeli law and under SHL's Articles of Association a voluntary winding-up would require a majority of seventy-five (75) percent of the voting power represented at the shareholders meeting. Further, subject to certain exceptions, extraordinary transactions (including a private placement which is an extraordinary transaction) with a controlling shareholder or extraordinary transactions with another person in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of the directors and office holders insurance and indemnification), require the approval of the Audit Committee (or, with respect to compensation terms of controlling shareholders - the Compensation Committee), the Board and the shareholders, as further described above. Pursuant to the Israeli Companies Law, the shareholder approval must include at least a majority of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this special majority approval if the total shares of shareholders having no personal interest in the transaction and voted against the transaction do not represent more than 2% (two percent) of the voting rights in the Company (the Israeli Minister of Justice is authorized to determine a

different percentage; no such rules were promulgated to date). Transactions with controlling shareholders of the kind described above and which are for a time period exceeding three (3) years require approval in accordance with the foregoing once every three (3) years, subject to a limited exception.

6.3 Convocation of the General Meeting of Shareholders

Under SHL's Articles of Association, an Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors. All General Meetings other than Annual General Meetings are called "Special General Meetings".

Not less than twenty-one (21) days prior notice shall be given to any General Meeting and shall be published in one newspaper in Israel and in one newspaper in Switzerland or in accordance with the rules and regulations of the stock exchange on which SHL's shares are listed. However, shareholders may vote on certain matters (such as the election or removal of directors or transactions between a company and any of its officers or controlling shareholders or in which such persons may have a personal interest) by submitting a written ballot with respect thereto (the "Ballot") (but may vote thereon in person or by Proxy). In the event such matters are included in the agenda of a General Meeting then not less than thirty five (35) days' prior notice shall be given. In addition, SHL and SAG will, pursuant to an agreement between SHL and SAG, take all necessary steps to ensure that notices will be sent to the persons registered in the SAG Register. Pursuant to the Israeli Companies Law, the notice of the General Meeting shall include the agenda.

A Proxy must be delivered to the registered office of SHL or to SAG not later than 48 hours prior to the Annual Meeting. A Ballot must be delivered to the registered office of SHL or to SAG not later than 72 hours prior to the Annual Meeting. For the Ballot to become effective: (i) any shareholder whose shares are registered with the Company's registrar of shareholders must enclose a copy of such shareholder's identity card, passport or certificate of incorporation, as the case may be; and (ii) any shareholder whose shares are registered with SAG must enclose a written confirmation from SAG as to its ownership of the voting shares.

The aforementioned regulations also stipulate that any shareholder wishing to state his position with respect to any of the said matters on the agenda may do so by requesting the Company to deliver such position to the other shareholders (the "Shareholder Statement"). The Shareholder Statement must be delivered to the registered office of the Company or to SAG not later than 10 days following the Record Date as such date is determined by the Board of Directors. Shareholder Statement shall be delivered to all shareholders by SAG no later than 5 days following receipt thereof. Should a company elect to state its position with respect to such Shareholder Statement, it shall deliver such position (the "Company Statement") to the shareholders, via SAG, no later than 12 days prior to the Annual General Meeting. Any such Statement must be written in a clear and simple language, and shall include no more than 500 words per subject matter, and a total of no more than 1,500 words. A Shareholder Statement shall detail the identity of such shareholder, as well as his percentage interest in the Company; a shareholder who is a corporate entity shall detail the identity of its controlling shareholder(s), as well as additional holdings (if any) of such controlling shareholder(s) in shares of the Company, to the best knowledge of the shareholder submitting the Shareholder Statement. A shareholder submitting the Shareholder Statement, who acts in consort with others with respect to voting in shareholder meetings, whether in general or with respect to certain matter(s) on the agenda, shall indicate so in the Shareholder Statement, and shall describe the aforementioned arrangements and the identity of the shareholders so acting in consort. Any shareholder (as well as any shareholder acting in consort with such shareholder) having a personal interest in any matter on the agenda, shall describe the nature of such personal interest. Any shareholder may revoke his/hers/its Ballot by submitting a cancellation notice (the "Cancellation Notice"). The Cancellation Notice together with sufficient proof as to the identity of such canceling shareholder, to the absolute discretion of an officer of the Company, must be delivered to the registered office of the Company or to not later than 24 hours prior to the Annual Meeting. Any such shareholder submitting a Cancellation Notice may only vote by attending the Annual Meeting in person or by Proxy. One or more shareholders holding, at the Record Date, shares representing 5 percent or more of the total voting power in the Company, as well as any holder of such percentage out of the total voting power not held by the controlling shareholder(s), as such term is defined under

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

6.4 Agenda

Pursuant to the Israeli Companies Law, the agenda at a General Meeting shall be determined by the Board of Directors. One (1) or more shareholders who hold no less than one (1) percent of the voting rights at the General Meeting may request that the Board of Directors include a subject on the agenda of a General Meeting that will be convened in the future, on the condition that the subject is one suitable for discussion at a General Meeting. At a General Meeting resolution may be adopted only on subjects that were specified in the agenda for the particular General Meeting.

