

Third Quarterly Report 2001

SHL Telemedicine Ltd.

1 July – 30 September



Dear Shareholders,

The third quarter of 2001 brought exciting developments for SHL Telemedicine Ltd. in the European market, supported by a particularly good performance at home and FDA approval for the Telepress III remote blood-pressure monitor. The opening of Philips HeartCare Telemedicine Services' first European medical call center in Zurich represents an important milestone following SHL's entry to the European equity markets last year via an IPO on the SWX New Market. Despite difficult market conditions, SHL's strong financial results include significantly improved margins, and the company remains well on target to comfortably meet ambitious full-year expectations.

Rising revenues, margins and net profit

For the three-month period ended 30 September 2001, revenues totalled USD 9.28m compared to USD 5.02m for the three months ended 30 September 2000. This 85% increase was largely due to the significant growth in our international and home markets. Gross profit and operating profit totalled USD 6.32m and USD 3.54m respectively, compared to USD 3.09m and USD 1.27m for the three months ended 30 September 2000.

In this third quarter SHL recorded net income of USD 7.68m

compared to net income of USD 0.19m for the comparable quarter of 2000. EPS amounted to USD 0.72 compared to EPS of USD 0.03 in the comparable quarter of 2000.

Revenues for the year to date totalled USD 22.01m compared to USD 14.36m for the comparable period of 2000. Net income amounted to USD 12.26m compared to USD 0.73m for the first nine months of 2000 and EPS for the nine months totalled USD 1.15 as against USD 0.13 for the similar period of 2000.

The increase in net income for the quarter and for the first nine months of 2001 compared to the same periods of 2000 reflects not only the increase in revenues and operating margins which occurred both in the international and home markets but also financial gains resulting mainly from the devaluation of the NIS (New Israeli Shekel) against the US dollar. Part of these financial gains may be reversed in Q4 depending on the rate of exchange of the NIS to the USD.

SHL's balance sheet remains strong, with more than USD 60m cash-in-hand. Operating cash flow for the quarter contributed USD 1.35m, against a negative cash flow of USD 1.61m for the three months ended 30 September 2000.

Shareholders' equity increased to USD 96.54m from USD 91.77m at 31 December 2000 reflecting net income for the year less currency translation adjustments caused by the devaluation of the NIS against the US dollar during the period.

During this quarter sales of devices as a percentage of total revenue

increased. Devices sales constituted 51% of total revenues, with services comprising 49%. During the same period last year, devices sales contributed to 48% of total revenues, with services amounting to 52% of the revenues.

International expansion remained on track

Revenues from international business have continued to increase steadily during the third quarter and the company is still firmly committed to its stated target of increasing its revenues from international activities of overall revenues.

Q3 Highlights: Open for business in Zurich, Switzerland

During the third quarter Philips HeartCare Telemedicine Services (PHTS), SHL's 19.9%-owned joint venture alongside Philips Medical Systems, opened its first European remote medical call center, located in Zurich, Switzerland. This milestone achievement marks an important step forward in the company's European expansion – further PHTS medical call centers are scheduled to open soon in south west Germany and northern Italy.

The Swiss medical call center, which is based on SHL's established model, equipped with SHL's Tele-Medicine devices, systems technology, and subscriber services, effectively launches PHTS towards its goal of fast-track medical care aimed at empowering subscribers to take an active part in controlling their own health. SHL's home-market experience is a vital factor in the joint venture's provision of high-quality service throughout Switzerland and further into Europe, offering subscribers real peace of mind despite the health conditions they might suffer.

The high-tech Zurich medical call-center offers a fully integrated selection of SHL services and products, including remote cardiac monitoring services. Subscribers can use any telephone to transmit information about their heart functions (including a 12-lead ECG) to highly trained medical personnel for analysis, consultation, and advice, greatly reducing emergency time-to-treatment, which can be life saving. SHL will continue to earn income from the joint venture through service revenue, royalties, and device sales.

Q3 Highlights: Product progression

The third quarter 2001 also brought FDA approval for SHL's TelePress III, a comprehensive blood-pressure monitoring device. The TelePress III can be operated by up to two people in a single household to measure blood pressure and pulse-rate, transferring all relevant data over a telephone line to the medical call center. This comprehensive, high-speed remote blood pressure and pulse-rate monitor already holds the European CE mark, which was awarded to the product last year. This latest recognition from the FDA will boost the TelePress III's standing as a quality product capable of making a significant contribution to quality patient care.

Firm focus for the future

As the year-end approaches, the company remains well positioned to continue with the fast-track expansion throughout the rest of Europe and beyond to which it is committed. Through PHTS, SHL operations will be established this year in Italy and Germany, and SHL will continue to examine acquisition and partnership opportunities outside Europe.

With solid experience in medical healthcare service provision, extensive technological know-how, and a sound management team with an impressive track record, SHL remains in line for success in the fourth quarter and beyond. The company expects to comfortably meet its full-year targets as well as ambitious sales growth. Research and development, including product design and review, also remains a top priority for SHL as the company is constantly striving to meet the changing demands of modern healthcare through technical innovation.

