Annual Report 2009

SHL Telemedicine

Corporate Profile

SHL Telemedicine Ltd., headquartered in Tel Aviv, Israel, specializes in developing and marketing advanced personal telemedicine systems as well as providing end-users with comprehensive telemedicine solutions including medical call center services, with a focus on cardiovascular and related diseases. These services improve the quality of life for the subscribers and enable cost savings for the health services community.

SHL is the market leader in Israel and active internationally in Germany, through a wholly owned subsidiary. In the US, certain of SHL's products are distributed by Philips Healthcare. The company holds a leading market position due to its extensive experience gathered over more than 20 years, with over one million end-users having had the benefit of using its services and products. SHL is listed on the SIX Swiss Exchange, symbol SHLTN.

Key Figures (December 31)

All financial units in USD 1,000	2009	2008
Revenues	47.9	44.6
EBIT	6.7	4.2
EBITDA	11.6	9.1
EBITDA margin	24.2%	20.5%
Net profit	5.4	2.2
Net profit per share	0.51	0.21
Cash, cash equivalents and marketable securities	20.1	23.5
Total outstanding debt	0.5	0.6
Total assets	86.6	81.8
Total equity	65.3	59.1
Employees	383	367

Contents

Growing Stronger

SHL continued its profitable growth, driven by its German business.

Against the background of the uncertainties stemming from the global economic downturn of 2009, SHL Telemedicine's management successfully managed to achieve the upbeat forecasts made a year ago. The stability of our financial performance has clearly improved with Israel continuing to benefit from its broad customer base and provide steady earnings at solid margins while Germany continued its steady growth pattern living up to its promise as a significant growth engine for our telemedicine services. Indeed, for the first time, German revenues and profitability exceeded those of the Israeli business and so enabling us to raise our financial guidance in mid-year.

Total revenues for 2009 increased to USD 47.9 million (USD 51.0 million at constant exchange rates*)., an increase of 14.4 % over 2008 at constant exchange rates, with EBITDA of USD 11.6 million and net profit of USD 5.4 million.

In spring we hosted a delegation of health experts of the German Association for Managed Care. We were pleased to demonstrate and discuss with them the SHL model in Israel which is based on over 20 years of experience and where 70,000 subscribers (most of them self pay) benefit from SHL telemedicine solutions. These interactions reflect the importance and acknowledgement that our services and knowhow are receiving in Germany.

This year again, studies conducted in Germany validated that SHL's telemedicine solutions improve quality of life for chronically ill heart

patients and achieve a significant reduction of health care costs. During the year presentations of SHL's telemedicine solutions were held at many meetings, including The European Society for Cardiology (ESC) in Barcelona, the annual meeting of The German Cardiology Society in Mannheim and The Forum Managed Care Symposia in Zurich.

Our German operations are evidence of our ability to successfully build a sustainable profitable business in a new territory. While we continue to develop this important market we are carefully assessing new paths to grow our business further, both from a geographical perspective and a services' point of view. I am looking forward to updating you on the progress we make in these endeavors in the course of 2010.

On behalf of the Board of Directors and the Management, let me thank our dedicated employees in Israel and Germany for their strong commitment and achievements and our business partners, customers and suppliers for their excellent collaboration. Last but not least, I express our thanks to our Shareholders for their continued confidence in supporting our Company.

Sincerely

Y. Alroy

Yoram Alroy,

Chairman and President

Consistent Continued Progress

2009 highlighted by further expansion of SHL's business while evaluating new paths for growth

During 2009 SHL continued to deliver improved results quarter by quarter. The strategic path set at the beginning of 2008 is living up to its promise bringing sustained growth and improved overall performance.

Review by market

Germany

SHL's German operations again displayed significant growth with revenues increasing by a further 41% over the previous year, at constant currency. This was achieved despite the German health care reforms which are currently being implemented.

These reforms had a major impact on the health insurance market in 2009. They were initiated in 2006 and are designed to ensure that the country will be able to finance future health care expenses in light of disproportionately rising health care costs. Among other things, the reforms give consideration to the impact of cost-intensive treatments, demographic change and the emergence of new disease patterns. Based on these reform plans, compulsory health insurance, either by a statutory policy or a private health insurance policy, was required by 1 January 2009 for all persons living in Germany. This, together with new fee structures and greater accountability of the health insurers to their budgets has led to a trend of consolidation and mergers in the health insurer space. All of these have led to longer than usual sales cycles, as new business initiatives were virtually halted until the conclusion of this process.

However, together with this, 2009 showed once more the significant value that SHL's telemedicine solutions, bring both to its subscribers, and also to the health insurers. Subscribers to the service are enjoying significantly better quality of life while studies that continue to be carried out by the health insurers demonstrate considerable reduction in hospitalizations and hospital stays leading to impressive cost savings.

The Diabetiva pilot program, managed together with one of SHL's clients, is continuing and in addition SHL is evaluating the introduction of additional telemedicine services such as chronic obstructive pulmonary disease (COPD) and others.

To strengthen the brand, effective July 2009, SHL's German operation PHTS Telemedizin, adopted SHL's global brand and became SHL Telemedizin. Under one strong and recognized world wide brand, SHL intends to press forward and further develop and promote its telemedicine services.

Israel

2009 was another solid year for SHL Israel, with operations continuing to show good financial performance with improved operating cash flow. During the year SHL expanded its Israeli subscriber base by acquiring the activities of two smaller telemedicine providers.

USA

SHL continues to receive the minimum revenues due under its agreement with Philips arising from its sale of Raytel to Philips in 2007 and will continue to do so for the coming two years. Future revenues from this source after that date will be dependent on the achievement by Philips of sales of SHL devices and services in this market.

Business Development

During 2009 SHL has been assessing the entry into new territories and markets and offering additional services. The first steps in implementing this strategy will be leveraging the SHL brand recognition and reputation in Germany and introducing into this consumer market the SHL cardiac emergency service using its personal cellular 12 lead ECG monitoring device, the CardioSen'C. In addition, SHL is also planning on entering into an additional market in the near future.

Technology

The ongoing investment in research and development enables SHL to supplement its existing product lines and extend its product offerings. In recognition for excellence in product innovation, the Frost & Sullivan "European Telemedicine Systems for Cardiac Monitoring Product Innovation of the Year Award" was presented to SHL Telemedicine in April 2009 for its next generation personal ECG device - the CardioSen'C™. This full 12 lead ECG personal digital cellular transmitter is a monitoring system that uses either a cellular network or public switched telephone network to transmit real-time medical cardiological data remotely. It speedily and effectively fulfils the needs for a friendly end-user system.

Financials

Revenues for the year reached USD 47.9 million compared to revenues of USD 44.6 million in 2008. At constant exchange rates* revenues amounted to USD 51.0 million, representing a growth of 14.4% year over year. This growth, which comes mainly from the sustained growth in Germany has led to improved overall financial performance.

Gross margins improved and reached 67.0 % of revenues up from 64.8% in 2008, bringing gross profit to USD 32.1 million compared to USD 28.9 million in 2008.

EBITDA for the year grew by 27.5% to USD 11.6 million (24.2% of revenues) compared to an EBITDA of USD 9.1 million (20.4% of revenues) in 2008 with EBIT up 59.5% to USD 6.7 million (14.0% of revenues) compared to USD 4.2 million (9.4% of revenues) in 2008.

Net income for the year reached USD 5.4 million (USD 0.51 per share), up 145.5% from USD 2.2 million (USD 0.21 per share) in 2008.

Cash flow improved noticeably with cash generated from operations reaching USD 5.3 million compared to cash used in operations of USD 7.6 million in 2008. Cash, cash equivalents and marketable securities amounted at December 31, 2009 to USD 20.1 million compared to USD 23.5 million at the end of 2008.

SHL's balance sheet remains strong with assets amounting to USD 86.6 million, of which current assets amounted to USD 31.6 million, while total

liabilities amounted to USD 21.3 million. Equity at December 31, 2009 stood at USD 65.3 million (75.4% of balance sheet) compared to USD 59.1 million at December 31, 2008.

Outlook

Management is expecting continued overall growth for 2010 of 10%-15% with consolidated revenues reaching USD 53-55 million. This is expected to be achieved through continuing growth in the German market, along with steady, single digit revenue growth coming from the Israeli business. However, it should be noted that the level of progress in 2010 in the German business is dependent on the effects of the health care reform, although mid and long-term prospects in the German business remain excellent.

Due to the expected introduction of the SHL cardiac emergency service into the German consumer market, together with the possible launch of the SHL service in another European territory, considerable investments in sales and marketing will be required. As a result and depending on the rate of progress and actual costs involved in these activities, net profit is expected to be in the range of USD 4-6 million, assuming constant exchange rates.

* Constant exchange rates - In order to enable meaningful comparison between the 2009 and 2008 results, 2009 results are also presented at constant currency exchange rates. These are calculated by translating the 2009 results using the average exchange rates from 2008 instead of the current period exchange rates. Management believes that this presentation enables a more meaningful comparison between the periods due to the significant fluctuations in NIS/USD/EUR exchange rates.

The SHL Service

Personal Telemedicine offers centralized remote monitoring services to private individuals by merging sophisticated customer care systems, best-in-class Telemedicine consumer devices, and specially designed medical data protocols, into a complete and interconnected service platform. SHL Telemedicine specializes in the development and marketing of advanced personal Telemedicine devices and in the operation of medical monitoring centers, providing life saving Telemedicine services to subscribers all over the world.

Telemedicine offers many advantages and has already started to play a central role in the way people interact with healthcare. It offers much more than advanced medical applications that can be conveniently used from home. It changes people's state of mind towards life by offering them the means to enjoy a safer, more liberated and relaxed life style. Choosing SHL means to choose the medicine of tomorrow and benefit today from the latest advancements in life saving technologies that improve the overall quality of life.

Medical Monitoring Center - Available 24 hours a day, 7 days a week, 365 days a year.

At the heart of SHL's service offering, is its medical monitoring centers in Tel-Aviv, Israel and Dusseldorf, Germany. The medical monitoring center is staffed around the clock by skilled, professional, and specially trained medical personnel (they complete SHL's advanced training course for Telemedicine), ensuring appropriate evaluation and medical care. By means of advanced Telemedicine devices located at the subscriber's home, office or used from underway the medical data is transmitted to the medical monitoring center where it evaluated by the professional healthcare team. The medical team will provide immediate feedback and reassurance to the subscriber and when necessary will instruct the subscriber on the possible course of action needed.

In case of need the SHL medical call center will assist the subscriber in facilitating emergency care, including by contacting emergency medical services.

Personal Medical Record

Each subscriber's medical record is a complete electronic medical file, which includes demographic data, medical history, and medical baseline data provided by the subscriber. It can include, based on the type of service he has enlisted for, a 12 lead ECG, blood pressure, weight etc.

By means of advanced Telemedicine devices medical data is transmitted to SHL's medical monitoring center and is placed directly in the subscriber's appropriate electronic medical record. Furthermore, by using SHL's technology, these records are automatically updated when personal medical measurements, like blood pressure, are being conducted by the subscriber in the comfort of his home, and automatically transmitted, without the need of a telephone call to the monitoring center.

This data is an additional vital component used in the medical evaluation and provision of care by the monitoring center.

SHL Telemedicine devices

SHL believes in harnessing technological innovation for the benefit of people and offering sophisticated, yet user-friendly, consumer end-devices designed to follow the strictest quality requirements. All of SHL's Telemedicine devices are fully integrated with SHL's advanced and modular based monitoring center software suite. The different device types in the SHL product offering can be configured to work together, to offer an even more comprehensive service offering that can suit a variety of medical conditions.

The ongoing investment in research and development has enabled SHL to offer best in class telemedicine devices, as acknowledged by Frost & Sullivan, where SHL were presented with the "European Telemedicine Systems for Cardiac Monitoring Product Innovation of the Year Award" in recognition of its next generation personal ECG device, the CardioSen'C™. This full 12 lead ECG personal digital cellular transmitter is a monitoring system that uses either cellular network or public switched telephone network to transmit real-time medical cardiological data remotely.

Information for Investors

Capital structure

The issued share capital is divided into 10,501,174 registered shares with a par value of NIS 0.01 each (excluding 252,836 ordinary shares of NIS 0.01 par value each held by SHL)

Significant shareholders'

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

Royal Philips Electronics	18.85%
Alroy Group*	19.14%
Tower Holdings B.V.	14.39%
G.Z. Assets and Management Ltd.	8.78%
Public	38.84%

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2009, after deducting from the total number of shares outstanding 252,836 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Statistics on SHL Telemedicine as at December 31, 2009

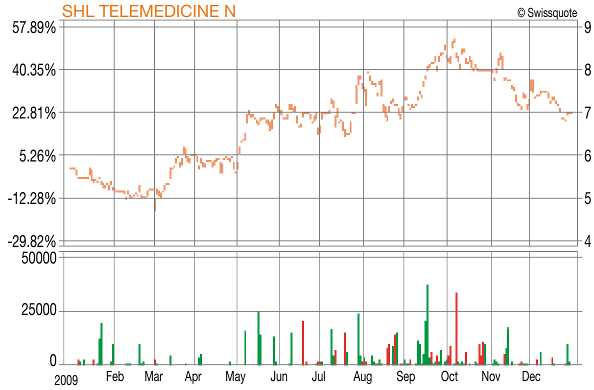
Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,501,174
Market price high/low (CHF)	8.77/4.72
Market capitalization high/low (CHF million)	94.3/50.8
Market capitalization 31/12/09 (CHF million)	75.3
Share capital – nominal value (NIS)	105,011
Majority interests	61.16%

Key figures per share at December 31, 2009

Net income per share (USD)	0.51

Share price development



Listing

All SHL shares are listed on SWX Swiss Exchange

Ticker symbol:	SHLTN
Currency:	CHF
Listing date:	November 15, 2000

Investor relations

SHL Telemedicine Ltd.

