

# Half-Year Report 2003

SHL Telemedicine Ltd.  
1 January – 30 June



## Dear Shareholders,

SHL revenues for the first half of 2003 totaled USD 51.2 m against USD 37.8 m in 2002. Revenues for the second quarter amounted to USD 25.6 m compared with USD 28.1 m for Q2 2002. US operations continue to significantly contribute to the business while the joint venture in Europe is progressing. SHL's world wide client base now counts more than 250,000 subscribers. Net income for the half year amounted to USD 0.7 m against 2002's net income of USD 6.0 m which included exceptional financial gains. In June SHL launched a new revolutionary product – the TeleMarker™ – a trans telephonic blood testing device enabling diagnosis of acute myocardial infarction. The TeleMarker™ further extends the range of SHL's product line.

### Focus on figures

Revenues for the second quarter of 2003 amounted to USD 25.6 m compared with USD 28.1 m for the same period of 2002. Revenues from international operations consisted of USD 18.2 m representing 71% of SHL's total revenues. Revenues of the telemedicine services segment (covering the monitoring operations

in US and Israel) amounted to USD 13.6 m against USD 16.3 m in 2002 while revenues for the medical service segment (covering diagnostic and management services in the US and Israel) totaled USD 12.0 m compared with USD 11.8 m. The decline in the telemedicine services segment revenues resulted mainly from the weaker trading conditions which prevailed in Israel over the past months and sales of less devices than in the previous year. The sales mix of the company's revenues contributed to a reduction in the gross margins to 48.2% compared to 49.7% in 2002 giving a net operating profit of USD 1.8 m compared to USD 3.1 m in the same period of the previous year. EBITDA for the second quarter amounted to USD 3.9 m against USD 4.9 m in Q2 2002.

In the second quarter, SHL recorded net income of USD 0.2 m compared to net income of USD 1.3 m for the comparable quarter of 2002. Earnings per share totaled USD 0.02 compared with EPS of USD 0.12 during the same quarter of 2002.

Revenues for the first half year totaled USD 51.2 m against USD 37.8 m for the same period of 2002. It should be noted that the 2002 figures included the revenues of Raytel only from April 2002.

Net income for the half year of 2003 totaled USD 0.7 m after recording USD 1.9 m of financial expenses and exchange rate differences. The net income for 2002 amounted to USD 6.0 m

which included an amount of USD 5.2 m of financial gains and exchange rate differences. Earnings per share for the six months period amounted to USD 0.07 compared to EPS of USD 0.57 in the first half of 2002.

During the quarter SHL's cash flow from operations amounted to USD 4.5 m resulting mainly from the catch up of the seasonal delay in Medicare collections and exchange rate differences.

SHL's balance sheet remains strong. As at 30 June 2003, SHL had around USD 38 m in cash and short term deposits. Shareholders' equity amounted to USD 99 m.

#### **Extension of product platform paves way forward**

In June 2003, SHL announced the launch of a new revolutionary trans telephonic blood testing device – the TeleMarker™. The TeleMarker™ enables the carrying out of blood tests from a subscriber's home and the transmission of the results through standard telephone lines to a remote medical monitor center for diagnosis and action. This device is of particular need in assisting in the diagnosis of acute myocardial infarction where other medical indications (ECG, anamnesis, etc) may fail to identify the event. The deployment of the TeleMarker™ further contributes to SHL's world leadership in the cardiac telemedicine market. The device will be initially introduced in SHL's home market in Israel.

#### **Dismissal of class action lawsuit and settlement of appraisal rights claim**

The class action claim submitted against Raytel alleging breach of fiduciary duty relating to SHL's acquisition of Raytel was dismissed without any award to the plaintiff.

In addition, the appraisal rights process initiated by holders of about 13% of Raytel's shares was also settled and the claim was dismissed by the court. The payment effected to the claimants, above the original merger price was not material.

#### **Period for the re-purchase of own shares extended**

Beginning July 2003, the Board of Directors of SHL extended the period for the re-purchase by SHL of its own shares until 31 March 2004, for up to an aggregate of USD 2.0 m (including all shares purchased until July 2003). The shares to be purchased will be held as treasury shares, and used for general corporate purposes.

