SHL
Telemedicine

Annual Report 2008

Corporate Profile

SHL Telemedicine Ltd., headquartered in Tel Aviv, Israel, specializes in developing and marketing advanced personal telemedicine systems as well as providing end-users with comprehensive telemedicine solutions including medical call center services, with a focus on cardiovascular and related diseases. These services improve the quality of life for our subscribers and enable cost savings for the health services community.
SHL is the market leader in Israel and active internationally in Germany, through a wholly owned subsidiary. In the US, certain of SHL's products are distributed by Philips Healthcare. The company holds a leading market position due to its extensive experience gathered over more than 20 years, with over one million end-users having had the benefit of using its services & products. SHL is listed on the SIX Swiss Exchange, symbol SHLTN.

Highlights 2008

- Strong growth in Germany, additional contracts with health insurers, leading to its first year of operating and net profit.
- Significantly improved group financial performance, with EBITDA margins of over 20%.
- Strong balance sheet with significant cash reserves to support growth.
- World's first wireless 12 Lead Digital Cellular personal ECG transmitter Cardio Sen'C™ receives FDA clearance.

Key Figures (December 31)

All financial units in USD 1,000	2008	2007	2007 (*)
Revenues	44.6	62.1	27.5
EBIT	4.2	(10.1)	(9.3)
EBITDA	9.1	(1.6)	(3.5)
EBITDA margin	20.5%	n.a.	n.a.
Net profit (loss)	2.2	27.6	(8.0)
Net profit (loss) per share	0.21	2.20	(0.75)
Cash, cash equivalents and marketable securities	23.5	84.5	-
Total outstanding debt	-	50.1	-
Total assets	82.1	144.2	-
Shareholder equity	59.3	60.4	-
Employees	367	360	-

(*) Excluding the operations of Raytel sold at the end of 2007.

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Delivering on the telemedicine promise

During 2008, SHL has shown a robust growth trend. The German operations continued to develop at a rapid pace and displayed continuing strong momentum, regardless of the darkening economic environment. 2009 begins as 2008 ended: with strong financial resources and good visibility for further top line growth and improved financial performance.

For SHL Telemedicine, 2008 turned out to be the fresh start it promised to be at the beginning of the year. Backed by a strong balance sheet and significant cash resources to support further growth, we saw strong growth in our German business while the Israeli business remained the operational and financial backbone it has been for many years.

In Germany, our business continued its rapid pace of subscriber recruitment both from existing health insurers and new health insurers joining our telemedicine services. We were very pleased that one of our wins came after prevailing over other competitors in a Europe-wide tender. This positive trend is expected to continue, despite the tough global economic conditions, as we see more and more health insurers seeking to improve operational efficiency and cut healthcare costs, which is one of the main value propositions of our telemedicine platform in Germany. The German operation reached profitability for the first time in the second quarter of

the year, after significant investments made over the years and we expect to continue to see improved financial performance as the business grows.

The strong momentum in Germany allowed us to increase the financial guidance mid-year, and meet these raised goals despite adverse currency effects seen in the second half of the year. SHL's revenues for 2008 increased by 62% (excluding the operations of Raytel sold late 2007) to USD 44.6 million bringing our EBITDA to USD 9.1 million (20.5% of revenues) with net profit for the year amounting to USD 2.2 million.

In January 2008, we celebrated SHL's 20th anniversary with many of our clients and business partners in Tel Aviv. The company has been able to successfully navigate through an industry that has undergone significant changes over two decades. This is proof that SHL's concept is indeed creating value for patients, physicians, hospitals and insurers. We continue to see positive momentum in our markets despite the gloomy outlook of the world economy. Our strong financial position affords us good protection in these turbulent times, especially as the demand for our telemedicine services in Germany remains strong.

We are thankful to all our shareholders who have maintained their confidence in SHL. Management and employees, to whom we express our sincere thanks, strive to help us deliver on our promises. As the results in 2008 demonstrate, we are on the right track. We have the drive to succeed and to make 2009 another excellent year for SHL, backed by trends that are favorable to our business model.

Sincerely

Y. Alroy

Yoram Alroy,
Chairman and President

On the right track

SHL has gained momentum and with it strong growth and profitability - Germany the growth driver.

2008 has been an excellent year for SHL with continuous strong growth in the German telemedicine operation bringing with it substantially improved financial performance. Germany is proof of the scalability of the business model as it supports social and demographic trends, i.e. the continued pressure on health insurers to save costs while improving quality of life for their insured.

