SHL

Annual Report 2006

SHL TeleMedicine Ltd.

Corporate Statement

SHL TeleMedicine Ltd., based in Tel Aviv, Israel, specialises in developing and marketing technologically advanced personal telemedicine systems, and in the provision of medical call center services to subscribers.

Personal telemedicine is the transmission of medical data by individual subscribers from remote locations to a medical call center via standard telephone networks. With the help of sophisticated computer systems, call center medical staff use this data to diagnose and monitor subscribers' health following proprietary guidance protocols, and to respond fast and effectively to their needs.

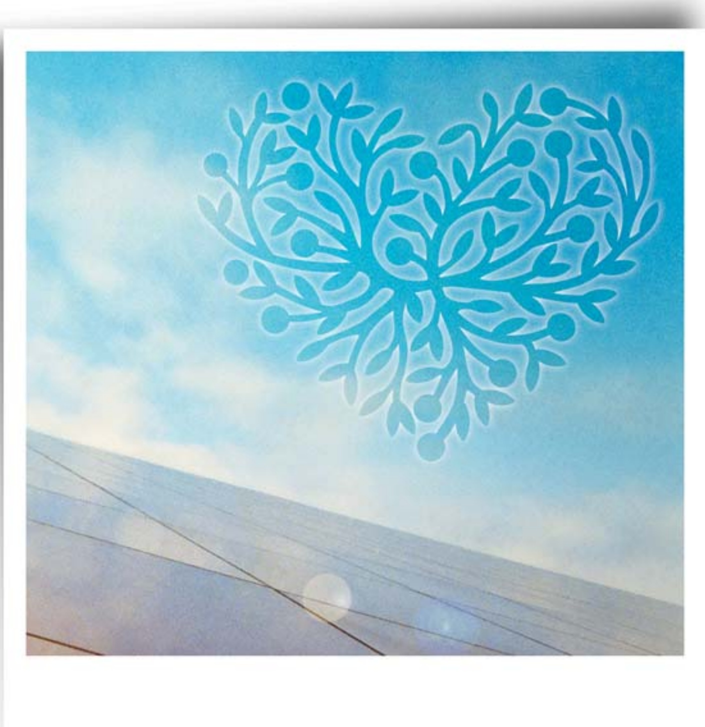
SHL's personal telemedicine systems are designed to improve quality of care and lifestyle for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health. In particular, the company's telemedicine systems can be used to reduce emergency care response times for sufferers of potentially fatal cardiac episodes.

The company maintains international business operations: SHL provides services in the USA through its wholly owned subsidiary Raytel Medical Corporation, a cardiovascular healthcare service provider, in Europe through its wholly owned subsidiary Personal Healthcare Telemedicine Services and in Israel.

SHL Telemedicine's 20-year track record and extensive experience have given the company a leading market position serving a client base of more than 300,000 long-term clients.

Contents

Telemedicine - a vital player in the healthcare industry of the future



2006 results reflect significantly better financial and operational performance benefiting from SHL's continued investments in the telehealth and telemedicine fields, placing it in a strong position for growth in coming years.

We are living today in an age where people more and more interconnect and communicate through technological platforms available to them. I believe this evolution in human behaviour together with an increase in life expectancy which brings about an ever increasing healthcare costs burden on the individual and the state will significantly increase the worldwide demand for telehealth and telemedicine solutions. Our continued market leadership in three countries gives us the perfect opportunity to move forward at an ever increasing pace.

This year was another year of progress for SHL showing much improved financial performance with EBITDA up significantly to USD 12.2 million; EBIT up by approximately 300 % to USD 5.0 million resulting in a net income from continuing operations.

In Germany, 2006 proved to be an exciting year for our telemedicine operation (PHTS). The realization of agreements with major German health insurers for the procurement of our telemedicine solutions continued bringing about an ever increasing rate of subscriber recruitment, with revenues for the year more than triple those of 2005.

In the US our cardiac telehealth operation (RCS) continues to lead the US remote cardiac monitoring services market showing improved operational and financial results. We believe RCS's unique platform, strong customer base and introduction of new applications into the marketplace provide a sound and solid base for continued leadership and growth.

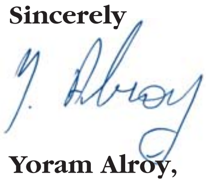
Our US medical imaging division continued its weak performance adversely affecting our overall financial performance in 2006. During the year we implemented a restructuring process aimed at divesting or discontinuing the operations of these imaging centers. This process has been finalized with the medical imaging centres not expected to impact our financial performance in 2007.

In Israel our telemedicine operation continued its steady growth with another year of solid financial performance, showing good margins and operating cash flow.

At the beginning of 2007 we were extremely proud of introducing SHL's next generation of personal ECG devices; the 12 lead digital cellular CardioSen'C. This revolutionary technology transmits digital encoded ECG data and allows for an interference free signal reception through the cellular network.

During the coming year we will continue to strive for excellence and innovation in the telemedicine and telehealth fields, justifying the confidence and support shown in us by our partners, shareholders and employees worldwide. We are confident that with continued innovation and excellence of service we will lead telehealth and telemedicine into centre stage.

Sincerely



Yoram Alroy,
Chairman and President

Solid foundations in place; platform ready for growth

In 2006, we further enhanced our position within the telehealth and telemedicine market showing improved financial and operational performance with EBITDA up to USD 12.2 million; EBIT up by approximately 300% to USD 5.0 M resulting in a net income from continuing operations. In Germany revenues more than tripled with financial and operational performance in our US and Israeli telemedicine operations progressing nicely showing improved financial performance. Our overall financial performance was adversely affected by our medical imaging services operation, for which the divesture and discontinuation process has been finalized.

Germany – continued growth

2006 continued to be a year of progress for SHL's German telemedicine operations with revenues more than triple those of 2005. The realization of agreements with major German health insurers for the procurement of SHL's telemedicine solutions continued bringing about an ever increasing rate of subscriber recruitments. This year SHL's German telemedicine operation has continued the impressive penetration into the German telemedicine marketplace with a substantial number of German health insurers joining its telemedicine service. Amongst other, PHTS has started to provide in 2006 telemedicine services to the Universitätsklinikum Heidelberg and AOK Baden-Würtenberg. SHL is very pleased of the growing interest and feedback it is receiving from the German health community for its telemedicine services and solutions.

We are very proud of the fact that several prominent figures in Germany have joined PHTS's Advisory Board, due to its increased presence in the German marketplace, bringing with them years of expertise and market knowledge which will help drive PHTS forward.

US telehealth operation – progress in US telehealth market

The US telehealth operations progressed nicely during the year benefiting from its strong customer base and long term referral relationship with physicians and cardiologists. As a result of the implementation of new systems and the integration of new IT platforms SHL's US telehealth operation showed improved financial and operational performance.

SHL believes its US telehealth operation's unique platform, strong customer base and introduction of new applications like the INR@Home monitoring service which achieved good market acceptance and growth during the year provide a sound and solid base for continued leadership and growth.

US medical services operation - divestures and closing of loss making medical imaging centres finalized

The US medical imaging division continued its weak performance in 2006, which adversely affected SHL's overall financial results. During the year SHL implemented a restructuring process aimed at limiting the negative impact of the imaging centers on its financial performance by divesting or discontinuing the operations of its imaging centers.

As a result of these processes, the imaging activities were categorized as discontinued operations in the financial statements and SHL does not expect them to continue to negatively impact its financial performance in 2007.

Israel – steady growth

Our Israeli telemedicine operation continues to be the market leader in the provision of telemedicine services with steady growth achieved in 2006. SHL's years of experience together with its proprietary technology and solutions enable the Israeli telemedicine operation to bring continued solid financial performance, showing good margins and operating cash flow.

SHL expects that this continued trend together with the introduction of new technologies as the CardioSen'C will help support future growth in Israel.

Technology

At the beginning of 2007 SHL introduced its next generation of personal ECG devices; the 12 lead personal digital cellular CardioSen'C. This revolutionary technology transmits digital encoded ECG data through the cellular network and allows for maximal ECG accuracy due to the elimination of background noises present when using acoustic transmission via regular telephone lines. In addition it enables the medical professionals at the medical call centre to remotely operate and control the device, which promises a calm, clear and effortless transmission on the part of the user.

Financial results:

Revenues from the telemedicine segment in 2006 increased by 8.4% to USD 62.8 million bringing total revenues for the year to USD 83.2 million compared to pro-forma revenues of USD 78.2 million. This number excludes the Bikurofe operations sold in mid 2005 with SHL's total revenues for 2005 amounting to USD 85.2 million.

An improvement in the gross margin to 49% in 2006 contributed to an increase in gross profit to USD 40.6 million compared with USD 36.7 million excluding the Bikurofe operations and USD 38.8 million including Bikurofe operations in 2005. This improvement together with the implementation of new systems, IT platforms and processes brought SHL's operating income to USD 5.0 million as against USD 0.2 million excluding Bikurofe operations and USD 1.4 million including Bikurofe operations.

Similarly, the EBITDA for the year reflected the significant improvement in SHL's operations increasing to USD 12.2 million up 67% when excluding Bikurofe operations with total EBITDA for 2005 amounting to USD 8.5. This is above the maximum guideline that the Company forecasted for 2006.

Overall SHL reports an improvement in earnings from continuing operations to USD 0.1 million. This is especially significant considering that in 2005, when excluding Bikurofe operations and the capital gain, net recorded form that sale, SHL recorded a loss from continuing operations of USD 7.4 million.

Taking into account the loss from discontinued operations from the US imaging centers of USD 7.2 million, SHL's overall loss for the year totaled USD 7.1 million compared to USD 15.1 million in 2005 excluding Bikurofe operations and the capital gain, net and USD 7.6 million in 2005 including the above.

The operational cash flow reached USD 1.8 million compared to a negative cash flow of USD 0.2 million in 2005 that is in spite of the continuing negative impact of the cash requirements for the US imaging operations prior to their divesture. Now with the divestures finalized significant improvement in operating cash flow is expected in the coming year.

In 2006 SHl applied a retrospective restatement to its 2005 financial position and results of operations as follows:

- In 2006, the Israeli Accounting Standards Board determined in accordance with IAS 29 that the Israeli economy ceased to be hyper inflationary as of December 31, 2003. Accordingly, the financial statements of SHL in Israel should have been adjusted for the effects of inflation until that date. Those financial statements had previously been presented, until that date, based on historical cost without adjustment for the effects of inflation.
- In 2006, the company discovered an error whereby some subscribers which received discounts in prior years and are still receiving service were accounted for as if they cancelled the service. Also the calculation of the accured severance pay was amended to reflect the fair value of the plan assets.

The total effect of the retrospective restatement for 2005 is as follows:

- A decrease in revenues of USD 0.2 million
- An increase in net loss of USD 0.1 million
- A decrease in equity of USD 1.8 million

Looking ahead

With the completion of the divestment and discontinuation process of its medical imaging centers, together with the continued growth in Germany, the US and Israel, SHL expects to record an improvement in its financial performance and cash flows in 2007 with EBITDA expected to be in the range of USD 12 – 14 million.

The Next Generation of 12 lead ECG transmissions – The CardioSen'C

The CardioSen'C – a personal digital cellular 12 lead ECG transmission device.

SHL believes in harnessing technological innovation for the benefit of its subscribers, offering sophisticated yet user-friendly modern devices designed to high quality specifications. After years of development SHL is introducing the next generation of personal hand held 12 lead ECG devices - the CardioSen'C. The CardioSen'C as all of SHL's products is designed to be used together with SHL's monitor centre platform.

The CardioSen'C transmits in real time to SHL's medical call centre a patient's 12 lead ECG for the purpose of remote real time diagnosis of arrhythmia, ischemia, and Myocardial infraction. The ECG is then analysed by the medical professionals at SHL's medical call centre and together with a clinical description given by the patient provide the medical professionals with the data needed to diagnose the situation and provide medical assistance, if necessary. This telemedicine service can help to drastically reduce morbidity and mortality rates following an Acute Myocardial Infraction or other severe cardiac incidents.

The CardioSen'C's unique features and capabilities have been achieved through years of extensive development making use of SHL's vast experience in the cardiovascular telemedicine field highlighted by the

introduction in 1994 of the CardioBeeper 12L, the worlds first 12 lead personal handheld ECG transmission device.

The CardioSen'C unique features include, among others:

- Simultaneous real time 12 lead ECG sampling (only 3 seconds) for improved quality and faster rate of transmission.
- Transmission of digital encoded ECG data through a built-in cellular modem allows for maximal ECG accuracy due to the elimination of background noises present when using acoustic transmission via regular telephone lines.
- In case of no cellular reception the device transmits the ECG acoustically.
- Enables the medical professionals at the medical call centre to remotely operate and control the device. This promises a calm, clear and effortless transmission on the part of the user.
- Innovative design with advanced ergonomics which includes an LCD display and vocal guidance.

SHL is confident that this innovative device will help its tens of thousands of subscribers in their quest for an improved quality of life and greater peace of mind.

Information for investors

Capital structure

The issued share capital is divided into 10,677,337 registered shares with a par value of NIS 0.01 each

Distribution of profits

SHL Telemedicine Ltd. Currently intends to retain any future earnings to finance development of its business and does not anticipate paying any cash dividends in the forseeable future.