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Annual General Meeting

May 26, 2010

Next Publications

Q1 Results: May 11, 2010

Q2 Results: August 4, 2010

Q3 Results: November 10, 2010

Corporate Governance 2009

Contents

SHL TeleMedicine Ltd. Corporate Governance Report

Introduction

In this section of our 2009 Annual Report we are happy to bring to you our Corporate Governance Report in order to give all those who are interested in the future of SHL a greater understanding of who we are.

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, 2009, and complies with the Corporate Governance Directive of the SIX Swiss Exchange.

1. Group Structure and Shareholders

1.1 Group Structure

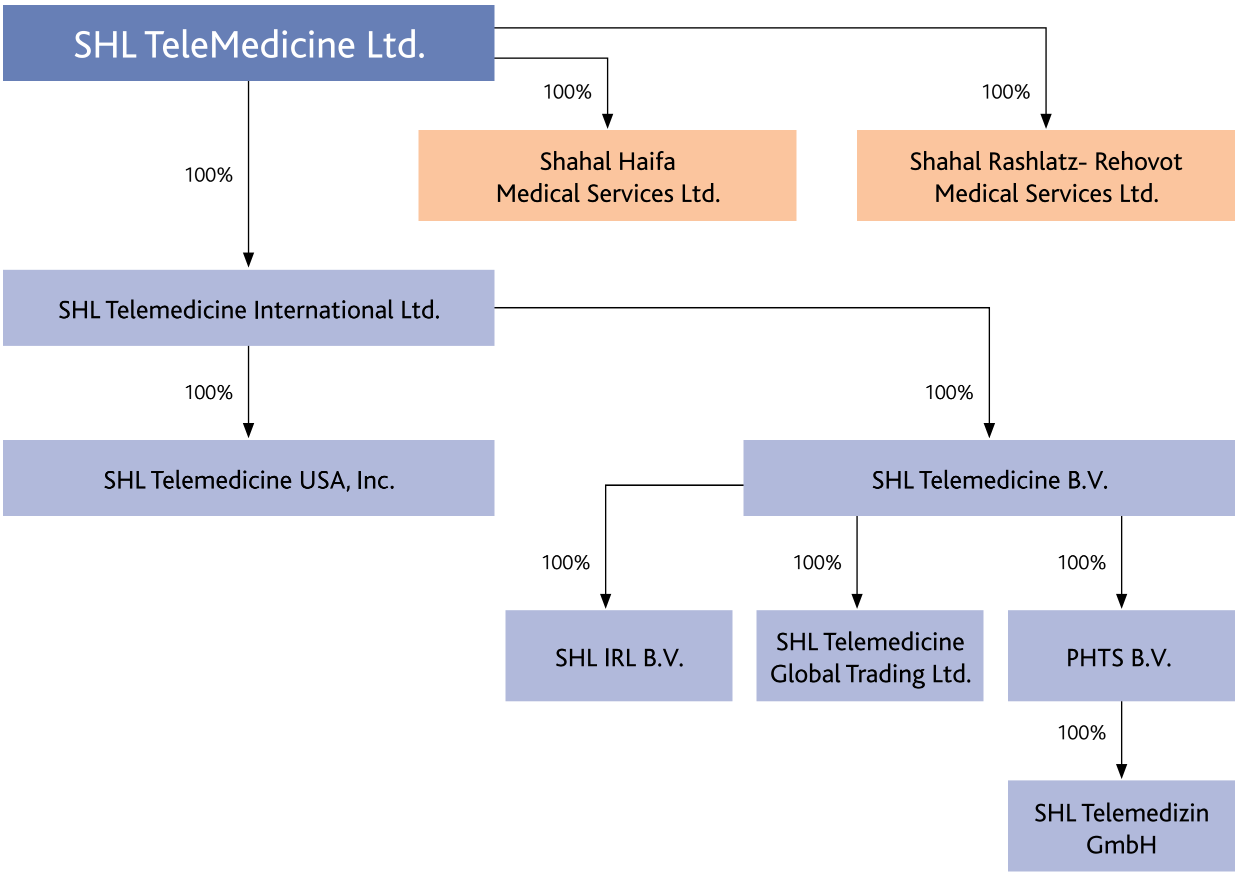
1.1.1 Management Principles:

SHL Telemedicine Ltd. is a company incorporated in Israel whose shares are publicly-traded on the SIX Swiss Exchange under the symbol SHLTN (see Section 1.1.2 for additional information on the Company). SHL and its subsidiaries develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine systems are designed to improve quality of care and life for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health.

During 2009 the Company and its subsidiaries in Israel, Germany and the U.S. operated in one business segment - Telemedicine Services.

Telemedicine Services comprises the provision of telemedicine services and devices to subscribers utilizing telephonic and internet communication technology. SHL's telemedicine solution offers centralized remote diagnostic and monitoring services to end-users, making use of computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.

Each of the operations in Germany and Israel enjoys a high degree of autonomy, with its own management



group. Corporate management which is located in Israel complements and oversights those businesses. In addition, certain services are centralized in Israel and are provided to all group companies.

1.1.2 Description of the most important group companies, listed and unlisted, belonging to the SHL group:

SHL TeleMedicine Ltd. ("SHL") - 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. SHL's issued and outstanding share capital is NIS 105,011.74 divided into 10,501,174 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 252,836 ordinary shares of NIS 0.01 par value each held by SHL). For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 19. The registered shares of SHL are traded on the main board of the SIX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As at December 31, 2009, SHL's market capitalization was CHF 75.1 million. SHL's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

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, all of which are held by SHL and 100 voting shares of NIS 1 par value each, all of which are held by SHL. Shahal Haifa's registered office is located 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 of which 100 ordinary shares of par value NIS 1 are issued and outstanding, all of which are held by SHL. Shahal Rishon's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, 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 of which STI's issued and outstanding share capital is comprised of 8,260 ordinary shares of NIS 1 par value each and 1,740 preferred shares of NIS 1 par value each, all of which are held by SHL. STI's registered office is located 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 30,000,000 divided into 300,000 ordinary shares of Euro 100 par value each of which 74,043 ordinary shares of Euro 100 par value each are issued and outstanding, all of which are held by STI. SHL BV's registered office is located at Rapenburgerstraat 204, 1011 MN, Amsterdam, The Netherlands

SHL Telemedicine USA, Inc. ("SHL USA") – SHL USA's authorized share capital is comprised of USD 1 divided into 100 shares of common stock of USD 0.01 par value each of which 100 shares of common stock of USD 0.01 par value each are issued and outstanding, all of which are held by STI. SH L USA's registered office is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

SHL Telemedicine North America, LLC ("SHL N. America") – SHL N. America's authorized equity securities consist of 100 membership units which are all currently held by SHL USA. SHL N. America's registered office is located at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

Raytel Medical Corporation LLC ("Raytel") – Raytel's authorized equity securities are comprised of 100 membership units which are all currently held by SHL N. America LLC. Raytel has its registered office 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 EUR1,000,000 divided into 1,000,000 ordinary shares of EUR 1.00 par value each, of which 1,000 ordinary shares of EUR 1.00 par value each are issued and outstanding, all of which are held by SHL BV. SHL Global's registered office is located at Universal House, Shannon Business Park, Shannon, Co. Clare, Ireland.

Personal Healthcare Telemedicine Services Europe B.V. ("PHTS BV") – PHTS BV's authorized share capital is comprised of EUR 4,000,000 divided into 400,000 shares of common stock of EURO 10 par value each, of which 81,500 shares of common stock of EUR 10 par value each are issued and outstanding, all of which are held by SHL BV. PHTS BV's registered office is located at Rapenburgerstraat 204, 1011 MN, Amsterdam, The Netherlands.

SHL Telemedizin GmbH ("SHL Telemedizin") (formerly "Personal Healthcare Telemedicine Services GmbH) – SHL Telemedizin's authorized share capital is comprised of EUR 300 divided into 300,000 shares of common stock of EUR0.001 par value each of which 300,000 shares of common stock of EUR 0.001 par value each are issued and outstanding, all of which are held by PHTS BV. SHL Telemedizin's registered office is located at Heinrich-Heine-Allee 1, 40213 Düsseldorf, Germany.

SRL IRL B.V. ("SHL IRL") - SHL IRL's authorized share capital is comprised of Euro 90,000 divided into 90,000 ordinary shares of Euro 1.00 par value each of which 18,000 ordinary shares of Euro 1.00 par value each are issued and outstanding, all of which are held by SHL BV. SHL IRL's registered office is located at Universal House, Shannon Business Park, Shannon, Co. Clare, Ireland.
There are no companies belonging to the consolidated entities of SHL whose equity securities are listed on a stock exchange.

1.2 Significant Shareholders

Royal Philips Electronics	18.85%
Alroy Group*	19.14%
Tower Holdings B.V.	14.39%
G.Z. Assets and Management Ltd.	8.78%
Public	38.84%

* Alroy Group is comprised of Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.88% of the issued and outstanding share capital of SHL, Mr. Erez Alroy, Co-CEO of SHL that holds individually and through a company wholly owned by him 0.28% 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, approximately 6.90% 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 approximately 5.08 % of the issued and outstanding share capital of SHL.

The above table of Significant Shareholders reflects actual holdings in accordance with the SIX SAG Register as of December 31, 2009, after deducting from the total number of shares outstanding 252,836 Ordinary Shares held by SHL (as described in Section 1.1.2 above), and does not reflect holdings on a fully diluted basis.
Pursuant to the Shareholders Agreement (the "Shareholders Agreement") 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 two (2) years commencing as of November 2007, and which shall be automatically renewed for additional two (2) year periods unless either party provides a three (3) months written notice to terminate the Shareholders Agreement), 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. Royal Philips Electronics shall 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 (121/2) 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. Philips has elected not exercise its right to appoint directors. Additionally, the Shareholders Agreement provides that any committee of the Board of Directors shall include one (1) of the members of the Board of Directors nominated by the Alroy Group, one (1) member of the Board of Directors nominated by Royal Philips Electronics and one (1) of the members of the Board of Directors nominated by either Tower Holdings B.V. or G.Z. Assets and Management Ltd. The provisions regarding a reciprocal right of first offer of the shareholders with respect to any disposition by any of them of all or any of their securities of SHL have either expired or been cancelled by the shareholders and are therefore no longer in effect.

1.3 Cross-Shareholdings

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

2. Capital Structure

2.1 Capital on the Disclosure Deadline

Authorized share capital as of December 31, 2009

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

Issued and outstanding share capital as of December 31, 2009

Number of Ordinary Shares	10,501,174 *
par value	NIS 0.01 each
Share capital	NIS 105,011.74

* Including 252,836 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 19.

2.2 Authorized and Conditional Capital

General

Under Israeli Law, a company's authorized share capital represents the maximum amount of shares which is authorized for issuance by the company. SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"). The issued and outstanding share capital of SHL is NIS 105,011.74 divided into 10,501,174 fully paid registered Ordinary Shares (see above 252,836 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 19). 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 did not undertake to issue shares out of such authorized but unissued share capital. Pursuant to SHL's Articles of Association, the unissued shares are under the sole control of the Board of Directors of SHL who has the authority to allot or otherwise dispose of them on such terms and conditions as it may see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

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

As of December 31, 2009, SHL held 252,836 Ordinary Shares of SHL, purchased by it on the SIX Swiss 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 19.

Share Options

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

	2009	Weighted Average exercise price in CHF	2008	Weighted Average exercise price in CHF
As at January 1	577,912	6.61	880,897	6.47
Granted during the year	68,500	7.10	43,000	8.30
Forfeited during the year	(26,364)	5.78	(300,425)	6.40
Exercised during the year	(19,915)	5.21	(45,560)	6.16
As at December 31	**600,133**	**6.75**	**577,912**	**6.61**
Vested at December 31	**413,463**	**6.55**	**459,357**	**6.54**

	Options outstanding at December 31, 2009	Weighted Average exercise price in CHF	Vested
Under the 2003 share options plan	291,731	6.02	291,731
Under the 2005 Key employee share option plan	308,402	7.43	121,732
	600,133	**6.75**	**413,463**

In September 2000, SHL adopted an option plan for the issuance of options to purchase Ordinary Shares ("Options") to its employees, directors, consultants and contractors that was amended in November 2000 (the "2000 Share Option Plan"). In September 2000, SHL approved a maximum pool of up to 856,627 Ordinary Shares reserved for issuance upon exercise of Options that may be granted pursuant to the 2000 Share Option Plan (the "Option Pool").

In October 2003, due to a tax reform in Israel that changed the tax regime with respect to Options granted to employees and directors, SHL adopted the 2003 Share Option Plan (the "2003 Share Option Plan") for the issuance of Options to employees, directors, consultants and contractors of SHL and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2000 Share Option Plan shall further serve for purposes of the 2003 Share Option Plan. The options are valid for a term of ten (10) years from the date of their grant, subject to early termination due to cessation of employment or service of the option holder.

