Annual Report 2002

SHL

SHL TeleMedicine Ltd.

Corporate Statement

SHL TeleMedicine Ltd. specializes in developing and marketing technologically advanced personal telemedicine systems, and in the provision of medical call center services to subscribers. Personal telemedicine is the transmission of medical data by individual subscribers from remote locations to a medical call center via standard telephone networks. With the help of sophisticated computer systems, call center medical staff use this data to diagnose and monitor subscribers' health following proprietary guidance protocols, and to respond fast and effectively to their needs.

SHL's personal telemedicine systems are designed to improve quality of care and lifestyle 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. In particular, the company's telemedicine systems can be used to reduce emergency care response times for sufferers of potentially fatal cardiac episodes.

The company maintains international business operations: SHL provides services in the USA through its wholly owned subsidiary Raytel Medical Corporation, a cardiovascular healthcare service provider, in Europe mainly through Philips Telemedicine, a joint venture with Philips Medical Systems, and in Israel.

SHL TeleMedicine's 15-year track record and extensive experience have given the company a leading market position serving a client base of approximately 250,000 long-term clients providing a reliable stream of recurring revenue.

Key Figures (December 31)

All financial units in USD 1,000	**2002**	2001
Employees	**1,389**	732
Sales	**89,804**	30,615
EBIT	**11,655**	9,032
EBITDA	**18,061**	10,830
Net profit	**1,411**	12,056
Total assets	**207,892**	136,231
Shareholder equity	**90,459**	95,073
Working capital	**26,690**	48,305
Gross profit margin	**51.0%**	65.3%

Details per share		
Net profit per share in USD	**0.13**	1.13
Return on equity	**1.6%**	12.7%

Milestones

1987	Company founded
1989	10,000 subscribers
1991	Home Care Center (HCC) introduced
1994	CardioBeeper® CB 12L introduced
1995	30,000 subscribers
1996	Telepress II and TeleDoor® developed
1997	SHL TeleMedicine International Ltd. founded
1998	CardioPocket® introduced
1998	Internet Medical Service developed
1999	CardioPocket® heart monitor wins UK "Millennium Product" award
1999	WatchMan® product named overall winner at IFSEC
2000	CardioBeeper® CB 12/12 introduced, receives FDA approval
2000	Royal Philips Electronics Group purchases 18% equity stake in SHL (September)
2000	SHL completes initial public offering on SWX New Market in Zurich, Switzerland (November)
2001	Multi-channel ECG receiver, Cardio mc Vision 7 and Home Care Center receive FDA marketing clearance
2001	TeleBreather introduced, TelePress III receives FDA approval
2001	Philips Telemedicine joint venture formed with Philips Medical Systems; operations begin in Europe using SHL technology and services
2001	SHL acquires leading Israeli operator of nationwide 24/7 medical call center and house-call service, Bikurofe
2002	Introduction of new Swiss-made Watchman®
2002	Philips Telemedicine start offering SHL's telemedicine solutions in Italy
2002	SHL expands into the USA with acquisition of leading US cardiac monitoring and testing provider Raytel
2002	Personal nutrition service "Thin for Life" launched in Israeli home market

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

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Touching lives with hi-tech solutions

As SHL TeleMedicine Ltd. stands on the brink of another new year I am immensely proud to reflect on the company's transformation during 2002. We turn this corner reshaped as a global force in telemedicine provision, with a significant presence across three continents: SHL products and services now touch the lives of more than 250,000 customers worldwide; our medical call centers process more than a million calls and 800,000 electrocardiograms annually.

This year saw SHL's total revenue increase by 193% to reach USD 89.8 million, generating pretax profits of USD 13.4 million and earnings per share of USD 0.13. Our results reflect nine months' revenue from Raytel after its acquisition at the end of the first quarter.

Telemedicine – the transmission of medical data via a standard telecommunications network by an individual patient in a remote location to a medical monitor center – is making an increasingly marked impact on modern healthcare. Compared with traditional methods it offers a higher level of care at lower cost, it empowers subscribers to become more actively involved in looking after their own health, it is particularly effective in reducing emergency response times for sufferers of potentially fatal cardiac episodes and it can save lives. In other words, it makes a real difference to real people with real health concerns, every day.

At SHL, we never forget this is our driving purpose, paramount throughout all our business operations and the reason behind our success. It is with pride that we now find ourselves able to offer international telemedicine solutions, true to SHL's demanding standards of hi-tech innovation, quality, flexibility and reliability.

The past year witnessed many changes for SHL. The addition of Raytel to our stable brought strength and tremendous potential in the vast North American market – Raytel's extensive operations will serve as a working platform from which to extend our penetration of what is the world's biggest healthcare market. In Europe, Philips Telemedicine expanded its services in Germany and started offering

SHL cardiac monitoring services in Italy – the joint venture with our valued partner Philips is poised for growth in 2003, having established cooperation with leading medical institutions throughout its territories, gathered highly respected regional cardiologists to its Medical Advisory Board and put in place relevant regulatory and organizational structures.

In Israel our flagship telemedicine operation has enjoyed steady success, achieving solid growth during the year despite a challenging political and economic situation. It is currently offering a new body-weight monitoring service to the overweight population. Built around existing SHL technologies, “Thin for Life” illustrates the adaptability of our core systems to support leading-edge technological development and product innovation.

Now listed on the main board of the SWX Swiss Exchange, SHL as a group is supporting the growing calls for greater corporate transparency, and we welcome this as an opportunity to publish detailed company information in the “Corporate Governance” section of this Annual Report. Throughout the year we have continued to benefit from the firm backing and valuable support of partners and shareholders, whose trust and confidence in our company is greatly appreciated.

As we look towards an exciting future on the international telemedicine stage, SHL remains unshakeable in its determination to move forward with integrity, combining hi-tech expertise with a clear focus for the way ahead: offering fresh, high-quality healthcare solutions to those that need them – around the globe.

Yours sincerely,

Yoram Alroy, Chairman and CEO

SHL TeleMedicine 2002: crossing the Atlantic with Raytel

For SHL TeleMedicine, 2002 was a very exciting year, bringing a tremendous leap in revenue following the integration of a new North American business, Raytel. With the United States operations now contributing fully, the company achieved strong financial results against a solid cash-in-hand balance.

Now firmly established as a global force in telemedicine, SHL's 15 years' experience has laid the foundations for the company's expansion in Europe and across the Atlantic. During 2002, overall revenue increased by 193% to reach USD 89.8 million giving rise to operating profits of USD 11.7 million – a 30% increase compared with 2001. EBITDA and EBIT margins stood at 20.1% and 13% respectively for the 12-month period, while earnings per share were USD 0.13.

Following the acquisition of Raytel the company now operates in two segments. The Telemedicine Services segment which accounted for 58.4% of revenue contributed USD 52.4 million and the Medical Services segment, accounted for 41.6% of revenue contributing USD 37.4 million. Geographically, following the Raytel acquisition, international sales , now account for some 64% of revenues. Device sales represent 17.7% of total revenues compared with services revenues of 82.3%.

SHL remains committed to a rigorous program of research and development to ensure the highest possible quality of its products and systems.

International expansion – a new beginning

Following the Raytel acquisition, 2002 saw SHL's international client base expand dramatically to 250,000 customers and subscribers. Now providing telemedicine services across three continents, the company's product range has also expanded to encompass Raytel's market-leading services in the USA, including Pacemaker, Holter and Arrhythmia cardiac monitoring and cardiology outpatient diagnostic and imaging services. Backed by strong distribution channels among leading pacemaker and cardiac technology manufacturers as well as 10,000 cardiologists and physicians, Raytel has added more than 170,000 patients to SHL's established client base.

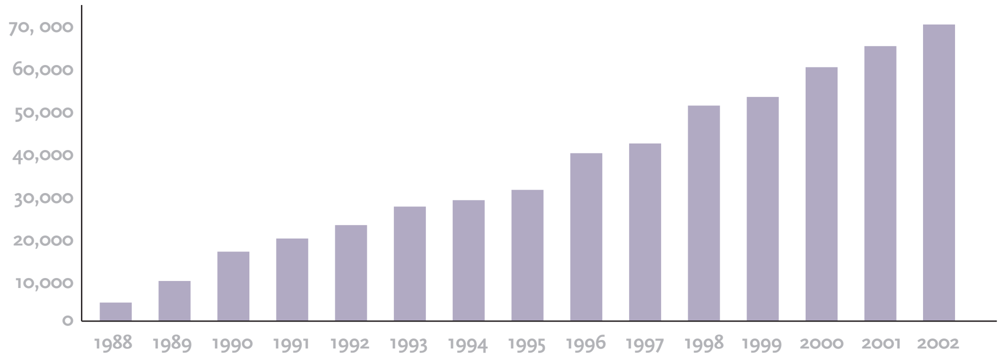
The company's European business also progressed during the year. Backed by Netherlands-based Royal Philips Electronics, which also owns 18.6% of SHL TeleMedicine's Swiss-quoted shares, Philips Telemedicine operates as a joint venture owned by SHL and its partner Philips Medical Systems. In 2002 the venture expanded to offer its telemedicine services in Italy – Philips Telemedicine now offers SHL products, 24/7 monitoring, and diagnostic services for heart patients in three European countries (Switzerland, Germany and Italy).

In Israel SHL extended its services, achieving growth in the number of its private subscribers as well as institutional customers despite a challenging economic climate. By the end of the year the Israeli medical monitor center had expanded to serve the needs of more than 70,000 subscribers.

Product highlights

Particularly important during the year was the launch in Israel of a new and unique SHL service aimed at combating obesity and the various health problems associated with weight excess. Utilizing the TeleWeight monitoring device, the "Thin for Life" method offers a long-term aid to weight loss

Leadership position in the home market



Number of customers

and maintenance that has attracted an encouraging number of initial subscribers among the Israeli population. Destined for SHL's international market, the company believes "Thin for Life" demonstrates excellent potential to become an important healthcare management tool in a world in which obesity – currently affecting 1.1 billion people globally – is increasing annually. Already it is estimated that more than 61% of Americans, 50% of Europeans between the ages of 35 and 65, and 57% of adults in Israel are overweight.

New products released during 2002 include a Swiss-made WatchMan® device, a multifunctional waterproof wristwatch also capable of facilitating rapid, hands-free two-way communication, and an updated version of the TelePulse Oximeter.

International operations will continue to be the major contributor to overall business.

SHL remains committed to a rigorous program of research and development to ensure the highest possible quality of its products and systems. During 2002 the company spent approximately USD 1.7 million, or 1.9% of total revenue, on R&D projects; SHL intends to increase its investment in R&D in 2003, with several pipeline products due for launch during the next two years including a new blood measurement device, and a technologically advanced electrocardiogram monitoring device.

Looking ahead – 2003 and beyond

Now a truly international force in telemedicine provision and innovation, SHL looks forward to an exciting future. International operations will continue to be the major contributor to overall business, with Raytel serving as an effective US platform for SHL products and services. The company remains committed to continuing its international expansion mainly in North America and Europe but also to maintaining and extending its leading market share in Israel – the steady success of the Israeli telemedicine operation continues to underpin SHL's business as a durable and effective model, offering flexibility and reliability as well as the opportunity to test new products and services.

Organic growth, selective acquisition, and a clear strategy of forming valuable links with strong partners will continue to carry SHL forward towards new horizons, while an undiminished determination to stay at the forefront of technological advance will ensure an expanding range of high-quality innovative products which are second to none.

Above all, the company remains committed to its central purpose: exploiting the opportunities offered by leading-edge technology to make a real difference to the everyday lives of those who rely on SHL's telemedicine products and services; and it is this determination which above all will shape SHL's future – internationally.

Healthcare excellence as a springboard for expansion

The year 2002 brought great change for SHL TeleMedicine Ltd.: the company expanded to encompass a flourishing US business and emerged as a significant entity in the world-wide telemedicine arena. Co-Presidents Erez and Yariv Alroy discuss their company's year.

What were the highlights of 2002 for SHL?

Yariv Alroy: For SHL, 2002 was a particularly exciting year, as it brought the company's entry into the US marketplace. The acquisition of Raytel – an established healthcare company with more than 28 years of cardiac monitoring experience – was an important step forward. From now on, our business will be dominated by overseas earnings, and with more than 250,000 customers spread over three continents, SHL has really come of age as a significant international force in the global telemedicine marketplace. Although the acquisition and integration of Raytel dominated much of SHL's year, progress was made by the joint venture with our strategic partner Philips Medical Systems as Philips Telemedicine consolidated its business across the European region. Also, the Israeli operation performed well, with subscriber numbers increasing. Overall, SHL improved profitability to operate efficiently despite the difficult conditions affecting worldwide economies. Driven by our international expansion, total revenue for the full year increased 193% to USD 89.8 million, generating operating profits of USD 11.7 million compared with USD 9 million last year.

What is SHL TeleMedicine's role within the telemedicine industry?

Erez Alroy: SHL is a fully integrated telemedicine service and technology company, specializing in the design of user-friendly yet sophisticated devices to create a complete, modular system. Our model, with the medical call center services at its core, can be easily adapted to meet the needs of many medical conditions, not only the cardiac and respiratory conditions on which we have concentrated until now. SHL devices are capable of measuring and transmitting complex physiological parameters, but they are convenient and easy to use, even for the elderly and the chronically ill.
The sense of security generated by an effective telemedicine service can transform the way people live, enhancing quality of care for sufferers of serious health conditions, reducing worry and stress for subscribers and their families, and offering a greatly improved quality of life through peace of mind.
SHL's services are a real solution for long-term sufferers of chronic diseases, as well as for people in good health who are concerned to remain so and the elderly or infirm who would find comfort in an emergency communications system.

What has been the secret of your success?

Yariv Alroy: SHL remains firmly committed to its goal of making a real difference to the everyday lives of those who have come to depend on the peace of mind SHL products and services can bring – and this determination, backed by hi-tech expertise and a clear focus, is paramount in driving our business forward.
Our original domestic operation remains a flagship: it is a proven business model that can be replicated and adapted across the world, building a series of long-term client bases to provide a reliable stream of recurring revenues. The unique experience of successfully building, equipping and running this center around a state-of-the-art technological infrastructure has given SHL a leading position at the forefront of telemedicine development; and we never forget that our technologically advanced products and their benefits touch the basic needs of human beings.

How do you plan to grow your business further?

Erez Alroy: SHL's extensive experience is vital as a foundation for growth, and as lower-cost high-quality care solutions are ever more important within the global healthcare industry, we believe the time is ripe for solid organic growth. Consequently, SHL will strive further to increase its share of the US market while increasing US productivity. In Europe, Philips Telemedicine will continue to focus on increasing its client base, offering SHL-brand telemedicine services to a larger number of customers across the region. In addition, we will adhere to our clear strategy of seeking out strong partners offering real benefits to help take our business forward, and we remain prepared to make selective acquisitions in order to progress.

You mention the Raytel acquisition – what benefits did this bring?

Yariv Alroy: The acquisition of Raytel brought enormous benefits to SHL, providing an "instant" entry into the US healthcare arena. With a customer base of more than 170,000 across two business segments, almost 30 years' medical monitoring and diagnostic experience, plus strong established links with the North American medical profession including 10,000 cardiologists and physicians, Raytel is very valuable to SHL.

Erez Alroy: Now fully integrated within our business, Raytel will continue to operate in the USA under its recognized brand name. Raytel Cardiac Services provides remote, transtelephonic cardiac monitoring services, with strong distribution channels in the US healthcare industry. Raytel Diagnostic Services operates outpatient diagnostic facilities, providing cardiovascular nuclear cardiology diagnostic and imaging services.