Significant shareholders'

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

Royal Philips Electronics	18.65%
Alroy Group*	18.60%
Tower Holdings B.V.	14.24%
G.Z. Assets and Management Ltd.	8.68%
Public	39.83%

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2006, after deducting from the total number of shares outstanding 61,159 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Statistics on SHL Telemedicine as at December 31, 2006

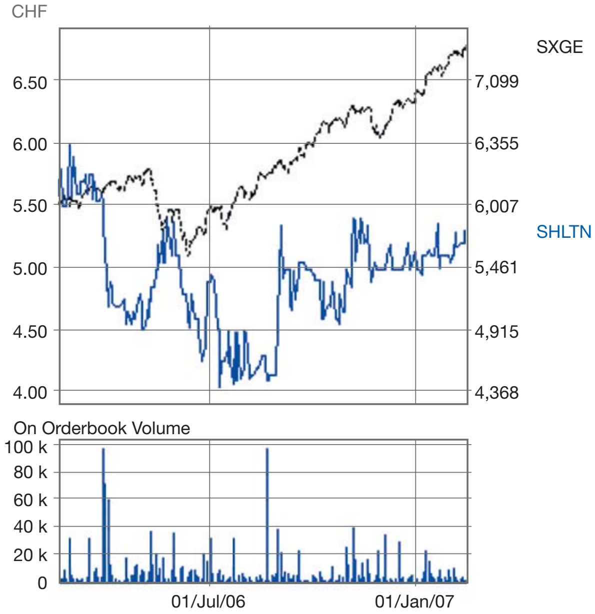
Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,677,337
Market price high/low (CHF)	6.00/4.05
Market capitalization high/low (CHF million)	64.1/43.2
Market capitalization 31/12/06 (CHF million)	53.4
Share capital – nominal value (NIS)	106,773
Majority interests	60.17%

Key figures per share at Decmber 31, 2006

Net loss per share attributable to equity holders of SHL (USD)	(0.80)
Return on equity	n.m.

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.
Erez Alroy, Co-CEO
Haim Brosh, Executive Vice President Finance
90 Igal Alon St., Tel Aviv 67891, Israel
Tel. ++972 3 561 2212
Fax: ++972 3 624 2414
Email: ereza@shl-telemedicine.com
Email: haim@shl-telemedicine.com

Annual General Meeting

June 13, 2007

Next Publications

Q1 Results:	May 30, 2007
Q2 Results:	August 23, 2007
Q3 Results:	November 22, 2007

Corporate Governance 2006

Contents

SHL TeleMedicine Ltd. Corporate Governance Report

In this section of our 2006 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, 2006, and complies with the Corporate Governance Directive of the SWX Swiss Exchange.

Group Structure and Shareholders

Group Structure

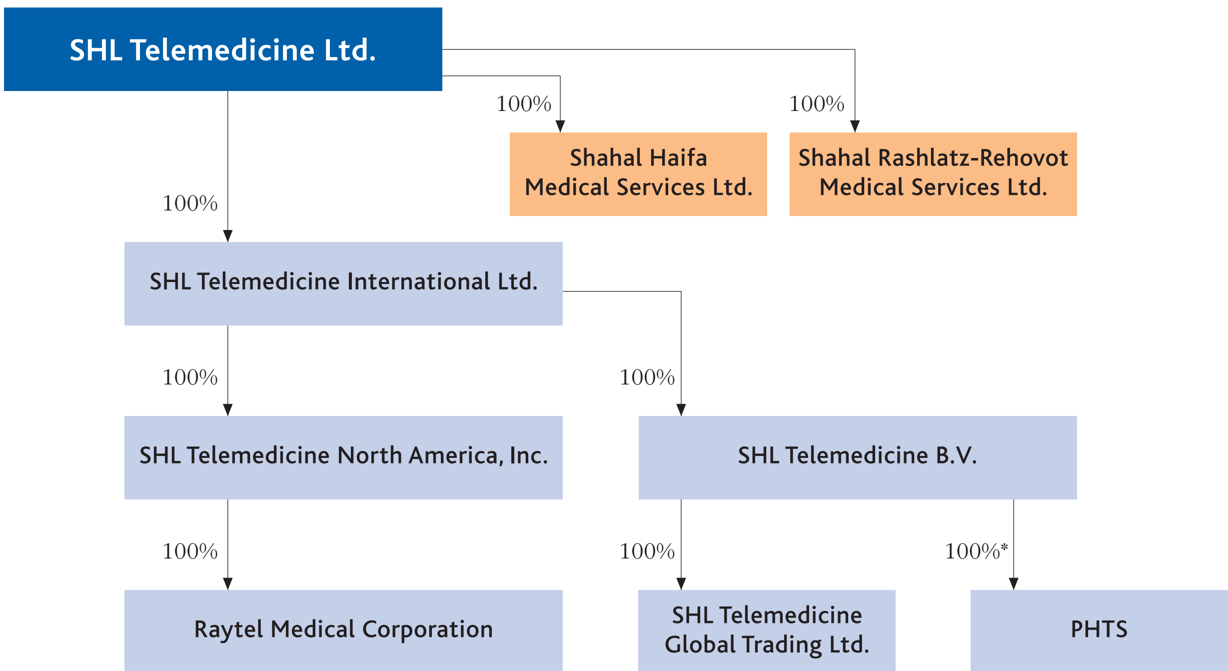
Description of all companies belonging to the SHL group:

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 106,773.37 divided into 10,677,337 fully paid registered ordinary shares of NIS 0.01 par value each (including 61,159 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 17. The registered shares of SHL are traded on the main board of the SWX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As at December 31, 2006, SHL's market capitalization was CHF 53.4 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 Stadhouderskade 125 hs, 1074 AV, Amsterdam, The Netherlands.

SHL Telemedicine North America, Inc. ("SHL N. America")

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

Raytel Medical Corporation ("Raytel")

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

SHL Telemedicine Global Trading Ltd. ("SHL Global")

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

Personal Healthcare Telemedicine Services Europe B.V. ("PHTS")

PHTS' authorized share capital is comprised of Euro 4,000,000 divided into 400,000 shares of common stock of Euro 10 par value each of which 81,500 shares of common stock of Euro 10 par value each are issued and outstanding, all of which are held by SHL B.V.
There are no companies belonging to the consolidated entities of SHL whose equity securities are listed on a stock exchange.

Significant Shareholders

Royal Philips Electronics	18.65%
Alroy Group*	18.60%
Tower Holdings B.V.	14.24%
G.Z. Assets and Management Ltd.	8.68%
Public	39.83%

* Alroy Group is comprised of Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.80% 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 6.77% of the issued and outstanding share capital of SHL, and Y. Alroy Family Ltd., a private company wholly owned by Mr. Yoram Alroy, Mr. Elon Shalev and members of their family, that holds approximately 5.03 % of the issued and outstanding share capital of SHL.

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2006, after deducting from the total number of shares outstanding 61,159 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.
There are no companies belonging to the consolidated entities of SHL whose equity securities are listed on a stock exchange.
There are no cross-shareholdings exceeding 5% of the share capital and voting rights by any of the Significant Shareholders and SHL.

Capital Structure

Authorized and Issued Capital

Authorized share capital as of December 31, 2006

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, 2006

Number of Ordinary Shares	10,677,337*
Par value of	NIS 0.01 each
Share capital	NIS 106,773.37

* Including 61,159 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 17.

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 106,773.37 divided into 10,677,337 fully paid registered Ordinary Shares (including 61,159 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 17. 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 856,627 Ordinary Shares (subject to adjustments as set forth in the 2005 Key Employee Share Option Plan as such term is hereinafter defined) reserved for issuance upon exercise of options that may be granted pursuant to the Option Plans. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 14.

Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2004, 2005 and 2006, SHL held 112,469, 61,159 and 61,159 Ordinary Shares of SHL, respectively, purchase by it on the SWX Stock Exchange, [For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 17.

Share Options

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"). On 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 November 2000, after the completion of the Public Offering, SHL granted to employees and consultants of the SHL group 496,202 Options to purchase 496,202 Ordinary Shares at the price of CHF 34.00 (the public offering price) under the terms of the 2000 Share Option Plan. During 2001, a further 23,340 Options to purchase 23,340 Ordinary Shares were granted under the terms of the 2000 Share Option Plan and at the same exercise price. The aforesaid Options are subject to a four-year vesting schedule which provides for fifty (50) percent of the options to be vested on the second anniversary of the date of the grant and an additional twenty-five (25) percent) to be vested on each of the third and fourth anniversary of the date of the grant.

During 2001, SHL granted to employees and consultants of the SHL Group an additional 97,975 options to purchase 97,975 Ordinary Shares at the price of CHF 22.65 (the market price at the date of the approval) under the terms of the 2000 Share Option Plan. The aforesaid Options are subject to a three-year vesting schedule which provides for one-third (1/3) of the options to be vested on each of the first, second and third anniversary of the date of the grant.

In July 2002, SHL adopted the 2002 International Share Option Plan (the "2002 International Share Option Plan") for the issuance of Options to non-Israeli employees, directors, officers and consultants of SHL and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2000 Share Option Plan shall further serve for purposes of the 2002 International Share Option Plan.

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 and the 2002 International Share Option Plan shall further serve for purposes of the 2003 Share Option Plan.

In October 2003 SHL granted to employees and consultants of the SHL Group and an executive member of the Board of Directors of SHL 113,560 Options to purchase 113,560 Ordinary Shares under the terms of the 2003 Share Option Plan. One-third (1/3) of such Options have an exercise price of CHF 6.89; one-third (1/3) of such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2005, the exercise price shall be CHF 6.89; and one-third (1/3) of such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2006, the exercise price shall be CHF 6.89. All such Options shall fully vest on October 30, 2004.

In December 2003 SHL effectuated an options exchange program (the "Options Exchange Program") aimed at reducing the exercise price of Options granted under the terms of the 2000 Share Option Plan to reflect the market price of Ordinary Shares of SHL. The Options Exchange Program offered holders of such Options to cancel all Options previously granted to them in exchange for new Options to be granted under the terms of the 2003 Share Option Plan at an exchange ratio of 1:0.8 (i.e. 0.8 new Options for every 1 Option cancelled) and at an exercise price equal to the market price on the date of exchange (which was determined as December 17, 2003). As a result of the Options Exchange Plan, 485,627 Options to purchase 485,627 Ordinary Shares at the price of CHF 34.00 or CHF 22.65 (as applicable), which were previously granted under the terms of the 2000 Share Option Plan, were cancelled, and in exchange 388,501 Options to purchase 388,501 Ordinary Shares at the price of CHF 5.9 (the market price on the date of exchange) were granted under the terms of the 2003 Share Option Plan to employees, consultants and executive members of the Board of Directors of SHL that participated in the Options Exchange Program. The Options granted under the Options Exchange Program will vest in accordance with the original vesting schedule under which the Options they replaced were to vest, provided, however, that all such Options not yet vested on December 31, 2004, will fully vest on such date.

In August 2004, SHL adopted the 2004 International Share Option Plan (the "2004 International Share Option Plan"), which replaces the 2002 International Share Option Plan. In August 2004 SHL granted to employees and consultants of the SHL Group 73,000 Options to purchase 73,000 Ordinary Shares under the 2004 International Share Option Plan and 16,250 Options to purchase 16,250 Ordinary Shares under the 2003 Share Option Plan.. The options are fully vested as of December 31, 2004 (or as of August 1, 2004 with respect to one employee that was granted 18,000 Options under the 2004 International Option Plan (the "Senior Employee Options"). The exercise price of such Options is 9.5 CHF, provided, however, that if exercised on or after January 1, 2006 (or on or after August 1, 2005 with respect to the Senior Employee Options) one-third (1/3) of such Options will have an exercise price of CHF 5.5; if exercised on or after January 1, 2007 (or on or after August 1, 2006 with respect to the Senior Employee Options) an additional one-third (1/3) of such Options will have an exercise price of CHF 5.5; and if exercised on or after January 1, 2008 (or on or after August 1, 2007 with respect to the Senior Employee Options) an additional one-third (1/3) of such Options will have an exercise price of CHF 5.5.

In May 2005, SHL adopted the 2005 Key Employee Share Option Plan (the "2005 Key Employee Share Option Plan"). (The 2000 Share Option Plan, the 2002 International Share Option Plan, the 2003 Share Option Plan, the 2004 International Share Option Plan and the 2005 Key Employee Share Option Plan, together - the "Option Plans"). 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 shall not exceed 856,627 Ordinary Shares, 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 July and August 2005, SHL approved the grant of 362,542 options to officers, under the 2005 Key Employee Share Option Plan, including 87,400 options to three (3) officers who are considered controlling shareholders of SHL.

In 2006 SHL approved the grant of 254,500 options to employees consultants and Directors, including its 2 external (independent directors, under the 2005 Key Employee Share Option Plan). The exercise price of such options granted is between CHF 4.98 and CHF 5.01.

Generally, all Options granted under the Option Plans (except, as aforementioned, of the 2005 Key Employee Share Option Plan) 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.