#### **New Independent Director**

At the Annual General Meeting of SHL, held in Israel on 8 April 2003, Mr. Ron N. Salpeter was elected as Independent Director of SHL to replace Mr. Nissim Zvili, who resigned from the Board due to his appointment by the Israeli Government as the new Israeli Ambassador to France.

#### **Looking ahead**

SHL remains committed to continuing its international expansion mainly in North America and Europe and also maintaining and extending its leading market share in Israel. The company is on target to meet its 2003 revenues and earning forecasts. SHL will continue to strive to improve overall quality of life for subscribers, offering high-quality healthcare solutions to those that need them.

Yours sincerely,



Yoram Alroy,  
Chairman and CEO

# Consolidated Balance Sheet

U.S. dollars in thousands

December 31,  
2002  
Audited

2002

June 30,  
Unaudited

2003

## assets

### current assets:

Cash and cash equivalents	36,609	57,308	29,268
Short-term deposits	15,210	2,951	2,863
Marketable securities	–	–	5,467
Trade receivables	23,649	30,829	26,767
Post-dated notes	6,338	6,020	6,627
Prepaid expenses	3,664	3,797	4,675
Other accounts receivable	4,308	658	2,134
Inventory	6,085	3,999	6,859
Deferred taxes	1,947	453	2,808
	<b>97,810</b>	<b>106,015</b>	<b>87,468</b>

### long-term assets:

Post-dated notes	32,678	27,425	37,912
Prepaid expenses	11,998	10,312	14,021
Investment in associate	2,031	4,761	4,613
Deferred taxes	607	66	698
	<b>47,314</b>	<b>42,564</b>	<b>57,244</b>

### fixed assets:

Cost	17,519	15,237	21,058
Less – accumulated depreciation	(6,078)	(3,954)	(8,656)
	<b>11,441</b>	<b>11,283</b>	<b>12,402</b>

### intangible assets, net:

	51,327	54,696	51,639
	<b>207,892</b>	<b>214,558</b>	<b>208,753</b>

## liabilities and shareholders' equity

### current liabilities:

Credit from banks and others	47,559	29,150	48,662
Trade payables	6,375	8,776	6,907
Other accounts payable	17,186	21,736	11,985
	<b>71,120</b>	<b>59,662</b>	<b>67,554</b>

### long-term liabilities:

Long-term loans and leases from banks and others, net	42,578	57,374	39,308
Accrued severance pay	1,474	1,300	1,370
Deferred taxes	660	–	134
	<b>44,712</b>	<b>58,674</b>	<b>40,812</b>

### minority interest:

	1,601	1,377	1,537
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### shareholders' equity:

Ordinary shares of NIS 0.01 par value each: Authorized: 14,000,000 shares at December 31, 2002 and June 30, 2002 and 2003; Issued and outstanding: 10,663,373 shares at December 31, 2002 and June 30, 2002 and 2003

	22	22	25
Additional paid-in capital	78,142	77,618	85,844
Treasury shares	(196)	–	(443)
Cumulative reporting currency translation adjustments	1,913	2,005	2,139
Retained earnings	10,578	15,200	11,285
	<b>90,459</b>	<b>94,845</b>	<b>98,850</b>

	<b>207,892</b>	<b>214,558</b>	<b>208,753</b>
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# Consolidated Statement of Income

U.S. dollars in thousands

(except share amounts)