"SHL's services offer a greatly improved quality of life through peace of mind – they are a real solution."

Erez Alroy, Co-President

Yariv Alroy and Erez Alroy: Co-Presidents of SHL TeleMedicine

Raytel's Headquarters, Windsor, Connecticut, USA

How important is the US telemedicine market?

Yariv Alroy: The potential market for telemedicine in the USA is vast: in 2003, costs associated with heart disease are estimated to reach USD 351.8 billion*. Congestive heart failure alone affects almost 5 million Americans, costing more than USD 24.3 billion*. As such, the USA represent a significant opportunity for SHL, especially as the healthcare sector is increasingly receptive towards telemedicine.

What is SHL's domestic business strategy?

Erez Alroy: In Israel our growth strategy is clearly focused on maintaining and extending market leadership in the field of telemedicine. The company aims to maximize cross-selling capabilities across an increasingly extensive customer base as well as leveraging a considerable technological lead. In addition, the company is reviewing new applications for telemedicine services in healthcare fields other than cardiology.

What is SHL's market focus?

Yariv Alroy: From the start, SHL identified chronic disease as its primary target, with particular focus on cardiovascular disease: a market that includes coronary heart disease, congestive heart failure, hypertension, arrhythmia, and stroke, altogether affecting about 57 million Europeans and 60 million Americans. In this market there is great scope for SHL products and services to continue to improve the quality of available healthcare and at the same time cut hospitalization costs. Remote monitoring can shorten time-to-treatment considerably and reduce irreversible damage to the heart muscle, greatly improving a patient's chances of survival.

"The acquisition of Raytel brought enormous benefits to SHL, providing an 'instant' entry into the US healthcare arena."

Yariv Alroy, Director and Co-President

Are you also examining opportunities for new markets?

Erez Alroy: Yes indeed. Potentially, telemedicine has very wide applications. We believe there are future market opportunities in applying telemedicine technology to an extended range of health issues. In the USA, Raytel's market-leading Pacemaker, Holter and Arrhythmia monitoring services have already enhanced SHL's high-quality range of technologically advanced products and systems. The modular nature of our monitor center structure gives it unique adaptability, allowing easy modification to accommodate new products designed to deal with other problems as well. In particular for 2003 we are looking at applications in the area of blood testing and anti-coagulation.

SHL's new "Thin for Life" service, aimed at combating obesity and launched in Israel, is a good example of the versatility of the system. Obesity is now recognized as a serious threat to general health in the developed world, and is particularly dangerous for cardiac patients. Studies have shown this condition is becoming increasingly widespread, with more than 100 million Americans (about 60% of the adult population) and half of Europe's adult population between the ages of 35 and 65 estimated to be overweight. In this context "Thin for Life" has excellent potential as an effective tool in healthcare management.

* Source: American Heart Association: 2003 Heart & Stroke Statistical Update, 2002.

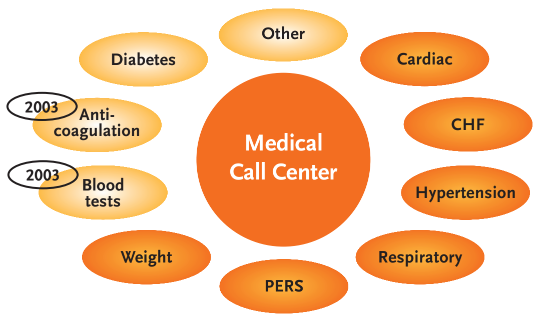
Creating the core system

One system to meet many needs

SHL TeleMedicine is an integrated company providing telemedicine technology and services. Its unique brand of telemedicine allows flexibility and adaptability: from an initial focus on cardiology, the modular structure of SHL's technology offers extensive opportunities for a wide range of new healthcare and personal security telemedicine applications.

It is the modular nature of the SHL system that makes it particularly adaptable to allow the easy integration of new applications and services. Bespoke software modules, developed exclusively by SHL TeleMedicine, are used to receive, display and measure end-user data transmitted via the company's devices.

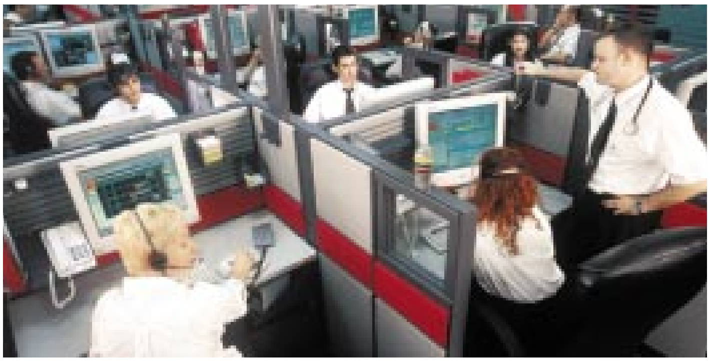
SHL's personal health management growth platform



Already supporting services concerned with cardiology including event and pacemaker monitoring, congestive heart failure, hypertension, respiratory disorders, personal emergency alert, and obesity, the system can easily be modified to accommodate new products in other fields including diabetes, blood testing and therapeutic monitoring.

The heart of the system – the medical monitor center

Central to SHL-brand telemedicine services is the medical monitor center, a real-time link between subscribers and medical aid. Equipped with SHL's user-friendly hi-precision monitoring instruments, at any time of night or day subscribers can get in touch with call center staff, submit complex medical data for analysis, obtain fast and effective emergency aid, or seek advice from informed professionals with their individual medical history available on-screen at the touch of a button.



The medical monitor center

Under the supervision of experienced physicians, SHL TeleMedicine monitor centers are staffed round the clock by trained medical staff who deal directly with incoming subscriber calls. New subscribers undergo a thorough health assessment and electrocardiogram (ECG) testing, the results of which are recorded and serve as a baseline for future comparison. The information is stored electronically at the monitor center and updated each time a subscriber makes a call to the center's medical staff. Callers' computerized personal medical records are immediately displayed on-screen to aid the medical staff assessment and diagnosis of their condition. If necessary, an ambulance can be dispatched, otherwise the medical staff will advise the caller on an appropriate course of action or simply provide reassurance.

Subscribers who have not called the center within prearranged time periods are automatically contacted, ensuring consistent monitoring patterns and ongoing interaction with SHL staff. Each monitor center maintains close links with the local medical profession, including hospitals and universities – the sharing of detailed medical information can improve significantly the quality of general patient care provided at home and in hospital.

SHL's impressive products and services lineup

Fully integrated with the hi-tech monitor center systems, SHL devices are designed with the user in mind: although they are technologically sophisticated, capable of measuring and transmitting complex physiological parameters, they are also convenient and easy to use during normal daily life.

CardioPocket® CB-250

Many of SHL's cardiac, pulmonary and blood pressure remote monitoring devices are linked to the remote medical call center by the **Home Care Center** (HCC), a desktop unit that acts as a home-based telephone interface for medical diagnostic instruments as well as an emergency response system. The new **WatchMan®**, a waterproof Swiss-made multi-functional wristwatch fitted with integral distress button and microphone, facilitates instant communication with the monitor center. In emergencies, the **TeleDoor®** mechanism enables monitor center staff to unlock doors from a remote location, allowing medical or security personnel access to subscribers in a time of crisis.

WatchMan®

SHL's cardiology range includes the **CardioBeeper® 12/12**, a compact hand-held device facilitating the transmission of a full 12-lead ECG to the monitor center in 12 seconds, and the ECG **CardioBeeper® 12L** transmitter. These devices, cleared for marketing by the FDA, have proved highly effective in enabling remote, real-time diagnosis of ECG abnormalities, including rhythm disturbances, ischemia and heart attacks. The **CardioPocket®**, a sophisticated leather wallet containing a 1-lead rhythm strip ECG transmitter, can be a useful alternative for subscribers at times when they are not carrying the CardioBeeper®.

The **TeleBreather** is a comprehensive system for the continuous remote monitoring of asthma and chronic obstructive pulmonary disease. Specially designed for easy use by children as well as adults, it consists of a compact hand-held measurement device into which the patient breathes to perform the automatic spirometric test simply and easily.

CardioBeeper® 12/12

SHL's product range also features instruments to check other important medical indications, including blood pressure, weight, and bloodstream oxygen levels. The **TelePress III** can read and transmit blood pressure and pulse rates from up to two users in a household. Monitoring devices used to combat congestive heart failure include the **TelePulse Oximeter**, a hand-held instrument that measures oxygen saturation and pulse, emitting an alarm if it detects potentially dangerous low levels. The **TeleWeight** device automatically measures a subscriber's weight and transmits the data to the monitor center. In Israel SHL has recently launched a "Thin for Life" pilot project utilizing the TeleWeight product. Aimed at combating obesity and the various health problems associated with weight excess, the "Thin for Life" method offers a long-term aid to weight loss and maintenance.

TelePress III

SHL's **Internet** technology is capable of providing patients and medical personnel with real-time access to medical information from remote locations via the Internet. Standard industry encryption tools are employed to protect the confidential nature of patients' medical information.

Through its Cardiac Services division, Raytel harnesses more than 28 years' medical monitoring experience to offer a wide range of technologically advanced telemedical services to patients with a variety of needs.

Transtelephonic Pacemaker Monitoring offers routine testing via a standard telephone of implanted heart pacemakers from the convenience of patients' homes. This service, designed to supplement periodic visits by the patient to a physician's office, can provide early detection of device-related complications. Each test takes just a few minutes and is conducted by the patient using a simple-to-operate device on loan from Raytel.

Holter Monitoring is the principal diagnostic procedure for cardiac arrhythmia, or irregular heartbeat. Raytel's digital Holter solution sets the industry standard to ensure the highest possible degree of accuracy and precision. Holter monitoring sessions typically last 24 hours, during which patients are fitted with a recording device with leads attached to their chest to transmit consistently accurate and reliable cardiac arrhythmia data.

Intermittent cardiac arrhythmias can cause a variety of symptoms including palpitations, lightheadedness, shortness of breath, dizziness and syncope, and in these cases, Raytel's **30-Day Arrhythmia Monitoring** service can be most effective. Because the underlying causes of intermittent or infrequent symptoms are difficult to diagnose at any one time, monitoring the patient over a 30-day period can provide significant historical data. Patients are given a pager-sized monitor that they can use to record an ECG whenever their symptoms occur, transmitting the recorded data by telephone to a monitor center. Raytel technicians receive the signal and use the information to prepare a symptomatic ECG data report for review by the patient's physician.

Raytel uses the latest technology to obtain high-quality ECG transmissions, then organizes relevant data into useful information available to physicians when and where they need it.

Raytel has also launched the **INR@Home** service, providing patients requiring long-term oral anticoagulation therapy (medications such as Coumadin®) the ability to test themselves in the convenience of their home.

INR@Home service will make it easier to manage oral anticoagulation therapy patients by reducing complications, lowering the cost of care and improving patient satisfaction.

Information for investors

Capital structure

The issued share capital is divided into 10,663,373 registered shares with a par value of NIS 0.01 each.

Distribution of profits

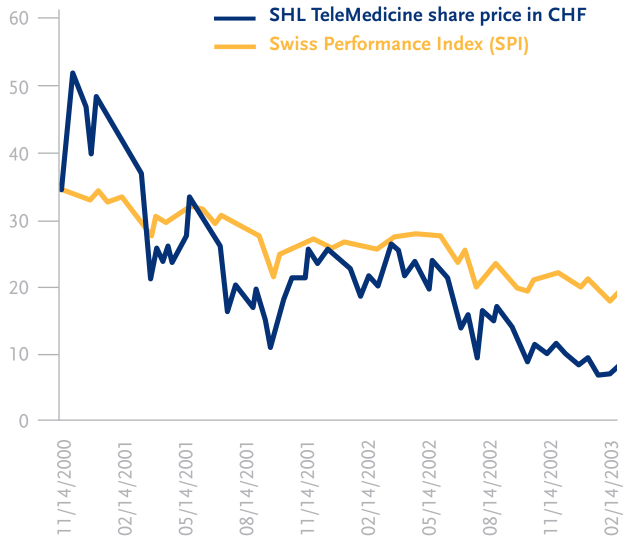
SHL TeleMedicine Ltd. currently intends to retain any future earnings to finance the development of its business and does not anticipate paying any cash dividends in the foreseeable future.

Major shareholders

Shareholders with more than 5% of all shares may be registered. There are no restrictions on voting rights.

Royal Philips Electronics	18.62 %
Alroy Group	18.58 %
Tower Holdings B.V.	14.49 %
G.Z. Assets and Management Ltd.	8.66 %
Public	39.65 %

Share price development



Listing

All SHL shares are listed on SWX Swiss Exchange
Ticker symbol: SHLTN
Currency: CHF
Listing date: November 15, 2000

Statistics on SHL TeleMedicine shares as at December 31, 2002

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,663,373
Market price high/low (CHF)	26.2/6.75
Market capitalization high/low (CHF million)	278.6/71.8
Market capitalization 12/31/02 (CHF million)	76.6
Share capital nominal value (NIS)	106,633
Majority interests	60.35%

Key figures per share as at December 31, 2002

Net profit per share (USD)	0.13
Return on equity	1.6%

Investor Relations

SHL TeleMedicine Ltd.
Erez Alroy, Co-President
Erez Termechy, Vice President & CFO
90 Igal Alon St., Tel Aviv 67891, Israel
Tel. ++972 3 561 2212
Fax ++972 3 624 2414
E-mail erez@shl-telemedicine.com
E-mail erezt@shl-telemedicine.com

Annual general meeting

April 8, 2003

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Corporate Governance 2002

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SHL TeleMedicine Ltd. Corporate Governance Report

For SHL TeleMedicine Ltd., 2002 was certainly an important year – while strengthening operations in Israel and Europe SHL reached out across the Atlantic to enter the North American market with Raytel: we now offer the benefit of SHL-brand high-quality telemedicine products and services to more than 250,000 customers worldwide. Reshaped as a truly international force in telemedicine provision, we are proud to embrace not only the letter but also the spirit of the SWX Swiss Exchange's Directive on Information relating to Corporate Governance. In this "Corporate Governance" section of our 2002 Annual Report we are happy to demonstrate our enthusiasm for greater corporate transparency – we aim to set out a clear and complete picture of how SHL functions in the belief that this knowledge will bring a greater understanding valuable to all those who are interested in the future of SHL.
The principles and rules of SHL on corporate governance are laid down in the Articles of Association of SHL and the Israeli Companies Law, 5759–1999 (the "Israeli Companies Law").
The information presented here is as of December 31, 2002, unless otherwise stated, and complies with the SWX Directive – but we intend it to go beyond what is required as a minimum as we attempt to reflect SHL's respect for its customers, shareholders, partners, and staff, all of whose valued support is vital to the success of our company.
We face the future with confidence and enthusiasm – we hope to take you with us.