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

	No. of Options	Exercise Price	
Outstanding at beginning of year	5,119	CHF	34.00
	30,186	*CHF	10.89
	68,500	**CHF	9.50
	49,708	*CHF	6.89
	296,609	CHF	5.90
	255,878	***CHF	6.70-8.23
Total Outstanding at beginning of year	**706,000**	**CHF**	**7.36**
Granted***	254,500	CHF	4.98-5.01
Exercised	-		-
Forfeited****	(105,373)	CHF	5.5-10.89
Outstanding at end of year	3,840	CHF	34.00
	16,000	**CHF	9.50
	8,000	**CHF	5.50
	489,052	***CHF	4.98-8.23
	59,560	*CHF	6.89
	278,675	CHF	5.90
Total Outstanding at end of the year	**855,127**	**CHF**	**6.38**

* Such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2006, the exercise price shall be CHF 6.89.

** The Options are fully vested as of December 31, 2004. The exercise price may change, so that from January 1, 2006 one-third (1/3) of the Options will have an exercise price of CHF 5.5, from January 1, 2007 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5, and from January 1, 2008 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5.

*** Such Options vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, contingent upon the achievement of certain market and performance conditions 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.

**** Options that are forfeited are returned to the pool and may be re-granted in the future.

The Ordinary Shares

All the issued Ordinary Shares rank pari passu in all respects. The Ordinary Shares do not have preemptive rights. The ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to citizens of countries, which are in a state of war with Israel, is not restricted in any way by the Articles of Association of SHL or the laws of the State of Israel. The Ordinary Shares are in book entry form only. No share certificates are issued; however, shareholders of record are entitled to receive non-negotiable confirmations from SHL evidencing their ownership of Ordinary Shares. Based on an agreement between SHL and SIS SegaInterSettle AG ("SIS"), all issued Ordinary Shares will be booked into the SIS Clearing System.

SNOC Agreement and Shareholder Registration

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

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

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

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

Liquidation and Dividend Rights

In the event of SHL's liquidation, after satisfaction of liabilities to creditors, SHL's liquidation proceeds will be distributed to the holders of Ordinary Shares in proportion to the nominal value of their respective holdings. This liquidation right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. Under the Israeli Companies Law, dividends may be paid out of profits and other surpluses, as calculated under the Israeli Companies Law, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher provided, however, that there is no reasonable concern that the payment of dividend will prevent the company from satisfying its existing and foreseeable obligations as they become due. Any dividends will be subject to Israeli withholding tax. SHL's Articles of Association provide that the Board of Directors may from time to time declare and cause SHL to pay such dividend as may appear to the Board of Directors to be justified by the profits of SHL. The shareholders entitled to receive dividends are the shareholders on the date upon which it was resolved to distribute the dividends or at such later date as shall be provided in the resolution in question. Accordingly, under the SNOC Agreement, each Registered Person is entitled to dividends.

Voting Rights

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. For additional information regarding voting rights of the Ordinary Shares, see Section "Voting Rights Restrictions and Representations" on page 28.

In case a company purchases its own shares, under the Israeli Companies Law, such shares become dormant and do not confer voting or any other rights so long as such shares are held by the company.

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

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 shareholders approval must include at least one-third of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of shareholders having no personal interest voted against the transaction do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated todate).

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.

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.

Convertible Bonds and Options

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

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.

Members of the Board of Directors

The Articles of Association provide for a Board of Directors consisting of up to nine (9) members and not less than three (3) until otherwise determined by simple resolution of the shareholders of SHL. The Board of Directors of SHL currently consists of 7 members only, of whom the only executive member is: Mr. Yoram 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 13 and “Share Ownership” on page 27.

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 President	1987	2007
Elon Shalev	Israeli	Non-executive member	1987	2007
Monty Hilkowitz	Israeli	Non-executive member	2006	2007
Colin Schachat	Israeli	Non-executive member	2001	2007
Ziv Carthy	Israeli	Non-executive member	1997	2007
Dvora Kimhi	Israeli	Non-executive member/ Independent director	2001	2007
Ron N. Salpeter	Israeli	Non-executive member/ Independent director	2003	2009

* 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 20.

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

Name	Nationality	Position	First Election	Resigned on (*)
Yariv Alroy	Israeli	Co-CEO	2001	June 2006

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 SHL’s Board of Directors. Prior to founding SHL, Mr. Alroy was Executive Vice President of IBM Israel and was for seventeen (17) years a member of IBM’s Israeli executive committee. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Elon Shalev

Elon Shalev has served as a director of SHL since 1987. From 1990 to 1993, he was SHL’s Chief Operating Officer after which he served three (3) years as Chief Executive Officer for an Israeli TV News company. From 1996 to 1999, he was chief editor of “Yediot Aharonot”, the largest daily newspaper in Israel, and was a Senior Vice President of Discount Investment Corporation Ltd., one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur. Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI Nationality: Israeli.

Monty Hilkowitz

Monty Hilkowitz joined the Board of Directors of SHL as a non-executive member as of June 2006. Mr Hilkowitz has an. Israeli citizenship; Education:- 1966 – Fellow of the Institute of Actuaries; 1985 – Advanced management program Stanford university, California; Occupation: 46 years of experience in actuary. 2002 – non-executive director of Discovery Health and Discovery Life in South Africa; 2001 – Founding member of Dublin Network, a financial services consulting company. Nationality: Israeli.

Colin Schachat

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

Ziv Carthy

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

Dvora Kimhi, Independent Director

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

Ron N. Salpeter, Independent Director

Ron Salpeter joined the Board of Directors of SHL as an Independent Director in April 2003. Mr. Salpeter. From 1999 to until Mr. Salpeter was involved in the field of investment banking consulting and commencing in 2001 he is involved in the field of business development consulting large international enterprises. Mr. Salpeter holds a LL.B. from the Faculty of Law, University of Tel-Aviv, Israel and a Master Degree (LL.M.) from Osaka University, Japan. Prior to 1999, Mr. Salpeter practiced law both in Israel and in Japan. Nationality: Israeli.

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

Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, members of the Board of Directors, except the two (2) Independent Directors, (who are to be elected as described below) are elected at the Annual General Meeting of the shareholders by a vote of the holders of a majority of the voting power represented at such meeting to serve until the next Annual General Meeting. Pursuant to the Shareholders Agreement (the "Shareholders Agreement") between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., (which was effective for a period of five (5) years as of November 2000, and was automatically renewed for a two (2) year period, 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. Notwithstanding the above, Royal Philips Electronics undertook to vote its shares for the appointment of the three (3) nominees of the Alroy Group, during the period on which the shares held by members of the Alroy Group were locked according to relevant lock-up agreements (which expired on November 2002). Thereafter, Royal Philips Electronics shall only be required to vote its shares to the appointment to the Board of (i) three (3) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least twelve-and-one half (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, and pursuant to an amendment of the Israeli Companies Law, 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 may not have, and may not have had at any time during the two (2) years prior to his appointment as an Independent Director, any affiliations with the company or its affiliates, 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. For a period of two (2) years from termination from office, a former Independent Director may not serve as a director or employee of the company in which he serves as an Independent Director or provide professional services to such company for consideration.

The Independent Directors generally must be elected by the shareholders, including at least one-third (1/3) of the shares of non-controlling shareholders voted on the matter. However, the independent directors can be elected by shareholders without this one-third approval if the total shares of non-controlling shareholders voted against the election do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated todate). The term of an Independent Director is three (3) years and may be extended for one (1) additional three (3) years 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 comprise of at least three (3) directors, including all of the Independent Directors.

Ms. Dvora Kimhi and Mr. Ron N. Salpeter serve as the Independent Directors on SHL's Board of Directors.

Internal Organizational Structure

Pursuant to Israeli Companies Law and SHL's Articles of Assiciation, the Board of Directors is ultimately responsible for the general policies and management of SHL. The Board of Directors establishes the strategic, organizational, accounting and financing policies of SHL.

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

- determine SHL's plans of action, the principles for financing them and the order of priority among them;
- examine the financial status of SHL, and set the frame of credit that SHL shall be entitled to acquire;
- determine the organizational structure of SHL and its compensation policies;
- prepare and approve the financial statements of SHL;
- report to the Annual General Meeting of the status of SHL's affairs and of their financial outcomes;
- appoint the General Manager and terminate such appointment, in accordance with the Israeli Companies Law;
- resolve in the matters on actions and transactions that require its approval according to the Israeli Companies Law and the Articles of Association;
- issue shares and convertible securities up to the total amount of the authorized share capital of SHL, in accordance with the Israeli Companies Law.

Pursuant to the Articles of Association of SHL a quorum at a meeting of the Board of Directors shall be constituted by the presence in person or by telephone conference of a majority of the directors then in office who are lawfully entitled to participate in the meeting. Any director may call a meeting of the Board of Directors upon a seven (7) day notice, unless such notice has been waived by all the directors. The notice of a meeting shall include the agenda of the meeting. 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 ten 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. 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 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); 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.

Audit Committee – Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent

Directors. The Audit Committee may not include the chairman of the Board of Directors, a controlling shareholder, its relative, or any director who is employed by the company or provides services to the company on a regular basis. Currently, the Audit Committee is composed of the following members: Mr. Colin Schachat, Ms. Dvora Kimhi and Mr. Ron N. Salpeter. 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 of the following members: Mr. Colin Schachat, Ms. Dvora Kimhi and Mr. Ron N. Salpeter. 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 – in 2006 the Board of Directors has appointed an Option Committee composed of the following members: Mr. Colin Schachat, Ms. Dvora Kimhi and Mr. Ron N. Salpeter. 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 one meeting.

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 an Internal Auditor, upon the recommendation of the Audit Committee. The role of the Internal Auditor is to examine, among other things, whether SHL's activities comply with the law and orderly business procedure. Pursuant to the Israeli Companies Law the Chairman of the Board of Directors or the Chairman of the Audit Committee may order the Internal Auditor to conduct an internal audit on matters where an urgent need for examination arose. Pursuant to the Companies Law, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings.

Management

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

Name	Nationality	Position
Yoram Alroy	Israeli	Chairman of the Board of Directors and President
Yariv Alroy	Israeli	Co-CEO
Erez Alroy	Israeli	Co-CEO
Haim Brosh	Israeli	Executive Vice President of Finance
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Robert E. Sass	American	General Manager Raytel Cardiac Services
Jeff M. Flanegin	American	President - Raytel Diagnostic Services
Reuven Kaplan	Israeli	General Manager - SHL Israel
Eyal Lewin	Israeli	Managing Director Personal Healthcare Telemedicine Services 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 19.

Yariv Alroy, Co-CEO

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

Erez Alroy, Co-CEO

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

Haim Brosh, Executive Vice President of Finance

Mr. Haim Brosh has joined the SHL management team in 2006 as Executive Vice President of Finance. Prior to joining SHL, Mr. Brosh held several senior finance and operations positions with Amdocs (NYSE: DOX), both in Israel and in US. Mr. Brosh is a certified public accountant (CPA) in Israel and has a B.A. in accounting and economics from Tel Aviv University. Nationality: Israeli.

Irit Alroy, Executive Vice-President and CTO

Irit Alroy who serves as an Executive Vice-President and Chief Technology Officer of SHL has served as SHL's Manager of Information Technology since its start of operations. Ms. Alroy serves as an Executive Vice-President and CTO Prior to that Ms. Alroy held different positions in the filed of IT development. Ms. Alroy has a B.Sc. from the Hebrew University of Jerusalem, Israel. Nationality: Israeli.

Erez Nachtomy, Executive Vice-President

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

Robert (Bob) E. Sass, General Manager – Raytel Cardiac Services

Robert E. Sass joined Raytel Cardiac Services in March 2005 and assumed the position of General Manager in December 2005. Prior to joining Raytel Cardiac Services Mr. Saas held various management positions with the Bayer Organization and was the Founding Officer of Viterion TeleHealthcare, a Bayer - Panasonic company. Mr. Sass holds a B.S. in Business, from the University of Dayton, Ohio

Jeff M. Flanegin, President – Raytel Diagnostic Services

Jeff Flanegin has been with Raytel Diagnostic Services since 1993 and assumed the position of President in August 2005. Prior to his current position, Jeff served as the Vice President of Raytel Imaging Network. Mr. Flanegin holds an MBA, HMSA from Widener University and a BS in Marketing from the Pennsylvania State University.

Reuven Kaplan, General Manager - SHL Israel

Reuven Kaplan joined the SHL group in January 2003. Prior to joining SHL Mr. Kaplan was the CEO of "Hashmira Medical" a group of health services companies. Mr. Kaplan holds an MBA from the Hebrew University, Jerusalem.

Eyal Lewin, Managing Director - Personal Healthcare Telemedicine Services Germany.

Eyal Lewin started with PHTS Germany in August 2004. Prior to joining PHTS Germany 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 the 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.

The following table sets forth the name, principal position, and term of employment of the members of SHL's management who resigned or were replaced during the year under review:

Name	Nationality	Position	Term
Erez Termechy	Israeli	Chief Financial Officer	1994-2006
Ronen Gadot	Israeli	Executive Vice President	2003-2006

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, Mr. Yoram Alroy's employment agreement with SHL has terminated. Following such termination, SHL entered into a management services agreement with a 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 terms and provisions of the management agreement with the Service Provider were approved by the Audit Committee, the Board of Directors and the General Meeting of the shareholders of SHL. The initial term of the aforesaid management agreement ends on September 21st, 2006, and shall automatically be 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, Mr. Yariv Alroy's and Mr. Erez Alroy's employment agreements with SHL terminated. Following such termination, SHL entered into management services agreements with two (2) companies, each 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 terms and provisions of the management agreements with the Service Providers were approved by the Audit Committee, the Board of Directors and the General Meeting of the shareholders of SHL. The initial term of each of the aforesaid management agreements ends on September 21st, 2006, and shall automatically be 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 26.