	Year ended December 31, 2002 Audited	Three months ended June 30, 2002 Unaudited	2003	Six months ended June 30, 2002 Unaudited	2003
Revenues from sales of devices and services	89,804	28,085	25,591	37,766	51,174
Cost of sales of devices and services	44,053	14,120	13,245	18,724	26,084
Gross profit	45,751	13,965	12,346	19,042	25,090
Research and development costs, net	415	81	141	167	258
Selling and marketing expenses	7,005	2,475	2,585	3,630	5,233
General and administrative expenses	26,676	8,353	7,786	10,362	15,307
Operating income	11,655	3,056	1,834	4,883	4,292
Financial expenses (income):					
Exchange rate differences from cash deposits	(4,694)	(1,862)	1,883	(4,882)	2,067
From short-term deposits, net	(344)	156	17	(1,382)	711
Other	3,257	1,322	(1,096)	1,017	(909)
	(1,781)	(384)	804	(5,247)	1,869
Other expenses, net	17	31	35	31	83
Income before taxes on income	13,419	3,409	995	10,099	2,340
Taxes on income	3,230	327	433	1,516	562
	10,189	3,082	562	8,583	1,778
Minority interest	(1,425)	(451)	(357)	(451)	(987)
Share in losses and provision against shareholders' loan to associate	(7,353)	(1,315)	—	(2,099)	(84)
Net income for the period	<b>1,411</b>	<b>1,316</b>	<b>205</b>	<b>6,033</b>	<b>707</b>
Net basic earnings per share	0.13	0.12	0.02	0.57	0.07
Net diluted earnings per share	0.13	0.12	0.02	0.57	0.07

# Consolidated Statement of Cash Flows

U.S. dollars in thousands

	Year ended December 31, 2002 Audited	Three months ended June 30, 2002 Unaudited	2003	Six months ended June 30, 2002 Unaudited	2003
<b>cash flows from operating activities:</b>					
Net income for the period	1,411	1,316	205	6,033	707
Adjustments required to reconcile net income to net cash provided by (used in) operating activities	804	(4,854)	4,270	(2,520)	(1,503)
Net cash provided by (used in) operating activities	2,215	(3,538)	4,475	3,513	(796)

## cash flows from investing activities:

Shareholders' loan to associate	(5,955)	(1,685)	(1,139)	(3,514)	(2,407)
Purchase of fixed assets	(3,181)	(578)	(1,105)	(927)	(1,896)
Payment for acquisition of consolidated company, net of cash acquired and business activity	(25,017)	(23,409)	(169)	(23,796)	(419)
Payment of liability regarding the acquisition of newly consolidated company	–	–	(4,131)	–	(4,131)
Investment in intangible assets	(1,417)	(305)	(245)	(781)	(552)
Proceeds from sale of fixed assets	5	–	–	–	23
Short-term deposits, net	(15,000)	–	11,818	–	11,818
Investment in marketable securities	–	–	(2,067)	–	(5,189)
Net cash provided by (used in) investing activities	(50,565)	(25,977)	2,962	(29,018)	(2,753)

## cash flows from financing activities:

Proceeds from long-term loans from banks and others, net	45,154	9,890	1,216	40,802	1,678
Repayment of long-term loans from related parties	(142)	(53)	–	(142)	–
Repayment of long-term loans from banks and others	(5,606)	(203)	(4,572)	(598)	(16,432)
Short-term bank credit, net	(6,620)	(5,873)	(1,450)	(10,013)	9,817
Income distributions to limited partners	(900)	(150)	(613)	(150)	(1,051)
Treasury shares acquired	(196)	–	(68)	–	(211)
Net cash provided by (used in) financing activities	31,690	3,611	(5,487)	29,899	(6,199)

Effect of exchange rate changes on cash and cash equivalents	(3,877)	(843)	2,383	(4,232)	2,407
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Increase (decrease) in cash and cash equivalents	(20,537)	(26,747)	4,333	162	(7,341)
Cash and cash equivalents at beginning of period	57,146	84,055	24,935	57,146	36,609

<b>Cash and cash equivalents at end of period</b>	<b>36,609</b>	<b>57,308</b>	<b>29,268</b>	<b>57,308</b>	<b>29,268</b>
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# Statements of Changes in Shareholders' Equity