Group Structure and Shareholders

Group Structure

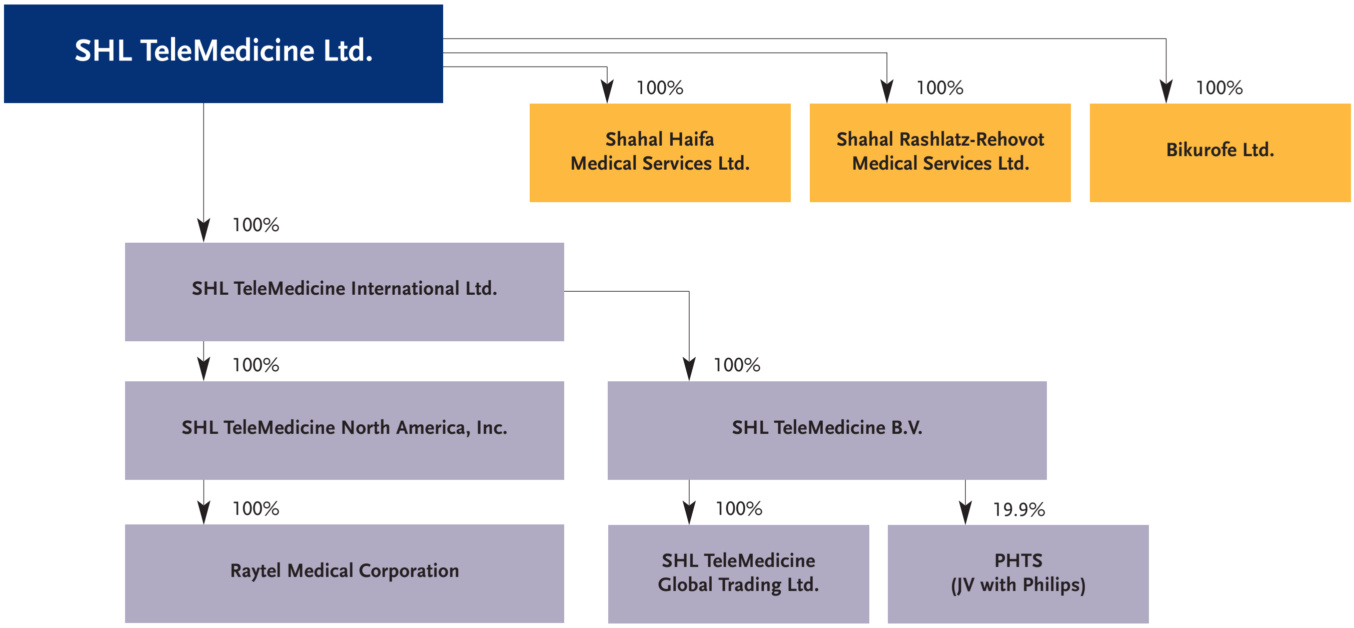
Description of all companies belonging to SHL's group:

Shahal Haifa – Medical Services Ltd. ("Shahal Haifa")
Shahal Haifa's authorized share capital is comprised of NIS 13,000 divided into 12,000 ordinary shares of NIS 1 par value each and 1,000 voting shares of NIS 1 par value each. Shahal Haifa's issued and outstanding share capital is comprised of 100 ordinary shares of NIS 1 par value each and 100 voting shares of NIS 1 par value each, all of which are held by SHL.
Shahal Haifa's registered office is at 90 Igal Alon Street, (Ashdar Building), Tel Aviv, Israel.

Shahal Rashlatz-Rehovot Medical Services Ltd. ("Shahal Rishon")
Shahal Rishon's authorized share capital is comprised of NIS 16,600 divided into 16,600 ordinary shares of NIS 1 par value each. Shahal Rishon's issued and outstanding share capital is comprised of 100 ordinary shares of NIS 1 par value each, all of which are held by SHL.
Shahal Rishon's registered office is at 90 Igal Alon Street, (Ashdar Building), Tel Aviv, Israel.

Bikurofe Ltd. ("Bikurofe")
Bikurofe's authorized share capital is comprised of NIS 1,000,000 divided into 1,000,000 ordinary shares of

SHL's Corporate Chart



NIS 1 par value each. Bikurofe's issued and outstanding share capital is comprised of 12,632 ordinary shares of NIS 1 par value each, all of which are held by SHL.
Bikurofe's registered office is at 14 Rozansky Street, Rishon Le-Zion, Israel.

SHL TeleMedicine International Ltd. ("STI")
STI's authorized share capital is comprised of NIS 101,000 divided into 91,000 ordinary shares of NIS 1 par value each and 10,000 preferred shares of NIS 1 par value each. STI's issued and outstanding share capital is comprised of 8,260 ordinary shares of NIS 1 par value each and 1,740 preferred share of NIS 1 par value each, all of which are held by SHL.
STI's registered office is at 90 Igal Alon Street, (Ashdar Building), Tel Aviv, Israel.

SHL TeleMedicine B.V. ("SHL BV")
SHL BV's authorized share capital is comprised of Euro 7,404,300 divided into 74,043 ordinary shares of Euro 100 par value each. SHL BV's issued and outstanding share capital is comprised of 74,043 ordinary shares of Euro 100 par value each, all of which are held by STI.
SHL BV's registered office is at Stadhouderskade 125 hs, 1074 AV, Amsterdam, The Netherlands.

SHL TeleMedicine North America, Inc. ("SHL N. America")
SHL N. America's authorized share capital is comprised of USD 100,000 divided into 1,000,000 shares of common stock of USD 0.1 par value each. SHL N. America's issued and outstanding share capital is comprised of 1,000,000 shares of common stock of USD 0.1 par value each, all of which are held by STI.
SHL N. America's registered office is at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

Raytel Medical Corporation ("Raytel")
Raytel's authorized share capital is comprised of USD 22,000 divided into 20,000,000 shares of common stock of USD 0.001 par value each and 2,000,000 shares of preferred stock of USD 0.001 par value each. Raytel's issued and outstanding share capital is comprised of 2,988,687 shares of common stock of USD 0.001 par value each, all of which are held by SHL N. America.
Raytel's registered office is at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

SHL TeleMedicine Global Trading Ltd. ("SHL Global")
SHL Global's authorized share capital is comprised of Euro 1,000,000 divided into 1,000,000 ordinary shares of Euro 1 par value each. SHL Global's issued and outstanding share capital is comprised of 1,000 ordinary shares of Euro 1 par value each, all of which are held by SHL BV.
SHL Global's registered office is at Wil House, Shannon Business Park, Shannon, Co. Clare, Ireland.

Philips HeartCare Telemedicine Services Europe B.V. ("PHTS")
PHTS' authorized share capital is comprised of Euro 4,000,000 divided into 400,000 shares of common stock of Euro 10 par value each. PHTS' issued and outstanding share capital is comprised of 81,500 shares of common stock of Euro 10 par value each, out of which 16,150 shares of common stock of Euro 10 par value each (19.9%) are held by SHL BV. The remainder of the issued and outstanding share capital of PHTS is held by Philips Medical Systems International B.V., a subsidiary of Royal Philips Electronics, a significant shareholder of SHL.
PHTS' registered office is at Hurksestraat 2c, 5652 AJ Eindhoven, The Netherlands.

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

Significant Shareholders

Royal Philips Electronics	18.62%
Alroy Group*	18.58%
Tower Holdings B.V.	14.49%
G.Z. Assets and Management Ltd.	8.66%
Public	39.65%

* Alroy Group is comprised of Mr. Yoram Alroy that holds 6.79% of the issued and outstanding share capital of SHL, 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, 6.77% of the issued and outstanding share capital of SHL and Y. Alroy Family Ltd., a private company wholly owned by Mr. Yoram Alroy, Mr. Elon Shalev and members of their family, that holds 5.02% of the issued and outstanding share capital of SHL.

The above table of Significant Shareholders reflects actual holdings in accordance with the register of shareholders as of December 31, 2002, and does not reflect holdings on a fully diluted basis.

There are no cross-shareholdings within the SHL Group.

Capital Structure

Authorized and Issued Capital

Authorized share capital as per December 31, 2002

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

Issued and outstanding capital as per December 31, 2002

Number of Ordinary Shares	10,663,373*
Par value of	NIS 0.01 each
Share capital	NIS 106,633.73

*** Including 29,347 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 20.**

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 is NIS 10,663,373, divided into 10,663,373 fully paid registered Ordinary Shares (including 29,347 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 20). According to the Articles of Association of SHL, any increase of the authorized share capital shall require a resolution approved by a sixty-six (66) percent majority of the voting power of the shareholders represented at the meeting and voting thereon. Any increase in the authorized share capital is valid as of the date of the approval thereof by the shareholders. 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 has not undertaken 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 think 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 856,627 Ordinary Shares reserved for issuance upon exercise of Options which may be granted pursuant to the ESOP. 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 19.

Changes in Capital Structure within the Last Three Financial Years

September 19, 2000
SHL increased its share capital by NIS 137,360, so that following such action SHL's authorized share capital consisted of NIS 140,000 divided into 139,000 ordinary shares of NIS 1.00 nominal value each and 1,000 preferred A shares of NIS 1.00 nominal value each.

September 21, 2000
SHL allotted 208 ordinary shares of NIS 1.00 nominal value each to Vertex I.I.F L.P. ("Vertex") in exchange for Vertex holdings in STI.

SHL allotted 621 preferred A shares of NIS 1.00 nominal value each to Philips Venture Capital Fund in consideration of its investment of USD 38,786,571.

September 25, 2000
SHL allotted additional 86 preferred A shares of NIS 1.00 nominal value each to Philips Venture Capital Fund in consideration of their nominal value as an antidilution protection against the reservation of ordinary shares of SHL for the ESOP.

September 26, 2000
All preferred A shares of SHL were converted into ordinary shares of NIS 1.00 nominal value each.

SHL effected a stock split according to which each NIS 1.00 nominal value share was split into 100 shares, each having a nominal value of NIS 0.01.

7,871,873 bonus shares (Ordinary Shares) of NIS 0.01 nominal value each were issued and allotted to shareholders in order to maintain all pro rata holdings in the share capital of SHL.

November 15, 2000
2,500,000 Ordinary Shares (nominal value NIS 0.01) were issued in a Public Offering.

During 2002, SHL has purchased 29,347 Ordinary Shares from the public on the SWX Stock Exchange. 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 20.

Share Options

In September 2000, SHL adopted an option plan for the issuance of Options to purchase Ordinary Shares to its employees, directors and consultants which was amended in November 2000 (the "Share Option Plan"). In July 2002, SHL adopted the 2002 International Share Option Plan (the "2002 International Share Option Plan") for the issuance of Options to non-Israeli employees, directors, officers and consultants of SHL and any of its subsidiaries (the Share Option Plan and the 2002 International Share Option Plan, collectively the "ESOP"). On September 2000, SHL approved a maximum pool of up to 856,627 Ordinary Shares reserved for issuance upon exercise of Options which may be granted pursuant to the ESOP.

In November 2000, after the completion of the Public Offering, SHL granted to SHL's employees and consultants 496,202 Options to purchase 496,202 Ordinary Shares in the price of CHF 34.00 (the public offering price) under the terms of the ESOP. During 2001, a further 23,340 Options to purchase 23,340 Ordinary Shares were granted under the terms of the ESOP. The aforesaid Options are subject to a four-year vesting schedule which provides for fifty (50) percent of the Options to be vested in the second anniversary of the date of the grant and an additional twenty-five (25) percent to be vested in each of the following third and fourth anniversary of the date of the grant.

During 2001, SHL has granted to employees and consultants additional 97,975 Options to purchase 97,975 Ordinary Shares in the price of CHF 22.65 (the market price at the date of the approval) under the terms of the ESOP. The aforesaid Options are subject to a three-year vesting schedule which provides for one-third (1/3) of the Options to be vested in each of the following first, second and third anniversary of the date of the grant.

Information with respect to the number of Options granted under the ESOP is as follows:

	No. of Options	Exercise Price
Outstanding at beginning of year	519,542	CHF 34.00
	97,975	CHF 22.65
Granted in 2002	0	CHF 34.00
	0	CHF 22.65
Cancelled* in 2002	102,430	CHF 34.00
	0	CHF 22.65
Outstanding at end of year	**417,112**	**CHF 34.00**
	97,975	**CHF 22.65**

*** Options that are cancelled are returned to the pool and may be regranted in the future.**

The Ordinary Shares

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 SIS Segantersettle AG ("SIS"), all issued Ordinary Shares will be booked into the SIS Clearing System.

SNOC Agreement and Shareholder Registration

SHL has entered into an agreement with SNOC Swiss Nominee Company ("SNOC", the "SNOC Agreement") according to which SNOC has agreed to act as a nominee on behalf of any person registered in a Share Register maintained by SAG SEGA Aktienregister AG ("SAG", the "SAG Register"). SNOC is registered in SHL's Register of Shareholders as shareholder of all of the issued and outstanding Ordinary Shares. The registration of SNOC 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 SNOC Agreement, SNOC 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 SNOC, with respect to numbers of such Ordinary Shares registered in the subregister on behalf of such Registered Person, all present and future rights and claims attached to the Ordinary Shares registered on SNOC's name in SHL's Register of Shareholders. SHL has irrevocably acknowledged and accepted such instruction of SNOC 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 SAG Register.

SNOC 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 SAG Register, record ownership of the number of Ordinary Shares registered in the name of such person in the SAG 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.

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, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher, provided, however, that there is no reasonable concern that the payment of 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 SNOC Agreement, each Registered Person is entitled to dividends.

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 28.

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.

Duties of Shareholders

Under the Israeli Companies Law, the disclosure requirements that apply to an office holder 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. Subject to certain exceptions, extraordinary transactions (including a private placement which is an extraordinary transaction) with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, require the approval of the Audit Committee, the Board of Directors and the shareholders. The shareholders' approval must include at least one-third of the shares, of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of shareholders having no personal interest voted against the transaction do not represent more than one (1) percent of the voting rights in the company. Any shareholder participating in such vote is required to disclose, prior to his or her vote, whether he or she has a personal interest in the transaction. Failure to comply with such duty will result in such shareholder not being entitled to vote.

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.

In addition, 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 against other shareholders. In addition, a shareholder may not discriminate 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.

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 SNOC 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 SNOC or any nominee substituting SNOC, 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 SNOC, 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.

Convertible Bonds and Options

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section "Share Options" on page 19.

Board of Directors

The primary duties of the Board of Directors of SHL are defined in the Israeli Companies Law and in the Articles of Association of SHL.

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) until otherwise determined by simple resolution of the shareholders of SHL. The Board of Directors of SHL currently consists of 8 members, of whom the executive members are: Mr. Yoram 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 important business connections with SHL or SHL's group companies.

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	Chairman of the Board of Directors and Chief Executive Officer	1987	2003
Elon Shalev	Israeli	Non-executive member	1987	2003
Yariv Alroy	Israeli	Co-President	2001	2003
James Nolan	Irish	Non-executive member	2000	2003
Tom Egelund	Danish	Non-executive member	2002	2003
Colin Schachat	Israeli	Non-executive member	2001	2003
Ziv Carthy	Israeli	Non-executive member	1997	2003
Dvora Kimhi	Israeli	Non-executive member/ Independent Director	2001	2004

The following table sets forth the name, principal position, time of the first election, and date of resignation/dismissal of the members of the Board of Directors who resigned or were replaced during the year under review.

Name	Nationality	Position	First Election	Resigned on
Uzi de Haan	Dutch	Non-executive member	2000	April 2002
Nissim Zvili	Israeli	Non-executive member/ Independent Director*	2001	November 2002

***For additional information regarding the appointment of a replacing Independent Director, see Section "Independent Directors" on page 23.**

Yoram Alroy, Chairman, and CEO

Yoram Alroy founded SHL in 1987. Since then he has served as CEO and Chairman on SHL's Board of Directors. Prior to founding SHL, Mr. Alroy was Executive Vice President of IBM Israel and was for seventeen (17) years a member of IBM's Israeli executive committee. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Elon Shalev

Elon Shalev has served as a director of SHL since 1987. From 1990 to 1993, he was SHL's Chief Operating Officer after which he served three (3) years as Chief Executive Officer for an Israeli TV News company. From 1996 to 1999, he was chief editor of "Yediot Aharonot", the largest daily newspaper in Israel, and until recently he was a Senior Vice President of Discount Investment Corporation Ltd., one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur. 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 STI. Nationality: Israeli.