Compensation, Shareholdings and Loans

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

On May 2005 the shareholders accepted the recommendations of SHL's Audit Committee and Board of Directors and approved, pursuant to Israeli Companies Law, payment to 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. The Independent Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto.

Pursuant to the Articles of Association the salaries and emoluments of the executives of SHL are determined by the Chief Executive Officers. Notwithstanding the aforesaid, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment (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.

Compensation for Acting Members of Governing Bodies

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which is payable to the executive members of the Board of Directors and the Management amounted in the financial year 2006 to approximately USD 2,792 thousand. The aforesaid sum includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section 4.2 "Management Contracts" on page 25. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2006, was 4.225.

The total of all compensation payable to the non-executive members of the Board of Directors amounted in the financial year 2006 to approximately USD 268 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2006, was 4.225.

In the financial year 2006, severance and other payments with regard to termination of employment to executive and non-executive members of the Board of Directors or members of the Management who gave up their functions during the year under review amounted to approximately USD 596 thousand.

On 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 15 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

No non-executive director gave up his functions during to the year under review.

Mr. Yariv Alroy, the Company's Co-CEO gave up his functions as an executive member of the Board of Directors during the year under review. The total compensation payable to Mr. Yariv Alroy is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 26.

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.

In 2006 SHL approved the grant of 54,000 options to non-executive members of the Board of Directors under the 2005 Key Employee Share Option Plan. The exercise price such options granted is CHF 5.00. For additional information regarding options granted to the aforementioned persons and the terms of the 2005 Key Employee Share Option Plan please refer to section "Share Options" on page 14.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2006 by the executive members of the Board of Directors and the other members of the Management and parties closely linked to such persons amounted in aggregate to 1,974,840.

Elon Shalev, a non-executive member of the Board of Directors is a member of the Alroy Group. The Alroy Group holds, pursuant to the Share Register, as of December 31, 2006, an aggregate of 1,974,840 Ordinary Shares. Ziv Carthy, a non-executive member of the Board of Director is a controlling shareholder of G.Z. Assets and Management Ltd.,that holds, pursuant to the Share Register, as of December 31, 2006, 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, 2006, Ordinary Shares.

Share Options

Information with regards to Options held pursuant to the Option Plans as of December 31, 2006 by the executive members of the Board of Directors and the other members of Management and parties closely linked to such persons is as follows:

	No. of Options	Exercise Price	
Outstanding at beginning of year	183,755	CHF	5.90
	38,373	CHF	6.89
	19,187 *	CHF	10.89
	55,000 **	CHF	9.50
	130,052 ***	CHF	8.23
	93,836 ***	CHF	6.70
Total outstanding at beginning of year	**520,203**	**CHF**	**8.12**
Granted	103,000 ***	CHF	4.98-5.01
Forfeited	(76,325)	CHF	5.5-10.89
Outstanding at end of year	42,560	CHF	6.89
	5,000 **	CHF	9.50
	499,317 ***	CHF	4.98-8.23
Total Outstanding at end of year	**546,878**	**CHF**	**6.49**

* Such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2006, the exercise price shall be CHF 6.89.

** The Options are fully vested as of December 31, 2005. The exercise price may change, so that from January 1, 2006 one-third (1/3) of the Options will have an exercise price of CHF 5.5, from January 1, 2007 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5, and from January 1, 2008 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5.

*** Such Options vest one-third on each of the first, second and third anniversary of the date of grant, contingent upon the achievement of certain market and performance conditions 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.

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

As of December 31, 2006 parties closely linked to the non-executive members of the Board of Directors hold 901 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 the Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2006 to SHL or to any of its subsidiaries for additional services performed during the year under review which reach or exceed half of the ordinary remuneration of the member in question. Two (2) persons closely linked to the members of the Board of Directors and the Management are employees of SHL, with market standard employment agreements. Such persons' total remuneration in the year under review amounted to approximately USD 55 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2006, was 4.225.

Loan Granted to Governing Bodies

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

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

Highest Total Compensation

The highest total compensation (including all employer's contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) payable to an executive member of the Board of Directors and the Management amounted in the year under review to approximately USD 609 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2006, was 4.225

SHL has not issued any Ordinary Shares to such executive member of the Board of Directors and the Management during the financial year 2006. SHL has not issued Options to purchase Ordinary Shares to such executive member of the Board of Directors and the Management during the financial year 2006 under the 2005 Key Employee Share Option Plan .

The highest total compensation payable to a non-executive member of the Board of Directors amounted in the year under review to approximately USD 11 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2006, was 4.225

SHL has not issued any Ordinary Shares to non-executive members of the Board of Directors during the financial year 2006. SHL issued 54,000 options to non-executive members of the Board of Directors under the 2005 Key Employee Share Option Plan. The exercise price for such options granted is CHF 5.00. For additional information regarding options granted to the aforementioned persons and the terms of the 2005 Key Employee Share Option Plan please refer to section "Share Options" on page 14.

Shareholders' Participation Rights

Voting Rights' Restrictions and Representations

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SNOC Agreement each person registered in the SAG Register is entitled to vote the number of shares registered on his name in the SAG Register. The voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights if authorized in the future, such an authorization requires a majority of sixty-six (66) percent of the voting power present at the General Meeting. The quorum required for any meeting of shareholders is at least two (2) shareholders present in person or by proxy who together hold or represent at least thirty-three and one third (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" on page 28.

Statutory Quorums

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

Convocation of the General Meeting of Shareholders

Under SHL's Articles of Association, an Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors. All General Meetings other than Annual General Meetings are called “Special General Meetings”. Not less than twenty-one (21) days’ prior notice shall be given to any General Meeting and shall be published in one newspaper in Israel and in one newspaper in Switzerland or in accordance with the rules and regulations of the stock exchange on which SHL’s shares are listed. 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.

Agenda

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

Registration in the Share Register

The shareholders entitled to participate in and to vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, such date shall not, pursuant to the aforementioned regulations, 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.

Changes of Control and Defense Measures

Duty to Make an Offer

Pursuant to the applicable provisions of the Swiss Stock Exchange Act any person who by acquiring exceeds the threshold of thirty-three and one third (331/3) percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SWX Swiss Exchange, such person must make a mandatory offer to acquire all other shares. Since SHL is not incorporated in Switzerland, SHL believes that these provisions do not apply. However, it cannot be excluded that the Swiss securities supervisory authority or Swiss courts could rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction. For the provisions of the Israeli law, please see below. Pursuant to the Listing Agreement, SHL agreed to comply, to the extent possible, with procedural rules and will accept recommendations issued by the Swiss Takeover Board.

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

Under the Israeli Companies Law, 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.

Clauses on Changes of Control

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

Auditors

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

Kost, Forer, 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 2006 Annual General Meeting.

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

Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2006 approximately USD 520 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. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2006, was 4.225

In addition, Ernst & Young charged approximately USD 59 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. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2006, was 4.225.

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. The Board of Directors discusses on a quarterly basis the results with the external auditors as part of their discussion and approval 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 if any material weaknesses have come to their attention during their audit or review. In addition an internal auditor appointed by the Audit Committee examines the processes and controls of the Company and coveys his findings to the Audit Committee and Auditors.

Information Policy

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

SHL informs interested parties through a variety of corporate publications including annual and 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.raytel.com**.

Investor's calendar

Annual general meeting	June 13, 2007
Q1 Results	May 30, 2007
Q2 Results	August 23, 2007
Q3 Results	November 22, 2007

Contact persons for Investor Relations

Erez Alroy, Co-CEO
ereza@shl-telemedicine.com

Haim Brosh, Executive Vice President Finance
haim@shl-telemedicine.com

SHL Telemedicine Ltd.
90 Igal Alon St., Tel Aviv 67891, Israel
Tel. ++972 3 561 2212
Fax: ++972 3 624 2414

Consolidated Financial Statements 2006

Contents

Financial Overview

General

In 2006, SHL further enhanced its position within the telehealth and telemedicine market showing improved financial and operational performance with EBITDA up significantly to USD 12.2 million; EBIT up by approximately 300% to USD 5.0 M resulting in a net income from continuing operations. In Germany revenues more than tripled with financial and operational performance in our US and Israeli telemedicine operations progressing nicely showing improved financial performance.

SHL's overall financial performance was adversely affected by the US medical imaging services operation, for which the divesture and discontinuation process has been finalized. As a result of these processes, the imaging activities were categorized as discontinued operations in the financial statements and are therefore not expected to impact SHL's financial performance in 2007.

SHL operates in two segments:

Telemedicine services

SHL provides telemedicine services 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 sophisticated computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers solutions not only to subscribing patients, but also to health insurance companies, hospitals and clinics, physicians and other health care providers.

Medical Services

SHL operates a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primariliy associated with cardiovascular diseases. During 2006 SHL finalized the process of divesting the US medical imaging services operation.

Results of Operations

Revenues

Revenues in 2006 increased by 6.4% to USD 83.2 million from revenues of USD 78.2 million excluding the Bikurofe operations sold in mid 2005 with SHL's total revenues for 2005 amounting to USD 85.2 million.

Revenues from our German operations increased by 234 % to USD 4.7 million up from USD 1.4 million in 2005 with the US operations reporting revenues of USD 60.4 million (USD 60.4 million in 2006) and the Israeli operations reporting revenues of USD 18.1 million (USD 16.4 million in 2005, excluding Bikurofe operations, and USD 23.4 million including Bikurofe operations)

Revenues from the telemedicine services segment increased by 8.4% to USD 62.8 million (76 % of total revenues) from USD 58.0 million (74 % of total revenues excluding Bikurofe operations) in 2005. Revenues from the medical services segment operations remained steady at USD 20.4 million for 2006 compared to USD 20.2 million, excluding Bikurofe operations (USD 27.2 million including Bikurofe operations).

Gross profit

During 2006 SHL improved significantly its profitability. Gross profit increased to USD 40.6 million up 11 % from a gross profit of USD 36.7 million in 2005 excluding Bikurofe operations (USD 38.8 million including Bikurofe operations), reflecting a gross margin of 49% in 2006 and 47% in 2005.

An improvement in the gross margin of our telemedicine segment operations to 52% (50% in 2005) led to an improvement of 13% in gross profit to USD 32.7 million up from USD 28.9 million in 2005.

Research and Development costs, net

Net R&D costs remained steady at USD 0.9 million for 2006 and for 2005. R&D expenses before capitalization and amortization amounted to USD 1.6 million and USD 1.5 million for 2006 and 2005, respectively.

Selling and Marketing Expenses

Selling and marketing expenses decreased to USD 11.4 million in 2006, 14% of revenues from USD 13.0 million or 17 % of revenues in 2005 excluding Bikurofe operations.

General and Administrative Expenses

G&A expenses amounted to USD 23.3 million in 2006, 28% of revenues compared to USD 22.6 million or 29% of revenues in 2005 excluding Bikurofe operations (USD 23.3 million including Bikurofe operations).

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

EBITDA and EBIT for 2006 grew significantly due to the improved gross profit as detailed above and the implementation of new systems, IT platforms and processes in its operations.

EBITDA for the year increased by 67% to USD 12.2 million (15% of revenues) from USD 7.3 million (9% of revenues) in 2005 excluding the Bikurofe operations (USD 8.5 million including Bikurofe operations).

EBIT grew to USD 5.0 million (6% of revenues) up from USD 0.2 million in 2005 excluding the operations of Bikurofe (USD 1.4 million including the operations of Bikurofe).

Similarly the EBITDA and EBIT of our telemedicine segment operations also improved significantly with EBITDA reaching USD 11.1 million (17 % of revenues) compared with an EBITDA of USD 5.8 million in 2005 (10% of revenues). EBIT improved to USD 4.0 million up from a LBIT of USD 1.1 million in 2005.

Financial Expenses

Financial expenses for the year increased to USD 3.8 million from USD 2.9 million in 2005. The increase in financial expenses resulted mainly from an increase in SHL's financial obligations, net during the year, an increase in the prime interest rate on SHL's loans denominated in NIS, a higher LIBOR on SHL's USD denominated loans offset by exchange rate gains due to the devaluation of the US dollar against the NIS on our USD loans, net of USD cash deposits.

Other Income (expenses), net

Other expenses, net amounted to USD 0.6 million compared to other income, net in the amount of USD 8.9 million in 2005 of which USD 8.8 million were the capital gain recorded from the divesture of Bikurofe.

Taxes on Income

Taxes on income decreased significantly to USD 0.4 million compared to USD 4.8 million, excluding in 2005 the Bikurofe operations and tax recorded on the capital gain, which included a write off of the deferred tax asset relating to the US carryforward tax losses. In addition in 2005 SHL wrote off deferred tax expenses related to the capital gain recognized from the divesture of Bikurofe.

Net Income from Continuing Operations

Overall SHL's results from continuing operations showed a significant improvement in 2006, as outlined in the above sections, reaching USD 0.1 million compared with a net loss from continuing operations of USD 7.4 million when excluding Bikurofe operations and the capital gain, net of taxes recorded from that sale. When including the operations of Bikurofe and the capital gain, net of taxes recorded from that sale 2005 results from continuing operations amounted to USD 0.1 million.