U.S. dollars in thousands	Share capital	Additional paid-in capital	Treasury shares	Cumulative reporting currency translation adjustments	Retained earnings	Total
Three months ended June 30, 2003 (unaudited)						
Balance at the beginning of the period	23	78,975	(346)	1,794	11,080	91,526
Treasury shares	–	–	(68)	–	–	(68)
Reporting currency translation adjustments	2	6,869	(29)	345	–	7,187
Net income for the period	–	–	–	–	205	205
<b>Balance at the end of the period</b>	<b>25</b>	<b>85,844</b>	<b>(443)</b>	<b>2,139</b>	<b>11,285</b>	<b>98,850</b>
Six months ended June 30, 2003 (unaudited)						
Balance at the beginning of the period	22	78,142	(196)	1,913	10,578	90,459
Treasury shares	–	–	(211)	–	–	(211)
Reporting currency translation adjustments	3	7,702	(36)	226	–	7,895
Net income for the period	–	–	–	–	707	707
<b>Balance at the end of the period</b>	<b>25</b>	<b>85,844</b>	<b>(443)</b>	<b>2,139</b>	<b>11,285</b>	<b>98,850</b>

## SHL Telemedicine: profile

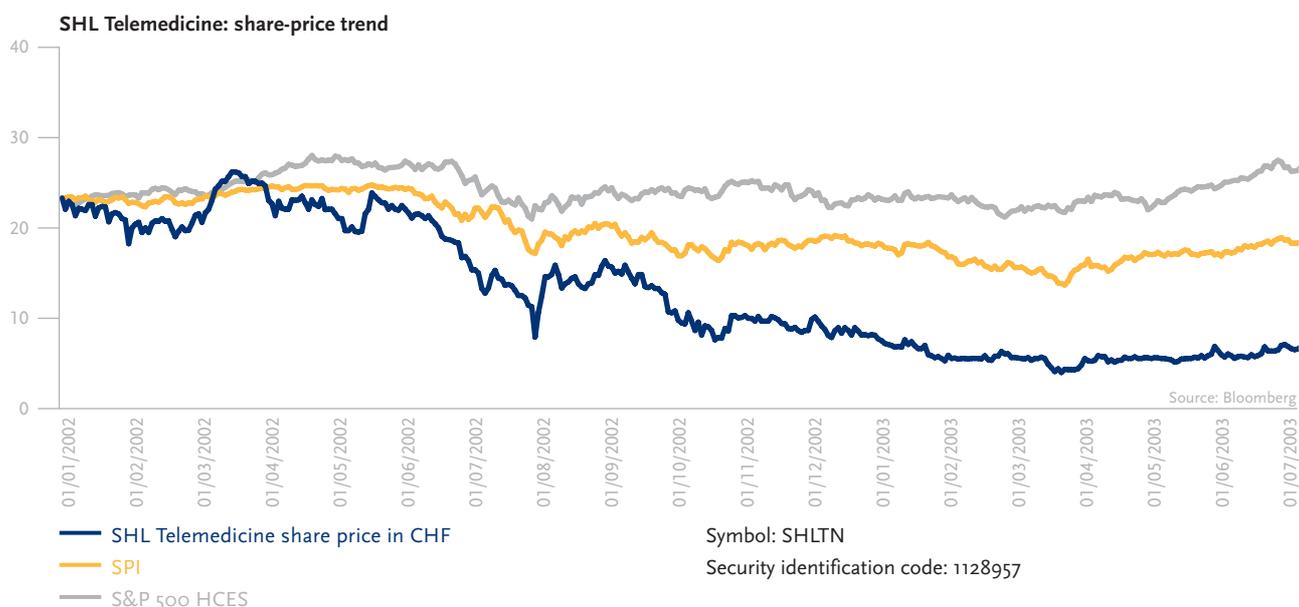
SHL TeleMedicine Ltd. develops and markets advanced personal telemedicine systems as well as medical call center services to subscribers. It provides remote monitoring services in cardiology, pulmonology, and other areas. SHL operates in the US through Raytel Medical Corporation, a leading provider of remote pacemaker monitoring and other cardiac monitoring services. Raytel also operates outpatient diagnostic imaging facilities and cardiovascular and nuclear cardiology diagnostic service facilities.

SHL Telemedicine has 1371 employees as of June 30, 2003 (June 2002: 1364)

## Shareholder structure as of June 30, 2003

Royal Philips Electronics	18.71 %
Alroy Group	18.65 %
Tower Holdings B.V.	14.55 %
G.Z. Asset and Management Ltd.	8.71 %
Public	39.38 %

Total number of outstanding shares: 10,663,373



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## IR agenda

20 November 2003 Results Q3

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