In May 2005, SHL adopted the 2005 Key Employee Share Option Plan (the "2005 Key Employee Share Option Plan"). The maximum number of Ordinary Shares which may be issued under the 2005 Key Employee Share Option Plan and under any other existing or future share incentive Option Plans of the Company was set at 856,627 Ordinary Shares at the time of adoption of the plan, subject to adjustments as provided in the 2005 Key Employee Share Option Plan. The exercise price shall be the closing price for an Ordinary Share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors. Options granted under the 2005 Key Employee Share Option Plan shall vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board of Directors, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

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

2.3 Changes in Capital Structure within the Last Three Financial Years

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

As of December 31, 2007, 2008 and 2009, SHL's issued share capital was comprised of 10,677,337, 10,512,173 and 10,501,174 Ordinary Shares, respectively. The foregoing changes in the Company's share capital result from the exercise of share options previously granted under SHL's Option Plans and the repurchase of shares by SHL under its share repurchase plan approved by the Board of Directors of the Company on March 25, 2008. As part of its approval, the Board of Directors determined, in accordance with the requirements of the Israeli Companies Law, that the Company had sufficient profits and other surplus (as calculated under the Israeli Companies Law) in order to repurchase its Ordinary Shares traded on the SIX Swiss Exchange and that there was no reasonable concern that the repurchase would prevent SHL from satisfying its existing and foreseeable obligations as they become due. Under the approved repurchase plan, SHL was authorized to repurchase its own Ordinary Shares traded on the SIX Swiss Exchange, from time to time in an amount of up to an equivalent of US$2,000,000. The March 25, 2008 approval covered share repurchases for an initial period lasting up until June 30, 2008, whereby any further repurchases are subject to reaffirmation by the Board that such repurchase by the Company of Ordinary Shares satisfies the aforementioned conditions of the Israeli Companies Law. In accordance with the foregoing, the repurchase period has been extended by the Board until March 31, 2010.

2.4 The Ordinary Shares

General

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

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 31.

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. (For additional information regarding shares held by SHL, see Section "Capital Structure" on page 19.

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

For information on the Shareholders Agreement between certain shareholders of SHL, please refer to the Section on "Significant Shareholders" on page 16.

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 (including the terms and conditions of the directors and office holders insurance and indemnification), require the approval of the audit committee, the board of directors and the shareholders. The shareholder 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 (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

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 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.

2.5 Dividend-right Certificates

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

2.6 Limitations on Transferability and Nominee Registrations

Transfer of Ordinary Shares

Fully paid Ordinary Shares may be transferred freely. Pursuant to SHL's Articles of Association no transfer of shares shall be registered in SHL's Register of Shareholders unless a proper instrument of transfer in form and substance satisfactory to the Board of Directors has been submitted to SHL together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered, SHL may continue to regard the transferor as the owner thereof. Any Registered Person who wishes to become registered in SHL's Register of Shareholders may request 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.

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

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 SIX SAG AG Aktienregister AG ("SAG", the "Share 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 such number of Ordinary Shares registered in the sub register on behalf of such Registered Person, all present and future rights and claims attached to the Ordinary Shares registered in 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.

During 2004 SNOC merged with SIS whereas all rights and obligations pursuant to the SNOC agreement were assigned to SIS.

2.7 Convertible Bonds and Options

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section "Share Options" on page 17.

3. Board of Directors

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

3.1 Members of the Board of Directors

The Articles of Association provide for a Board of Directors consisting of up to nine (9) members and not less than three (3) until otherwise determined by simple resolution of the shareholders of SHL. The Board of Directors of SHL consisted in 2009 of 7 members only, of whom the only executive members are Mr. Yoram Alroy and Mr. Erez 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. For family relationship between Mr. Elon Shalev and other members of the Alroy Group, see "Significant Shareholders" on page 16 and "Share Ownership" on page 30.

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 President	1987	2010
Erez Alroy	Israeli	Co-CEO	2008	2010
Elon Shalev	Israeli	Non-executive member	1987	2010
Colin Schachat	Israeli	Non-executive member	2001	February 4, 2010 **
Ziv Carthy	Israeli	Non-executive member	1997	2010
Nehama Ronen	Israeli	Non-executive member/Independent Director	2007	2010
Nissim Zvili	Israeli	Non-executive member/Independent Director	2008	2011

* For additional information regarding the election and term of office of SHL's directors please refer to section "Election of Directors and term of Office" on page 22.

** Colin Schachat will resign from the Board of Directors, such resignation being effective February 4, 2010.

Yoram Alroy, Chairman, and President

Yoram Alroy founded SHL in 1987. Commencing in 1987 and until September 2003 he has served as CEO and Chairman of SHL's Board of Directors. As of September 2003, Mr. Alroy serves as the President of SHL and the Chairman of 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 member of the Board of Trustees of the Ofek College for Engineering. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Erez Alroy, Co-CEO

Erez Alroy has been an executive manager of SHL since its inception. Prior to holding his current position of Co-CEO, he served as the General Manager of SHL's operation in Israel. Before that he served as SHL's Sales Manager and Vice President of Marketing in Israel. Mr. Alroy holds an MBA from the Hebrew University in Jerusalem. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and 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 Editor in Chief of "Yediot Aharonot", the largest daily newspaper in Israel and from 2000-2001 was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group, one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur in the telecom market and is the Chairman and founder of Logia Ltd., a global provider of innovative mobile content solutions. In addition, Mr. Shalev serves as a consultant to the Saban Capital Group and also serves as a Board member in several large and well known Israeli firms which are Bezeq (the Israeli national telecommunications provider), Yes (a multi channel satellite broadcast company) and Bezeq International (a long distance telecommunications provider). Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a Director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Colin Schachat

Colin Schachat joined the Board of Directors of SHL as a director in April 2001. In 1998 Colin Schachat was appointed Managing Director of Stonehage Israel, a subsidiary of the Stonehage Group which is based in London. The Stonehage Group provides international financial services as well as wealth advisory services to high net worth families internationally. He also serves as an Executive Director of the Group with various management responsibilities. Mr. Schachat is a qualified lawyer and 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.

Nehama Ronen – Independent Director

Nehama Ronen joined the Board of Directors of SHL as an Independent Director on June 13, 2007 and shall have completed the initial 3 year term in 2010. Ms. Ronen may be re-elected for one more 3 year term, if approved by the 2010 annual general meeting. Ms. Ronen is currently the chairman of Maman Cargo Terminals & Handling Ltd. and of the Recycling Corp., both in Israel. In addition, Ms. Ronen currently serves as an independent director of Kamur Ltd., and as the chairman of the board of directors of Logisticare Ltd., a large logistics planning and storage company. Ms. Ronen is also a member of the presidency of the Israeli Chamber of Commerce. From 2001 to 2003 Ms. Ronen was a member of the Israeli parliament and from 1996 to 1999 she was the Director General of the Israeli Ministry of the Environment. Ms. Ronen holds a BA in Education and History and an MA in Public Administration, both from Haifa University. Nationality: Israeli.

Nissim Zvili – Independent Director

Nissim Zvili joined the Board of Directors of SHL as an Independent Director on May 15, 2008. From 1992 to 1999 Mr. Zvili served as a member of the Israeli parliament, and from 1992 until 1998 he also performed the function of the secretary general of the Israeli Labour Party. Mr. Zvili was appointed as the Israeli ambassador to France in 2002, in which position he served until 2005. Mr. Zvili's educational background includes the graduation from Agricultural High School in Nahalat Yehuda, as well as courses in political science at Bar Ilan University, and courses in public administration at Oxford and Cambridge Universities. Mr. Zvili has previously served on the Board of Directors as an Independent director from December 2001 until November 2002. Nationality: Israeli.

3.2 Election of Directors and Term of Office

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

Pursuant to an amebdment to the Israeli Companies Law, in oreder to qualify to serve as a director in a public company, the nominee is required to declare he or she has the requisite expertise and qualifications as well as the possibility to devote such time as may be necessary taking into account a company's special needs and size.

Pursuant to the Shareholders Agreement (for a complete description of the Shareholders Agreement, please refer to the Section on "Significant Shareholders", on page 16) between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., the aforesaid shareholders of SHL 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. 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 (121/2) 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. An Independent Director must possess financial and accounting expertise or professional skills as such terms are defined in rules promulgated under said law, provided that at least one (1) of the Independent Directors possesses financial and accounting expertise. To qualify as an Independent Director, an individual (and his relatives, partners, employer, entities controlled by him, or someone that such individual is directly or indirectly subordinated to) may not have, and may not have had at any time during the two (2) years prior to such individual's appointment as an Independent Director, any affiliations with the company or its affiliates, or with its controlling shareholder or with any entity whose controlling shareholder, at the time of appointment or during the two (2) years prior to his appointment as an Independent Director is the company or its controlling shareholder, 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, or if such individual is an employee of the Israeli securities authority or an Israeli stock exchange. Furthermore, a director of a company is prevented from serving as an Independent director in another company, if a director of such second company serves as an Independent director in the first company. For a period of two (2) years from termination of office, a former Independent Director may not serve as a director or employee of the company in which he served 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 Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). The term of an Independent Director is three (3) years and may be extended for one (1) additional three (3) year period. 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 be comprised of at least three (3) directors, including all of the Independent Directors.

Ms. Nehama Ronen serves as an Independent Director of SHL until 2010 (but may be re-elected for one more 3 year term) and Mr. Nissim Zvili serves as an Independent Director of SHL until 2011.

3.3 Internal Organizational Structure

Pursuant to the Israeli Companies Law and SHL's Articles of Association, the Board of Directors is ultimately responsible for the general policies and management of SHL. The Board of Directors establishes the strategic, organizational, accounting and financing policies of SHL. 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;
- may resolve to issue series of debentures;
- prepare and approve the financial statements of SHL;
- report to the Annual General Meeting of the status of SHL's affairs and of their financial outcomes;
- appoint the General Manager and terminate such appointment, in accordance with the Israeli Companies Law;
- resolve in the matters on actions and transactions that require its approval according to the Israeli Companies Law and the Articles of Association;
- issue shares and convertible securities up to the total amount of the authorized share capital of SHL, in accordance with the Israeli Companies Law;
- decide on a "distribution" as set forth in Sections 307 – 308 of the Israeli Companies Law;
- express its opinion on a special tender offer, as set forth in Section 329 of the Israeli Companies Law.

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

The Articles of Association of SHL provide that any director may, by written notice to SHL, appoint another person to serve as an alternate director and may cancel such appointment. Any person that meets the qualifications of a director under the Israeli Companies Law may act as an alternate director. One person may not act as an alternate director for more than one director, and in a public company a person serving as a director of the company or as an alternate director may not act as an alternate director. However, a director can serve as an alternate director to a member of a committee of the board of directors, provided that the alternate director is not a member of the committee in question; and provided further that in the event the alternate director is to serve as an alternate to an Independent Director, such alternate director shall have financial and accounting expertise or professional skills, dependant on the expertise and skills of the Independent Director such alternate director is supposed to replace. An alternate director to an Independent Director may not be otherwise appointed.

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

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 (3) year periods from the date of each such approval. Approval shall be obtained by the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, approval by the shareholders requires that either (i) the majority vote in favor of the resolution shall include the consent of at least one-third 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.

Committees of the Board and Internal Auditor

The Articles of Association of SHL provide that the Board of Directors may delegate any or all of its powers to committees of the Board of Directors as it deems appropriate, subject to the provisions of the Israeli Companies Law. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. Any such committee authorized to execute the powers of the Board of Directors shall include at least one (1) Independent Director. A committee authorized to execute the powers of the Board may only be comprised of members of the Board of Directors. A committee whose powers are limited to providing recommendations to the Board of Directors may be comprised of non members. The Shareholders Agreement 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.

Pursuant to the Israeli Companies Law a board of directors may not delegate the following matters to a committee: determination of a general policy; distribution (except for self purchase of company shares pursuant to a framework approved by the board); determination of the board's stand on matters that require shareholder approval or on its opinion with regard to a special purchase offer; appointment of directors; issuance of securities (except for issuance to employees pursuant to an option plan approved by the board); approval of financial statements; approval of interested party transactions.

As required under the Israeli Companies Law the Board of Directors has appointed an Audit Committee. In addition, the Board of Directors further appointed a Compensation

Committee and an Option 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.
The Chief Executive Officers and the Chief Financial Officer of the Company are invited to all meetings and regularly attend such. The Board of Directors invites from time to time its external legal counsel to participate in meetings, as it deems necessary.

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. As of December 31, 2009, the Audit Committee is composed of the following members: Mr. Colin Schachat, Ms. Nehama Ronen and Mr. Nissim Zvili - 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. The Audit Committee meets from time to time when deemed necessary. During the year under review it held two meetings.

Compensation Committee - the Board of Directors has appointed a Compensation Committee composed, as of December 31, 2009, of the following members: Mr. Colin Schachat, Ms. Nehama Ronen and Mr. Nissim Zvili. 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. The Compensation Committee does not have decision making powers. The Compensation Committee meets from time to time when deemed necessary. During the year under review it held one meeting. Compensation is determined inter alia based on external consultants, then recommended by said committee to the Board. As aforementioned, under Israeli Companies Law any the compensation to a controlling shareholder is deemed an extraordinary transaction and needs approval of the Audit Committee, the Board and the Shareholders Meeting with a special majority vote.

Option Committee – the Board of Directors has appointed an Option Committee, which as of December 31, 2009 is composed of the following members: Mr. Colin Schachat and Ms. Nehama Ronen. The Option Committee was appointed by the Board of Directors for the purpose of administering the "2005 Key Employee Share Option Plan" in accordance with its terms and conditions. The Options Committee has limited decision making powers as determined in said option plan. The Option Committee meets from time to time when deemed necessary. During the year under review it held no meetings.
Pursuant to the Articles of Association, the Committees conform 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 Avi Schwarztuch of the accounting firm, Schwarztuch, Widavski and Co. as an Internal Auditor, upon the recommendation of the Audit Committee. According to the Israeli Companies Law, neither an interested party nor an officer of the company, any relatives of the foregoing or the external auditor may serve in such position. The role of the Internal Auditor is to examine, among other things, whether SHL's activities comply with the law and orderly business procedure. Pursuant to the Israeli Internal Audit Law, 1992, in connection with the Israeli Companies Law, the Internal Auditor is authorized to demand and receive any kind of document and/ or information that is in the Company's or its employees' possession, which he deems necessary for the performance of his role, and he is to have access to all databases or data processing programs of the Company. Pursuant to the Israeli Companies Law the Chairman of the Board of Directors or the Chairman of the Audit Committee may order the Internal Auditor to conduct an internal audit on matters where an urgent need for examination arose. Pursuant to the Companies Law, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings. The Internal Auditor has no decision making powers.