Discontinued Operations

Based on the continued weak performance of the US medical imaging centres SHL decided on a restructuring process aimed at divesting or discontinuing the operations of these centers. In 2006, Raytel Medical Corporation, SHL's wholly owned US subsidiary sold the operations of three of its imaging centers and closed two other with the remaining imaging centres to be sold or discontinued in the first half of 2007. As a result, the imaging centres are categorized as Discontinued Operations in the financial statements, in accordance with IFRS 5 with the results of operations separated between discontinued and continuing operations.

As part of the divestment and discontinuation process SHL recorded in 2006 losses and impairment charges associated with the imaging centers divested, closed or discontinued in the aggregate amount of USD 1.3 million. Net loss from discontinued operations in 2006 amounted to USD 7.2 million compared to a net loss of USD 7.7 million in 2005.

Net Loss

Net loss for the year amounted to USD 7.1 million out of which a loss of USD 8.5 million is attributable to the shareholders of SHL and an income of USD 1.4 million is attributable to the minority shareholders.

Net loss for 2005 amounted to USD 7.6 million out of which USD 9.3 million is attributable to the shareholders of SHL and an income of USD 1.7 is attributable to the minority shareholders.

Major Changes in Assets, Liabilities and Equity

At December 31, 2006 SHL's current assets amount to USD 37.2 million of which USD 12.5 million is cash, cash equivalents and short term investments and USD 18.8 million is trade receivables, compared with USD 46.8 million in 2005 of which USD 21.0 million was in cash, cash equivalents and short term investments and USD 20.7 million in trade receivables.

SHL's long-term assets totalled USD 20.5 million compared with USD 20.2 million at the end of 2005. Fixed and Intangible assets decreased to USD 70.7 million from USD 72.7 million in 2005 mainly due to the assets sold or impaired related to the discontinued medical imaging centers offset by investments in fixed assets and R&D.

SHL's current liabilities decreased to USD 47.5 million of which USD 29.5 million is short-term bank credit and current maturities of long term loans, compared to USD 60.6 million at December 31, 2005 of which USD 41.9 million was short-term bank credit and current maturities of long term loans. The decrease in short term bank credit is due to the conversion during the year of short term loans to long term loans.

Long term liabilities totaled USD 51.0 million of which USD 44.4 million is long term loans from banks and lease obligations compared to USD 40.0 million at December 31, 2005 of which USD 32.6 million is long term loans from banks and lease obligations.

Equity totaled USD 29.8 million compared to USD 39.1 million at December 31, 2005.

Cash Flow

During 2006 SHL generated a positive cash flow from operations of USD 1.8 million compared to a negative operating cash flow of USD 0.2 million in 2005. The improved operating cash flow is a result of the overall improvement in performance of SHL's continued operations, especially its telemedicine segment operations, as outlined in the sections above.

The Company invested during the year in fixed and intangible assets USD 6.6 million compared to USD 6.9 million in 2005 and received USD 2.2 million for the sale of certain imaging centers in the US.

During the year the Company repaid loans and other debt, net of loans received by an amount of USD 4.6 million compared to USD 8.2 million in 2005.

Retrospective restatements

1. In 2006, the Israeli Accounting Standards Board determined in accordance with IAS 29 that the Israeli economy ceased to be hyper inflationary as of December 31, 2003. Accordingly, the financial statements SHL in Israel should have been adjusted for the effects of inflation until that date. Those financial statements had previously been presented, until that date, based on historical cost without adjustment for the effects of inflation.

2. In 2006, the Company discovered an error whereby some subscribers which received discounts in prior years and are still receiving service were accounted for as if they cancelled the service. Also the calculation of the accrued severance pay was amended to reflect the fair value of the assets.

Based on the above the financial statements as of December 31, 2005, and for the year then ended, have been restated to reflect the effects of these changes.

The major effects of the retrospective re-adjustment as of December 31, 2005 are as follows:

- A decrease in revenues of USD 0.2 million
- An increase in net loss of USD 0.1 million
- A decrease in equity of USD 1.8 million

Haim Brosh,
Executive Vice President Finance

Independent Auditors' Report to the shareholders of SHL Telemedicine Ltd.

We have audited the accompanying financial statements of SHL Telemedicine Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the 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, 2006 and 2005, and of its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 21, 2007

Kost Forer Gabbay and Kasierer

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

Consolidated Balance Sheets US dollars in thousands

	Note	December 31, 2006	2005 *)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	9,678	19,063
Short-term investments	5	2,804	1,899
Trade receivables	6	18,810	20,651
Prepaid expenses	8	3,552	3,812
Income tax receivable		272	230
Other accounts receivable	9	386	550
Inventory		604	642
		36,106	46,847
Assets of disposal group classified as held-for-sale	3	1,106	-
		37,212	**46,847**
LONG-TERM ASSETS:			
Trade receivables	7	3,166	3,064
Prepaid expenses	8	5,659	5,980
Investment in associate		46	32
Long-term deposits	10	4,346	4,308
Deferred taxes	20d	7,235	6,804
		20,452	**20,188**
FIXED ASSETS:	11		
Cost		53,795	52,828
Less - accumulated depreciation		30,134	27,810
		23,661	**25,018**
INTANGIBLE ASSETS	12	46,994	47,634
Total assets		**128,319**	**139,687**

*) Retrospectively restated - see Note 2b.

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

Consolidated Balance Sheets US dollars in thousands

	Note	December 31, 2006	December 31, 2005 *)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	13	29,519	41,888
Trade payables		7,988	8,414
Income tax payable		535	1,087
Other accounts payable	14	9,467	9,232
		47,509	**60,621**
LONG-TERM LIABILITIES:			
Loans from banks, lease obligations and others	15	44,421	32,647
Provisions	17	2,459	2,146
Accrued severance pay	18	752	1,032
Deferred revenues		2,828	3,606
Deferred taxes	20d	544	567
		51,004	**39,998**
COMMITMENTS AND CONTINGENT LIABILITIES	22		
Total liabilities		98,513	100,619
EQUITY:	23		
Equity attributable to equity holders of the parent:			
Issued capital		31	31
Additional paid-in capital		92,006	91,762
Treasury shares at cost		(269)	(269)
Foreign currency translation reserve		(7,773)	(7,168)
Accumulated deficit		(54,904)	(46,440)
		29,091	37,916
Minority interest		715	1,152
Total equity		**29,806**	**39,068**
Total liabilities and equity		**128,319**	**139,687**

*) Retrospectively restated - see Note 2b.

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

March 21, 2007	Y. Alroy	Y. Alroy
Date of approval of the financial statements	Yariv Alroy Co - CEO	Yoram Alroy Chairman of the Board of Directors and President

Consolidated Statements of Operations US dollars in thousands (except per share data)

	Note	Year ended December 31, 2006	2005 *)
Continuing operations:			
Revenues		83,218	85,166
Cost of revenues	24a	42,663	46,395
Gross profit		40,555	38,771
Research and development costs, net	24b	911	915
Selling and marketing expenses	24c	11,422	13,159
General and administrative expenses	24d	23,251	23,324
Operating income		4,971	1,373
Financial income	24e(1)	3,126	3,263
Financial expenses	24e(2)	(6,970)	(6,192)
Other income (expenses), net	24f	(602)	8,946
Income before taxes on income		525	7,390
Taxes on income	20c	429	7,317
Income from continuing operations		96	73
Discontinued operations:			
Loss associated with discontinued operations (Note 3)		(7,190)	(7,718)
Loss		**(7,094)**	**(7,645)**
Attributable to:			
Equity holders of the parent		(8,464)	(9,284)
Minority interest		1,370	1,639
		(7,094)	**(7,645)**
Basic and diluted loss per share attributable to equity holders of the parent:	25		
From continuing operations		(0.12)	(0.15)
From discontinued operations		(0.68)	(0.73)
Total loss per share		**(0.80)**	**(0.88)**

*) Retrospectively restated - see Note 2b.

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

Consolidated Statements of Changes in Equity US dollars in thousands

	Attributable to equity holders of the parent								
	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Accumulated deficit	Total	Minority interest	Total equity	Total recognized expenses
Balance at January 1, 2005 (1)	**31**	**91,594**	**(558)**	**(5,992)**	**(39,044)**	**46,031**	**1,318**	**47,349**	
Exercise of options	(2) -	52	-	-	-	52	-	52	
Adjustment of negative goodwill (3)	-	-	-	-	623	623	-	623	
Adjustment of fair value (3)	-	-	-	-	1,265	1,265	-	1,265	
Share-based payments	-	155	-	-	-	155	-	155	
Treasury shares issued in payment of liability	-	(39)	289	-	-	250	-	250	
Currency translation differences	-	-	-	(1,176)	-	(1,176)	-	(1,176)	(1,176)
Distribution to minority interest	-	-	-	-	-	-	(1,856)	(1,856)	
Change in equity of minority interest	-	-	-	-	-	-	51	51	
Net profit (loss)	-	-	-	-	(9,284)	(9,284)	1,639	(7,645)	(7,645)
Balance at December 31, 2005 (1)	**31**	**91,762**	**(269)**	**(7,168)**	**(46,440)**	**37,916**	**1,152**	**39,068**	**(8,821)**
Share-based payments	-	244	-	-	-	244	-	244	
Currency translation differences	-	-	-	(605)	-	(605)	-	(605)	(605)
Distribution to minority interest	-	-	-	-	-	-	(1,867)	(1,867)	
Change in equity of minority interest	-	-	-	-	-	-	60	60	
Net profit (loss)	-	-	-	-	(8,464)	(8,464)	1,370	(7,094)	(9,094)
Balance at December 31, 2006	**31**	**92,006**	**(269)**	**(7,773)**	**(54,904)**	**29,091**	**715**	**29,806**	**(7,699)**

(1) Retrospectively restated - see Note 2b.
(2) Represents an amount lower than $ 1.
(3) Adjustments of prior year's business combination upon adoption of IFRS 3.

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

Consolidated Statements of Cash Flows US dollars in thousands

	Year ended December 31,	
	2006	2005 *)
Cash flows from operating activities:		
Loss	(7,094)	(7,645)
Adjustments required to reconcile loss to net cash provided by (used in) operating activities (a)	8,894	7,437
Net cash provided by (used in) operating activities	1,800	(208)
Cash flows from investing activities:		
Purchase of fixed assets	(5,015)	(5,400)
Cash received upon sale of subsidiaries (b)	2,150	16,715
Investment in intangible assets	(1,558)	(1,482)
Proceeds from sale of fixed assets	37	6
Short-term investments, net	-	3,460
Long-term deposits, net	-	42
Marketable securities, net	(1,133)	-
Net cash provided by (used in) investing activities	(5,519)	13,341
Cash flows from financing activities:		
Proceeds from exercise of options	-	52
Proceeds from long-term loans from banks and others, net	18,355	9,134
Repayment of long-term loans from banks and others	(23,515)	(18,614)
Short-term bank credit, net	548	1,250
Distributions to minority interest	(1,867)	(1,856)
Capital contribution from minority interests	60	31
Payment of liability regarding the acquisition of Raytel and acquisition of business activities	-	(139)
Net cash used in financing activities	(6,419)	(10,142)
Effect of exchange rate changes on cash and cash equivalents	753	(812)
Increase (decrease) in cash and cash equivalents	(9,385)	2,179
Cash and cash equivalents at the beginning of the year	19,063	16,884
Cash and cash equivalents at the end of the year	**9,678**	**19,063**

*) Retrospectively restated - see Note 2b.

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

Consolidated Statements of Cash Flows US dollars in thousands

	Year ended December 31,	
	2006	2005 *)
(a) Adjustments required to reconcile loss to net cash provided by (used in) operating activities:		
Income and expenses not involving operating cash flows:		
Loss (gain) on sale of subsidiaries	166	(8,776)
Depreciation and amortization	8,648	7,590
Deferred taxes, net	95	7,877
Loss on disposal of fixed assets	270	34
Accrued severance pay	(353)	219
Exchange rate and linkage differences on principal of long-term liabilities, net	(1,121)	831
Loss (gain) on marketable securities	75	(89)
Exchange rate differences on short-term and long-term deposits, net	331	(267)
Share-based payments	244	155
Others	(52)	(30)
	8,303	**7,544**
Changes in operating assets and liabilities:		
Decrease in short and long-term trade receivables, net	2,180	1,447
Decrease in prepaid expenses	1,282	1,895
Decrease (increase) in other accounts receivable	173	(511)
Decrease in inventory	90	390
Increase (decrease) in trade payables	(518)	458
Decrease in deferred revenues	(1,340)	(504)
Decrease in short and long-term other accounts payable and income tax payable	(1,276)	(3,282)
	591	(107)
	8,894	**7,437**
(b) Cash received upon sale of subsidiaries:		
Working capital (excluding cash and cash equivalents)	882	1,884
Fixed assets, net	52	1,059
Intangible assets	1,382	5,772
Deferred taxes	-	422
Long-term liabilities	-	(1,198)
Gain (loss) on sale of subsidiary	(166)	8,776
	2,150	**16,715**

*) Retrospectively restated - see Note 2b.

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

Consolidated Statements of Cash Flows US dollars in thousands

	Year ended December 31,	
	2006	2005
(c) Significant non-cash transactions:		
Issuance of treasury shares in payment of liability	-	250
Purchase of fixed assets	370	-
(d) Supplemental disclosure of cash flows activities:		
Interest received	873	1,339
Interest paid	4,827	5,299
Income taxes paid	785	786

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

NOTE 1 | GENERAL

SHL Telemedicine Ltd. ("SHL" or "the Company") is a company incorporated in Israel whose shares are publicly-traded on the SWX Swiss Exchange. 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 lifestyle for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health. SHL is also active in the provision of other medical services.