The focus for the future remains clear and firm: to provide the best possible consumer cardiac monitoring services internationally – concentrating on enhancing quality of life and peace of mind for those people who rely daily on SHL healthcare products.

Yours sincerely,



Yoram Alroy,
Chairman and CEO

Consolidated Balance Sheets

U.S. dollars in thousands

December 31,
2000
Audited

September 30,
2001
Unaudited

assets

current assets:

Cash and cash equivalents	50,379	23,579	60,209
Short-term deposits	13,024	—	2,268
Trade receivables	976	1,256	845
Trade receivables - affiliated company	—	—	2,355
Post-dated notes	4,827	5,825	5,350
Prepaid expenses	1,465	1,351	1,543
Other accounts receivable	537	680	493
Inventory	2,179	2,243	3,317
Deferred taxes	143	116	135
	73,530	35,050	76,515

long-term assets:

Post-dated notes	12,877	10,901	19,538
Prepaid expenses	8,446	7,918	9,451
Investment in an affiliated company	—	—	2,250
	21,323	18,819	31,239

fixed assets:

Cost	5,819	6,192	5,178
Less – accumulated depreciation	3,562	4,062	3,365
	2,257	2,130	1,813

other assets:

Research and development, net	2,155	2,065	2,482
Deferred taxes	548	646	241
Goodwill, net	14,903	15,228	13,101
	17,606	17,939	15,824

114,716 **73,938** **125,391**

liabilities and shareholders' equity

current liabilities:

Credit from banks and others	3,066	3,947	10,271
Trade payables	1,626	1,957	1,648
Other accounts payable	2,243	2,280	3,647
Deferred revenues, net of notes	—	590	—
	6,935	8,774	15,566

long-term liabilities:

Long-term loans from banks and others	15,384	15,229	12,843
Long-term loans from related parties	162	262	—
Accrued severance pay	462	387	444
	16,008	15,878	13,287

shareholders' equity:

Share capital	31	25	31
Additional paid-in capital	92,012	50,340	91,594
Cumulative reporting currency translation adjustments	2,619	2,261	(4,461)
Retained earnings (accumulated deficit)	(2,889)	(3,340)	9,374
	91,773	49,286	96,538

114,716 **73,938** **125,391**

Consolidated Statements of Operations U.S. dollars in thousands

(except share amounts)

	Year ended December 31, 2000 Audited	Three months ended September 30, 2000 Unaudited	Three months ended September 30, 2001 Unaudited	Nine months ended September 30, 2000 Unaudited	Nine months ended September 30, 2001 Unaudited
Revenues from sales of devices and services	19,537	5,016	9,278	14,356	22,006
Cost of sales of devices and services	7,632	1,927	2,958	5,543	7,724
Gross profit	11,905	3,089	6,320	8,813	14,282
Research and development costs, net	243	53	98	152	264
Selling and marketing expenses	2,289	515	910	1,725	2,572
General and administrative expenses	4,999	1,252	1,776	3,175	4,724
Operating income	4,374	1,269	3,536	3,761	6,722
Financial income (expenses), net	(2,234)	(929)	5,447	(2,363)	7,727
	2,140	340	8,983	1,398	14,449
Other income (expenses), net	66	31	(23)	57	(147)
Income before taxes on income	2,206	371	8,960	1,455	14,302
Taxes on income	1,119	215	1,277	820	1,895
	1,087	156	7,683	635	12,407
Equity in losses of an affiliated company	–	–	–	–	144
Minority interest in losses of a subsidiary	93	35	–	94	–
Net income for the period	1,180	191	7,683	729	12,263
Net basic earnings per share	0,18	0,03	0,72	0,13	1,15
Net diluted earnings per share	0,18	–	0,72	–	1,15

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Year ended December 31, 2000 Audited	Three months ended September 30, 2001 Unaudited		Nine months ended September 30, 2001 Unaudited	
cash flows from operating activities:					
Net income for the period	1,180	191	7,683	729	12,263
Adjustments required to reconcile net income to net cash provided by (used in) operating activities	(5,200)	(1,796)	(6,334)	(3,912)	(13,253)
Net cash provided by (used in) operating activities	(4,020)	(1,605)	1,349	(3,183)	(990)
cash flows from investing activities:					
Investment in an affiliated company	—	—	—	—	(144)
Loan to an affiliated company	—	—	—	—	(2,051)
Purchase of fixed assets	(1,175)	(274)	(305)	(905)	(866)
Loans to related party, net	13	4	—	(13)	—
Payment for acquisition of a consolidated subsidiary, net of cash acquired	11	—	—	11	—
Investment in other assets	(801)	(210)	(308)	(633)	(766)
Proceeds from sale of fixed assets	166	91	6	166	659
Investment in short-term deposits	(13,133)	—	—	—	(29,992)
Proceeds from investment in short-term deposits	—	—	—	—	12,974
Net cash used in investing activities	(14,919)	(389)	(607)	(1,374)	(20,186)
cash flows from financing activities:					
Proceeds from issuance of Ordinary shares, net	79,316	37,903	(204)	37,903	(837)
Customers' deposits, net	(2)	—	—	—	—
Proceeds from long-term loans from banks and others	47,567	13,708	—	34,717	121
Repayment of long-term loans from related parties	(366)	(105)	(92)	(271)	(285)
Repayment of long-term loans from banks and others	(55,189)	(23,951)	(549)	(42,201)	(2,777)
Short-term bank credit, net	(2,299)	(1,948)	3,613	(1,809)	38,973
Share offering issuance expenses	—	(69)	—	(184)	—
Net cash provided by financing activities	69,027	25,538	2,768	28,155	35,195
Effect of exchange rate changes on cash and cash equivalents	205	(106)	(2,644)	(105)	(4,189)
Increase in cash and cash equivalents	50,293	23,438	866	23,493	9,830
Cash and cash equivalents at the beginning of the period	86	141	59,343	86	50,379
Cash and cash equivalents at the end of the period	50,379	23,579	60,209	23,579	60,209