Yariv Alroy, Co-President

Yariv Alroy has been on the Board of Directors since 2001. He is also Co-President of SHL. He has been Managing Director of STI since its incorporation in 1997, and prior to that he was Chief Operating Officer of SHL Israel. Before joining SHL, Mr. Alroy served as a senior partner in a large Israeli law firm. Mr. Alroy holds a degree in law from the University of Tel Aviv, Israel. Mr. Alroy is also a member of the Board of Directors of SHL N. America, Raytel and SHL Global. Nationality: Israeli.

James Nolan

James Nolan joined the Board of Directors of SHL as a Director in September 2000. Mr. Nolan is also a Vice President, Corporate Finance, of Royal Philips Electronics N.V. that is a significant shareholder of SHL. From 1995 until 2000 Mr. Nolan served as a corporate finance executive in Rabobank Mergers & Acquisitions. Mr. Nolan holds an MA in law from Oxford University, England, and an MBA from INSEAD, France. Mr. Nolan is also a member of the Board of Directors of SHL Global. Nationality: Irish.

Tom Egelund

Tom Egelund joined the Board of Directors of SHL as a director in April 2002. Mr. Egelund is also a Senior Vice President of Philips Medical Systems, which is a shareholder of PHTS and a subsidiary of Royal Philips Electronics N.V. that is a significant shareholder of SHL. Mr. Egelund holds an MD in Candidatus Medicinae from the University of Aarhus, Denmark, and a diploma in marketing with respect to health care and industry from the University of Aarhus, Denmark. Nationality: Danish.

Colin Schachat

Colin Schachat joined the Board of Directors of SHL as a director in April 2001. Mr. Schachat is also a Managing Director of Stonehage (Israel) Financial Services Limited, and a senior executive director of the holding Stonehage Group. A qualified lawyer with financial services experience, he holds a BA and an LL.B. from the University of Witwatersrand, South Africa. Nationality: Israeli.

Ziv Carthy

Ziv Carthy has been on the Board of Directors since 1997. Between 1994 and 1997 Mr. Carthy served as a member of SHL's management team; since 1997 Mr. Carthy has been acting as CEO of G.Z. Assets and Management Ltd. Mr. Carthy holds a B.Sc. in Information Systems Engineering from the Technion in Haifa, Israel, and an MBA from Harvard University. Mr. Carthy is also a director of the Board of Directors of STI. Nationality: Israeli.

Dvora Kimhi, Independent Director

Dvora Kimhi joined the Board of Directors of SHL as an Independent Director in February 2001. Ms. Kimhi is also General Counsel of Ananey Communications Ltd. From 1997 until 2001 Ms. Kimhi has served as the General Counsel of Noga Communications Ltd. A member of the Israeli Bar Association, she holds an LL.B. from the University of Tel Aviv, Israel, and has specialized in contract law, communication regulation and legislative representation for television, satellite, and communications companies. Nationality: Israeli.

Uzi de Haan

Uzi de Haan became a director of SHL in September 2000 and was replaced by Mr. Tom Egelund on April 2002. Mr. de Haan is also the Chief Executive Officer of Philips, Israel, a subsidiary of Royal Philips Electronics N.V. that is a significant shareholder of SHL. Mr. de Haan holds an IR M.Sc. in Aeronautical Engineering from the University of Delft, Holland, and a D.Sc. in Industrial and Management Engineering from the Technion in Haifa, Israel. Nationality: Dutch.

Nissim Zvili, Independent Director

Nissim Zvili became an Independent Director of SHL in December 2001 and resigned from the Board of Directors of SHL due to his appointment as the Israeli Ambassador to France on November 2002. From 1992 until 1998 Mr. Zvili served as secretary general of the Israeli Labor Party. Mr. Zvili is a former member of the Israeli Parliament, and serves as the chairman of the International Center for Peace in the Mid-East. Nationality: Israeli.

Cross-involvement is indicated in the information regarding each member of the Board of Directors above.

Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, members of the Board of Directors, except the two (2) Independent Directors (who are to be elected as described below), are elected 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.

Pursuant to the Shareholders Agreement (the "Shareholders Agreement") between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., which is effective for a period of five (5) years as of November 2000, and which will be automatically renewed for two (2) year periods, unless either party provides a three (3) months written notice to terminate the Shareholders Agreement, Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., 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 Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and Management Ltd. shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall have the right to nominate two (2) directors as long as it holds at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Notwithstanding the above, Royal Philips Electronics undertook to vote its shares for the appointment of the three (3) nominees of the Alroy Group, during the period on which the shares held by members of the Alroy Group are locked according to relevant lock-up agreements (which expired on November 2002). Thereafter, Royal Philips Electronics shall only be required to vote its shares to the appointment to the Board of (i) three (3) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least twelve-and-one half ($12^1/_2$) percent of the issued and outstanding share capital of SHL; (ii) two (2) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least ten (10) percent of the issued and outstanding share capital of SHL; and (iii) one (1) director nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least five (5) percent of the issued and outstanding share capital of SHL.

Independent Directors

Israeli companies that have offered securities to the public in or outside of Israel under the provisions of the Israeli Companies Law are required to appoint two (2) Independent ("external") Directors. To qualify as an Independent Director, an individual may not have, and may not have had at any time during the two (2) years prior to his appointment as an Independent Director, any affiliations with the company or its affiliates, as such terms are defined in the Israeli Companies Law. In addition, no individual may serve as an Independent Director if the individual's 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. For a period of two (2) years from termination from office, a former Independent Director may not serve as a director or employee of the company in which he serves as an Independent Director or provide professional services to such company for consideration.

The Independent Directors generally must be elected by the shareholders, including at least one-third ($^1/_3$) of the shares of non-controlling shareholders voted on the matter. However, the Independent Directors can be elected by shareholders without this one-third approval if the total shares of non-controlling shareholders voted against the election do not represent more than one (1) percent of the voting rights in the company. The term of an Independent Director is three (3) years and may be extended for an additional three (3) years. 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 is required to appoint an Audit Committee which must comprise of at least three (3) directors, including all of the Independent Directors.

From the date of Mr. Zvili's resignation from the Board of Directors as an Independent Director, Ms. Dvora Kimhi serves as the sole Independent Director in SHL's Board of Directors. The second Independent Director, to replace Mr. Zvili, shall be appointed at the next Annual General Meeting of the shareholders.

Internal Organizational Structure

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.

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 General Manager, 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;
- 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.

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. 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. 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 make 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 a person serving as a director of the company may not act as an alternate director.

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 directions. Office holders who are not directors are appointed by the General Manager who may determine the powers and duties of such office holders.

Under the Israeli Companies Law, the same person may not act as both Chief Executive Officer and Chairman of the Board of Directors of a publicly traded company, unless the shareholders' consent to such service, which, in any event, may not exceed three years from the date of such approval. The service of Mr. Yoram Alroy as both Chief Executive Officer and Chairman of the Board of Directors was approved by the shareholders of the Company on February 2001.

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. 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 and one (1) of the members of the Board of Directors nominated by either Tower Holding B.V. or G.Z. Assets and Management Ltd.

Committees of the Board and Internal Auditor

As required under the Israeli Companies Law the Board of Directors has appointed an Audit Committee. In addition, the Board of Directors further appointed a 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. The Audit Committee may not include the Chairman of the Board of Directors, a controlling shareholder, its relative, or any director who is employed by the company or provides services to the company on a regular basis. Currently, the Audit Committee is composed of the following members: Ms. Dvora Kimhi, Mr. Ziv Carthy and Mr. James Nolan. Prior to his resignation, Mr. Nissim Zvili, was also a member of the Audit Committee, and following the appointment of the Independent Director to replace Mr. Zvili, such Independent Director shall be appointed to the Audit Committee. The role of the Audit Committee is 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. The Audit Committee also reviews for approval transactions between the company and office holders or interested parties.

Compensation Committee – The Board of Directors has appointed a Compensation Committee composed of the following members: Ms. Dvora Kimhi, Mr. Colin Schachat and Mr. Tom Egelund. The 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.

Pursuant to the Articles of Association, the Committee conforms to any regulations imposed on it 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 – The Board of Directors has appointed an Internal Auditor, upon the recommendation of the Audit Committee. 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 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.

Management Board

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

Name	Nationality	Position
Yoram Alroy	Israeli	Chairman of the Board of Directors and Chief Executive Officer
Yariv Alroy	Israeli	Director, Co-President
Erez Alroy	Israeli	Co-President
Erez Termechy	Israeli	Chief Financial Officer
Irit Alroy	Israeli	Executive Vice President of Technology and Development
Erez Nachtomy	Israeli	Executive Vice President
Yoshida Katz	Japanese	Vice President
Bruce A. Reese	American	President and CEO – Raytel Cardiac Services
Swapan Sen	American	President and CEO – Raytel Diagnostic Services
Ronen Elad	Israeli	General Manager of Operations in Israel
Arie Roth	Israeli	Chief Medical Manager

Yoram Alroy, Chairman of the Board of Directors and Chief Executive Officer
For additional information see Section "Members of the Board of Directors" on page 22.

Yariv Alroy, Director and Co-President
For additional information see Section "Members of the Board of Directors" on page 22.

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

Erez Termechy, Chief Financial Officer
Erez Termechy has served as SHL's CFO since 1994. He is a certified public accountant (CPA) in Israel, and holds a BA in economics and accounting from Ben-Gurion University, Israel. Prior to joining SHL he worked as a CPA and controller in diverse fields. Nationality: Israeli.

Irit Alroy, Executive Vice President of Technology and Development

Irit Alroy has served as Manager of Information Technology for SHL since its start of operations. Prior to that Ms. Alroy held different positions in the filed of IT development. Ms. Alroy has 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 the University of Tel Aviv, Israel. Mr. Nachtomy is a member on the Board of Directors of Bikurofe. Nationality: Israeli.

Yoshida Katz, Vice President

Yoshida Katz has joined SHL on May 2002 as Vice President for Business Development. Prior to his position at SHL, Mr. Katz served as Vice President for Business Development for Viven Ltd., an Israeli software house, specializing in mobile communication. Before that, Mr. Katz served in several senior positions in software companies in Israel. Yoshida Katz holds an M.Sc. in Economics from the University of London and a BA in Economics from Waseda University in Tokyo, Japan. Nationality: Japanese.

Bruce A. Reese, President and CEO – Raytel Cardiac Services

Bruce Reese started with Raytel Cardiac Services in April 2002. Prior to joining Raytel Cardiac Services, he was a Vice President with Philips Medical Systems and he has held senior management positions with Hewlett Packard and Agilent Technologies. Bruce Reese has an MBA from Michigan State University. Nationality: American.

Swapan Sen, President and CEO – Raytel Diagnostic Services

Swapan Sen has worked for Raytel Medical Corporation for seventeen (17) years and in 2002 was appointed Chief Executive Officer of Raytel Diagnostic Services. Prior to his current position, Swapan Sen was the COO/President at Raytel. Before joining Raytel, Swapan Sen worked at the University of Pennsylvania for eight (8) years. In addition to a B.Sc. degree in Biology, Mr. Sen holds a M.Sc. degree in Healthcare Administration. Mr. Sen is also involved with many professional/scientific societies in the field of Diagnostic Imaging. Nationality: American.

Ronen Elad, General Manager of Operations in Israel

Ronen Elad was appointed General Manager of Operations in Israel in February 2001. Before joining SHL Mr. Elad founded and acted as General Manager of Rom-Phone, an Israeli emergency systems manufacturer and development company. Mr. Elad has also served as CEO of Marlam Medical Services for four (4) years. Mr. Elad is a member on the Board of Directors of Bikurofe. Nationality: Israeli.

Prof. Arie Roth, MD, Chief Medical Manager

Prof. Arie Roth has served as SHL's Chief Medical Manager since its start of operations. Prof. Roth is a senior member of the department of cardiology at the Tel Aviv Sourasky Medical Center, University of Tel Aviv, Israel, and received a medical degree from the Sacler School of Medicine of the University of Tel Aviv, Israel. Nationality: Israeli.

Management Contracts

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

In March 2001, SHL has 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 be either party, at any time, by providing the other party ninety (90) days prior written notice.

In January 1990, SHL has 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.

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 Section "Compensation for Acting Members of Governing Bodies", on page 27.

Compensations, Shareholdings and Loans

Content and Method of Determining the Compensations and of the Shareholding Programs

Members of the Board of Directors, except for the Independent Directors, do not receive remuneration, in their capacity as such. The Independent Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto.

Pursuant to the Articles of Association, the salaries and emoluments of the executives of SHL are determined by the Chief Executive Officer. Notwithstanding the aforesaid, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment of any of the directors in any other position, and the engagement of a controlling shareholder as an office holder or employee, require the approval of the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee requires either: (i) the majority vote in favor of the resolution shall include the consent of at least one-third ($^1/_3$) 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 (not including abstaining votes), or (ii) the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than one (1) percent of the voting rights in the company.

The grant of share Options to employees of SHL and its subsidiaries is in the sole discretion of the Board of Directors. Notwithstanding the aforesaid, 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 Audit Committee, the Board of Directors and the shareholders. 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.

As mentioned above, all matters regarding the compensation and terms of employment of any of SHL's controlling shareholders who are employed by SHL, are referred to the Compensation Committee for its recommendations to the Board of Directors.

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 executive members of the Board of Directors and the Management amounted in the financial year 2002 to USD 3,362,190. The aforesaid sum 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 26. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.

The total of all compensation payable to the non-executive members of the Board of Directors amounted in the financial year 2002 to USD 28,846. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.

In the financial year 2002, no severance payments were paid to non-executive members of the Board of Directors or members of the Management who gave up their functions during the year under review.

Compensation for Former Members of Governing Bodies

In the financial year 2002, one non-executive director (an Independent Director) and one member of the Management who gave up their functions during the year under review received compensations in the aggregate amount of USD 104,738. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.

No executive member of the Board of Directors gave up its functions during the year under review.

Share Allotment in the Year Under Review

No Ordinary Shares of SHL were allotted to the executive members of the Board of Directors, or of the Management or parties closely linked to any such person during the year under review.

No Ordinary Shares of SHL were allotted to the non-executive members of the Board of Directors or parties closely linked to any such person during the year under review.

Share Ownership

The number of Ordinary Shares held, pursuant to the SAG Register, as of December 31, 2002, by the executive members of the Board of Directors and the other members of the Management and parties closely linked to such persons amounted in aggregate to 1,975,456.

Elon Shalev, a non-executive member of the Board of Director is a member of the Alroy Group. The Alroy Group holds, pursuant to the SAG Register, as of December 31, 2002, an aggregate of 1,975,456 Ordinary Shares. No other non-executive member of the Board of Directors and parties closely linked to such person holds, pursuant to the SAG Register, as of December 31, 2002, Ordinary Shares.

Share Options

The number of Options pursuant to the ESOP held, as of December 31, 2002, by the executive members of the Board of Directors and the other members of the Management and parties closely linked to such persons amounted in aggregate to 251,276 Options.
No Options pursuant to the ESOP are held, as of December 31, 2002, by the non-executive members of the Board of Directors and parties closely linked to such persons.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and the Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2002 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. Two (2) persons closely linked to the members of the Board of Directors and the Management are employees of SHL, with market standard employment agreements. Such persons' total remuneration in the year under review amounted to USD 51,179. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.

Loan 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, members of the 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.

Highest Total Compensation

The highest total compensation (including all employer's contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) payable to an executive member of the Board of Directors amounted in the year under review to USD 865,726. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.
SHL has not issued any Ordinary Shares or share Options to such executive member of the Board of Directors during the financial year 2002.
The highest total compensation payable to an non-executive member of the Board of Directors amounted in the year under review to USD 17,768. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.
SHL has not issued any Ordinary Shares or share Options to such non-executive member of the Board of Directors during the financial year 2002.