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

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

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

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

- The CEOs and CFO inform the Board of Directors regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board of Directors and CEOs and CFO as deemed necessary.
- Control over financial management is exercised by the Board together with SHL's external auditors (for further information on the Company's external auditors, please refer to the Section tilted "Auditors" on p. 33) through quarterly discussions of SHL's results, which are part of the external auditors' authorization of the Company's financial statements. The Board discusses with the auditors not only the financial statements themselves but also their assessment of the internal controls and whether any material weaknesses have come to the auditors' attention during their audit or review. Additionally, the Company's accountant and CFO are invited to board meetings where financial statements are discussed and approved.
- SHL has an internal auditor (for further information, please refer to p. 25 above) who is appointed by the Board of Directors, upon recommendation by the Audit Committee. The Internal Auditor examines the processes and controls of the Company - not only with regard to financial operations, but also with regard to compliance of management with internal and external policies - and coveys his findings to the Audit Committee and the external auditors.

4. Senior Management

4.1 Members of Senior Management

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

Name	Nationality	Position
Yoram Alroy	Israeli	Chairman of the Board of Directors and President
Yariv Alroy	Israeli	Co-CEO
Erez Alroy	Israeli	Co-CEO
Eran Antebi	Israeli	CFO
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Eyal Lewin	Israeli	Managing Director – SHL Telemedizin Germany
Arie Roth	Israeli	Chief Medical Manager

Yoram Alroy, Chairman of the Board of Directors and President

For additional information see Section "Members of the Board of Directors" on page 20.

Yariv Alroy, Co-CEO

Yariv Alroy has been a 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 an LL.B degree from Tel-Aviv University in Israel. Nationality: Israeli.

Erez Alroy, Co-CEO

For additional information see Section "Members of the Board of Directors" on page 20.

Eran Antebi, Chief Financial Officer

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

Irit Alroy, Executive Vice-President and CTO

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

Erez Nachtomy, Executive Vice-President

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

Eyal Lewin, Managing Director - SHL Telemedizin, Germany.

Eyal Lewin started with SHL Telemedizin Germany in August 2004. Prior to joining SHL Telemedizin, Mr. Lewin held the position of Vice President of International Strategic Marketing & Sales for Comverse. Mr. Lewin holds a BA in Economics and Management, from Tel Aviv University.

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 Sackler 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 set forth 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.

On September 21, 2003 SHL entered into a management services agreement with Alroy Yoram Consulting and Management Ltd., an Israeli based company wholly owned by Mr. Yoram Alroy, (the "Service Provider"), pursuant to which the Service Provider, through Mr. Alroy exclusively, shall provide SHL with management and consulting services as the President of SHL. The initial term of the aforesaid management agreement ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by Service Provider); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement.

On November 30, 2005, SHL entered into management services agreements with T.N.S.A Consulting and Management Ltd. and A.T.A.A Consulting and Management Ltd, Israeli based companies wholly owned by Mr. Yariv Alroy and Mr. Erez Alroy, respectively (each – a "Service Provider"; together - the "Service Providers"), pursuant to which the Service Providers, through each of Mr. Yariv Alroy and Mr. Erez Alroy, exclusively, shall provide SHL with management and consulting services as the CO-CEOs of SHL. The initial term of each of the aforesaid management agreements ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by one of the Service Providers); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement.

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 29.

5. Compensation, Shareholdings and Loans

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

The goal of SHL's compensation scheme is to attract and retain qualified and motivated board members, senior executives and employees. SHL's Option Plans are reviewed regularly by the Board of Directors for compliance with the Company's compensation goals (for a full description of the Option Plans, please refer to the Section titled "Share Options", on page 17). SHL's current 2005 Option Plan is administered by the Option Committee, which may determine from time to time and subject to the provisions of the 2005 Option Plan, additional grantees of options under the plan and any matter related to the administration of the 2005 Option Plan. The Option Committee informs the Board of Directors of its decisions and recommendations with regard to the Option Plans. The vesting of options granted to a particular grantee pursuant to the 2005 Option Plan is, with regard to 50% of such options, subject to the achievement of performance goals with regard to the increase of the market price of SHL's shares, and, with regard to the other 50% of such options, subject to performance goals in connection with earnings per share figures.

Compensation of senior management is generally determined according to the procedures set forth below, and is comprised of a base salary component, a performance based cash bonus and a share options incentive award. The performance based cash bonus of the Company's President and Co-CEOs is tied to the achievement of certain performance targets based on earnings before tax. The amount of cash bonuses for other members of senior management is subject to the discretion of the Company's Co-CEOs, and the grant of share option awards to any member of senior management is subject to board approval, both as described below. Factors taken into account for the composition of the compensation packages of senior management members include seniority of such management member and responsibilities taken on.

Overall, the compensation of senior management in the year under review was comprised, on an average, approximately to 80 % of a cash base salary and 20 % of cash bonuses,; for more information on senior management compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies" on page 29).

In addition to the foregoing, all members of senior management are entitled to additional benefits in the form of a company car and a mobile phone at the expense of SHL.

In May 2005, the shareholders accepted the recommendations of SHL's Audit Committee and Board of Directors and approved, pursuant to the Israeli Companies Law, payment to the three (3) non-executive Members of the Board of Directors, in their capacity as such (and not just to the Independent Directors as was the case prior to such approval), in a sum equivalent to the compensation paid to each of the Independent Directors. Said payment has been approved by SHL's Audit Committee, Board of Directors and Annual General Meeting in each of the years 2006-2009.

The Independent Directors of SHL are entitled to compensation, as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto, which compensation is comprised of a fixed annual fee plus a participation fee per each Board or Committee meeting attended. Directors are reimbursed for travel and other expenses related to their capacity as Directors of SHL.

Responsibility and Procedure:

Pursuant to the Articles of Association the salaries and emoluments of the executives of SHL are determined by the Chief Executive Officers. Notwithstanding the aforesaid and except for limited circumstances provided for under regulations promulgated under the Israeli Companies Law, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment (including, except for the Independent Directors, the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, and the engagement of a controlling shareholder, or with any relative thereof, 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 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 percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

The grant of share options to employees, directors and consultants of SHL and its subsidiaries is in the sole discretion of the Board of Directors. 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 the Company are referred to the Compensation Committee for its recommendations to the Board of Directors.

Pursuant to the provisions of the Israeli Companies Law, as a general rule, a director may not participate or vote at a Board of Directors or Audit Committee meeting where the terms of his office are discussed. However, if the majority of the members of the Board of Directors or the Audit Committee, as applicable, have a personal interest in the terms of office of such a director, then the relevant director may be present during the deliberations and may vote on his terms of office.

Senior Management members do not participate in Board of Directors meetings where the terms of their employment with SHL are discussed.

Compensation for Acting Members of Governing Bodies

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which is payable to the members of the Board of Directors and the Senior Management is as follows:

Board of directors

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Total
Yoram Alroy	Executive member/ President	23,857	21,177 ***	45,034
Erez Alroy	Executive member/ Co-CEO	511,479*	95,297 ***	606,776
Elon Shalev (**)	Non-executive member	18,940	-	18,940
Colin Schachat	Non-executive member	18,405	-	18,405
Ziv Carthy	Non-executive member	15,526	-	15,526
Nehama Ronen	Non-executive member/ Independent director	19,165	-	19,165
Nissim Zvili	Non-executive member/ Independent director	19,165	-	19,165

Senior management

Name	Function	Base Compensation and fringe benefits	Cash Bonus	
Yariv Alroy	Co-CEO	511,479	95,297 ***	606,776
Irit Alroy	CTO	156,442	20,343	176,785
Other members of executive management	4 members	816,860	82,642	899,442

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

* Represents compensation for function as member of Senior Management.

** Mr. Elon Shalev is the brother-in-law of Mr. Yoram Alroy.

*** Mr. Yoram Alroy, Erez Alroy and Yariv Alroy are jointly entitled to an aggregate annual bonus equal to 3% of Company's profit before tax, provided however, that the bonus shall not exceed USD 1 million per year. The total bonus payable for 2009 amounts to USD 212 thousand. The bonus is to be allocated between the three at their discretion. The amounts shown in the above table assume that 10% of the bonus shall be paid to Mr. Yoram Alroy and the remainder shall be split evenly between Mr. Yariv Alroy and Mr. Erez Alroy.

None of the executive members of the Board of Directors received any compensation for their service as directors during the year under review. The aforesaid compensation of Senior Management includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section 4.2 ”Management Contracts” on page 27.

In May 2005, as a result of a change in the Israeli Companies Law, the shareholders adopted the recommendations of the Audit Committee and the Board of Directors and approved (i) the renewal and/or purchase of insurance policy of all directors and officers, in office from time to time, in a total coverage of up to USD 10 M; and (ii) the undertaking by SHL to indemnify all directors and officers, in office from time to time, to the extent and limitations set forth in the indemnification letters issued to such persons, in an aggregate sum of up to USD 15M; as well as (iii) the requisite change in the Articles of Association of SHL to effect the above.

Compensation for Former Members of Governing Bodies

As mentioned in Section 3.1 above Mr. Colin Schachat, a non-executive director, has resigned from his office effective February 4, 2010. The total compensation paid to Colin Schachat for his service as a member of the Board of Directors in 2009 amounted to USD 18 thousand.

Share Allotment in the Year Under Review

No Ordinary Shares of SHL were allotted to the executive or to the non-executive members of the Board of Directors, or to the Management or parties closely linked to any such person during the year under review, except for Ordinary Shares issued pursuant to the exercise of Options previously allotted. For information on option allotments to directors, please refer to the Section entitled “Compensation for Acting Members of Governing Bodies” on p. 29.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2009 by the executive members of the Board of Directors and Senior Management and parties closely linked to such persons amounted in aggregate to 2,010,248.

Elon Shalev, a non-executive member of the Board of Directors is a member of the Alroy Group. The Alroy Group holds, as of December 31, 2009, an aggregate of 2,010,248 Ordinary Shares For information regarding the shareholdings of the Alroy Group, please refer to the Section entitled “Significant Shareholders” on page 16.

Ziv Carthy, a non-executive member of the Board of Director is a controlling shareholder of G.Z. Assets and Management Ltd., which holds, as of December 31, 2009, an aggregate of 921,533 Ordinary Shares. No other non-executive member of the Board of Directors and parties closely linked to such person holds, pursuant to the Share Register, as of December 31, 2009, Ordinary Shares.

Share Options

Information with regard to Options held pursuant to the Option Plans as of December 31, 2009 by the non-executive and executive members of the Board of Directors and Senior Management and parties closely linked to such persons is as follows:

Name	Function	Share Options outstanding at December 31, 2009	Weighted Average exercise price in CHF	Granted during the year	Exercise price of options granted in CHF	Vested
Yoram Alroy	Chairman of the Board of Directors and President	32,560	6.89	-	-	32,560
Erez Alroy	Co-CEO	60,664	7.07	-	-	60,664
Elon Shalev	Non-executive member	-	-	-	-	-
Colin Schachat	Non-executive member	12,000	5.00	-	-	12,000
Ziv Carthy	Non-executive member	-		-	-	-
Nehama Ronen	Non-executive member/ Independent director	18,000	8.50	-	-	6,000
Nissim Zvili	Non-executive member/ Independent director	18,000	8.30	-	-	-
Yariv Alroy	Co-CEO	90,904	6.68	-	-	90,904
Eran Antebi	CFO	28,500	7.96	-	-	3,500
Erez Nachtomi	Executive Vice President	45,661	6.00	-	-	35,660
Irit Alroy	Executive Vice President and CTO	29,118	6.74	-	-	29,118
Eyal Lewin	Managing Director – SHL Telemedizin	40,656	6.36	10,000	7.1	30,656
Arie Roth	Chief Medical Manager	5,760	5.90	-	-	5,760

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 17 above.

As of December 31, 2009 parties closely linked to the non-executive members of the Board of Directors hold 1,413 Options with an exercise price of CHF 5.90 each, pursuant to the Option Plans.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2009 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.

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, Senior Management or parties closely linked to such persons.

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

6. Shareholders' Participation

6.1 Voting Rights' Restrictions and Representation Restrictions

There are currently no voting-rights and representation restrictions in place. Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SNOC Agreement each person registered in the SAG Register is entitled to vote the number of shares registered in his name in the SAG Register. The voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights if authorized in the future, such an authorization requires a majority of sixty-six (66) percent of the voting power present at the General Meeting. The quorum required for any meeting of shareholders is at least two (2) shareholders present in person or by proxy who together hold or represent at least thirty-three and one third (331/3) percent of the outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power present and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two (2) shareholders present in person or by proxy, regardless of the number of Ordinary Shares represented.

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

6.2 Statutory Quorums

The following resolutions require a special majority of sixty-six (66) percent of the voting power represented at the shareholders meeting: (a) increase of authorized share capital; and (b) creation of shares with special rights or modifications of share rights. Furthermore, under Israeli law and under SHL's Articles of Association a voluntary winding-up would require a majority of seventy-five (75) percent of the voting power represented at the shareholders meeting.