Review by market

Germany

PHTS, SHL's German operation, based in Dusseldorf, is improving the quality of care and life for chronically ill heart patients and at the same time achieving for health insurers better cost-efficiency by avoiding, among others, unnecessary hospitalizations.

2008 showed that more and more health insurers recognise PHTS's value proposition. For example, a contract for the provision of telemedicine services to chronically ill heart patients was closed with Knappschaft Bahn See (KBS), which attends for more than 1.6 million insured and is one of the five largest health insurers in Germany with over 100 agencies. KBS also owns six hospitals in Ruhrgebiet and Saarland and has a stake in five hospital associations in Germany.

PHTS also concluded an agreement with Landwirtschaftliche Krankenkasse (LKK) Niedersachsen-Bremen, one of nine agricultural health insurance companies in Germany, attending some 150 thousand farmers and their family members. Part of the LKK commitment to its insured farmers is their replacement, during illnesses, with suitable and trained temporary support. The need for this should be curtailed by the services of PHTS which help the chronically ill heart patient farmers stay healthy and at home for longer periods of time.

These new contracts together with increased patient recruitment rate from existing contracts, made 2008 a stellar financial year for Germany with revenues growing by 77 % to USD 15.8 million bringing it, to an operating and net profit. SHL expects this growth trend to continue well into 2009, despite the tough global economic conditions.

Israel

2008 proved to be another successful year in our Israeli operation with continued steady subscriber growth and solid financial performance. This has been largely possible due to increased marketing efforts bringing with it increased brand awareness together with new products and services offered like the CardioSen'C. We expect our Israeli operations to continue to grow at a steady pace and deliver strong operational and financial performance.

USA

In the US, after the sale of Raytel to Philips at the end of 2007, SHL's telemedicine solutions are distributed by Philips Medical. Philips Home Health Solutions is the undisputed leader in the telemedicine market in North America with over 750,000 elderly subscribers. Following the Raytel sale SHL participates in a revenue sharing and royalty agreement for up to 8 years on existing Raytel services and certain future services to be introduced in the US based on SHL solutions. SHL also benefits from the sales of its proprietary telemedicine devices to end-users as well as from provision of consulting and R&D services to Philips.

Technology

In August 2008, the US Food and Drug administration (FDA) cleared SHL's CardioSen'C™, the world's first personal cellular-digital 12-lead ECG transmitter used for the purpose of remote real-time diagnosis of arrhythmia, ischemia, and myocardial infarction to medical call centers.

The CardioSen'C™ is to be used for the purpose of remote real-time diagnosis of arrhythmia, ischemia, and myocardial infarction. The ECG is then analyzed by the medical professionals at

the medical call center. Together with a clinical description given by the patient it provides the medical professionals with the data needed to diagnose the situation and provide medical assistance, if necessary. The CardioSen'C™ has been used in Israel since the middle of 2007 and has been very well accepted by SHL subscribers.

This innovative portable device significantly simplifies the measurement and transmission of a 12-lead ECG and rhythm strip in real-time due to its ergonomic design, compact dimensions, lightweight, vocal prompts and remote operation capabilities by the medical call center personnel. In addition to the ease and simplicity of use the CardioSen'CTM enables transmission with maximal accuracy and speed due to the use of a built in cellular modem.

Financials

In order to enable a meaningful comparison between the 2007 and 2008 results, the 2007 figures referred to below exclude the results of operations of Raytel sold late 2007 to Philips. The actual GAAP full year 2007 results appear in the attached consolidated financial statements.

Revenues for the year increased by 62% to USD 44.6 million compared to revenues of USD 27.5 million in 2007. Gross margins also improved to 65% up from 56%, bringing gross profit for the year to USD 28.9 million - an increase of 88% compared to the USD 15.4 million gross profit of 2007.

As a result of the increased gross profit EBITDA for the year increased to USD 9.1 million (20.5% of revenues) compared to an LBITDA of USD 3.5 million in 2007, with operating profit amounting to USD 4.2 million (9.5% of revenues) compared to an operating loss of USD 9.3 million in 2007.

Net income for the year amounted to USD 2.2 million (USD 0.21 per share), compared to a net income of USD 27.6 million, which included the capital gain, net of taxes, from the sale of Raytel to Philips in the amount of USD 39.3 million. Excluding the operations of Raytel and the capital gain from the sale, net loss in 2008 amounted to USD 8.0 million.