Shareholders' Participation Rights

Voting Rights' Restrictions and Representations

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SNOC Agreement each person registered in the SAG Register is entitled to vote the number of shares registered on 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 next Section "Statutory Quorums".

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.

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. 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.

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 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.

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 be earlier than twenty-one (21) days prior the date of the General Meeting and not later than four (4) 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.

Changes of Control and Defense Measures

Duty to Make an Offer

Pursuant to the applicable 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 whose shares are listed on the SWX Swiss Exchange, such person must make a mandatory offer to acquire all other shares. Since SHL is not incorporated in Switzerland, SHL believes that these provisions do not apply. However, it cannot be excluded that the Swiss securities supervisory authority or Swiss courts could rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction. For the provisions of the Israeli law, please see below. Pursuant to the Listing Agreement, 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.

Under the Israeli Companies 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 shareholder, unless there is already a twenty-five (25) percent shareholder. 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 shareholder, unless there is already a shareholder holding more than fifty (50) 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 mandatory bid provisions. 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. If more than ninety-five (95) percent of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it.

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.

Auditors

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

Kost, Forer and Gabbay, a member firm of Ernst & Young, Tel Aviv, Israel, 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 reelection, removal or replacement by subsequent resolution. SHL's auditors were last reappointed at the 2002 Annual General Meeting.

Since 1997 Mr. Chen Shein (CPA) is the head auditor within Kost, Forer and Gabbay responsible for the auditing of SHL.

Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2002 USD 198,057 for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of SHL Group. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.
In addition, Ernst & Young charged USD 271,990 for additional services performed for 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. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2002, was 4.737.

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 and discusses the auditing results with the external auditors.

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 SWX Swiss Exchange, and conducts regular communication briefings with media representatives and financial analysts in addition to its Annual General Meeting.
SHL informs interested parties through a variety of corporate publications including annual and, as of 2003, comprehensive half-yearly reports as well as interim key figures for Q1 and Q3, 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.raytel.com**.

Investor's Calendar

Annual General Meeting	April 8, 2003
Q1 Results	May 20, 2003
Q2 Results	August 20, 2003
Q3 Results	November 20, 2003

Consolidated Financial Statements 2002

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Financial Overview

1. General

2002 was another very successful year for SHL TeleMedicine. It was characterized by entering into new markets, which contributed significant growth in revenues, profits and cash flow.

In the international markets, in April 2002 we acquired Raytel Medical Corporation, a leading US healthcare services provider which operates in cardiac telemedicine services and diagnostic imaging services and which will provide a platform for SHL's expansion into the US market. In Europe, the joint venture with Philips Medical Systems enhanced its operations and is in process of signing up new subscribers.

In our home market, we continue to grow and to increase our market share. In addition, during the year, we launched the service of "Thin for Life", a new and unique telemedicine product aimed at combating obesity and the various problems associated with weight excess.

Despite the difficult economic environment internationally and in Israel, we achieved our best operating performance in our history. Revenues totaled USD 89.8 million, with EBITDA of USD 18.1 million, and EBIT of USD 11.7 million, compared to USD 30.6 million, USD 10.8 million, and USD 9 million, respectively in 2001. Net income for the year totaled USD 1.4 million, as against USD 12.1 million in the previous year.

2. Results of Operations

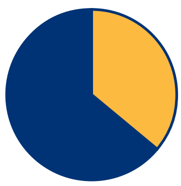
Revenues in 2002 totaled USD 89.8 million, a 193% increase over the revenues in 2001 of USD 30.6 million. The increase in revenues resulted mainly from the growth in international operations resulting from the Raytel acquisition as well as from growth in sales in our home market.

The Company now operates in two segments:

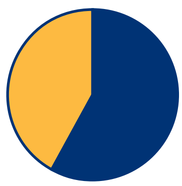
- the Telemedicine services segment which covers the provision of telemedicine services utilizing telephonic and Internet communication technology and the selling of related instruments through direct sales or by license and
- the Medical services segment which covers the operations of a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular disease. The segment also operates medical call centers, which provide 24-hours doctor "house-call" services.

Revenues from the Telemedicine services segment amounted to USD 52.4 million in 2002 comprising 58% of total revenues with revenues from the Medical services segment reaching USD 37.4 million – 42% of total revenues.

Geographically, revenues from the international market amounted to USD 57.4 million in 2002, compared to USD 6.7 million in 2001, with revenues from the local market amounting to USD 32.4 million in 2002, compared to USD 23.9 million in 2001, an increase of 35.6%.



64% International
36% Israel



58% Telemedicine services
42% Medical services

Gross Profit

Gross profit in 2002 totaled USD 45.8 million compared to USD 20.0 million in 2001, representing a 129.0% increase. The gross margin for the year decreased to 51% from 65% in 2001 due primarily to the effect of the different product mix following the growth of the international operations which increased our revenues and profit but with lower margins.

Research and Development (R&D)

R&D expenditure for the year totaled USD 1.7 million, 1.9% of revenues, compared to USD 1.6 million, 4.4% of revenues, in 2001 representing an increase of 6%. The amount of R&D charged to the statement of operations for 2002, which reflects the capitalization and amortization of the R&D investment over the years, amounted to USD 0.42 million, 0.46% of revenues, compared to USD 0.47 million, 1.55% of revenues, in 2001.

Selling and Marketing Expenses

Selling and marketing expenses totaled USD 7.0 million, 7.8% of revenues in 2002, compared to USD 4.1 million and 3.4% of revenues in 2001. The increase in selling and marketing expenses is attributed primarily to Raytel's operations.

General and Administration Expenses (G&A)

G&A expenses totaled USD 26.7 million, 29.7% of revenues, in 2002 compared to USD 6.4 million and 20.8% of revenues in 2001. The increase in the amount of G&A expenses is also attributed primarily to Raytel's operations.

Earnings before Income Tax, Depreciation and Amortization (EBITDA), Earnings before Income Tax (EBIT)

EBITDA for the year increased by 67.6% to USD 18.1 million, 20.1% of revenues, compared to USD 10.8 million and 35.4% of revenues, in 2001. EBIT increased to USD 11.7 million,13.0% of revenues, compared to USD 9 million and 29.5% of revenues in 2001.

This growth in profitability resulted mainly from the Raytel acquisition and from the growth in our home market due to a continuing demand for our products.

Financial Income

Financial gains for the year amounted to USD 1.8 million as against USD 8.4 million in 2001 and represent one of the major causes in the reduction of the Company's net income compared to the previous year. This reduction was caused by the utilization of cash resources mainly for the Raytel acquisition and lower interest rates.

Taxes on Income

Taxes on income amounted to USD 3.2 million compared to USD 2.6 million in 2001. The increase in the provision of taxes despite the lower profit before tax is due to an increase of USD 0.7 million in non-deductible expenses and the utilization in the previous year of USD 0.9 million of carryforward tax losses.

Share in Losses and Provision against Shareholders Loan to Associate

In 2002, the Company made a provision of USD 7.4 million (USD 2.6 million in 2001) for its loan investment during the year in Philips HeartCare Telemedicine Services – the European joint venture that we established with Philips Medical Systems. This amount represents the extent of the Company's existing share in the losses associated with the start-up expenses of the joint venture, and a provision covering an additional share in the losses in the event of the Company exercising its option to increase its holding in the joint venture.

Net Profit

Net profit for the year amounted to USD 1.4 million, 1.6% of revenues, reflecting the events described above, compared to USD 12.1 million in 2001.

Earnings per share totaled USD 0.13 compared to USD 1.13 in 2001.

3. Deferred Revenues

Revenues from services are recognized ratably over customers' service contracts.

As at the end of December 2002, we have around USD 90 million of signed services contracts, not included in our balance sheet, to be recognized as revenues in future years.

4. Major Changes in Assets, Liabilities and Equity

At December 31, 2002, our current assets stood at USD 97.8 million compared to USD 75.7 million at year-end 2001, of which USD 51.8 million represents cash balances. The main reason for the increase in current assets is the consolidation of Raytel's trade and other receivables and other current assets.

Our long-term and fixed assets totaled USD 58.8 million compared to USD 38.4 million at the end of the previous year. Again the main reasons for this increase are the consolidation of Raytel's fixed assets and increase in postdated notes derived from the increase of sales of devices in the local market.

Other assets also increased to USD 51.3 million compared to USD 22.1 million at the end of 2001, mainly due to the increase in goodwill resulting from the acquisition of Raytel.

As a result, our total assets at the end of December 2002 totaled USD 207.9 million compared to USD 136.2 million at December 2001.

Current liabilities at December 31, 2002, amounted to USD 71.1 million compared to USD 27.4 million at year-end 2001. Of this amount, bank credit lines utilized at the end of the year amounted to USD 47.6 million compared to USD 20.1 million in 2001. The main reasons for the increase reflect the consolidation of Raytel's loans, trade payables and other payables and bank financing.

Total equity at the end of 2002 amounted to USD 90.5 million compared to USD 95.1 million at the end of 2001. This decrease resulted from the effect of the devaluation of the NIS against the USD on the translated share and paid-in capital.

At December 31, 2002, equity represents some 43.5% of the total assets of the Company.

5. Cash Flow Movement

In 2002, we generated positive cash flow from operating activities in an amount of USD 2.2 million compared to a negative cash flow of USD 1.2 million in 2001. This increase was mainly due to the increased revenues and profitability of the Company.

The Company's investment activities included USD 25 million, in acquiring Raytel, USD 6 million in the joint venture with Philips and USD 4.6 million in other capital expenditure and other assets. In addition USD 3.9 million was eroded due to the devaluation of the NIS against the USD. Most of these amounts were financed by bank credit lines.

At year-end 2002 we held USD 51.8 million in cash against USD 60.2 million, at year-end 2001.

Erez Termechy

Erez Termechy
Vice President and Chief Financial Officer

Auditors' Report to the shareholders of SHL TeleMedicine Ltd.

We have audited the accompanying consolidated balance sheets of SHL TeleMedicine Ltd. and its consolidated companies (the Group) as of December 31, 2002 and 2001, and the related consolidated statements of income, cash flows and changes in the Group's equity for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the financial statements of associate, the investment in which on the equity basis of accounting totaled USD 2.0 million and USD 2.6 million as of December 31, 2002 and 2001, respectively, and the Company's share in losses and provision against shareholders' loan totaled USD 7.4 million and USD 2.6 million for the years ended December 31, 2002 and 2001, respectively. These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for this certain associate, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973 (as applicable to these financial statements, those standards are practically identical to the international standards on auditing of the International Federation of Accountants [IFAC]). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the Group as of December 31, 2002 and 2001, and of the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in accordance with International Financial Reporting Standards.

Tel Aviv, Israel, March 5, 2003

Kost Forer and Gabbay

KOST FORER and GABBAY

A Member of Ernst & Young Global

Consolidated Balance Sheet US dollars in thousands

assets

	Note	2001	2002
current assets:			
Cash and cash equivalents		57,146	36,609
Short-term deposits	4	3,041	15,210
Trade receivables	5	4,123	23,649
Postdated notes	6	5,410	6,338
Prepaid expenses	7	1,978	3,664
Other accounts receivable	8	739	6,255
Inventory	2e	3,274	6,085
		75,711	97,810
long-term assets:			
Postdated notes	6	22,960	32,678
Prepaid expenses	7	9,723	11,998
Investment in associate	9	2,646	2,031
Deferred taxes	18d	411	607
		35,740	47,314
fixed assets:	10		
Cost		5,731	16,510
Less – accumulated depreciation		(3,065)	(5,069)
		2,666	11,441
intangible assets, net:	11	22,114	51,327
		136,231	**207,892**

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

liabilities and shareholders' equity

	Note	2001	2002
current liabilities:			
Credit from banks and others	12	20,087	47,559
Trade payables	13	2,040	6,375
Other accounts payable	14	5,279	17,186
		27,406	71,120
long-term liabilities:			
Long-term loans and leases from banks and others, net	16	12,611	42,578
Accrued severance pay	2q	1,141	1,474
Deferred taxes	18d	–	660
		13,752	44,712
minority interest:	17g	–	1,601
shareholders' equity:	2a(5),21		
Ordinary shares of NIS 0.01 par value each:			
Authorized: 14,000,000 shares at December 31, 2001 and 2002;			
Issued and outstanding: 10,663,373 shares at December 31, 2001 and 2002		31	22
Additional paid-in capital		91,594	78,142
Treasury shares		–	(196)
Cumulative reporting currency translation adjustments		(5,719)	1,913
Retained earnings		9,167	10,578
		95,073	90,459
		136,231	**207,892**

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

March 5, 2003
Date of approval of the financial statements

Yariv Alroy
Co-President

Yoram Alroy
Chairman of the Board of Directors
and Chief Executive Officer

Consolidated Statement of Operations US dollars in thousands (except per share amounts)

	Note	2000	2001	2002
Revenues from sales of devices and services	22a	19,537	30,615	89,804
Cost of sales of devices and services	22b	7,632	10,636	44,053
Gross profit		11,905	19,979	45,751
Research and development costs, net	22c	243	474	415
Selling and marketing expenses	22d	2,289	4,106	7,005
General and administrative expenses	22e	4,999	6,367	26,676
Operating income		4,374	9,032	11,655
Financial expenses (income):				
Exchange rate differences from cash and deposits		243	(5,180)	(4,694)
Income from short-term deposits, net	4b	–	(1,572)	(344)
Other financial expenses (income), net		1,991	(1,664)	3,257
		2,234	(8,416)	(1,781)
Other expenses (income), net	22f	(66)	150	17
Income before taxes on income		2,206	17,298	13,419
Taxes on income	18b	1,119	2,598	3,230
		1,087	14,700	10,189
Minority interest		93	–	(1,425)
Share in losses and provision against shareholders' loan to associate	9	–	(2,644)	(7,353)
Net income for the year		**1,180**	**12,056**	**1,411**
Net basic earnings per share	**23**	**0.18**	**1.13**	**0.13**
Net diluted earnings per share	**23**	**0.18**	**1.13**	**0.13**

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

Statement of Changes in Shareholders' Equity

US dollars in thousands

	Share capital	Additional paid-in capital	Treasury shares	Cumulative reporting currency translation adjustments	Retained earnings (deficit)	Total
Balance at January 1, 2000	1	1,657	–	2,186	(4,069)	(225)
Issuance of bonus shares	24	(24)	–	–	–	–
Issuance of Ordinary shares, net	6	90,379	–	–	–	90,385
Reporting currency translation adjustments	–	–	–	433	–	433
Net income for the year	–	–	–	–	1,180	1,180
Balance at December 31, 2000	31	92,012	–	2,619	(2,889)	91,773
Issuance expenses	–	(418)	–	–	–	(418)
Reporting currency translation adjustments	–	–	–	(8,338)	–	(8,338)
Net income for the year	–	–	–	–	12,056	12,056
Balance at December 31, 2001	31	91,594	–	(5,719)	9,167	95,073
Treasury shares	–	–	(196)	–	–	(196)
Reporting currency translation adjustments from first adoption of SIC-30 (see Note 2a[5])	(7)	(7,772)	–	7,779	–	–
Reporting currency translation adjustments	(2)	(5,680)	–	(147)	–	(5,829)
Net income for the year	–	–	–	–	1,411	1,411
Balance at December 31, 2002	**22**	**78,142**	**(196)**	**1,913**	**10,578**	**90,459**