6.3 Convocation of the General Meeting of Shareholders

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

Not less than twenty-one (21) days' prior notice shall be given to any General Meeting and shall be published in one newspaper in Israel and in one newspaper in Switzerland or in accordance with the rules and regulations of the stock exchange on which SHL's shares are listed. However, pursuant to regulations promulgated under the Companies Law and adopted in 2006, shareholders may vote on certain matters (such as the election or removal of directors or transactions between a company and any of its officers or controlling shareholders or in which such persons may have a personal interest) by submitting a written ballot with respect thereto (the "Ballot") (but may vote thereon in person or by Proxy). In the event such matters are included in the agenda of a General Meeting then not less than thirty five (35) days' prior notice shall be given. In addition, SHL and SAG will, pursuant to an agreement between SHL and SAG, take all necessary steps to ensure that notices will be sent to the persons registered in the SAG Register. Pursuant to the Israeli Companies Law, the notice of the General Meeting shall include the agenda.

The aforementioned regulations also stipulate that any shareholder wishing to state his position with respect to any of the said matters on the agenda may do so by requesting the Company to deliver such position to the other shareholders (the "Shareholder Statement"). The Proxy must be delivered to the registered office of the Company or to SAG not later than 48 hours prior to the Annual Meeting. The Ballot must be delivered to the registered office of the Company or to SAG not later than 72 hours prior to the Annual Meeting. For the Ballot to become effective: (i) any shareholder whose shares are registered with the Company's registrar of shareholders must enclose a copy of such shareholder's identity card, passport or certificate of incorporation, as the case may be; and (ii) any shareholder whose shares are registered with SAG must enclose a written confirmation from SAG as to its ownership of the voting shares. The Shareholder Statement must be delivered to the registered office of the Company or to SAG not later than 10 days following the Record Date as such date is determined by the Board of Directors. Shareholder Statement shall be delivered to all shareholders by SAG no later than 5 days following receipt thereof. Should a company elect to state its position with respect to such Shareholder Statement, it shall deliver such position (the "Company Statement") to the shareholders, via SAG, no later than 12 days prior to the Annual General Meeting. Any such Statement must be written in a clear and simple language, and shall include no more than 500 words per subject matter, and a total of no more than 1,500 words. A Shareholder Statement shall detail the identity of such shareholder, as well as his percentage interest in the Company; a shareholder who is a corporate entity shall detail the identity of its controlling shareholder(s), as well as additional holdings (if any) of such controlling shareholder(s) in shares of the Company, to the best knowledge of the shareholder submitting the Shareholder Statement. A shareholder submitting the Shareholder Statement, who acts in consort with others with respect to voting in shareholder meetings, whether in general or with respect to certain matter(s) on the agenda, shall indicate so in the Shareholder Statement, and shall describe the aforementioned arrangements and the identity of the shareholders so acting in consort. Any shareholder (as well as any shareholder acting in consort with such shareholder) having a personal interest in any matter on the agenda, shall describe the nature of such personal interest. Any shareholder may revoke his/hers/its Ballot by submitting a cancellation notice (the "Cancellation Notice"). The Cancellation Notice together with sufficient proof as to the identity of such canceling shareholder, to the absolute discretion of an officer of the Company, must be delivered to the registered office of the Company or to not later than 24 hours prior to the Annual Meeting. Any such shareholder submitting a Cancellation Notice may only vote by attending the Annual Meeting in person or by Proxy. One or more shareholders holding, at the Record Date, shares representing 5 percent or more of the total voting power in the Company, as well as any holder of such percentage out of the total voting power not held by the controlling shareholder(s), as such term is defined under Section 268 of the Companies Law, may, following the Annual General Meeting, in person or by proxy, inspect the Ballots and the record thereof at the Company's registered office. The competent court may, at the request of any shareholder who does not hold, at the Record Date, the aforementioned percentage, instruct the Company to allow the inspection of said documents and records, in whole or in part, on terms and conditions determined by the court.

6.4 Agenda

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

6.5 Registration in the Share Register

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

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

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 which shares are listed on the SIX 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, except in certain cases specified under said Law, an acquisition of shares in a public company must be made by a means of a special tender offer if as a result of the acquisition the purchaser would become a twenty-five (25) percent (or more) shareholder, unless there is already a twenty-five (25) percent shareholder (or more). Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a forty-five (45) percent (or more) shareholder, unless there is already a shareholder holding more than forty five (45) percent of the voting rights in a company. These tender offer provisions shall not apply to SHL if the rules of the foreign country contain 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.

7.2 Clauses on Changes of Control

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

8. Auditors

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

Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent resolution. SHL's auditors were last re-appointed at the 2009 Annual General Meeting.

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

8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2009 approximately USD 241 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group.

8.3 Additional Honorariums

In addition, Ernst & Young charged approximately USD 302 thousand for additional services performed for the SHL Group in the field of management consulting, tax advice, due diligence and other auditing activities. The aforesaid sums include payments made to other member firms of Ernst & Young outside of Israel.

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

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

9. Information Policy

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

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

Investor's calendar

Annual general meeting	May 26, 2010
Q1 Results	May 11, 2010
Q2 Results	August 4, 2010
Q3 Results	November 10, 2010

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Consolidated Financial Statements 2009

Contents

Financial Overview

General

2009 highlighted by further expansion of SHL's business bringing sustained growth and improved overall financial performance, while evaluating new paths for growth.

Results of Operations

Revenues

Revenues for fiscal year 2009 amounted to USD 47.9 million compared with revenues of USD 44.6 million for fiscal year 2008. At constant exchange rate terms revenues for fiscal year 2009 amounted to USD 51.0 million, representing a growth of 14.4% year over year. SHL's German operations again displayed substantial growth in fiscal year 2009 with revenues increasing by a further 34.2% (41.1% at constant exchange terms) over the previous year, reaching USD 21.2 million (USD 22.3 million at constant exchange rate) compared with USD 15.8 million in 2008. Revenues from the Israeli operation for fiscal year 2009 amounted to USD 20.9 million compared to revenues of USD 21.8 million in 2008 with revenues for 2009 at constant exchange rates amounting to USD 22.9 million, representing a growth of 5.3% year over year. Revenues from the delivery of IT platform and related services to Philips/Raytel amounted in fiscal year 2009 to USD 5.8 compared to USD 7.0 million in 2008.

In terms of geographic breakdown of revenues, the German market accounted for 44.3% of group revenues, the Israeli market for 43.6% of group revenues and the US market for 12.1% of group revenues. This compared with 35.4%, 48.9% and 15.7% of group revenues in 2008, respectively.

Gross profit

In fiscal year 2009 gross margins improved to 67.0% up from 64.8% in 2008, bringing gross profit for the year to USD 32.1 million, an increase of 11.1% over the gross profit of 2008, which amounted to USD 28.9 million. In constant currency terms gross profit margins were 66.4% with gross profit amounting to USD 33.9 million, an increase of 17.3% over the 2008 gross profit.

Research and Development costs, net

Research and development expenses, net remained steady and amounted to USD 1.2 million in 2009 compared with USD 1.0 million in 2008. Research and development expenses before capitalization and amortization amounted to USD 1.6 million and USD 1.7 million in 2009 and 2008, respectively.

Selling and Marketing Expenses

Selling and marketing expenses for fiscal year 2009 increased by 15.6% to USD 14.0 million (29.2% of revenues) compared with USD 12.2 million (27.3% of revenues) in 2008. At constant exchange rates selling and marketing expenses amounted to USD 15.1 million (29.6% of revenues), an increase of 23.8% over the selling and marketing expenses of 2008.The increased selling and marketing costs are mainly related to increased marketing efforts in Germany and in evaluating new paths for growth.

General and Administrative Expenses

General and administrative expenses for fiscal year 2009 amounted to USD 10.1 million (21.1% of revenues) down from USD 11.5 million in 2008 (25.8% of revenues).

At constant exchange rates general and administrative expenses amounted to USD 10.9 million (21.4% of revenues) a decrease of 5.2% from the general and administration costs of fiscal year 2008.

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Earnings before Interest Taxes (EBIT)

For fiscal year 2009 EBITDA improved by 27.5% over fiscal year 2008 and reached USD 11.6 million (24.2% of revenues) compared with USD 9.1 million (20.5% of revenues) in 2008. At constant exchange rates EBITDA improved by 30.8% over fiscal year 2008 and amounted to USD 11.9 million (23.3% of revenues).

Operating profit (EBIT) for the year reached USD 6.7 million (14.0% of revenues), representing a growth of 59.5% over the 2008 operating profit of USD 4.2 million (9.4% of revenues). At constant exchange rates operating profit amounted to USD 6.5 million (12.7% of revenues), representing a growth of 54.8% over the 2008 operating profit.

Financial Income, net

Financial income, net, for the year amounted to USD 0.3 million compared to financial expenses of USD 4.4 million in 2008.

Other Expenses, net

Other expenses, net for the year amounted to USD 0.7 million compared to other expenses, net of USD 1.1 million in 2008.

Taxes on Income

For fiscal year 2009 taxes on income amounted to USD 1.7 million compared with a tax benefit in the amount of USD 3.5 million in 2008, which was mainly related to an additional tax asset recorded. Taxes on income in 2009 include USD 1.2 million in deferred taxes and USD 0.5 million in current taxes.

Net Income

Net income reported for the year more than doubled and reached USD 5.4 million (11.3% of revenues) compared with USD 2.2 million (4.9%) in 2008. At constant exchange rates, net income for the year amounted to USD 5.2 million (10.2% of revenues). Earnings per share for fiscal year 2009 reached USD 0.51 on a basic and fully diluted basis compared with earnings per share for fiscal year 2008 of USD 0.21 on a basic and fully diluted basis.

Major Changes in Assets, Liabilities and Equity

SHL's balance sheet remained strong with a solid structure as of December 31, 2009.

Current assets amounted at year end to USD 31.6 million (36.5% of total assets) of which USD 20.1 million is cash, cash equivalents and available-for-sale investments against total liabilities of USD 21.3 million. This is compared with current assets of USD 31.7 million (37.5% of total assets) at the end of 2008 of which USD 23.5 million was in cash, cash equivalents and available-for-sale investments against total liabilities of USD 22.8 million.

Long-term assets remained stable as of December 31, 2009 and amounted to USD 18.0 million compared with USD 18.5 million as of December 31, 2008.

Fixed assets, net amounted to USD 17.3 million as of December 31, 2009 of which USD 11.8 million are devices on loan to our subscribers. This is compared with fixed assets, net of USD 15.3 million as of December 31, 2008 of which USD 11.1 million are devices on loan to our subscribers. Intangible assets as of December 31, 2009 amounted to USD 19.6 million compared with USD 17.3 million as of December 31, 2009.

Total equity at December 31, 2009 increased by USD 6.2 million and amounted to USD 65.3 million (75.4% of balance sheet) compared with USD 59.1 million (72.2% of balance sheet) at December 31, 2008. The increase in equity is mainly attributed to the net income of USD 5.4 million.

Cash Flow

SHL's operating cash flow improved significantly in 2009 with cash generated by operating activities amounting to USD 5.3 million compared with cash used in operating activities of USD 7.6 million in 2008.

In 2009 cash used in investing activities amounted to USD 6.4 million, of which investment in fixed and intangible assets amounted to USD 7.0 million and the acquisition of two small telemedicine businesses in Israel amounted to USD 1.2 million against proceeds, net received from the sale of available-for-sale securities in the amount of USD 1.8 million. For fiscal year 2008 cash used in investing activity amounted to USD 22.8 million, of which investment in fixed and intangible assets amounted to USD 5.3 million and purchase, net of available-for-sale securities amounted to USD 17.1 million.

Cash used in financing activities amounted to USD 0.4 million, of which the purchase of treasury shares amounted to USD 0.2 million and short-term bank credit, net amounted to USD 0.2 million. In 2008 cash used in financing activities amounted to USD 57.2 million, of which USD 52.3 million was used for repayment of debt, USD 4 million for dividend paid and USD 1.1 million for the repurchase of SHL shares.