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements, on a consistent basis, are as follows:

a. Basis of preparation:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) on a historical cost basis, except for available-for-sale marketable securities which are measured at fair value.

b. Retrospective restatements:

1. In 2006, the Company discovered an error whereby some subscribers which received discounts in prior years and are still receiving service were accounted for as if they cancelled the service.

2. In 2006, the Israeli Accounting Standards Board determined in accordance with IAS 29 that the Israeli economy ceased to be hyper inflationary as of December 31, 2003. Accordingly, the financial statements of the parent company and its subsidiaries in Israel should have been adjusted for the effects of inflation until that date. Those financial statements had previously been presented until that date based on historical cost without adjustment for the effects of inflation.

3. In 2006, the calculation of the accured severance pay was amended to reflect the fair value of the plan assets in respect of the defined benefits plan for severance pay.

The financial statements as of December 31, 2005, and for the year then ended, have been restated to reflect the effects of these changes.

The effects of the changes on the financial statements are as follows:

Balance sheet:

	December 31, 2005		
	As previously reported	The change	As presented in these financial statements
Long-term trade receivables *)	4,247	(315)	3,932
Prepaid expenses *)	9,357	435	9,792
Fixed assets, net	24,799	219	25,018
Goodwill	41,970	625	42,595
Deferred tax assets	5,457	1,347	6,804
Accrued severance pay	241	791	1,032
Deferred revenues *)	1,436	3,235	4,671
Foreign currency translation reserve	(7,237)	69	(7,168)
Accumulated deficit	(44,656)	(1,784)	(46,440)

*) Including current portion.

Statement of operations:

	Year ended December 31, 2005		
	As previously reported *)	The change	As presented in these financial statements *)
Revenues	99,048	(192)	98,856
Cost of revenues	54,401	8	54,409
Selling and marketing expenses	13,882	(34)	13,848
General and administrative expenses	33,965	(27)	33,938
Taxes on income	7,421	(42)	7,379
Loss	(7,548)	(97)	(7,645)
Attributable to equity holders of the parent	(9,187)	(97)	(9,284)
Basic and diluted loss per share attributable to equity holders of the parent	0.87	0.01	0.88
Statements of changes in equity - Accumulated deficit - January 1, 2005	(35,470)	(1,686)	(37,156)

*) Before reclassification of discontinued operations that occurred in 2006.

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

The majority of 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 its functional currency is the NIS.

The Company has selected the U.S. dollar as the presentation currency in the consolidated financial statements, as an increasing portion of the consolidated revenues and expenses are received and incurred in U.S. dollars. The Company believes that most of the readers 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 a subsidiary whose functional currency is the Euro have been translated from the functional currency to the presentation currency, in accordance with the following principles set forth in IAS 21, as follows:

Assets and liabilities are translated into U.S. dollars at the closing rate at the date of each balance sheet (as to share capital, additional paid-in capital and treasury shares - see below). Income and expenses are translated at average monthly exchange rates for the periods presented. The exchange differences resulting from the translation are recognized as a separate component of equity.

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.

Exchange differences arising on loans received for the direct financing of investments in foreign operations and that are accounted for as a hedge of the net investment, are recognized directly in equity.

d. 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 were 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.

Minority interest represents interests in certain investments of Raytel Medical Corporation Inc. ("Raytel"), a wholly-owned subsidiary of SHL Telemedicine North America ("NA").

e. Business combinations and goodwill:

Business combinations are accounted for by applying the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business at their fair values at the acquisition date and any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items.

In respect of goodwill acquired in a business combination for which the agreement date was before March 31, 2004, the Group discontinued amortizing such goodwill commencing from January 1, 2005, and tests the goodwill for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). A loss of $ 306 was recorded to recognize the impairment of goodwill related to those entities included in discontinued operations that remain as of December 31, 2006 (Note 3).

The carrying amount of negative goodwill as of December 31, 2004, in the amount of $ 623 was credited to the opening balance of retained earnings on January 1, 2005.

f. Investment in associate:

Investment in an associate over which the Company exercises significant influence, is accounted for under the equity method of accounting.

g. 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.

h. 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.

i. Trade receivables:

Trade receivables are recognized and carried at 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.

j. Financial instruments:

1. Marketable securities and derivative financial instruments:

Under IAS 39, the Group classifies its investments in marketable debt and equity securities into the following categories: held-to-maturity, trading, or available-for-sale depending on the purpose for acquiring the investments. As of December 31, 2006, all marketable securities of the Group are classified as trading. Trading securities are presented at fair value based on quoted market prices. The fair value changes of trading securities are recognized in the statement of operations.

2. Fair value of other financial instruments:

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

k. Prepaid expenses:

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

l. Fixed assets:

1. Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method on the basis of the estimated useful life of the asset. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Recoverable amount is the higher of net selling price and value in use.

Capital leases are recorded at the present value of the future minimum lease payments and the underlying assets are amortized over their estimated useful lives on a straight-line basis.

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

m. Intangible assets:

1. Research and development costs are expensed as incurred, except for development costs which relate to the design and testing of new or improved products which are recognized as an asset to the extent that it is expected that such assets will generate future economic benefits.

Deferred development costs are amortized from the date of commercial production of the product. Such costs are amortized using the straight-line method over a period of up to 5 years.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated and if necessary, the costs are written down to their recoverable amount.

2. Goodwill represents the excess of acquisition cost over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is reviewed for impairment annualy 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 e above).

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

3. Non-competition agreements are amortized using the straight-line method over their estimated useful lives, which according to the agreements is up to 10 years.

n. Impairment of assets:

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's 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 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.

o. Deferred taxes:

1. Deferred taxes are provided using the liability method for temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The main components for which deferred taxes have been included are as follows: inventory, doubtful accounts and carryforward tax losses. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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, when the distribution of dividend does not involve an additional tax liability or when the Company has decided not to distribute dividends that will cause additional tax liability.

p. 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 borrowing cost.

q. Treasury shares:

The cost of shares held by the Company is presented in the balance sheet as a deduction from equity.

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.

Interest revenues are 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, 2006.

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 and the Euro:

For the year ended	Israeli CPI	Exchange rate of € 1	Exchange rate of U.S. $ 1
	Points *)	NIS	NIS
December 31, 2006	184.9	5.5643	4.225
December 31, 2005	185.0	5.4465	4.603
December 31, 2004	180.7	5.8768	4.308

Change during the year	%	%	%
2006	(0.1)	2.2	(8.2)
2005	2.4	(7.3)	6.8

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

t. Use of estimates:

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

Following are the estimations which have a significant effect on the amounts recognized in the financial statements:

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.

Development costs are capitalized in accordance with the accounting policy in Note 2m. 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. At December 31, 2006, the best estimate of the carrying amount of capitalized development costs was $ 5,614 (2005 - $ 4,499).

u. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and trade receivables. Cash and cash equivalents are deposited with major banks. Management believes that the financial institutions that hold the Company's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

The Company's trade receivables are mainly derived from sales to customers in Israel and the U.S. 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.

v. Earnings (loss) per share:

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

w. Accrued severance pay:

The Company operates a defined benefit plan for severance pay pursuant to the Israeli Severance Pay Law. Under the law, Israeli 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.

x. Share-based payment transactions:

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in Note 23c.

The cost of equity-settled transactions is recognised, 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 recognised 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 income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting 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 recognised is the expense if the terms had not been modified. An additional expense is recognised 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 recognised for the award is recognised 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 25).

y. IFRS and IFRIC Interpretations not yet effective:

The Company has not early adopted IFRSs and IFRIC Interpretations that have been issued but are not effective as of December 31, 2006. Management expects that adoption of those pronouncements will not have a material impact on the financial position and profit of the Company in the period of initial application.

NOTE 3 | DISCONTINUED OPERATIONS

During 2006, a wholly-owned subsidiary of the Company, NA sold the operations of three of its imaging centers and closed two other imaging centers. Upon further review of the remaining imaging centers, NA decided in 2006 to sell the remaining imaging centers, in the first half of 2007. As a result, the imaging centers are categorized as Discontinued Operations in the financial statements. The results of operations have been separated between discontinued and continuing operations.

The results of the discontinued operations are presented below:

	Year ended December 31,	
	2006	2005
Revenues	7,505	13,690
Cost of revenues	(5,520)	(8,014)
Selling, general and administrative	(6,733)	(11,307)
Other expenses	(2,374)	(2,027)
Loss before tax from discontinued operations	(7,122)	(7,658)
Income taxes	(68)	(60)
Loss	**(7,190)**	**(7,718)**

During the year ended December 31, 2006, the Company recognized a loss on the sale of imaging centers of $ 166, which is included in other expenses above. The Company also recognized an impairment loss of $ 795 on the assets of the remaining centers and impairment loss in respect of goodwill in the amount of $ 306.

The major classes of assets and liabilities classified as held for sale at December 31, 2006 are as follows:

Assets:	
Goodwill	838
Fixed assets	268
Assets classified as held for sale	**1,106**

The net cash flows of discontinued operations are as follows:

	Year ended December 31,	
	2006	2005
Operating cash flows	114	242
Investing cash flows	42	(98)
Financing cash flows	(201)	(123)
Net cash inflows (outflows)	**(45)**	**21**

NOTE 4 | CASH AND CASH EQUIVALENTS

	December 31,	
	2006	2005
Cash in banks	1,614	2,982
Short-term deposits	8,064	16,081
	9,678	**19,063**

NOTE 5 | SHORT-TERM INVESTMENTS

Marketable securities:		
Corporate debentures - in U.S. dollars	531	-
Debentures - in NIS - unlinked	1,538	912
	2,069	912
Short-term deposit and other investment	735	987
	2,804	**1,899**

NOTE 6 | TRADE RECEIVABLES

	December 31,	
	2006	2005
Gross amount	37,736	35,634
Less - allowance for doubtful accounts	19,797	15,851
	17,939	19,783
Current maturities of long-term receivables	871	868
	18,810	**20,651**

NOTE 7 | LONG-TERM TRADE RECEIVABLES

Gross amounts (1)	47,197	60,402
Less - deferred revenues	43,160	56,470
	4,037	3,932
Less - current maturities	871	868
	3,166	**3,064**

(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 operations in future years, as follows:

	December 31,	
	2006	2005
First year prepaid expenses - short-term	3,552	3,812
Second year	1,449	1,656
Third year	1,188	1,236
Fourth year	1,109	1,134
Fifth year	978	961
Thereafter	935	993
Prepaid expenses - long-term	5,659	5,980
Total prepaid expenses	**9,211**	**9,792**

NOTE 9 | OTHER ACCOUNTS RECEIVABLE

Government authorities	83	68
Employees	33	44
Interest receivable	16	196
Others	254	242
	386	**550**

NOTE 10 | LONG-TERM DEPOSITS

Structured deposit (1)	2,000	2,000
Structured deposit (2)	2,200	2,200
Bank deposit (3)	146	108
	4,346	**4,308**

(1) The deposit is in U.S. dollars and bears annual interest of 11% less 2 times the 12-month LIBOR. The interest is paid every six months. The maturity date will be the earlier of the receipt of 12% cumulative interest or August 2013. The cumulative interest which the Company received until December 31, 2006, is 11%.
(2) The deposit is in U.S. dollars and bears interest of 11% in the first year and from the second year to the maturity date 8% less 2 times the 6-month LIBOR. The interest is paid every six months. The maturity date will be the earlier of the receipt of 11.75% cumulative interest or November 2013. The cumulative interest which the Company received until December 31, 2006, is 11.5%.
(3) In Euro and bears interest at the annual rate of 2.3%.

NOTE 11 | FIXED ASSETS

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance at January 1, 2005 *)	9,754	12,758	1,431	913	4,125	23,108	52,089
Additions during the year	1,308	3,048	241	190	279	448	5,514
Impairment	(34)	(74)	(20)	-	(481)	-	(609)
Assets included in previously consolidated company (Note 19b)	(574)	(306)	(445)	-	(459)	-	(1,784)
Disposals during the year	(24)	-	(26)	-	(38)	-	(88)
Currency translation differences	(283)	(224)	(73)	(65)	(88)	(1,561)	(2,294)
Balance at December 31, 2005	10,147	15,202	1,108	1,038	3,338	21,995	52,828
Additions during the year	1,516	2,926	77	381	237	248	5,385
Impairment	(23)	(246)	(34)	-	(492)	-	(795)
Disposals during the year	(41)	(3,564)	(218)	(153)	(183)	-	(4,159)
Assets held-for-sale	(232)	(1,243)	(164)		(874)	-	(2,513)
Currency translation differences	359	278	54	108	80	2,170	3,049
Balance at December 31, 2006	11,726	13,353	823	1,374	2,106	24,413	53,795
Accumulated depreciation:							
Balance at January 1, 2005 *)	5,844	6,012	585	543	1,599	9,132	23,715
Additions during the year	1,586	2,046	152	172	496	1,802	6,254
Impairment	(26)	(59)	(14)	-	(316)	-	(415)
Assets included in previously consolidated company (Note 19b)	(379)	(56)	(149)	-	(142)	-	(726)
Disposals during the year	(26)	-	(10)	-	(12)	-	(48)
Currency translation differences	(216)	(130)	(26)	(34)	(34)	(530)	(970)
Balance at December 31, 2005	6,783	7,813	538	681	1,591	10,404	27,810
Additions during the year	1,689	2,392	324	188	394	1,608	6,595
Assets held-for-sale	(210)	(1,169)	(154)	-	(712)	-	(2,245)
Disposals during the year	(33)	(3,170)	(301)	(153)	(143)	-	(3,800)
Currency translation differences	291	200	23	66	40	1,154	1,774
Balance at December 31, 2006	8,520	6,066	430	782	1,170	13,166	30,134
Depreciated cost at December 31, 2006	**3,206**	**7,287**	**393**	**592**	**936**	**11,247**	**23,661**
Depreciated cost at December 31, 2005	**3,364**	**7,389**	**570**	**357**	**1,747**	**11,591**	**25,018**

*) Retrospectively restated

As for charges, see Note 22.