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

Consolidated Statement of Cash Flows US dollars in thousands

	2000	2001	2002
cash flows from operating activities:			
Net income for the year	1,180	12,056	1,411
Adjustments required to reconcile net income to net cash provided by (used in) operating activities (a)	(5,200)	(13,243)	804
Net cash provided by (used in) operating activities	(4,020)	(1,187)	2,215
cash flows from investing activities:			
Investment in associate	–	(144)	–
Shareholders' loan to associate	–	(4,839)	(5,955)
Purchase of fixed assets	(1,175)	(1,302)	(3,181)
Loans to related party, net	13	–	–
Payment for acquisition of consolidated company, net of cash acquired (b)	11	(7,272)	(25,017)
Investment in intangible assets	(801)	(1,831)	(1,417)
Proceeds from sale of fixed assets	166	663	5
Investment in short-term deposits	(13,133)	–	(15,000)
Proceeds from short-term deposits	–	13,024	–
Net cash used in investing activities	(14,919)	(1,701)	(50,565)
cash flows from financing activities:			
Proceeds from issuance of Ordinary shares, net	79,316	(837)	–
Proceeds from long-term loans from banks and others, net	47,565	119	45,154
Repayment of long-term loans from related parties	(366)	(381)	(142)
Repayment of long-term loans from banks and others	(55,189)	(3,343)	(5,606)
Short-term bank credit, net	(2,299)	18,902	(6,620)
Income distributions to limited partners	–	–	(900)
Treasury shares acquired	–	–	(196)
Net cash provided by financing activities	69,027	14,460	31,690
Effect of exchange rate changes on cash and cash equivalents	205	(4,805)	(3,877)
Increase (decrease) in cash and cash equivalents	50,293	6,767	(20,537)
Cash and cash equivalents at the beginning of the year	86	50,379	57,146
Cash and cash equivalents at the end of the year	**50,379**	**57,146**	**36,609**

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

a adjustments required to reconcile net income to net cash provided by (used in) operating activities:

	2000	2001	2002
Income and expenses not involving cash flows:			
Share in losses and provision against shareholders' loan to associate	–	2,644	7,353
Minority interest	(93)	–	1,425
Equity losses in unconsolidated companies	–	–	26
Depreciation and amortization	1,342	1,798	6,595
Amortization of goodwill, related to carryforward tax losses for which deferred tax benefits were not recorded in prior years	–	1,050	–
Deferred taxes, net	886	175	236
Accrued severance pay	52	127	410
Capital loss (gain) from sale of fixed assets	(57)	124	19
Erosion of principal of long-term liabilities, net	(8)	(303)	1,159
Erosion of principal of short-term deposits	224	–	–
	2,346	5,615	17,223
Changes in operating asset and liability items:			
Decrease (increase) in short-term deposits, net	–	(3,483)	3,062
Decrease (increase) in trade receivables	671	(1,632)	4,961
Increase in postdated notes	(4,886)	(12,779)	(12,565)
Increase in prepaid expenses	(2,565)	(2,743)	(3,453)
Decrease (increase) in other accounts receivable	(140)	115	(963)
Increase in inventory	(926)	(1,344)	(3,031)
Increase (decrease) in trade payables	353	306	(883)
Increase (decrease) in other accounts payable	9	2,702	(3,547)
Decrease in deferred revenues, net of notes	(62)	–	–
	(7,546)	(18,858)	(16,419)
	(5,200)	**(13,243)**	**804**

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

b acquisition of newly consolidated companies:

	2000 [3]	2001 [2]	2002 [1]
Working capital (excluding cash)	1,025	(559)	(6,488)
Long-term assets	(1,015)	(224)	(467)
Fixed assets, net	(44)	(583)	(9,002)
Long-term liabilities	2,977	1,094	22,581
Minority interest	–	–	1,076
Goodwill upon acquisition	(3,030)	(5,981)	(37,329)
Non-competition agreement	–	(1,019)	–
Liability regarding the acquisition of newly consolidated company	98	–	4,612
	11	**(7,272)**	**(25,017)**

1 During the second quarter of 2002, SHL TeleMedicine North America Inc. purchased all of the shares of Raytel Medical Corporation Inc. (see Note 3).
2 On December 31, 2001, the Company purchased all of the shares of Bikurofe Ltd. in consideration of USD 7.8 million (see Note 17d).
3 On January 1, 2000, the Company purchased all of the shares of Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd. in consideration of USD 105 (see Note 17c).

c significant non-cash transactions:

	2000	2001	2002
Issuance of shares against acquisition of minority interest in a consolidated company	11,488	–	–
Share issuance expenses, not yet paid	419	–	–
Acquisition of newly consolidated company	–	–	4,612

d supplemental disclosure of cash flows activities:

	2000	2001	2002
Interest received	**695**	**2,491**	**2,513**
Interest paid	**2,640**	**3,202**	**5,756**
Income taxes paid	–	–	**2,433**

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

Notes to Consolidated Financial Statements

note 1 | General

a company description:

SHL TeleMedicine Ltd. ("the Company") and its consolidated companies ("the Group") operate medical call centers for patient monitoring and diagnosis. In Israel, the Company also operates and dispatches ambulances from its call centers to patients for emergency treatment and dispatches other ambulances it does not own. The Company sells medical equipment and related communication equipment to subscribers and related companies.

On April 1, 2002, SHL TeleMedicine North America Inc. ("NA"), indirect wholly owned subsidiary purchased all of the shares of Raytel Medical Corporation Inc. ("Raytel"). Raytel is a US provider of remote cardiac monitoring, testing and information services and diagnostic therapeutic and patient management services (see Note 3).

b definitions:

In these financial statements:

The Company

SHL TeleMedicine Ltd.

Consolidated companies

Companies whose financial statements are fully consolidated with those of the Company.

Associate

A company over which the Company exercises significant influence and is not a consolidated company and the Company's investment therein is presented using the equity method of accounting.

The Group

SHL TeleMedicine Ltd. and its consolidated companies.

Related parties

As defined in IAS 24 of IASB.

note 2 | Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are as follows:

a basis of preparation:

1. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretation approved by the IASC that remain in effect.

2. The consolidated financial statements have been prepared on an historical cost basis.

3. The significant accounting policies applied in the financial statements of the Company in the prior years are applied consistently in these consolidated financial statements.

4. Financial statements in US dollars – the reporting currency:

The majority of sales of SHL TeleMedicine ("the Company") that operates in Israel is made in NIS and the majority of the cost is paid in NIS. The NIS is the currency of the primary economic environment of the Company, hence the functional currency of the Company is the NIS.

The Company has selected the US dollar for its reporting currency, rather than using its functional currency as its reporting currency, because an increasing proportion of its revenues and expenses are incurred in US dollars and the Company believes that most of the users of its financial statements are more familiar with the US dollar than the NIS.

Because the Company selected the reporting currency to be the US dollar, the financial statements have been translated from the functional currency

(NIS) to the reporting currency, in accordance with the principles set forth in IAS 21, SIC-19 and SIC-30 as follows:
All the assets, liabilities, share capital and additional paid-in capital of the Company are translated into US dollars at the closing rate existing at the date of the balance sheet presented, and revenues and expenses are translated at average monthly exchange rates. The results from translation adjustments are recorded in a separate component of shareholders' equity.
Philips Healthcare Telemedicine Services Europe ("JV"), associate, is considered a "Foreign Entity" according to IAS 21. The functional currency of JV is the Euro. JV prepares its financial statements in Euro.
SHL TeleMedicine B.V. ("BV") and SHL TeleMedicine Global Trading Ltd. ("GT"), consolidated companies, are considered "Foreign Entities" according to IAS 21. The functional currency of BV is the Euro and the functional currency of GT is the US dollar. BV and GT prepare their financial statements in Euro.
SHL TeleMedicine North America ("NA"), a consolidated company, is considered a "Foreign Entity" according to IAS 21. The functional currency of NA is the US dollar. NA prepares its financial statements in US dollars.
The Company uses the following procedures in translating the financial statements of "Foreign Entities" for incorporation in the Company's financial statements: assets and liabilities, both monetary and non-monetary, of the foreign entity are translated into the NIS at the closing rate existing at the date of the balance sheet presented, and revenues and expenses are translated at average monthly exchange rates. All resulting exchange differences are classified as equity until the disposal of the investment.
The exchange rate difference of loans which were received for the direct financing of the investment in the foreign entities and that are stated in or linked to the respective functional currency of those entities are also carried within shareholders' equity.

5. Impact of recently issued interpretation for accounting standards:
According to a new publication of the Standing Interpretations Committee, SIC-30 "Accounting for Reporting Currency – Translation from Measurement Currency to Presentation Currency", which was effective on January 1, 2002, share capital and additional paid-in capital is translated into US dollars at the closing rate existing at the date of the balance sheet presented. In previous periods, the Company had translated those items using the exchange rate of the date of the transaction, in accordance with the treatment in IAS 21 and SIC-19.
The effect of the change is only a classification between different items in the shareholders' equity. The change has no effect on the balance sheet, statement of income and the statement of cash flows.
The effect of the change up to December 31, 2001, reflects a decrease in the share capital and additional paid-in capital of USD 7,779 against an increase in cumulative reporting currency translation adjustments in the same amount.

b principles of consolidation:

The consolidated financial statements include the accounts of the Company and its consolidated companies. Significant intercompany transactions and balances between the Company and its consolidated companies were eliminated in consolidation.
Consolidated companies are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Acquisition of consolidated companies is accounted for using the purchase method of accounting.
The financial statements of consolidated companies are prepared for the same reporting periods as the parent company, using consistent accounting policies.

c investment in associate:

Investments in associate over which the Company exercises significant influence, are accounted for under the equity method of accounting.

The Company's investment in associate consists of an ownership interest in Philips Healthcare Telemedicine Services Europe ("JV") (see Note 9). The Company's equity in losses of associate are included up to the amount of the investment in the capital of the associate.

d cash equivalents:

Cash equivalents are considered by the Company to be unrestricted highly liquid investments which include short-term bank deposits originally purchased with maturities of three months or less.

e inventory:

Inventory of devices is presented at the lower of cost or market value. Cost is determined using the "first-in, first-out" method.

f trade receivables and postdated notes:

Trade receivables are recognized and carried at original invoice amount less an allowance for doubtful accounts.
Postdated notes that are linked to the Israeli CPI and do not bear interest, are presented at their present value, according to the market interest rate prevailing on the date on which they were issued.

g allowance for doubtful accounts:

The allowance for doubtful accounts is computed as a percentage of trade receivables balance, and in respect of specific debts whose collection is doubtful.

h prepaid expenses:

Prepaid expenses which are related to cost of sales of services are amortized in the statement of income, over the service contract.

i fixed assets:

1. Fixed assets are stated at cost less accumulated depreciation. Generally, depreciation is computed using the straight-line method on the basis of the estimated useful life of the asset. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.
2. Assets leased under financial lease are presented as purchases. Future lease payments, excluding financial expenses not yet accumulated, are included among long-term liabilities.
3. The annual depreciation rates are as follows:

	%
Computers and communication equipment	15 – 33
Medical equipment	10 – 15
Office furniture and equipment	6 – 15
Motor vehicles and ambulances	15 – 20
Leasehold improvements	over the term of the lease
Leased devices	10

j intangible assets:

1. Research and development costs are expensed as incurred, except for development costs which relate to the design and testing of new or improved products which are recognized as an asset to the extent that it is expected that such assets will generate future economic benefits.
Deferred development costs are amortized from the date of commercial production of the product. Such costs are amortized using the straight-line method over a period of up to 5 years.
At each balance sheet date, the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.
2. Goodwill represents the excess of acquisition cost over the fair value of identifiable net assets of a consolidated company at the date of acquisition. Goodwill is amortized using the straight-line method over a period of up to 20 years.

Tax benefits as a result of tax losses from the time in which the investment was acquired, and which could not be taken into account in order to determine the amount for goodwill, are recognized on an ongoing basis at the time in which a tax benefit is utilized, and the balance for goodwill is adjusted accordingly.

3. Non-competition agreement is amortized using the straight-line method over the useful life, which is 3 years.

k deferred taxes:

1. Deferred taxes are provided using the liability method for temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The main components in respect of which deferred taxes have been included are as follows: inventory, fixed assets, other assets, provision for vacation, accrued severance pay, doubtful accounts and carryforward tax losses. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or subsequently enacted at balance sheet date.

2. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account in computing the deferred taxes, as it is the Company's intention to hold these investments. Similarly, taxes that would apply in the event of the distribution of earnings by subsidiaries as dividends have not been taken into account in computing deferred taxes, since the distribution of dividend does not involve an additional tax liability.

l revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will pass to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

1. Revenues from sales of devices are recognized when the significant risks and benefits of ownership of the devices have passed to the buyer.

2. Revenues from services are recognized ratably over the service contract.

m exchange rates and linkage basis:

1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rate as published by the Bank of Israel on December 31, 2002.

2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

Below are Israeli CPI's and exchange rates of one US dollar:

For the year ended	Exchange rate of one US dollar	Israeli CPI*
December 31, 2002	NIS 4.737	182.0 points
December 31, 2001	NIS 4.416	170.9 points
December 31, 2000	NIS 4.041	168.5 points
Changes during the year		
2002	7.3%	6.5%
2001	9.3%	1.4%

* Index on an average basis of 1993 = 100.

n use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

o fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term deposits, trade receivables, post-dated notes, other accounts receivable, credit from banks and others, trade payables, other accounts payable and long-term loans approximate their fair value.

p concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and trade receivables. Cash and cash equivalents are deposited with major banks. Management believes that the financial institutions that hold the Company's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments. The Company's trade receivables are mainly derived from sales to customers in Israel and Europe. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary.

q accrued severance pay:

The Group's liability for severance pay for Israeli resident employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. The Group's liability for all of its employees is funded through insurance policies. The net amount of the severance liability presented in the balance sheet represents the Group liability for severance to its employees as of balance sheet date.

The amounts accumulated in managers' insurance policies in the name of the employees and their respective liabilities are not presented in the balance sheet since they are not under the Group's control and management.

Raytel has a defined contribution pension plan, which covers substantially all employees. Contributions to the plan are based upon a percentage of an employee's covered compensation, as defined. Expense under the plan was USD 336 for the period from April 1, 2002, to December 31, 2002.

Raytel also has a tax-qualified "401(k) plan" which covers substantially all employees. Eligible employees may make salary deferral (before tax) contributions up to a specified maximum. Raytel makes a matching contribution of 25% of the amount deferred. Expense under the plan was USD 134 for the period from April 1, 2002, to December 31, 2002.

The number of the Group's employees as of December 31, 2001 and 2002, was 732 and 1,389, respectively.

Amounts paid to insurance policies for covering severance pay liability for the years ended December 31, 2000, 2001 and 2002, was USD 380, USD 419 and USD 619, respectively.

r leases:

Financial leases, which effectively pass to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased fixed assets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

s earnings per share:

The earnings per share are calculated according to the provisions of the IAS 33.

note 3 Acquisition of Raytel Medical Corporation ("Raytel")

a

SHL TeleMedicine North America, Inc. ("NA"), a wholly owned subsidiary of SHL TeleMedicine International ("STI"), purchased in a tender offer all the issued and outstanding shares of Raytel Medical Corporation ("Raytel") at total cost of USD 35.1 million. Payment has not yet been effected with regard to about 15% of Raytel's outstanding shares out of which holders of about 13% of Raytel's outstanding shares have initiated an appraisal rights process under the applicable law. This appraisal process is in its initial stage. As of December 31, 2002, the financial statements reflect USD 4.3 million due to former Raytel shareholders.