Eran Antebi,
Chief Financial Officer

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

We have audited the accompanying consolidated financial statements of SHL Telemedicine Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the two years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2009 and 2008, and of its financial performance and its cash flows for the two years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
February 23, 2010

Kost Forer Gabbay and Kasierer

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2009	2008
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	1,839	3,265
Available-for-sale investments	5	18,251	20,210
Trade receivables	6	6,627	3,558
Prepaid expenses	8	2,020	2,065
Income tax receivable		1,375	590
Other accounts receivable	9	931	422
Inventory		600	600
		31,643	**30,710**
NON-CURRENT ASSETS:			
Trade receivables	7	3,874	2,782
Prepaid expenses	8	5,082	5,541
Long-term deposits	11	104	117
Deferred taxes	19	8,901	10,049
		17,961	**18,489**
FIXED ASSETS:	10		
Cost		51,889	45,820
Less - accumulated depreciation		34,548	30,531
		17,341	**15,289**
INTANGIBLE ASSETS	11	**19,628**	**17,337**
Total assets		**86,573**	**81,825**

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2009	2008
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	12	483	583
Deferred revenues	13	4,703	6,747
Trade payables		2,209	1,502
Income tax payable		2,951	2,776
Other accounts payable	14	9,956	6,718
		20,302	18,326
NON-CURRENT LIABILITIES:			
Provisions	16	-	1,422
Accrued severance pay	17	617	777
Deferred revenues	13	-	1,895
Deferred taxes	19	353	332
		970	4,426
Total liabilities		**21,272**	**22,752**
EQUITY:	22		
Issued capital		31	31
Additional paid-in capital		92,939	92,738
Treasury shares at cost		(1,567)	(1,405)
Foreign currency translation reserve		1,497	1,026
Net unrealized gain (loss) reserve		275	(66)
Accumulated deficit		(27,874)	(33,251)
Total equity		**65,301**	**59,073**
Total liabilities and equity		**86,573**	**81,825**

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

February 23, 2010		
Date of approval of the financial statements	Yariv Alroy Co - CEO	Yoram Alroy Chairman of the Board of Directors and President

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year ended December 31, 2009	2008
Revenues		47,890	44,554
Depreciation and amortization		2,317	2,831
Cost of revenues	23a	13,521	12,791
Gross profit		32,052	28,932
Research and development costs, net	23b	1,223	1,003
Selling and marketing expenses	23c	14,036	12,160
General and administrative expenses	23d	10,142	11,527
Operating income		6,651	4,242
Financial income	23e(1)	1,848	8,198
Financial expenses	23e(2)	(1,107)	(12,608)
Other expenses, net		333	1,062
Income (loss) before taxes on income (tax benefit)		7,059	(1,230)
Taxes on income (tax benefit)	19	1,682	(3,463)
Net income		**5,377**	**2,233**
Other comprehensive income:		5,377	2,233
Exchange differences from foreign currency translation		471	1,146
Net gain (loss) on available-for-sale financial assets		341	(66)
Total comprehensive income		**6,189**	**3,313**
Basic and diluted net earnings per share	**24**	**0.51**	**0.21**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY U.S. dollars in thousands

	Attributable to equity holders of the Company								
	Issued capital	Additional paid-in capital	Treasury shares at cost	Foreign currency translation reserve	Net unrealized gain (loss) reserve	Accumulated deficit	Total	Minority interests	Total equity
Balance as of January 1, 2008	**31**	**92,295**	**(269)**	**(120)**	**-**	**(31,529)**	**60,408**	**88**	**60,496**
Dividend paid (Note 22e)	-	-	-	-	-	(3,955)	(3,955)	-	(3,955)
Purchase of treasury shares	-	-	(1,136)	-	-	-	(1,136)	-	(1,136)
Exercise of options	*) -	260	-	-	-	-	260	-	260
Share-based payments	-	183	-	-	-	-	183	-	183
Distribution to minority interests	-	-	-	-	-	-	-	(88)	(88)
Total comprehensive income	-	-	-	1,146	(66)	2,233	3,313	-	3,313
Balance as of December 31, 2008	**31**	**92,738**	**(1,405)**	**1,026**	**(66)**	**(33,251)**	**59,073**	**-**	**59,073**
Purchase of treasury shares	-	-	(162)	-	-	-	(162)	-	(162)
Exercise of options	*) -	22	-	-	-	-	22	-	22
Share-based payments	-	179	-	-	-	-	179	-	179
Total comprehensive income	-	-	-	471	341	5,377	6,189	-	6,189
Balance as of December 31, 2009	**31**	**92,939**	**(1,567)**	**1,497**	**275**	**(27,874)**	**65,301**	**-**	**65,301**

*) Represents an amount lower than $ 1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS U.S. dollars in thousands

	Year ended December 31, 2009	2008
Cash flows from operating activities:		
Net income	5,377	2,233
Adjustments required to reconcile profit to net cash provided by (used in) operating activities :		
Adjustments to the profit items:		
Loss from sale price adjustments	-	488
Depreciation and amortization	4,783	4,834
Gain on disposal of fixed assets	-	(44)
Accrued severance pay	(160)	339
Financial expenses (income), net	(741)	4,410
Cost of share-based payments	179	183
Taxes on income (tax benefit)	1,682	(3,463)
Others	8	59
	5,751	6,806
Changes in asset and liability items:		
Increase in short and long-term trade receivables	(3,553)	(302)
Decrease in prepaid expenses	538	493
Decrease (increase) in other accounts receivable	(380)	828
Decrease in inventory	4	8
Increase (decrease) in trade payables	664	(541)
Decrease in deferred revenues	(4,263)	(7,974)
Increase (decrease) in short and long-term other accounts payable	1,597	(8,754)
	(5,393)	(16,242)
Cash paid and received during the year for:		
Interest received	680	1,018
Interest paid	(20)	(1,238)
Income taxes paid	(1,135)	(127)
	(475)	(347)
Net cash provided by (used in) operating activities	5,260	(7,550)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS U.S. dollars in thousands

	Year ended December 31,	
	2009	2008
Cash flows from investing activities:		
Purchase of fixed assets	(5,356)	(3,595)
Acquisition of business activities (see note 3)	(1,228)	-
Cash refunded upon sale of subsidiary	-	(488)
Investment in intangible assets	(1,602)	(1,654)
Proceeds from sale of fixed assets	-	46
Repayment of long-term deposits	-	4,200
Purchase of available-for-sale investments	(14,776)	(69,433)
Proceeds from sale of available-for-sale investments	16,612	48,100
Net cash used in investing activities	(6,350)	(22,824)
Cash flows from financing activities:		
Proceeds from exercise of options	22	260
Repayment of long-term loans from banks and others	-	(29,834)
Short-term bank credit, net	(216)	(22,440)
Distributions to minority interests	-	(88)
Treasury shares purchased	(162)	(1,136)
Dividend paid	-	(3,955)
Net cash used in financing activities	(356)	(57,193)
Effect of exchange rate changes on cash and cash equivalents	20	6,286
Decrease in cash and cash equivalents	(1,426)	(81,281)
Cash and cash equivalents at the beginning of the year	3,265	84,546
Cash and cash equivalents at the end of the year	**1,839**	**3,265**
Non-cash transactions:		
Acquisition of business activities (Note 3)	**576**	-

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

NOTE 1 | GENERAL

SHL Telemedicine Ltd. ("SHL" or "the Company") was incorporated in Israel. Its shares are publicly-traded on the SIX Swiss Exchange under the symbol SHLTN. SHL and its subsidiaries ("the Group") develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine systems are designed to improve quality of care and life for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health.

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The Company's financial statements have been prepared on a cost basis, except for available-for-sale marketable investments which are measured at fair value and certain financial instruments that have been measured at fair value.

The Company has elected to present the statement of comprehensive income using the nature of expenses method.

The preparation format of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. Interpretations issued by the IFRIC and by the SIC.

b. Accounting policies:

The accounting policies adopted are consistent with those of the previous financial year.

c. Changes in accounting policies in view of the adoption of new standards:

IAS 1 (Revised) - Presentation of Financial Statements:

Pursuant to a revision to IAS 1 (Revised), an additional separate statement, "statement of comprehensive income", may be presented and display net income taken from the statement of comprehensive income and all items carried in the reported period to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income (loss)) such as adjustments arising from translating financial statements, fair value adjustments of available-for-sale financial assets, changes in the revaluation reserve of fixed assets and the tax effect of these items carried to equity, allocated between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of comprehensive income in a single statement entitled "statement of comprehensive income" which replaces the statement of comprehensive income, allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, allocated between the Company and the minority interests.

IFRS 8 - Segments:

IFRS 8 deals with segments and replaces IAS 14. According to the Standard, the Company adopted a "management approach" in reporting on the financial performance of the segments. The segment information is the information that is internally used by management in order to assess its performance and allocate resources to the segments.

The Company adopted the provisions of IFRS 8 on January 1, 2009 with a retrospective restatement of comparative figures.

The adoption of the Standard did not have any material effect on the presentation of segment information

The revision was adopted on January 1, 2009, with a retrospective restatement of comparative figures.

d. Significant accounting estimates and assumptions:

The preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions by the Company's management. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1. Impairment of non-financial assets:

The Group assesses whether there are any indicators of

impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.
When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

2. Deferred tax assets:

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 19.

3. Development costs are capitalized in accordance with the accounting policy in n. below. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

e. Financial statements in U.S. dollars - the presentation currency:

The majority of the Company's revenues from the operations in Israel are received in New Israeli Shekels ("NIS") and the majority of the costs are paid in NIS, thus the NIS is the currency of the primary economic environment of the Company and therefore its functional currency is the NIS.
The Company has selected the U.S. dollar as the presentation currency in the consolidated financial statements. The Company believes that most of the users of its financial statements are more familiar with the U.S. dollar, than the NIS.
Because the presentation currency is the U.S. dollar, the financial statements of the Company and of subsidiaries whose functional currencies is the NIS or the Euro, have been translated from the functional currency to the presentation currency, in accordance with the following principles set forth in IAS 21, "The Effects of Changes in Foreign Exchange Rates", as follows:
Assets and liabilities are translated into U.S. dollars at the closing rate at the date of each balance sheet. Income and expenses are translated at average monthly exchange rates for the periods presented.
Share capital, additional paid-in capital and treasury shares are translated into U.S. dollars using the exchange rate at the date of the transaction.
The exchange differences resulting from the translation are recognized as a separate component of equity.

f. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances between the Company and its subsidiaries are eliminated in consolidation.
Subsidiaries 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 subsidiaries is accounted for using the purchase method of accounting.
The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

g. Business combinations and goodwill:

Business combinations are accounted for using the purchase method.
Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.
Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the disposed operation and the portion of the retained cash-generating unit.

h. Cash and cash equivalents:

Cash and cash equivalents in the balance sheets comprise cash in banks and on hand and short-term deposits with an original maturity of three months or less.

i. Inventory:

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

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j. Trade receivables:

Trade receivables are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Accounts are written off only after all reasonable collection efforts have been exhausted.

k. Financial instruments:

Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the statement of comprehensive income.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

1. Financial assets at fair value through profit or loss:

The Group has financial assets at fair value through profit or loss comprising financial assets held for trading and financial assets designated upon initial recognition as of fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term, if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits or if they are derivatives not designated as hedging instruments. Gains or losses on investments held for trading are recognized in the statement of comprehensive income when incurred.

2. Loans and receivables:

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. Short-term borrowings (such as granting loans to customers and other receivables) are measured based on their terms, normally at nominal value. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process. As for recognition of interest income, see Note 23e.

3. Available-for-sale financial assets:

The Group has available-for-sale financial assets that are financial assets (non-derivative) that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except exchange differences that relate to monetary debt instruments that are carried to the statement of comprehensive income in finance costs or income, are recognized directly in equity as other comprehensive income (loss) in the available-for-sale reserve. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is recognized in the statement of comprehensive income. As for recognition of interest income on investments in debt instruments and dividend earned on investments in equity instruments, see Note 23e.

4. Fair value:

The fair value of investments that are actively traded in organized financial markets is determined by reference to market prices on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

5. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial liabilities:

1. Financial liabilities measured at amortized cost:

Short-term borrowings (such as loans from suppliers and other payables) are measured based on their terms, normally at nominal value. Gains and losses are recognized in the statement of comprehensive income when the financial liability is derecognized as well as through the systematic amortization process.

2. Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of settling in the near term. Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income.

Treasury shares:

Company shares held by the Company and/or subsidiaries are recognized at cost and deducted from equity. Any purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities:

A financial liability is derecognized when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in the statement of comprehensive income. If the exchange or modification is immaterial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized from the exchange.

Impairment of financial assets:

The Group assesses at each balance sheet date whether there is any objective evidence that the following financial asset or group of financial assets is impaired.

Available-for-sale financial assets:

For equity instruments classified as available-for-sale financial assets, the objective evidence includes a significant or prolonged decline in the fair value of the asset below its cost and examination of changes in the technological, market, economic or legal environment in which the issuer operates. The examination of a significant or prolonged impairment depends on the circumstances at each balance sheet date. The examination considers historical volatility in fair value and the existence of a decline in fair value of 20% or more or whether the duration of the decline in fair value is six months or more. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less any previous impairment losses) and the fair value is removed from equity and recognized as an impairment loss in the statement of comprehensive income. In subsequent periods, reverse of impairment loss is not carried to the statement of comprehensive income but recognized as other comprehensive income (loss).

l. Prepaid expenses:

Prepaid expenses, which are related mainly to sales commissions on deferred revenues, are charged to the statement of comprehensive income, over the estimated average service period of subscriber contracts, as adjusted for cancellations.

m. Fixed assets:

1. Items of fixed assets are measured at cost with the addition of direct acquisition costs, less accumulated depreciation, less accumulated impairment losses and excluding day-to-day servicing expenses.

2. 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 shorter of the term of the lease or the useful life
Devices on loan to customers	Over the estimated term of the related service

A part of a fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method. Depreciation is calculated on a straight-line basis at annual rates that are adequate for the depreciation of the assets over the term of their expected useful life.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and the changes are accounted for as a prospective change in accounting estimate.

n. 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.

Capitalized 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 and if necessary, the costs are written down to their recoverable amount.

2. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less accumulated amortization and any impairment in value (see g above).

o. Impairment of assets:

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of goodwill:

Goodwill is tested for impairment annually (as of December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

p. 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 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 income will be available to allow all or part of the deferred tax asset to be utilized.
Deferred tax assets and liabilities are measured based on 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 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.

q. Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

r. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from services and sales of devices are recognized ratably over the estimated average service period of subscriber contracts (eight years), as adjusted for cancellations.
A consideration received for services not yet performed as of balance sheet date, is recorded as deferred revenue, which is recognized as the services are performed.
The deferred revenues from the sale of IT platform modules and related services are recognized as the services and modules are delivered.
Interest income is recognized as the interest accrues.

s. 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, 2009.