NOTE 12 | INTANGIBLE ASSETS, NET

	Development costs	Goodwill	Non-competition agreement	Others	Total
At January 1, 2006, net of accumulated amortization	4,499	42,595	523	17	47,634
Additions during the year	1,558	-	-	-	1,558
Realization from sale of discontinued operations (Note 3)	-	(1,382)	-	-	(1,382)
Amortization during the year	(887)	-	(68)	(17)	(972)
Impairment relating to discontinued operations (Note 3)	-	(306)	-	-	(306)
Assets held-for-sale	-	(838)	-	-	(838)
Currency translation differences	444	856	-	-	1,300
At December 31, 2006, net of accumulated amortization	**5,614**	**40,925**	**455**	**-**	**46,994**
At December 31, 2006:					
Cost	10,182	56,390	2,108	464	69,144
Accumulated amortization	(4,568)	(15,465)	(1,653)	(464)	(22,150)
Net carrying amount	**5,614**	**40,925**	**455**	**-**	**46,994**

NOTE 13 | SHORT-TERM CREDIT FROM BANKS AND CURRENT MATURITIES OF LONG-TERM LOANS

	Interest rate (1)	December 31,	
	%	2006	2005
Credit from banks:			
NIS - unlinked	Prime + 0.2	19,856	15,380
Current maturities of long-term loans (see Note 15)		9,663	26,508
		29,519	**41,888**

(1) The Prime rate as of December 31, 2006 is 6%.

As for collateral, see Note 22.

NOTE 14 | OTHER ACCOUNTS PAYABLE

	December 31,	
	2006	2005
Employees and payroll accruals	2,447	2,863
Accrued expenses	2,969	3,620
Liability regarding the acquisition of activity	294	492
Government authorities	94	106
Former Raytel shareholders (Note 19)	398	425
Provision for restructuring - current portion (Note 17)	156	176
Deferred revenues	2,247	1,066
Other	862	484
	9,467	**9,232**

NOTE 15 | LONG-TERM LOANS FROM BANKS, LEASE OBLIGATIONS AND OTHERS

a. Composed as follows:

	Average interest rate	December 31,	
	%	2006	2005
Loans from banks:			
NIS - unlinked	NIS Prime (1) + 0.37	11,677	8,340
NIS - linked to Israel's CPI	5.69	11,057	11,729
U.S. dollars	Libor + 1.45	8,368	19,535
Euro	Libor + 1.86	3,023	4,491
CHF	4	9,023	-
Promissory notes - U.S. dollars (3)		2,484	3,458
		45,632	47,553
Less - current maturities		8,976	15,237
		36,656	32,316
Lease obligations:			
Euro	7.4	500	844
Capital lease obligations and non-recourse notes	5.5 - 13.5	253	169
		753	1,013
Less - current maturities		687	682
		66	331
Other long-term loans:			
Revolving credit facility (4)	U.S. Prime (2) +1	7,699	8,589
U.S. Federal Government (5)	7	-	2,000
		7,699	10,589
Less - current maturities		-	10,589
		7,699	-
		44,421	**32,647**

(1) The NIS Prime rate as of December 31, 2006 - 6%.
(2) The U.S. Prime rate as of December 31, 2006 - 8.25%.
(3) Raytel entered into two promissory notes as follows: (1) Principal of $ 2,500 bearing an interest rate of the three month LIBOR plus 1.95% (7.39% at December 31, 2006). (2) Principal of $ 1,500 bearing an interest rate of the three month LIBOR plus 1.40% (6.78% at December 31, 2006).
(4) Under the revolving credit facility, Raytel may borrow up to $ 15,000 based on a prescribed formula, with interest at the U.S. Prime rate plus between 0.25% and 1%, depending upon the debt service coverage ratio as defined (9.25% as of December 31, 2006). The revolving credit facility is due May 31, 2009.
(5) The settlement amount due to the U.S. Federal Government was paid in full as of December 31, 2006.

b. The long-term loans are repayable in future years, as follows:

	December 31,	
	2006	2005
First year - current maturities	9,663	26,508
Second year	11,161	8,417
Third year	14,629	7,258
Fourth year	6,781	5,119
Fifth year	4,102	6,153
Thereafter	7,748	5,700
	44,421	32,647
	54,084	59,155

c. The Company is required to maintain certain financial covenants, such as equity financial ratios and amounts, and is currently in compliance with all such requirements.

d. As for collateral, see Note 22.

NOTE 16 | FINANCIAL INSTRUMENTS

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and marketable securities, which arise directly from its operations.

It is, and has been throughout 2006 and 2005, the Group's policy that no trading in derivatives shall be undertaken.

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

a. Credit risks:

Cash and cash equivalents as of December 31, 2006 are deposited with large banks in Israel. Accordingly, management does not anticipate losses on liquid assets arising from credit risks.

The Group's customers are dispersed over a number of countries, mainly developed countries. The Group customarily receives bank guarantees in respect of customers with high credit risk. In respect of certain other customers, the Group insures the receivables through foreign trade risk insurance. Management regularly monitors trade receivables and includes provisions in the consolidated financial statements, which, in its opinion, are adequate to cover doubtful accounts. In light of the above, the exposure to credit risks in connection with trade receivables is limited.

b. Foreign currency exposure:

The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. Group management regularly monitors its foreign exchange risk and attempts to limit such risks by making adequate decisions regarding cash and credit positions.

c. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, trade receivables, prepaid expenses and other receivables, credit from banks and others, trade payables and other current liabilities approximate their fair value due to the short-term maturity of such instruments.

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

	In or linked to:					
	U.S.$	CHF	Euro	Israeli CPI	Unlinked	Total
December 31, 2006						
Assets:						
Cash and cash equivalents	5,833	-	299	-	3,546	9,678
Short-term investments	531	-	-	-	2,273	2,804
Trade receivables	16,534	-	679	4,037	726	21,976
Other accounts receivable	124	-	22	373	139	658
Long-term deposits	4,200	-	146	-	-	4,346
	27,222	**-**	**1,146**	**4,410**	**6,684**	**39,462**
Liabilities:						
Credit from banks and others	17,656	-	-	-	2,200	19,856
Trade payables	6,691	-	453	-	844	7,988
Income tax payable	73	-	-	462	-	535
Short and long-term other accounts payable	4,308	3	3,670	461	2,684	11,126
Long-term loans and leases from banks and others (including current maturities)	18,802	9,023	3,524	11,057	11,678	54,084
Accrued severance pay	-	-	-	-	752	752
	47,530	**9,026**	**7,647**	**11,980**	**18,158**	**94,341**
December 31, 2005						
Assets:						
Cash and cash equivalents	17,033	-	551	-	1,479	19,063
Short-term investments	349	-	-	-	1,550	1,899
Trade receivables	18,887	-	312	3,932	584	23,715
Other accounts receivable	137	-	51	446	146	780
Long-term deposits	4,200	-	108	-	-	4,308
	40,606	**-**	**1,022**	**4,378**	**3,759**	**49,765**
Liabilities:						
Credit from banks and others	-	-	-	-	15,380	15,380
Trade payables	7,718	-	196	-	500	8,414
Income tax payable	546	-	-	541	-	1,087
Short and long-term other accounts payable	4,232	-	3,839	309	1,978	10,358
Long-term loans and leases from banks and others (including current maturities)	38,009	-	5,335	7,471	8,340	59,155
Accrued severance pay	-	-	-	-	1,032	1,032
	50,505	**-**	**9,370**	**8,321**	**27,230**	**95,426**

NOTE 17 | PROVISIONS

	December 31,	
	2006	2005
Provision for restructuring (1)	155	247
Less - current maturities	155	176
	-	71
Provision for future participation rights (2)	3,024	2,362
Less - current maturities	565	287
	2,459	2,075
	2,459	**2,146**

(1) Provision recorded in connection with acquisition of subsidiary in 2004.
(2) In connection with the acquisition of a subsidiary in 2004, the vendor received a right to receive 3.5% of the annual revenues of that subsidiary in certain countries until 2010. The above balance is presented at present value.

NOTE 18 | 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,	
	2006	2005
Present value of funded obligation	2,692	3,040
Fair value of plan assets	1,940	2,008
	752	**1,032**

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

Liability at the beginning of the year	1,032	2,133
Liability included in previously consolidated company (note 19b)	-	(1,102)
Expense recognized in the statement of operations	220	588
Benefits not paid from assets	(268)	(41)
Contribution to assets	(321)	(401)
Foreign difference	89	(145)
Liability at the end of the year	**752**	**1,032**

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

Current service cost	310	405
Interest cost	96	128
Expected return on assets	(70)	(98)
Net actuarial gain recognized in the year	(116)	153
Total expense included in statement of operations	**220**	**588**

d. The principal actuarial assumptions used are as follows:

Discount rate	3.85%	3.89%
Future salary increase	3%	3%

e. Pensions and saving plans:

Raytel has a tax-qualified “401(k) plan” which covers substantially all employees. Eligible employees may make salary deferral (before tax) contributions up to a specified maximum. Raytel makes a matching contribution of 75% of the first 3% contributed and 25% of the next 2%. In addition, as of January 1, 2004, Raytel makes contributions to the plan based upon a percentage of an employee's covered compensation as defined.

Expense under the plan was $ 246 and $ 254 in 2006 and 2005, respectively.

NOTE 19 | INVESTMENTS IN SUBSIDIARIES

a. Principal subsidiaries:

	Country of incorporation	Percentage in equity	
		2006	2005
Shahal Haifa - Medical Services Ltd.	Israel	100	100
SHL Telemedicine International Ltd. ("STI")	Israel	100	100
Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd.	Israel	100	100
SHL Telemedicine B.V.	Netherlands	100	100
SHL Telemedicine Global Trading Ltd.	Ireland	100	100
SHL Telemedicine North America Inc.	U.S.A.	100	100
Personal Healthcare Telemedicine Services B.V. (see Note 3b)	Netherlands	100	100

SHL Telemedicine North America Inc. (“NA“):

NA, a wholly-owned subsidiary of STI, purchased in a tender offer all the issued and outstanding shares of Raytel Medical Corporation Inc. (“Raytel“) in 2002. Raytel is a U.S. leading provider of remote pacemaker monitoring and other cardiac monitoring services. Raytel also operates outpatient diagnostic imaging facilities and cardiovascular and nuclear cardiology diagnostic service facilities. In connection with the acquisition of Raytel, payment has not yet been effected with regard to about 2% of Raytel's outstanding shares. The amount expected to be paid of $ 398 is recorded within other accounts payable.

b. Sale of subsidiary - 2005:

On July 3, 2005, the Company entered into an agreement to sell, effective as of June 30, 2005, a wholly-owned subsidiary, Bikurofe Ltd., its Israeli outpatient clinics and doctor visit services operation (part of the Company's medical services segment), to IEL Israel Equity Ltd., for $ 14,680. In addition, the Company received from Bikurofe Ltd. previously declared dividends and repayment of other debts in the total amount of $ 4,300. The closing of the sale took place on July 25, 2005. The Company recorded a gain on the sale before income taxes of $ 8,776.

In addition, the Company and another wholly-owned subsidiary entered into service and consulting agreements with Bikurofe Ltd., commencing in July 2005 and for a period of up to 24 months, for a total consideration of $ 1,500.

The Company ceased consolidating the financial statements of Bikurofe Ltd. on June 30, 2005.

NOTE 20 | TAXES ON INCOME

a. Tax laws applicable to the Group companies:
Income Tax (Inflationary Adjustments) Law, 1985:
According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI. The Company is taxed under this law.