The cost of the Raytel acquisition was allocated to its assets and liabilities based on their fair values.

Subsequent to the purchase of Raytel shares, NA merged with Raytel.

b

The fair values of the identifiable assets and liabilities of Raytel which were purchased, were:

Cash and cash equivalents	5,471
Trade receivables	24,767
Other accounts receivable	448
Prepaid expenses and other	1,299
Fixed assets, net	9,002
Investment in associate	56
Intangible assets	411
Goodwill upon acquisition	37,329
	78,783
Trade payables	(5,356)
Other accounts payable	(11,794)
Long-term loans	(25,457)
Minority interest	(1,076)
Fair value of net assets	**35,100**
Consideration:	
Cost of shares, at fair value	31,416
Costs associated with the acquisition	3,684
	35,100
The cash outflow on acquisition is as follows:	
Cash of Raytel	5,471
Cash paid up to December 31, 2002	(30,488)
Net cash outflow	**(25,017)**
Liability to former Raytel shareholders	**4,282**

Raytel's results of operations were fully consolidated since April 1, 2002, and Raytel has contributed a USD 763 loss to the net income of the Group.

note 4 Short-term deposits

	2001	2002
Short-term deposit [a]	–	15,210
Deposits, net: [b]		
Short-term deposit	30,000	36,000
Less – short-term loan	(28,084)	(36,824)
Accumulated interest, net	1,125	596
	3,041	(228)
Classified to other accounts payable	–	228
	3,041	–
	3,041	**15,210**

a The short-term deposit is linked to the US dollar and bears interest of 2.5% per annum, maturing in June 2003.

b In order to eliminate balance sheet currency exposure, the Company took loans in New Israeli Shekel, equal to a sum of USD 36 million to be repaid in March 2003. Loan equal to USD 11 million is unlinked and bearing interest of 5.85% and loan equal to USD 25 million is linked to Israeli CPI and bearing interest of 3.85% per annum. At the same time, the Company invested the money in US dollar deposits account, bearing an average interest of 2.87% per annum, maturing in March 2003. The deposits are pledged against the loans.
On March 31, 2001, the Company took a loan in New Israeli Shekel, equal to a sum of USD 30 million, and at the same time, invested the money in a US dollar deposit account. The loan and the deposit matured in March 2002.

note 5 Trade receivables

	2001	2002
In Israel	1,698	2,193
Abroad	327	21,456
Associate	2,098	–
	4,123	**23,649**
Net of allowance for doubtful accounts	**555**	**11,595**

note 6 Postdated notes

Postdated notes represent deferred receipts, up to 9 years, which were received from customers in respect of sales of devices. The postdated notes are composed of notes by authorization, notes receivables, and postdated payments from credit cards companies. (See also Note 2f)

note 7 Prepaid expenses

Most of the prepaid expenses are related to sale of services for subsequent periods. The realization of prepaid expenses subsequent to balance sheet date, is as follows:

	2001	2002
First year prepaid expenses – short-term	1,978	3,664
Second year	1,437	1,940
Third year	1,439	1,990
Fourth year	1,302	1,820
Fifth year	1,337	1,828
Thereafter	4,208	4,420
Prepaid expenses – long-term	9,723	11,998
	11,701	**6,255**

note 8 Other accounts receivable

	2001	2002
Government authorities	99	3,350
Employees	142	170
Deferred taxes *	418	1,947
Others	80	788
	739	**6,255**

* See Note 18d.

note 9 Investment in associate

a

In January 2001, a wholly owned subsidiary of the Company, STI (see Note 17b), entered into several agreements with Philips Medical Systems Netherlands B.V. and its related companies ("Philips") according to which STI, together with Philips, will form a Dutch company ("JV") which will engage, on its own or through its consolidated companies, in the provision of telemedicine services in various countries throughout Europe. JV was established in May 2001.

STI holds 19.9% of JV's shares and Philips holds 80.1%. STI was granted an option, for a period of 5 years, beginning May 4, 2001, to increase its share in JV to 35% in consideration of a payment amounting to USD 164. Philips has the right to cause STI to exercise the option after three or four years, depending upon the JV progress.

STI is committed to provide JV with its entire know-how, support, computer software and any other material possessed by the Company, which is necessary for JV's operations. In return, STI is entitled to a service revenue share, based on the number of JV's subscriptions.

In 2001, minimum royalties of USD 5.3 million were determined, and recorded in the Company's books.

In addition, STI will provide JV with medical equipment at prices as agreed upon in the agreement. STI has an exclusive right to supply the equipment for three years and a right of final offer for an additional two years.

STI invested in JV's share capital USD 144 and, in addition, provided JV with loans in an aggregate amount of USD 12.6 million. The loan is linked to the Euro and is repayable no later than December 21, 2010.

b comprised as follows:

	2001	2002
Investment in JV share capital	144	144
Accumulated losses	(144)	(144)
	–	–
Shareholders' loan	5,021	12,607
Provision against shareholders' loan *	(2,375)	(10,607)
	2,646	2,000
Other associate	–	31
	2,646	**2,031**

* Due to JV losses in the aggregate amount of USD 37,3 million as of December 31, 2002, the Company decided to provide against the loan that was given to JV.

note 10 Fixed assets

cost:

Balance at January 1, 2002
Additions during the year
Additions for newly consolidated company (see Note 3)
Disposals during the year
Reporting currency translation adjustments
Balance at December 31, 2002

accumulated depreciation:

Balance at January 1, 2002
Additions during the year
Disposals during the year
Reporting currency translation adjustments
Balance at December 31, 2002

Depreciated cost at December 31, 2002

Depreciated cost at December 31, 2001

As for charges, see Note 20.

note 11 Intangible assets

At January 1, 2002, net of accumulated amortization
Additions during the year
Additions for newly consolidated company (see Note 3)
Amortization during the year
Realized income tax benefits subsequent to the acquisition of newly consolidated company
Reporting currency translation adjustments
At December 31, 2002, net of accumulated amortization

At December 31, 2002, net of accumulated amortization
Cost
Accumulated amortization
Net carrying amount

* See Note 17d.

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Leased devices	Total
	2,020	1,297	596	1,078	506	234	5,731
	1,192	627	153	78	799	332	3,181
	1,998	3,831	609	–	2,564	–	9,002
	–	(635)	(7)	(10)	(372)	–	(1,024)
	(129)	(87)	(40)	(74)	(34)	(16)	(380)
	5,081	5,033	1,311	1,072	3,463	550	16,510
	1,340	1,264	120	148	176	17	3,065
	1,098	1,086	273	207	495	45	3,204
	–	(616)	(7)	(5)	(372)	–	(1,000)
	(84)	(85)	(8)	(11)	(12)	–	(200)
	2,354	1,649	378	339	287	62	5,069
	2,727	**3,384**	**933**	**733**	**3,176**	**488**	**11,441**
	680	**33**	**476**	**930**	**330**	**217**	**2,666**

	Research and development costs	Goodwill	Non-competition agreement *	Others	Total
	2,599	17,830	1,019	666	22,114
	1,236	–	–	181	1,417
	–	37,329	–	(210)	37,119
	(415)	(2,440)	(316)	(220)	(3,391)
	–	(4,439)	–	–	(4,439)
	(174)	(1,203)	(70)	(46)	(1,493)
	3,246	**47,077**	**633**	**371**	**51,327**
	4,318	54,013	949	406	59,686
	(1,072)	(6,936)	(316)	(35)	(8,359)
	3,246	**47,077**	**633**	**371**	**51,327**

note 12 Credit from banks and others

	Interest rate for 2002 IN %	2001	2002
Credit from banks:			
NIS – unlinked	10.6	18,559	3,568
NIS – linked to the dollar	Libor + 2.6	–	7,000
		18,559	10,568
Current maturities of long-term loans (see Note 16)		1,376	36,991
Current maturities of long-term loans – related parties (linked to the Israeli CPI)	3.6	152	–
		20,087	**47,559**

As for charges, see Note 20.

note 13 Trade payables

	2001	2002
Open accounts	1,930	6,209
Notes payable	110	166
	2,040	**6,375**

note 14 Other accounts payable

Liabilities to employees and other liabilities for wages and salaries	1,475	3,997
Accrued liabilities	2,403	7,952
Government authorities	1,379	847
Former Raytel shareholders (see Note 3)	–	4,282
Others	22	108
	5,279	**17,186**

note 15 | Deferred revenues, net of notes

The deferred revenues represent future income from service contracts.

a deferred revenues:

	2001	2002
Deferred revenues	83,852	88,505
Less – postdated notes	(83,852)	(88,505)
	–	–

b composition of deferred revenues subsequent to balance sheet date:

	2001	2002
First year – current maturities	10,710	11,724
Second year	10,271	11,420
Third year	9,788	11,707
Fourth year	10,091	12,013
Fifth year	10,368	12,063
Thereafter	37,624	29,578
	83,852	**88,505**

note 16 | Long-term loans and leases from banks and others

a composed as follows:

	Interest rate for 2002 in %	2001	2002
Loans from banks:			
NIS – unlinked	Prime* -0.24	11,717	17,332
NIS – linked to Israeli CPI	5.7	1,295	10,787
NIS – linked to the dollar	3.365	–	13,943
NIS – linked to the Euro	Libor+1.82	–	9,941
NIS – linked to the Yen	Libor+1.75	199	–
Dollar, net **1.**	US Libor+0.57	–	5,000
		13,211	57,003
Less – current maturities		1,078	21,672
		12,133	35,331
Lease obligations:			
Lease obligations of vehicles – NIS – linked to Israeli CPI	7	271	192
Capital lease obligations and nonrecourse notes **2.**	2.3–13.5	–	1,784
		271	1,976
Less – current maturities		78	1,011
		193	965
Other long-term loans:			
NIS – linked to Israeli CPI	5.45	505	282
Revolving credit facility **3.**	US prime** +1	–	12,308
US Federal Government **4.**	7	–	8,000
		505	20,590
Less – current maturities		220	14,308
		285	6,282
		12,611	**42,578**

* The prime rate as of December 31, 2002 – 10.4%.
** The US prime rate as of December 31, 2002 – 5.25%.

1. As security for long-term loans from banks of USD 24,000 received in connection with the financing of the Raytel acquisition, the Company pledged to banks certain liquid assets, including cash deposit of USD 19,000. In the balance sheet this deposit has been offset against the loan.

2. The capital lease obligations and non-recourse notes are due in varying amounts, including interest at rates ranging from 2.3% to 13.5% through 2007.

3. Under the revolving credit facility, Raytel may borrow up to USD 15.0 million based on a prescribed formula, with interest at the US prime rate plus 1% (5.25% as of December 31, 2002). All borrowings are due on November 30, 2003.

4. The settlement due the US Federal Government is payable in annual installments of USD 2.0 million including interest of 7%, through June 30, 2006. (See Note 20c)

b The long-term loans are repayable in the following years subsequent to the balance sheet date:

	2001	2002
First year – current maturities	1,376	36,991
Second year	12,132	8,178
Third year	142	7,195
Fourth year	77	6,977
Fifth year	–	4,939
Repayment date has not yet been determined	260	15,289
	12,611	42,578
	13,987	**79,569**

c

The Company is required to maintain certain financial covenants and is currently in compliance with all such requirements.

d

As for charges see Note 20.

note 17 | Investments in subsidiaries

Name of company	Country of incorporation	Percentage in equity interest 2001	2002
Shahal Haifa – Medical Services Ltd. (a)	Israel	100	100
SHL TeleMedicine International Ltd. (b)	Israel	100	100
Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd. (c)	Israel	100	100
Bikurofe Ltd. (d)	Israel	100	100
SHL TeleMedicine B.V. (e)	Netherlands	100	100
SHL TeleMedicine Global Trading Ltd. (f)	Ireland	100	100
SHL TeleMedicine North America Inc. (g)	USA	100	100

a Shahal Haifa – Medical Services Ltd.:

On December 31, 1996, the Company purchased all the shares in Shahal Haifa – Medical Services in consideration of USD 700. The Company recorded goodwill in the amount of USD 2.9 million representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at date of acquisition.

b SHL TeleMedicine International Ltd. (STI):

During September 1997, the Company established STI. STI has the rights to develop and market the "Shahal Method" outside of Israel.

According to a preferred share purchase agreement dated September 9, 1997, Vertex I.I.F. Limited Partnership ("Vertex") purchased 17.4% of STI share capital in consideration of USD 4.5 million. In an agreement entered into in April 2000 and amended and signed on August 30, 2000, between the Company, Vertex and STI, Vertex agreed to exchange all of its shares in STI for 7.15 % of the shares of the Company. After the exchange, which was held on September 21, 2000, the Company holds 100% of STI.

The Company recorded goodwill in the amount of USD 11.3 million representing the excess of the aggregated acquisition cost over the fair value of the identifiable net assets at date of acquisition.

c Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd.:

On January 1, 2000, the Company purchased all the shares of Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd., a related company, in consideration of USD 105.

The Company recorded goodwill in the amount of USD 3 million representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at date of acquisition.

d Bikurofe Ltd.:

On December 31, 2001, the Company purchased all the shares of Bikurofe Ltd., Israeli medical call centers service provider, in consideration of USD 7.8 million. This amount includes USD 1 million for non-competition agreement.

The Company recorded goodwill in the amount of USD 5.9 million representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at date of acquisition.

e SHL TeleMedicine B.V. (BV):

During May 2001, STI established BV, which holds 19.9% of the shares of JV (see Note 9) and holds 100% of the shares of SHL TeleMedicine Global Trading Ltd. (see f.).

f SHL TeleMedicine Global Trading Ltd. (GT):

GT was incorporated on October 23, 2001. GT was established in order to distribute innovative medical devices and to perform research and development activities.

g SHL TeleMedicine North America Inc. (NA) (see Note 3):

NA holds, indirectly, through Raytel Medical Corporation less than 100% in several entities.

The minority interest in these entities was presented in the financial statements in "Minority interest".

note 18 | Taxes on income

a taxation under inflationary conditions:

According to the Income Tax (Inflationary Adjustments) Law, 1985 in Israel, the results for tax purposes are calculated in real terms based on the changes in the Israeli CPI.

b

Non-Israeli consolidated companies are taxed based upon tax according to the applicable laws in their countries of residence.

c taxes on income included in the statement of operations:

	2000	2001	2002
Current taxes	233	1,093	2,862
Deferred taxes	886	1,505	236
Taxes in respect of previous years	–	–	132
	1,119	**2,598**	**3,230**

d deferred taxes:

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

	In respect of balance sheet items				
	Fixed assets and other assets	Provision for employee rights	Carryforward tax losses	Others	Total
Balance at January 1, 2002	(505)	998	247	89	829
Amounts charged to statement of income	(172)	19	(172)	89	(236)
Additions for newly consolidated company	39	–	–	1,317	1,356
Cumulative foreign currency translation adjustments	35	(67)	(17)	(6)	(55)
Balance at December 31, 2002	**(603)**	**950**	**58**	**1,489**	**1,894**

The balance is presented as follows:

	2001	2002
Among current assets	418	1,947
Among long-term assets	411	607
Among long-term liabilities	–	(660)
	829	**1,894**

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

	2000	2001	2002
Income before taxes on income, as reported in the consolidated statements of income	2,206	17,298	13,419
Statutory tax rate in Israel	36%	36%	36%
Theoretical tax expense	794	6,227	4,831
Increase (decrease) in taxes resulting from:			
Losses for which deferred taxes were not provided	127	–	11
Tax adjustment in respect of inflation in Israel	12	(370)	(387)
Non-deductible expenses	313	425	1,121
Decrease in taxes resulting from realization of carryforward tax losses for which deferred taxes were not recorded in prior years	–	(863)	–
Tax exempt income	(149)	(2,821)	(2,035)
Different tax rates for non-Israeli consolidated companies	–	–	61
Taxes in respect of previous years	–	–	132
Tax on minority interest in earnings of consolidated entities	–	–	(513)
Others	22	–	9
	1,119	**2,598**	**3,230**

f carryforward losses for tax purposes:

The consolidated carryforward losses for tax purposes for the year ended December 31, 2002, amount to USD 161. An asset in respect of deferred taxes in Raytel, amounting to USD 8.7 million, was not included in the balance sheet as the timing of its realization in the foreseeable future is uncertain.

g tax assessments:

Final assessments or assessments considered as final, were received by the Company through tax year 1999. Shahal Haifa – Medical Services Ltd., Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd., STI and Bikurofe Ltd. received final assessments or assessments considered as final through tax year 1998.

note 19 | Transactions with related parties

	2000	2001	2002
revenues:			
Sales and services to associate	–	6,287	3,169
Interest and linkage differentials from associate	–	447	–
	–	**6,734**	**3,169**
expenses:			
Salaries to officers and directors	934	1,607	1,742
Rental expenses to shareholders	134	131	124
Interest to shareholder	22	20	–
Management fees to related party	66	–	–
	1,156	**1,758**	**1,866**

note 20 | Charges, guarantees and contingent liabilities

a charges:

As collateral for the Company and its consolidated companies' liabilities, fixed charges were placed on motor vehicles and insurance rights and fixed and floating charges were placed on specific notes collectible and other assets of the Group.