Statements of Changes in Shareholders' Equity (deficiency)

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Cumulative reporting curren- cy translation adjustments	Retained earnings (accumulated deficit)	Total
Three months ended September 30, 2001 (unaudited)					
Balance at the beginning of the period	31	91,594	(127)	1,691	93,189
Reporting currency translation adjustments	—	—	(4,334)	—	(4,334)
Net income for the period	—	—	—	7,683	7,683
Balance at the end of the period	31	91,594	(4,461)	9,374	96,538
Nine months ended September 30, 2001 (unaudited)					
Balance at the beginning of the period	31	92,012	2,619	(2,889)	91,773
Reporting currency translation adjustments	—	—	(7,080)	—	(7,080)
Issuance expenses	—	(418)	—	—	(418)
Net income for the period	—	—	—	12,263	12,263
Balance at the end of the period	31	91,594	(4,461)	9,374	96,538

Profile SHL Telemedicine

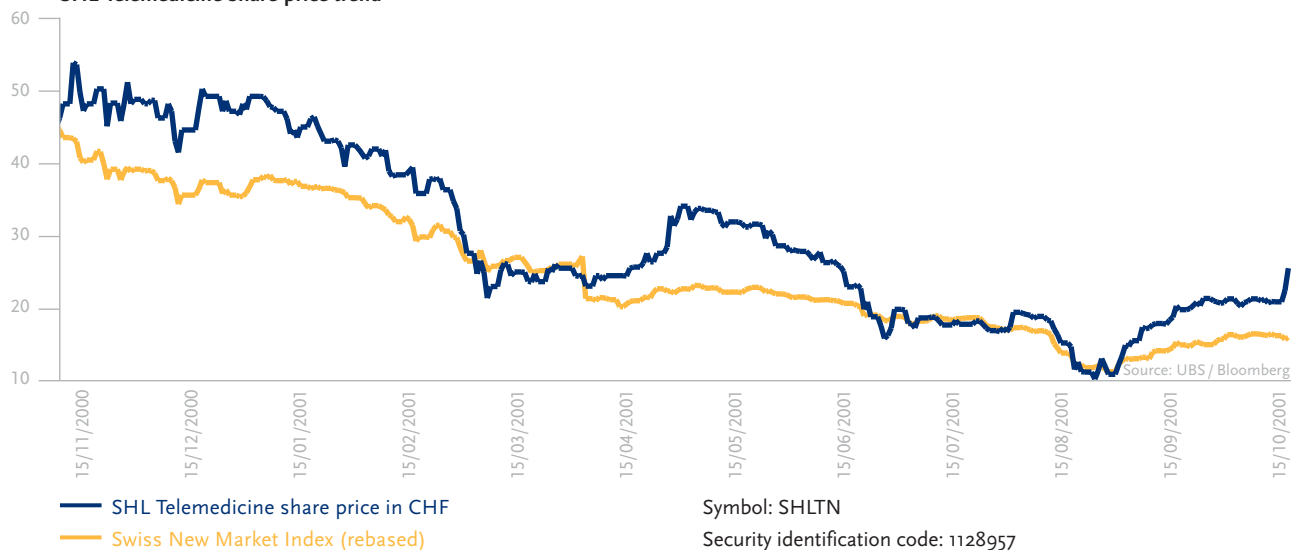
SHL Telemedicine Ltd. develops and markets advanced personal telemedicine systems as well as medical call center services to subscribers. It provides remote monitoring services in cardiology and pulmonology. Individuals can transmit indications of cardiac or pulmonary functions (e.g. 12-lead EKG, blood pressure and spirometry readings) via phone to a medical call center staffed with trained medical personnel for monitoring, analysis, and instruction.

SHL Telemedicine counted 338 employees as of September 30, 2001 (September 2000: 331).

Shareholder structure as of September 30, 2001

Royal Philips Electronics	18,57%
Alroy family	18,55%
Tower Holding	14,88%
G.Z. Asset	8,64%
I.F. International Fund	4,19%
Public	35,17%
Total number of outstanding shares: 10,663,373	

SHL Telemedicine share-price trend



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