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.
Data regarding Israeli CPI and exchange rates of the U.S. dollar, the Euro, and the Swiss franc:

For the year ended	Israeli CPI	Exchange rate of € 1	Exchange rate of U.S. $ 1	Exchange rate of CHF 1
	Points *)	NIS	NIS	NIS
December 31, 2009	206.2	5.44	3.77	3.67
December 31, 2008	198.4	5.30	3.80	3.56
December 31, 2007	191.1	5.66	3.85	3.42

Change during the year	%	%	%	%
2009	3.9	2.7	(0.7)	2.9
2008	3.8	(6.4)	(1.1)	4.1

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

t. Earnings per share:

Basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period.

u. Accrued severance pay:

The Company operates a defined benefit plan for severance pay pursuant to Israel's Severance Pay Law. Under the law, Israel resident employees are entitled to receive severance pay upon involuntary termination of employment, or upon retirement, which is calculated based on the most recent monthly salary at the time of termination, multiplied by the number of years of employment.
The Company funds its liability for severance pay to part of its employees by monthly payments to insurance companies.
The cost of providing severance pay is determined using the projected unit credit actuarial value method. Actuarial gains and losses are recognized immediately in the period in which they occur.
The severance pay liability recognized in the balance sheet represents the present value of the defined benefit

obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

v. Share-based payment transactions:

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions (“equity settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuator using an appropriate pricing model, further details of which are given in Note 22.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

w. IFRS not yet effective:

IFRS 2 (Revised), "Share-based Payment":

The amendment to IFRS 2, “Share-based Payment”, was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The Standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

The Company estimates that the revised Standard will not have a material effect on its financial position and operating results.

IFRS 9 - Financial Instruments:

In November 2009, the IASB issued IFRS9, “Financial Instruments”, which represents the first phase of a project to replace IAS 39, “Financial Instruments: Recognition and Measurements”. IFRS 9 focuses mainly on the classificaation and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in the statement of comprehensive income or in other comprehensive income (loss), in accordance with the election of the accounting policy on an instrument-by-instrument basis. Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.

In all other circumstances, reclassification of financial instruments is not permitted.

The Standard will be effective starting January 1, 2013. Earlier application is permitted. Early adoption will be made with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

The Company is evaluating the possible effect of the adoption of the new Standard on the consolidated financial statements but is presently unable to assess such effect, if any.

NOTE 3 | ACQUISITION OF BUSINESS ACTIVITIES

a. On June 10, 2009, the Company entered into an agreement with Keshev Lev Ltd. for the acquisition of its telemedicine subscribers. Total consideration, to be paid in 21 monthly installments based on the present value of the actual future subscriber payments, is estimated at $ 660 (including fixed assets, other assets and goodwill of $ 310). Until balance sheet date, a total of $ 358 has been paid.

b. On August 3, 2009, the Company acquired the business activity of Moked 24 Ltd. for a total consideration of $ 1,416. The purchase price was allocated to fixed assets, other assets and goodwill in an amount of $ 1,118. Until balance sheet date a total of $ 1,142 has been paid.

NOTE 4 | CASH AND CASH EQUIVALENTS

	December 31,	
	2009	2008
Cash in banks	1,355	2,539
Short-term deposits	484	726
	1,839	3,265

NOTE 5 | AVAILABLE-FOR-SALE INVESTMENTS

	December 31,	
	2009	2008
Marketable securities:		
Corporate debentures - in Euros	-	209
Corporate debentures - in U.S. dollars	2,066	5,624
Corporate debentures - in NIS	6,205	2,616
Government debentures - in NIS	9,980	11,761
	18,251	20,210

NOTE 6 | TRADE RECEIVABLES

a. Composition:

	December 31,	
	2009	2008
Gross amount	8,615	5,242
Less - allowance for doubtful accounts	2,313	2,456
	6,302	2,786
Current maturities of long-term receivables	325	772
	6,627	3,558

b. Movements in the allowance for doubtful accounts were as follows:

As of January 1 and December 31, 2008	2,456
Charge for the year	-
Utilized	(143)
As of December 31, 2009	**2,313**

c. The net trade receivables amounts of 2009 and 2008 represent amounts neither past due nor impaired.

NOTE 7 | LONG-TERM TRADE RECEIVABLES

	December 31,	
	2009	2008
Gross amounts (1)	16,292	26,629
Less - deferred revenues	12,093	23,075
	4,199	3,554
Less - current maturities	325	772
	3,874	**2,782**

(1) Represent customers' future installments that are secured by pre-approved future debits to customers' bank accounts and credit card vouchers, which are linked to the Israeli Consumer Price Index.

NOTE 8 | PREPAID EXPENSES

Prepaid expenses are recognized in the statement of comprehensive income in future years, as follows:

	December 31,	
	2009	2008
First year prepaid expenses - short-term	2,020	2,065
Second year	1,706	1,734
Third year	1,214	1,505
Fourth year	851	965
Fifth year	652	638
Thereafter	659	699
Prepaid expenses - long-term	5,082	5,541
Total prepaid expenses	**7,102**	**7,606**

NOTE 9 | OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2009	2008
Government authorities	-	6
Employees	189	74
Interest receivable	345	238
Others	397	104
	931	**422**

NOTE 10 | FIXED ASSETS

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance as of January 1, 2008	6,867	3,908	745	1,591	1,103	28,102	42,316
Additions during the year	1,596	181	114	122	162	1,420	3,595
Disposals during the year	-	-	-	(226)	-	-	(226)
Currency translation differences	(99)	35	2	25	4	168	135
Balance as of December 31, 2008	8,364	4,124	861	1,512	1,269	29,690	45,820
Additions during the year	1,839	217	188	284	330	2,226	5,084
Acquisition of business activities	-	-	-	-	-	272	272
Currency translation differences	150	47	13	21	22	460	713
Balance as of December 31, 2009	**10,353**	**4,388**	**1,062**	**1,817**	**1,621**	**32,365**	**51,606**
Accumulated depreciation:							
Balance as of January 1, 2008	5,320	3,209	370	828	695	16,267	26,689
Additions during the year	938	441	50	236	112	2,142	3,919
Disposals during the year	-	-	-	(224)	-	-	(224)
Currency translation differences	(40)	12	2	9	2	162	147
Balance as of December 31, 2008	6,218	3,662	422	849	809	18,571	30,531
Additions during the year	1,054	151	54	234	131	1,878	3,502
Acquisition of business activities	-	-	-	-	-	29	29
Currency translation differences	88	32	5	19	11	331	486
Balance as of December 31, 2009	7,360	3,845	481	1,102	951	20,809	34,548
Depreciated cost as of December 31, 2009	**2,993**	**543**	**581**	**715**	**670**	**11,839**	**17,341**
Depreciated cost as of December 31, 2008	**2,146**	**462**	**439**	**663**	**460**	**11,119**	**15,289**

As for charges, see Note 21.

NOTE 11 | INTANGIBLE ASSETS, NET

	Development costs	Non-compete agreements and others	Goodwill	Total
As of January 1, 2009, net of accumulated amortization	5,824	-	11,513	17,337
Additions during the year *)	1,602	432	1,372	3,406
Amortization during the year	(1,187)	(75)	-	(1,262)
Currency translation differences	50	9	88	147
As of December 31, 2009, net of accumulated amortization	**6,289**	**366**	**12,973**	**19,628**
As of December 31, 2009:				
Cost	14,483	441	12,973	27,897
Accumulated amortization	(8,194)	(75)	-	(8,269)
Net carrying amount	**6,289**	**366**	**12,973**	**19,628**

	Development	Goodwill	Total
As of January 1, 2008, net of accumulated amortization	5,066	11,385	16,451
Additions during the year	1,654	-	1,654
Amortization during the year	(915)	-	(915)
Currency translation differences	19	128	147
As of December 31, 2008, net of accumulated amortization	**5,824**	**11,513**	**17,337**
As of December 31, 2008:			
Cost	12,806	11,513	24,319
Accumulated amortization	(6,982)	-	(6,982)
Net carrying amount	**5,824**	**11,513**	**17,337**

The recoverable amount of the telemedicine operations in Germany to which the goodwill relates has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.
The pre-tax discount rate applied to cash flow projections is 17% (2008: 17%) and cash flows beyond the 5-year period are extrapolated using a 1% growth rate (2008: 1%).

*) See Note 3.

NOTE 12 | SHORT-TERM CREDIT FROM BANKS

	Interest rate	December 31,	
	%	2009	2008
Credit from banks:			
NIS - unlinked	Prime (1)+0.2	463	526
CHF		20	57
		483	583

(1) The Prime rate as of December 31, 2009 – 2.75% (December 31, 2008 - 4.00%).

NOTE 13 | DEFERRED REVENUES

	December 31,	
	2009	2008
As of January 1	31,717	49,632
Deferred during the year	19,605	16,112
Released to the statement of comprehensive income	(30,941)	(30,110)
Cancelled	(4,210)	(4,505)
Currency translation differences	625	588
As of December 31	16,796	31,717
Offset from long-term trade receivables (Note 8)	12,093	23,075
	4,703	8,642
Presented in the balance sheet:		
Current	4,703	6,747
Non-current	-	1,895
	4,703	8,642

NOTE 14 | OTHER ACCOUNTS PAYABLE

Employees and payroll accruals	1,816	1,602
Accrued expenses	3,141	2,209
Government authorities	74	186
Former Raytel shareholders	384	384
Future participation rights - current portion (Note 16)	4,007	2,146
Other	534	191
	9,956	6,718

NOTE 15 | FINANCIAL INSTRUMENTS

The Group's principal financial liabilities comprise of bank borrowings and trade payables. The main purpose of these financial liabilities is to raise financing for the Group's operations. The Group has various financial assets such as trade receivables, available-for-sale investments, cash and deposits, which arise directly from its operations.

It is, and has been throughout 2009 and 2008, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

a. Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group's policy is to manage its interest costs by using a combination of fixed and variable rate debts.

b. Concentration of credit risks:

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 Germany and guaranteed minimum payments related to the sale of Raytel to Philips at the end of 2007. 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. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

c. Foreign currency risk:

The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. Thus certain revenues and expenses are denominated in currencies other than the functional currency of the relevant entity in the Group. Group management regularly monitors its foreign exchange risk and attempts to limit such risks by making adequate decisions regarding cash and credit positions.

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar exchange rate in relation to the NIS, with all other variables held constant, of the Group's profit before tax (due to changes in the carrying value of monetary assets and liabilities).

	Increase/ decrease in exchange rates	Effect on profit before tax
2009	+10%	133
	-10%	(133)
2008	+10%	742
	-10%	(742)

d. Price risk:

The Group has investments in listed financial instruments, that are classified as available-for-sale financial assets in respect of which the Group is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price. As of December 31, 2009, the balance of these investments is $ 18,251 thousand (2008 - $ 20,210 thousand).

e. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments and other accounts receivable, credit from banks and others, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

f. Liquidity risk:

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations.

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

	In or linked to:					
				Israeli		
	U.S.$	CHF	Euro	CPI	NIS	Total
December 31, 2009						
Assets:						
Cash and cash equivalents	404	469	7	-	959	1,839
Available for sale investments	2,066	-	-	-	16,185	18,251
Trade receivables	1,469	-	4,436	4,199	397	10,501
Other accounts receivable	1,130	-	215	358	603	2,306
Long-term deposits	-	-	104	-	-	104
	5,069	**469**	**4,762**	**4,557**	**18,144**	**33,001**
Liabilities:						
Credit from banks and others	-	-	20	-	463	483
Trade payables	12	-	839	-	1,358	2,209
Income tax payable	-	-	-	-	2,951	2,951
Short and long-term other accounts payable	605	-	5,638	-	3,713	9,956
Accrued severance pay	-	-	102	-	515	617
	617	**-**	**6,599**	**-**	**9,000**	**16,216**
December 31, 2008						
Assets:						
Cash and cash equivalents	1,798	59	840	-	568	3,265
Available-for-sale investments	5,624	-	208	-	14,378	20,210
Trade receivables	-	-	1,850	3,554	936	6,340
Other accounts receivable	3	-	31	590	388	1,012
Long-term deposits	-	-	117	-	-	117
	7,425	**59**	**3,046**	**4,144**	**16,270**	**30,944**
Liabilities:						
Credit from banks and others	-	57	-	-	526	583
Trade payables	-	-	415	-	1,087	1,502
Income tax payable					2,776	2,776
Short and long-term other accounts payable	584	-	3,252	-	2,882	6,718
Accrued severance pay	-	-	86	-	691	777
	584	**57**	**3,753**	**-**	**7,962**	**12,356**

NOTE 16 | PROVISIONS

	December 31, 2009	2008
Provision for future participation rights (1)	4,007	3,567
Less - current maturities	4,007	2,145
	-	1,422

(1) In connection with the acquisition of a subsidiary in 2004, the Company has an obligation to pay 3.5% of the annual revenues of such subsidiary, in certain countries, until 2010. The above balance is presented at present value.

NOTE 17 | ACCRUED SEVERANCE PAY

a. The amount included in the balance sheet arising from obligations in respect of the defined benefit plan for severance pay is comprised as follows:

	December 31, 2009	2008
Present value of funded obligation	3,847	3,594
Fair value of plan assets	3,230	2,817
	617	777

b. The amounts recognized in the balance sheet are as follows:

	2009	2008
Liability at the beginning of the year	777	452
Expense recognized in the statement of comprehensive income	294	951
Benefits not paid from assets	(49)	(162)
Contribution to assets	(441)	(450)
Currency translation differences	36	(14)
Liability at the end of the year	617	777

c. Amounts recognized in the statement of comprehensive income are as follows:

	December 31, 2009	2008
Current service cost	435	439
Interest cost	170	203
Expected return on plan assets	(60)	(95)
Net actuarial loss (gain) recognized in the year	(251)	404
Total expense included in statement of comprehensive income	294	951

d. The principal actuarial assumptions used are as follows:

	2009	2008
Discount rate	5.70%	5.26%
Future salary increase	5.71%	5.06%

NOTE 18 | INVESTMENTS IN SUBSIDIARIES

Principal subsidiaries:

	Country of incorporation	Percentage in equity 2009 and 2008
		%
Shahal Haifa - Medical Services Ltd.	Israel	100
SHL Telemedicine International Ltd. ("STI")	Israel	100
Shahal Rashlatz Rehovot Medical Services Ltd.	Israel	100
SHL Telemedicine B.V.	Netherlands	100
SHL Telemedicine Global Trading Ltd.	Ireland	100
SHL Telemedicine North America LLC.	U.S.A.	100
SHL U.S.A. Inc.	U.S.A.	100
Personal Healthcare Telemedicine Services B.V.	Netherlands	100
SHL Telemedizin GmbH	Germany	100
SHL IRL B.V.	Netherlands	100

NOTE 19 | TAXES ON INCOME

a. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the Law, until the end of 2007, the results for tax purposes in Israel are measured based on the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Law, which limits the scope of the Law starting 2008 and thereafter. Starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index through December 31, 2007. The amended law includes the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

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

1. Companies in Israel:

On July 25, 2005 the Knesset approved the Law of the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

Further to the abovementioned, in July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

As a result, the defferred tax asset decreased in an amount of $ 176, which was charged to taxes on income in the statement of comprehensive income.