For charges on cash deposits see Notes 4b and 16a(1).

b lease commitments:

The facilities of the Company and its consolidated companies are rented under operating leases for periods ending in 2009.

Future minimum lease commitments under operating leases for the years ended December 31, are as follows:

Year	
2003	5,148
2004	4,116
2005	2,807
2006	2,303
Thereafter	1,526
	15,900

c contingent liabilities:

1. Raytel and a consolidated company of Raytel were the subject of a US Government investigation that began in June 2000. In June 2001, Raytel reached an agreement with the Government to resolve the issues that were the subject of the investigation. In addition, in September 2001, Raytel entered into a settlement agreement with the Government to resolve related civil claims under which Raytel agreed to pay USD 11.5 million over a period of 5 years. Through December 31, 2002, USD 3.5 million has been paid. The settlement agreement did not release Raytel or the consolidated company from any future claims arising out of their other business operations, including the transtelephonic pacemaker operations conducted at its New Jersey facility that had not complied in all respects with certain technical requirements relating to the duration of testing sessions. Raytel's financial statements include an accrual which it believes is adequate for all anticipated claims and costs in connection with this matter.

2. Raytel, former members of its Board of Directors and other individuals have been named as defendants in a purported class action lawsuit opposing the merger transaction between Raytel and NA. The plaintiff has expanded this lawsuit to include additional defendants, including some Company's nominated Raytel Board members. The plaintiff generally alleges that the individual defendants breached their fiduciary duties of loyalty, good faith, and independence in connection with the proposed merger transaction by engaging in self-dealing. Raytel believes that the complaint lacks merit and intends to vigorously defend the lawsuit. As such no provision has been made in Raytel's financial statements for this matter. Moreover, any award to the plaintiffs is expected to be covered by insurance.

3. The Company and its subsidiaries are, from time to time, a party to various other claims and disputes associated with various aspects of its ongoing business operations. In management's opinion, none of these other claims or disputes are expected, either individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operations or cash flows.

note 21 | Share capital

a the share capital after giving retroactive effect to the split and the bonus shares is composed as follows:

	Authorized		Issued and outstanding	
	2001	2002	2001	2002
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	14,000,000	10,663,373	10,663,373

Each of the Company's shares confers upon their holders the following rights:

1. Equal rights to participate in the distribution of a dividend, whether a cash dividend or bonus shares, in the distribution of assets or any other distribution according to ratio of the paid-in capital or credit as paid in over the nominal value of the share.

2. Equal rights to participate and vote in the Company's general meetings.

3. Equal rights regarding capital and participation in the distribution of the Company's surplus assets in a liquidation event, according to the ratio of the amounts of paid-in capital or credit as paid in over their nominal value.

b treasury shares:

During 2002, the Company purchased 29,347 shares of its own shares in aggregate amount of USD 196.

Shares held by the Company are treated and presented in the balance sheet as deduction from equity.

c changes in share capital structure:

On September 19, 2000, the Company increased its authorized share capital by NIS 137,360, so that following such action, the Company's authorized share capital consisted of NIS 140,000 divided into 139,000 Ordinary shares of NIS 1.00 nominal value each and 1,000 Preferred A shares of NIS1.00 nominal value each.

On September 21, 2000, the Company allotted 208 Ordinary shares of NIS 1.00 nominal value each to Vertex in exchange for Vertex's holdings in STI (see Note 17b).

On September 21, 2000, the Company allotted 621 Preferred A shares of NIS 1.00 nominal value each to Philips Venture Capital Fund in consideration of its investment of about USD 39 million (before issuance expenses). On September 25, 2000, the Company allotted additional 86 Preferred A shares of NIS 1.00 nominal value each to Philips Venture Capital Fund in consideration of their nominal value as an antidilution protection against reserving Ordinary shares of the Company for the ESOP (see section d. below).

On September 26, 2000, all Preferred A shares were converted into Ordinary shares.

On September 26, 2000, the Company effected a stock split according to which each NIS 1.00 nominal value share was split into 100 shares, each having nominal value of NIS 0.01.

On September 26, 2000, 7,871,873 bonus shares of NIS 0.01 nominal value each were issued and allotted to shareholders in order to maintain all pro-rata holdings in the share capital of the Company.

On November 15, 2000, 2,500,000 Ordinary shares of nominal value NIS 0.01 were issued in a public offering.

d share option plan:

In September 2000, the Company adopted an option plan for the issuance of options to its employees, directors and consultants (the "ESOP"). The Company approved a maximum pool of up to 856,627 shares reserved for issuance upon exercise of options which may be granted pursuant to the ESOP. All options to be issued under the ESOP shall be subject to a four-year vesting schedule which provides for 50% of the options to be vested in the second anniversary of the date of grant and an additional 25% to be vested in each of the following third and forth anniversary of the date of grant.

In November 2000, after the completion of the public offering, the Company has granted to the Company's employees and consultants 496,202 options to purchase shares of the Company in the price of CHF 34 (the public offering price) under the terms of the ESOP.

During 2001, a further 23,340 options to purchase shares were granted under the terms of the ESOP.

In December 2001, the Company has granted to employees and consultants a further 97,975 options to purchase shares in the price of CHF 22.65 (the market price at the date of the approval) under the terms of the ESOP. The aforesaid options are subject to a three-year vesting schedule which provides for one third of the options to be vested in each of the following first, second and third anniversary of the date of the grant.

In July 2002, the Company adopted the 2002 International Issuance of Options plan to non-Israeli employees, directors, officers and consultants of the Company and any of its consolidated companies under the term of the ESOP.

Information with respect to the number of options granted under the ESOP is as follows:

	2001		2002	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	496,202	CHF 34.00	617,517	CHF 32.20
Granted	23,340	CHF 34.00	–	–
Granted	97,975	CHF 22.65	–	–
Cancelled	–	–	(102,430)	CHF 34.00
Outstanding at end of year	**617,517**	CHF 32.20	**515,087**	CHF 31.84

note 22 | Supplementary information to statements of income

a revenues from sales of devices and services:

	2000	2001	2002
Sale of services in Israel	10,820	11,115	19,553
Sale of devices in Israel	7,408	12,767	12,840
Sale of services abroad	274	5,721*	54,389*
Sale of devices abroad	1,035	1,012**	3,022**
	19,537	**30,615**	**89,804**

* Includes royalties and service fees from associate in the amount of USD 0.2 million and USD 5.7 million for the years ended December 31, 2002 and 2001, respectively (see Note 9).
** Includes sale of devices to associate in the amount of USD 3 million and USD 0.6 million for the years ended December 31, 2002 and 2001, respectively.

b cost of sales of devices and services:

	2000	2001	2002
Salaries and related benefits	3,323	3,906	18,666
Cost of devices sold	1,977	4,410	4,442
Payment to service providers	–	–	5,431
Depreciation	285	276	2,440
Maintenance of ambulances and motor vehicles	346	363	353
Rental fees and maintenance	478	482	4,405
Materials and components	205	163	3,258
Communications, postage and freight	114	110	2,199
Others	904	926	2,859
	7,632	**10,636**	**44,053**

c research and development costs, net:

	2000	2001	2002
Salaries and related benefits	362	592	651
Amortization of research and development costs	193	474	415
Medical consulting	86	109	106
Others	403	431	479
	1,044	1,606	1,651
Less – capitalization of development costs	801	1,132	1,236
	243	**474**	**415**

d selling and marketing expenses:

	2000	2001	2002
Salaries and related benefits	1,116	1,833	3,345
Advertising	213	897	936
Depreciation	155	141	157
Rental fees and maintenance	154	204	282
Maintenance of motor vehicles	330	392	731
Others	321	639	1,554
	2,289	**4,106**	**7,005**

e general and administrative expenses:

	2000	2001	2002
Salaries and related benefits	1,708	2,507	11,232
Rental fees, maintenance and office expenses	572	519	5,049
Professional fees	265	740	2,491
Depreciation and amortization	709	827	3,397
Doubtful accounts and bad debts	1,216	901	3,387
Others	529	873	1,120
	4,999	**6,367**	**26,676**

f other expenses (income), net:

Capital (gain) loss from sale of fixed assets	(57)	124	19
Expenses (income) in respect of prior years	(9)	26	380
Other	–	–	(382)
	(66)	**150**	**17**

note 23 | Earnings per share

a basic earnings per share:

	2000	2001	2002
Income (numerator)	1,180	12,056	1,411
Shares (denominator)	6,554,050	10,663,373	10,634,026
Per share amount	0.18	1.13	0.13

b diluted earnings per share:

Income (numerator)	1,180	12,056	1,411
Shares (denominator)	6,564,656	10,663,525	10,634,026
Per share amount	0.18	1.13	0.13

note 24 | Segments information

a

1. The Company and its consolidated companies operate in two business segments:

Telemedicine services – providing monitoring services utilizing telephonic and Internet communication technology and selling related instruments through direct sales or by franchises.

Medical services – operating a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular disease. The segment also operates medical call center services which provide 24-hours doctor "house-call" services and medical consultation over the phone.

2. The Company and its consolidated companies also operate in several geographic segments. The segments are determined based on the location of the customers.

3. The assets of the segments include all of the operational assets which are used by the segments and are comprised primarily of cash and cash equivalents, short-term deposits, trade receivables, other accounts receivable, postdated notes, prepaid expenses, inventory, fixed assets and intangible assets. The liabilities of the segments primarily include trade payables, other accounts payable and accrued severance pay.

The assets and the liabilities of the segments do not include deferred taxes.

b business segments:

The following tables present revenue and profit information, and certain asset and liability information regarding business segments.

	Telemedicine services		
	2000	2001	2002
Segment revenues:			
Sales to external customers	19,537	30,615	52,409
Operating income	4,374	9,032	9,442
Share in losses and provision against shareholders' loan to associate	–	(2,644)	(7,353)
Segment result	4,374	6,388	2,089
Unallocated expenses			
Operating income *			
Financial income (expenses)			
Other income (expenses), net			
Taxes on income			
Minority interest			
Net income for the year			
Other business information:			
Segment assets		126,180	143,073
Other assets			
Segment liabilities		(6,549)	(14,074)
Other liabilities			
Capital expenditure	1,976	3,453	3,534
Depreciation and amortization	1,342	2,848	3,052

* Includes share in losses and provision against shareholders' loan to an affiliate company.

Medical services			Consolidated		
2000	2001	2002	2000	2001	2002
–	–	37,395	19,537	30,615	89,804
–	–	4,126	4,374	9,032	13,568
–	–	–	–	(2,644)	(7,353)
–	–	4,126	4,374	6,388	6,215
			–	–	(1,913)
			4,374	6,388	4,302
			(2,234)	8,416	1,781
			66	(150)	(17)
			(1,119)	(2,598)	(3,230)
			93	–	(1,425)
			1,180	12,056	1,411
	8,815	58,370		134,995	201,443
				1,236	6,449
				136,231	207,892
	(1,911)	(10,961)		(8,460)	(25,035)
				(32,698)	(92,398)
				(41,158)	(117,433)
–	–	1,064	1,976	3,453	4,598
–	–	3,543	1,342	2,848	6,595

c geographic segments:

1. The following is segment revenue from external customers by geographical area, based on the geographical location of the customers:

	2000	2001	2002
Israel	18,228	23,882	32,393
Europe	1,309	6,733	3,286
USA	–	–	54,125
	19,537	**30,615**	**89,804**

2. The following is the total carrying amount of segment assets by geographical location of assets:

	2001	2002
Israel	129,913	129,740
Europe	5,082	2,427
USA	–	73,171
	134,995	**205,338**

3. The following is the total cost incurred during the year, to acquire segment assets that are expected to be used during more than one year (fixed assets and intangible assets) by geographical location of assets:

	2000	2001	2002
Israel	1,976	3,453	2,801
Europe	–	–	123
USA	–	–	1,674
	1,976	**3,453**	**4,598**

note 25 | Linkage terms of monetary balances

Linkage terms of monetary balances in the consolidated balance sheet of the Group are as follows:

December 31, 2001	In or linked to: foreign currency (mainly US dollars)	In or linked to: Israeli CPI	Unlinked	Total
assets:				
Cash and cash equivalents	56,529	–	617	57,146
Short-term deposits	3,041	–	–	3,041
Trade receivables	2,425	144	1,554	4,123
Postdated notes	–	28,370	–	28,370
Other accounts receivable	–	188	133	321
Shareholders' loan to associate	2,646	–	–	2,646
	64,641	**28,702**	**2,304**	**95,647**
liabilities:				
Credit from banks and others	–	–	18,559	18,559
Trade payables	714	–	1,326	2,040
Other accounts payable	323	–	4,956	5,279
Long-term loans and leases from banks and others (including current maturities)	199	2,071	11,717	13,987
Long-term loans from related parties (including current maturities)	–	152	–	152
	1,236	**2,223**	**36,558**	**40,017**
December 31, 2002				
assets:				
Cash and cash equivalents	36,129	–	480	36,609
Short-term deposits	15,210	–	–	15,210
Trade receivables	21,456	200	1,993	23,649
Postdated notes	–	39,016	–	39,016
Other accounts receivable	3,765	271	272	4,308
Shareholders' loan to associate	2,000	–	–	2,000
	78,560	**39,487**	**2,745**	**120,792**
liabilities:				
Credit from banks and others	7,000	–	3,568	10,568
Trade payables	5,418	–	957	6,375
Other accounts payable	11,606	–	5,580	17,186
Long-term loans and leases from banks and others (including current maturities)	50,976	11,261	17,332	79,569
	75,000	**11,261**	**27,437**	**113,698**

note 26 | Subsequent events

On January 1, 2003, the Company entered into an agreement with Hashmira Medical Ltd. and S.Y. Protected Communities and Nursing Ltd. ("the sellers") for the acquisition of their rights in their business activities including distress buttons, doctor calls services, dispatch call center services, etc.

The consideration for the transaction amounted to USD 1.6 million to be paid in 18 equal monthly installments linked to the CPI. The consideration shall be adjusted according to the number of subscribers who will pay full subscription fees during a period of three months after the closing date but in any case the consideration will not exceed USD 1.6 million.