6.5 Registration in the Share Register

The shareholders entitled to participate in and to vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, such date shall not, pursuant to regulations promulgated under the Israeli Companies Law, be earlier than forty (40) days prior the date of the General Meeting and not later than twenty eight (28) days prior to the date of such General Meeting, or different periods as shall be permitted by applicable law. A determination of shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

Under the Israeli Companies Law, except in certain cases specified under said Law, an acquisition of shares in a public company must be made by a means of a special tender offer if as a result of the acquisition the purchaser would become a twenty-five (25) percent (or more) shareholder, unless there is already a twenty-five (25) percent shareholder (or more). Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become

a forty-five (45) percent (or more) shareholder, unless there is already a shareholder holding more than forty five (45) percent of the voting rights in a company. These tender offer provisions shall not apply to SHL if the rules of the foreign country contain restrictions on the purchase of control in the company, or rules pursuant to which the purchase of any portion of control in the company obligates the purchaser to also make an offer to the public. In any event, if as result of an acquisition of shares the acquirer will hold more than ninety (90) percent of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. Pursuant to the Israeli Companies Law, all of the shares of the minority shareholders will be transferred to the offeror in the event that either (a) such number of shares are tendered to the offeror so that more than ninety-eight (98) percent of the outstanding shares are held by it; or (b) such number of shares are tendered to the offeror so that more than ninety-five (95) percent of the outstanding shares are held by it and more than half of the shareholders that do not have a personal interest in the acceptance of the purchase offer tendered their shares.

As pursuant to Israeli law, shareholders having entered into a voting agreement are considered as holding together any shares held by each of them, the shareholders being a party to the Shareholders Agreement (see Section 1.3 above) (i.e. the Alroy Group and G.Z. Assets and Management Ltd.) have already exceeded the relevant threshold of 25% applicable to the special tender offer requirement, but not the 45% threshold. Consequently, any additional purchases of shares by any of these parties, as well as any sale by any such party to a third party becoming a party to the shareholder agreement, will not trigger the special tender offer provisions stated above for as long as the aggregate holding of all such parties to the Shareholders Agreement remain below the 45% threshold, provided that any purchase exceeding such threshold would trigger the special tender offer requirement, and further provided that any purchase of more than 90% of SHL's voting rights by the foregoing parties will trigger the full tender offer provisions set forth above.

Pursuant to the provisions of the Swiss Stock Exchange Act, any person who by acquiring exceeds the threshold of thirty-three and one third (33 1/3) percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SIX Swiss Exchange must make a mandatory offer to acquire all other shares. Up

until now since SHL is not incorporated in Switzerland, SHL believed that these provisions do not apply. However, a recent amendment has been passed with respect to such mandatory offer rules. As it is currently unclear when such amendment will come into effect, and how it will apply to SHL, SHL is currently in the process of evaluating this issue. For the provisions of the Israeli law, please see below. Pursuant to a Listing Agreement entered into in connection with SHL's initial public offering on the SIX New Market in November 2000, SHL agreed to comply, to the extent possible, with procedural rules and will accept recommendations issued by the Swiss Takeover Board.

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

7.2 Clauses on Changes of Control

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

8. Auditors

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

Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent resolution. SHL's auditors were last re-appointed at the 2012 Annual General Meeting.

Since 2009, Mr. Yaki Buaron (CPA) is the head auditor within Kost, Forer, Gabbay & Kasierer responsible for the auditing of SHL.

8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2012 approximately USD 184 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group.

8.3 Additional Honorariums

In addition, Ernst & Young charged approximately USD 168 thousand for additional services performed for the SHL Group in the field of management consulting, tax

advice, due diligence and other auditing activities. The aforesaid sums include payments made to other member firms of Ernst & Young outside of Israel.

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

The Board of Directors assesses the performance, compensation and independence of the auditors. The Board of Directors annually controls the extent of the external auditing, the auditing plans and the respective programs.

9. Information Policy

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

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

of SHL, (b) any conversion, purchase or sale rights that provide for or permit actual delivery of shares of SHL or conversion or sale rights of SHL, or (c) financial instruments on shares of SHL (options, forward contracts or contracts for difference) which provide for or permit cash settlement. Shares or options acquired under an ESOP do not have to be reported, except if there was an election right whether to receive cash or shares/options, however, any sale of shares or exercise of options acquired under an ESOP must be reported. Reports of transactions are made to SHL's CFO who must then file such reports with the SIX Swiss Exchange.

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

Investor's calendar

Annual general meeting	July 9, 2013
Q1 Results	May 22, 2013
Q2 Results	August 21, 2013
Q3 Results	November 20, 2013

Contact persons for Investor Relations

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