2. Foreign subsidiaries:

The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

The U.S. -	tax at the rate of 34%.
Germany -	tax at the rate of 31.4%.
Ireland -	tax at the rate of 12.5%.

c. Taxes on income (tax benefit) included in the statements of comprehensive income:

	Year ended December 31,	
	2009	2008
Current taxes	493	-
Deferred taxes	1,189	(3,463)
	1,682	(3,463)

d. Deferred tax assets (liabilities):

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

	Balance sheet items					
	Deferred revenues, net	Fixed and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Others	Total
Balance at January 1, 2008	3,877	(319)	213	1,844	756	6,371
Amount included in statement of comprehensive income *)	3,949	19	71	(616)	40	3,463
Currency translation differences	(173)	(4)	(2)	56	6	(117)
Balance at December 31, 2008	7,653	(304)	282	1,284	802	9,717
Amount included in statement of comprehensive income	(629)	(85)	(102)	(20)	(353)	(1,189)
Currency translation differences	51	(7)	(3)	10	(31)	20
Balance at December 31, 2009	**7,075**	**(396)**	**177**	**1,274**	**418**	**8,548**

*) In 2008 the Company re-evaluated its deferred tax assets mainly in relation to deferred revenue and concluded that it is probable that sufficient taxable income will be available to allow for the realization of an asset in a net amount of $ 3,342 which was recorded as a tax benefit and included in the statement of comprehensive income.

The balance is presented as follows:

	December 31,	
	2009	2008
Non-current asset	8,901	10,049
Non-current liability	(353)	(332)
	8,548	**9,717**

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

	Year ended December 31,	
	2009	2008
Income (loss) before taxes on income	**7,059**	**(1,230)**
Statutory tax rate in Israel	**26%**	**27%**
Theoretical tax expenses (benefit)	1,835	(332)
Increase (decrease) in taxes resulting from:		
Losses and other items for which deferred taxes were not provided	(643)	314
Tax adjustment in respect of inflation in Israel	(11)	(149)
Non-deductible expenses	50	185
Realization of carryforward tax losses and deferred revenues for which deferred taxes were not recorded in prior years	(54)	(3,358)
Different tax rates	244	(11)
Change in deferred taxes due to changes in tax rates	164	-
Other	97	(112)
Total tax expense (benefit)	**1,682**	**(3,463)**
Income tax expense (benefit) reported in the consolidated statements of comprehensive income	**1,682**	**(3,463)**

f. Carryforward tax losses:

The carryforward losses for tax purposes as of December 31, 2009 amount to $ 14,783 (2008 -$ 17,500) in Israel (which may be carried forward indefinitely) and $ 41,742 (2008 - $ 53,255) in Europe. In the U.S., as of December 31, 2009, SHL USA has federal and state net operating losses and credits of $ 3,741 (2008 - $ 3,550), which expire at various times.

Deferred tax assets relating to carryforward tax losses as described above, and deductible temporary differences in the aggregate amount of $ 13,324 (2008 - $ 20,432) are not included in the consolidated financial statements as the management presently believes that it is not probable that these deferred taxes will be realized in the foreseeable future.

g. Tax assessment in dispute:

On August 1, 2005, the Company was issued tax assessments in Israel for the years 2000-2003 in the aggregate amount of approximately $ 8,000. The Company had contested the assessments and, on August 31, 2005, filed an appeal against them. The appeal was denied, and the Company received a payment demand from the tax authorities. The Company filed an appeal against that demand. In the opinion of the management, the provision in the accounts is sufficient to cover this liability.

NOTE 20 | TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions:

	Year ended December 31,	
	2009	2008
Revenues	5,826	6,972
Rent expense to shareholders	248	198

b. Compensation of key management personnel:

Short-term employee benefits	1,483	1,299
Share-based compensation	-	13
	1,483	1,312

c. Balances:

	Year ended December 31,	
	2009	2008
Provisions	4,007	3,567

NOTE 21 | COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

As collateral for the Group's liabilities, fixed charges have been placed on specific notes collectible.

b. Lease commitments:

Many of the Group's facilities are rented under operating leases for various periods ending through 2013.

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

	2009	2008
First year	400	442
Second to fifth years	643	977
	1,043	1,419

c. Contingent liabilities:

1. The Group, from time to time, is party to various claims and disputes associated with its ongoing business operations. In management's opinion, none of these claims or disputes is 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.

2. Tax assessment in dispute - see Note 19g.

NOTE 22 | EQUITY

a. The share capital is composed as follows:

	December 31, 2009		December 31, 2008	
	Authorized	Issued and outstanding*)	Authorized	Issued and outstanding*)
	Number of shares			
Ordinary shares of NIS 0.01 par value each	**14,000,000**	**10,501,174**	**14,000,000**	**10,511,610**

*) Net of treasury shares.

b. Treasury shares:

The Company holds 252,836 shares (221,922 shares as of December 31, 2008) for a total cost of $ 1,567 as of December 31, 2009 ($ 1,405 as of December 31, 2008).

c. Share Option Plans:

In September 2000, SHL adopted an option plan for the issuance of options to purchase Ordinary shares ("options") to its employees, directors, consultants and contractors that was amended in November 2000 ("the 2000 Share Option Plan"). In September 2000, SHL approved a maximum pool of up to 856,627 Ordinary shares reserved for issuance upon exercise of options that may be granted pursuant to the 2000 Share Option Plan ("the Option Pool").

In October 2003, due to a tax reform in Israel that changed the tax regime with respect to options granted to employees and directors, SHL adopted the 2003 Share Option Plan ("the 2003 Share Option Plan") for the issuance of options to employees, directors, consultants and contractors of SHL and any of its subsidiaries, and determined that the option pool reserved for purposes of the 2000 Share Option Plan shall further serve for purposes of the 2003 Share Option Plan. The options are valid for a term of ten (10) years from the date of their grant, subject to early termination due to cessation of employment or service of the option holder.

In May 2005, SHL adopted the 2005 Key Employee Share Option Plan (the "2005 Key Employee Share Option Plan"). The maximum number of Ordinary shares which may be issued under the 2005 Key Employee Share Option Plan and under any other existing or future share incentive option plans of the Company was set at 856,627 Ordinary shares at the time of adoption of the plan, subject to adjustments as provided in the 2005 Key Employee Share Option Plan. The exercise price shall be the closing price for an Ordinary share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors. Options granted under the 2005 Key Employee Share Option Plan shall vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board of Directors, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

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

On July 1, 2008, the BOD approved the grant of 43,000 options, under the 2005 Share Option Plan. The weighted average fair value of options granted by the Company, in the amount of CHF 3.269, was estimated based on the following data and assumptions (weighted average): share price - CHF 7.95; exercise price - CHF 8.30; expected volatility - 57.98%; risk-free interest rate - 3.1%; expected dividend - 0%; and expected average life of options - 6 years.

On May 12, 2009, the Board of Directors approved the grant of 68,500 options to employees, under the 2005 Share Option Plan. The weighted average fair value of options granted by the Company, in the amount of CHF 1.984, was estimated based on the following data and assumptions (weighted average): share price - CHF 6.90; exercise price - CHF 7.10; expected volatility - 55.40%; risk-free interest rate - 3.55%; expected dividend - 0%; and expected average life of options - 6 years

In the years ended December 31, 2009 and 2008, the Company recorded share-based compensation in general and administrative expenses in the amount of $ 179 and $ 183, respectively.

d. The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2009		2008	
	No.	WAEP (CHF)	No.	WAEP (CHF)
Outstanding at the beginning of the year:	577,912	6.51	880,897	6.47
Granted during the year	68,500	7.1	43,000	8.30
Forfeited during the year	(26,364)	5.78	(300,425)	6.40
Exercised during the year *)	(19,915)	5.21	(45,560)	6.16
Outstanding at the end of the year	600,133	6.75	577,912	6.61
Exercisable at the end of the year	413,463	6.55	459,357	6.54

	Options outstanding at December 31, 2009	Weighted average exercise price in CHF	Vested
Under the 2003 share option plan	291,731	6.02	291,731
Under the 2005 key employee share option plan	308,402	7.43	121,732
	600,133	**6.75**	**413,463**

*) The weighted average share price at the date of exercise of these options was CHF 7.85 (2008 - CHF 6.54).

e. Dividend paid:

On March 25, 2008, the Company declared a dividend in the amount of $ 0.37 per share (for a total amount of $ 3,955). The dividend was paid on April 15, 2008, to the Company's shareholders of record on April 14, 2008.

f. Capital management:

The Company's capital management objectives are:

1. To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.

2. To ensure adequate return for the shareholders by pricing of products and services that is adjusted to the level of risk in the Group's business activity.

The Company acts to achieve a capital return at a level that is customary in the industry and markets in which the Company operates. This return is subject to changes depending on market factors in the Company's industry and business environment. The Company is not under any minimal equity requirements nor is it required to attain a certain level of capital return.

NOTE 23 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF COMPREHENSIVE INCOME

a. Cost of revenues:

	Year ended December 31,	
	2009	2008
Salaries and related benefits	7,019	7,564
Rental fees and maintenance	1,591	1,354
Materials and components	102	104
Others	4,809	3,769
	13,521	**12,791**

b. Research and development costs, net:

Salaries and related benefits	1,573	1,363
Amortization of development costs	1,187	915
Others	65	379
	2,825	2,657
Less - capitalization of development costs	1,602	1,654
	1,223	**1,003**

c. Selling and marketing expenses:

Salaries and related benefits	6,775	6,725
Advertising	4,008	2,292
Depreciation	446	436
Rental fees and maintenance	317	304
Maintenance of motor vehicles	537	691
Others	1,953	1,712
	14,036	**12,160**

d. General and administrative expenses:

	Year ended December 31,	
	2009	2008
Salaries and related benefits	4,849	4,627
Rental fees and office expenses	693	672
Professional fees	1,559	2,841
Depreciation and amortization	967	688
Others	2,074	2,699
	10,142	**11,527**

e. Financial income (expenses):

1. Financial income:

Exchange rate differences	202	1,879
Gain on marketable securities	326	400
Interest	773	1,267
Others	547	4,652
	1,848	**8,198**

2. Financial expenses:

Exchange rate differences	(518)	(4,754)
Interest	(294)	(591)
Others	(295)	(7,263)
	(1,107)	**(12,608)**

NOTE 24 | NET EARNINGS PER SHARE

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

	Year ended December 31,			
	2009		2008	
	Weighted number of shares	Net income	Weighted number of shares	Net income
	in thousands	$ in thousands	in thousands	$ in thousands
Number of shares and income for the computation of basic net earnings	10,488	5,377	10,575	2,233
Effect of dilution share options	27	-	18	-
For the computation of diluted net earnings	10,515	5,377	10,593	2,233

b. To compute diluted net earnings per share, convertible securities (dilutive potential Ordinary shares), detailed below, have not been taken into account since their conversion increases the basic earnings from continuing operations (anti-dilutive effect):

53,829 options to employees under share-based payment plans

NOTE 25 | SEGMENT INFORMATION

The Group operates in three segments: Europe, United States and Israel.

Management monitors the operating results of its geographical units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on segment profit. Group financing (including corporate, research and development expenses, finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Segment assets do not include deferred taxes and loans to associates, as these assets are managed on a group basis.

Segment liabilities do not include deferred taxes, current tax liability and loans, as these liabilities are managed on a group basis.

Capital expenditures consist of additions to fixed assets and intangible assets.

c. Geographic segments:

The following tables present revenue and profit information, and certain asset and liability information regarding geographic segments:

1. Revenues:

	Year ended December 31, 2009	2008
Sales to external customers:		
Europe	21,152	15,812
United States *)	5,826	6,972
Israel	20,912	21,770
	47,890	**44,554**
Intersegment sales:		
Europe	2,419	1,186
Israel	4,526	3,018
	6,945	**4,204**
Total revenues	54,835	48,758
Adjustments	(6,945)	(4,204)
Total revenues in financial statements	**47,890**	**44,554**

2. Segments result:

Sales less directly attributable and allocable expenses:		
Europe	3,729	1,659
United States *)	5,584	6,305
Israel	3,253	2,777
	12,566	**10,741**
Corporate and R&D expenses	(5,915)	(6,499)
Operating income	**6,651**	**4,242**

*) From delivery of IT platform and related services.

3. Segment assets:

	Year ended December 31, 2009	2008
Europe	12,238	11,526
United States	484	782
Israel	73,851	69,517
Total assets	**86,573**	**81,825**

4. Segment liabilities:

Europe	11,585	11,177
United States	617	584
Israel	8,587	10,408
	20,789	22,169
Unallocated liabilities	483	583
Total liabilities	**21,272**	**22,752**

5. Tangible and intangible fixed assets:

a) Capital expenditure:

Europe	2,109	1,825
Israel	6,653	3,424
	8,762	**5,249**

b) Depreciation:

Europe	1,014	837
Israel	3,769	3,997
	4,783	**4,834**