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

1. Companies in Israel:
Until December 31, 2003, the regular tax rate applicable to income of companies was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be progressively reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

2. Foreign subsidiaries:
The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:
A company incorporated in the U.S. - tax at the rate of 34%.
A company incorporated in Germany – tax at the rate of 39.8%.
A company incorporated in Ireland - tax at the rate of 12.5%.

c. Taxes on income included in the statements of operations:

	Year ended December 31,	
	2006	2005
Current taxes	539	713
Deferred taxes	95	8,141
Taxes in respect of previous years	(205)	(1,537)
	429	**7,317**
Tax expenses - continuing operations	68	60
Tax expenses - discontinuing operations	361	7,257
	429	**7,317**

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	Doubtful accounts	Others	Total
Balance at January 1, 2005	6,078	(275)	1,150	1,875	4,492	2,032	15,352
Included in previously consolidated company (Note 19b)	-	(19)	(408)	-	-	-	(427)
Amount included in statement of operations	(897)	(310)	(335)	(1,027)	(4,474)	(1,098)	(8,141)
Currency translation differences	(365)	44	(48)	(94)	(18)	(66)	(547)
Balance at December 31, 2005	4,816	(560)	359	754	-	868	6,237
Amount included in statement of operations	(880)	42	(99)	943	-	(101)	(95)
Currency translation differences	383	(47)	20	119	-	74	549
Balance at December 31, 2006	**4,319**	**(565)**	**280**	**1,816**	**-**	**841**	**6,691**

The balance is presented as follows:

	December 31,	
	2006	2005
Long-term asset	7,235	6,804
Long-term liability	(544)	(567)
	6,691	**6,237**

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,	
	2006	2005
Income before taxes on income from continuing operations	**525**	**7,390**
Loss before taxes on income from discontinued operations	**(7,122)**	**(7,658)**
Loss before taxes on income	**(6,597)**	**(268)**
Statutory tax rate in Israel	**31%**	**34%**
Theoretical tax benefit	(2,045)	(91)
Increase (decrease) in taxes resulting from:		
Reduction of deferred tax assets in respect of carryforward losses and temporary differences	1,355	5,752
Losses and other items for which deferred taxes were not provided	1,482	3,277
Tax adjustment in respect of inflation in Israel	9	(562)
Non-deductible expenses	396	430
Realization of carryforward tax losses for which deferred taxes were not recorded in prior years	(385)	(625)
Different tax rates	200	651
Taxes in respect of previous years	(205)	(1,537)
Tax on minority interest in earnings of subsidiaries	(558)	(557)
Change in deferred taxes due to changes in tax rates	226	1,037
Differences on capital gain measurement between financial reporting basis and tax reporting basis	-	(428)
Other	(46)	(30)
	429	**7,317**

f. Carryforward tax losses:

The carryforward losses for tax purposes as of December 31, 2006 amount to $ 15,002 (2005 -$ 4,648) in Israel (which may be carried forward indefinitely) and $ 48,946 (2005 - $ 38,249) in Europe. In the U.S., Raytel has federal net operating losses and credits of $ 16,956 (2005 - $ 13,661), whose expiration commences in 2023, and state net operating losses and credits of $ 2,360 (2005 - $ 2,202) 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 $ 24,377 (2005 - $ 17,644 are not included in the consolidated financial statements as the management presently believes that it is not likely 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 $ 15,500. The Company intends to vigorously contest the assessments and on August 31, 2005, filed an appeal against the assessments. 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 management, the final outcome of this matter will not result in a material effect on the financial statements of the Company.

NOTE 21 | TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,	
	2006	2005
Rent expense to shareholders	**139**	**120**

Compensation of key management personnel:		
Short-term employee benefits	1,300	1,160
Share-based compensation	100	37
	1,400	**1,197**

NOTE 22 | COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

As collateral for the Group's liabilities, fixed charges have been placed on motor vehicles and insurance rights and fixed and specific charges have been placed on specific notes collectible, cash deposits and other assets of the Group.

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:

	2006	2005
First year	3,102	4,950
Second to fifth years	7,066	7,360
Thereafter	734	1,267
	10,902	**13,577**

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 are expected, either individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operations or cash flows.
2. Tax assessment in dispute – see Note 20g.

NOTE 23 | EQUITY

a. The share capital is composed as follows:

	December 31, 2006		December 31, 2005	
	Authorized	Issued and outstanding *)	Authorized	Issued and outstanding *)
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,616,178	14,000,000	10,616,178

*) Net of treasury shares.

b. Treasury shares:

The Company owns 61,159 shares for a total cost of $ 269 as of December 31, 2006 and 2005.

c. Share Option Plans:

In October 2003, due to the tax reform in Israel that changed the tax regime with respect to options granted to employees and directors, the Company adopted the 2003 Share Option Plan (“the 2003 Share Option Plan“) for the issuance of options to employees, directors, consultants and contractors of the Company and any of its subsidiaries, and determined that the option pool reserved for purposes of the former option plans (up to 856,627 Ordinary shares) shall further serve for purposes of the 2003 Share Option Plan .

In August 2004, SHL adopted the 2004 International Share Option Plan (“the 2004 International Share Option Plan“), which replaces the 2002 International Share Option Plan for the issuance of Options to non-Israeli employees, directors, officers and consultants of the Company and any of its subsidiaries, and determined that the option pool reserved for purposes of the 2003 Share Option Plan shall further serve for purposes of the 2004 International Share Option Plan.

In August 2004, SHL granted to employees and consultants of the Group options to purchase 73,000 Ordinary shares under the 2004 International Share Option Plan and options to purchase 16,250 Ordinary shares under the 2003 Share Option Plan. The options are fully vested as of December 31, 2004 (or as of August 1, 2004 with respect to one employee that was granted 18,000 options under the 2004 International Share Option Plan (“the Senior Employee Options“). The exercise price of the options is CHF 9.5, provided, however, that if exercised on or after January 1, 2006 (or on or after August 1, 2005 with respect to the Senior Employee Options) one-third of the options will have an exercise price of CHF 5.5; if exercised on or after January 1, 2007 (or on or after August 1, 2006 with respect to the Senior Employee Options) an additional one-third of the options will have an exercise price of CHF 5.5; and if exercised on or after January 1, 2008 (or on or after August 1, 2007 with respect to the Senior Employee Options) an additional one-third of the options will have an exercise price of CHF 5.5.

On May 19, 2005, the Annual General Meeting of Shareholders of the Company approved the 2005 executive and key employee Israeli share option plan (“the 2005 Key Employee Share Option Plan“ or “the Plan“). The maximum number of shares which may be issued under the Plan and under any other existing or future share incentive plans of the Company shall not exceed 856,627 shares, subject to adjustments as provided in the 2005 Key Employee Share Option Plan. The exercise price shall be the closing price for a share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors (“BOD“). Options granted under the Plan shall vest one-third 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 36 months from the date of grant, unless determined otherwise by the Company's BOD, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's BOD, 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 years from the date of grant.

In July and August 2005, the BOD approved the grant of 362,541 options to officers, under the 2005 Share Option Plan, including 87,400 options to three officers who are also shareholders of the Company.

The weighted average fair value of options granted by the Company in July and August 2005, in the amount of CHF 3.72, was estimated based on the following data and assumptions (weighted averages):

Share price - CHF 8.07; exercise price - CHF 7.35; expected volatility - 55.4%; risk-free interest rate 1.46%; expected dividends 0%, and expected average life of options - 4 years.

During the fourth quarter of 2006, the BOD approved the grant of 254,500 options to officers, under the 2005 Share Options Plan.

The weighted average fair value of options granted by the Company in October, November and December 2006, in the amount of CHF 1.35, was estimated based on the following data and assumptions (weighted averages):

Share price - CHF 4.97; exercise price - CHF 4.99; expected volatility - 46%; risk-free interest rate 2.19%; expected dividends 0%, and expected average life of options - 6 years.

In the years ended December 31, 2006 and 2005, the Company recorded share-based compensation in general and administrative expenses in the amount of $ 244 and $ 155, respectively.

Generally, all options granted under the Option Plans expire 10 years after the date of grant, subject to early termination due to cessation of employment of the option holder.

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

	2006		2005	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year:	706,000	7.36	560,109	7.39
Granted during the year	254,500	4.99	362,541	7.35
Forfeited during the year	(105,373)	7.6	(202,686)	6.9
Exercised during the year	-		(13,964)	6.1
Outstanding at the end of the year	**855,127**	**6.38**	**706,000**	**7.36**
Exercisable at the end of the year	**575,749**	**6.67**	**450,122**	**7.21**

NOTE 24 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

a. Cost of revenues:

	Year ended December 31,	
	2006	2005
Salaries and related benefits	16,283	20,498
Payment to service providers	8,961	8,607
Depreciation	5,050	4,929
Rental fees and maintenance	3,328	3,366
Materials and components	2,274	2,736
Others	6,767	6,259
	42,663	**46,395**

b. Research and development costs, net:

	Year ended December 31, 2006	2005
Salaries and related benefits	1,066	1,265
Amortization of development costs	887	900
Others	516	200
	2,469	2,365
Less - capitalization of development costs	(1,558)	(1,450)
	911	**915**

c. Selling and marketing expenses:

	2006	2005
Salaries and related benefits	6,734	8,461
Advertising	1,332	1,118
Depreciation	241	251
Rental fees and maintenance	215	190
Maintenance of motor vehicles	427	634
Others	2,473	2,505
	11,422	**13,159**

d. General and administrative expenses:

	2006	2005
Salaries and related benefits	11,430	11,372
Rental fees and office expenses	3,124	2,923
Professional fees	3,799	2,966
Depreciation and amortization	1,071	1,088
Doubtful accounts and bad debts	3,576	4,066
Others	251	909
	23,251	**23,324**

e. Financial income (expenses):

	2006	2005
1. Financial income:		
Exchange rate differences	2,252	1,873
Gain on marketable securities and derivative financial instruments	862	1,325
Interest and others	12	65
	3,126	**3,263**
2. Financial expenses:		
Exchange rate differences	(1,840)	(2,176)
Interest and others	(5,130)	(4,016)
	(6,970)	**(6,192)**

f. Other income (expenses), net:

	2006	2005
Loss on sale of fixed assets	(270)	(34)
Gain (loss) on sale of subsidiary (Note 19b)	-	8,776
Other	(332)	204
	(602)	**8,946**

NOTE 25 | NET LOSS PER SHARE

	Year ended December 31, 2006	2005
Weighted average number of Ordinary shares for basic and diluted loss per share	**10,616,178**	**10,576,992**

The number of options excluded from the computation of diluted loss per share because they are antidilutive is 855,127.

NOTE 26 | SEGMENT INFORMATION

a.

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

Telemedicine services - providing 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.

Medical services - operating a network of cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular diseases.

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

3. The assets of the segments include all of the operation assets, which are used by the segments and are comprised primarily of cash and cash equivalents, trade receivables, other accounts receivable, prepaid expenses, inventory, fixed assets and intangible assets.

The liabilities of the segments primarily include trade payables, other accounts payable, accrued severance pay and deferred revenues.

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

b. Business segments:

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

	Telemedicine services		Medical services		Consolidated	
	Year ended December 31,					
	2006	2005	2006	2005	2006	2005
Segment revenues:						
Sales to external customers	62,848	58,004	20,370	27,162	83,218	85,166
Segment results	4,001	(1,152)	4,666	5,459	8,667	4,307
Unallocated expenses					(3,696)	(2,934)
Operating income					4,971	1,373
Financial expenses					(3,844)	(2,929)
Other income (expenses), net					(602)	8,946
Taxes on income					429	7,317
Income from continuing operations					96	73
Other business information:						
Segment assets	99,757	105,506	20,910	26,993	120,667	132,499
Unallocated assets					7,652	7,188
					128,319	139,687
Segment liabilities	(17,761)	(18,845)	(4,921)	(5,462)	(22,682)	(24,307)
Unallocated liabilities					(75,831)	(76,312)
					(98,513)	(100,619)
Capital expenditure	6,598	6,744	345	138	6,943	6,882
Depreciation and amortization	8,501	7,429	147	161	8,648	7,590

c. Geographic segments:

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

	Year ended December 31,	
	2006	2005
Israel	18,059	23,353
U.S.A.	60,442	60,401
Europe	4,717	1,412
	83,218	85,166

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

	Year ended December 31,	
	2006	2005
Israel	53,313	61,948
U.S.A.	60,481	65,311
Europe	14,525	12,428
	128,319	139,687

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

	Year ended December 31,	
	2006	2005
Israel	1,952	2,260
U.S.A.	4,142	3,951
Europe	849	671
	6,943	6,882

Milestones

1987	Company founded
1991	Home Care Center (HCC) introduced
1994	CardioBeeper® CB 12L introduced
1996	Telepress II and TeleDoor® developed
1997	SHL TeleMedicine International Ltd. founded
1998	CardioPocket® introduced
1998	Internet Medical Service developed
1999	CardioPocket® heart monitor wins UK "Millennium Product" award
1999	WatchMan® product named overall winner at IFSEC
2000	CardioBeeper® CB 12/12 introduced, receives FDA approval
2000	Royal Philips Electronics Group purchases 18% equity stake in SHL (September)
2000	SHL completes initial public offering on SWX New Market in Zurich, Switzerland (November)
2001	Multi-channel ECG receiver and Cardio mc Vision 7 receive FDA marketing clearance, Home Care Center exempted from FDA's premarket notification requirement
2001	TeleBreather introduced, TelePress III receives FDA approval
2001	Philips Telemedicine(PHTS) joint venture formed with Philips Medical Systems; operations begin in Europe using SHL technology and services
2001	SHL acquires leading Israeli operator of nationwide 24/7 medical call center and house-call service, Bikurofe
2002	Introduction of new Swiss made Watchman®
2002	SHL expands into the USA with acquisition of leading US cardiac monitoring and testing provider Raytel
2003	Blood testing device TeleMarker™ launched in home market
2004	Assumption of full ownership of PHTS in Europe
2004	Extension of the US operation business through the acquisition of Cardiac Evaluation Center (CEC)
2007	CardioSen'C introduced, SHL's first digital cellular 12 lead ECG device

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