SHL's balance sheet remained strong - an invaluable safety cushion in these times of restricted lending and financing options. The proceeds received from the Raytel transaction in late 2007, were used mainly to repay all outstanding debt of some USD 52.3 million. This has thus resulted in a much healthier balance sheet with current assets amounting at year end to USD 30.7 million while total liabilities amounted to USD 22.8 million. Equity at December 31, 2008 stood at USD 59.1 million compared to USD 60.5 million at December 31, 2007.

Cash flow used in operations amounted to USD 7.6 million compared to USD 1.8 million in 2007. The decrease in operating cash flow results from the one time payments and exchange rate losses in Q1 08 related to the Raytel transaction consummated at the end of 2007. Since then SHL has generated cash from its operations and in Q4 08 this amounted to USD 2.6 million.

During the year SHL repurchased 160,763 shares for a total of USD 1.1 million. At December 31, 2008 SHL held 221,922 shares representing around 2% of total shares outstanding. The share buy-back program has been extended until June 30, 2009.
On March 25, 2008, the Board of Directors of the Company declared a dividend payable to the holders of Ordinary Shares of the Company in an aggregate amount of USD 4 million, or a gross amount of USD 0.37 per share. The record date for determining the shareholders of the Company entitled to receiving such dividends was April 14, 2008, and the ex-date and payment date were April 15, 2008.

Management

In May, Eran Antebi was appointed Chief Financial Officer of SHL, replacing Haim Brosh. Eran Antebi joined SHL in 2004 as CFO of Shahal Israel. Prior to joining SHL, he was a Manager with Ernst & Young in Israel. Eran Antebi is a certified public accountant (CPA) and has a B.A. in accounting and economics from the Tel Aviv University.

Outlook

SHL expects to continue its growth trend in 2009, despite the global economic slowdown. The demand for telemedicine services remains strong in the first quarter of 2009. Assuming constant exchange rates* management is expecting continued growth with revenues of USD 51-53 million and net income of USD 3.5-5 million.

* Constant exchange rates figures are calculated by translating forecasted 2009 results using the average 2008 exchange rates instead of expected 2009 exchange rates. Management believes that this presentation enables more meaningful comparison between the periods due to significant fluctuations in NIS/USD/Euro exchange rates. Average 2008 exchange rates were: NIS/USD 3.588 and EUR/USD 1.466.

The telemedicine value chain

SHL proves through day-to-day experience and an accumulation of positive data over many years that disease management with concomitant telemedicine is an important factor in contributing to better medical services while realizing significant cost savings and improvements in quality of life.

Throughout the world cost pressures in health care have become serious political and economic issues. Modern medicine succeeds in affording better treatment and prolonging life. Patients, especially chronically ill patients, have greater access to and demand a better quality of care. As a result health insurers are striving to cope with the extra costs involved and are seeking effective cost savings whilst offering satisfactory services to their clients. Telemedicine contributes significantly to combating this paradigm.

Technological progress has brought both sophisticated and easy-to-use medical products and services for remote monitoring and tele-care. They bring value to patients, physicians, hospitals and insurers.

- **Benefits for patients**
  Patients, using services that enable access to medical counsel from home and continuous monitoring around the clock enjoy less hospitalizations, improved clinical outcomes and better quality of life.

- **Benefits for physicians**
  Physicians enjoy a cost effective way to monitor and manage their patients and higher quality of care, better patient data and history and more efficient time utilization.

- **Benefits for hospitals and insurers**
  Hospitals and insurers alike profit from higher efficiency thanks to cost savings and revenues optimizations. Hospitals can minimize unnecessary hospitalizations and reduce costly emergency room admissions. In addition, hospitalization days are being shortened and service and medical treatment improved.

Innovative care from IKK

Costs in the German health care system continue to rise. Against this trend, the health insurer IKK, one of Germany's top 50 health insurers with over 320,000 insured, has maintained fees at current levels. Over the past years IKK has been investing in new, innovative forms of treatment.

Part of these new treatments are the telemedicine services, provided by PHTS –SHL's german subsidiary in Dusseldorf, for IKK's chronically ill heart patients. Starting 2004 with a pilot phase, the program was tested and implemented step-by-step, while carefully examining how these services are being accepted by patients and physicians, and maintaining a close eye on costs. In September 2006, IKK introduced the service for all patients in question.

A study conducted by the „Institut für Gesundheits- und Pflegewissenschaft" of the Medical Faculty of the Martin Luther University Halle-Wittenberg provided evidence that IKK's insured are very satisfied with the services of PHTS. Patients quoted the better medical monitoring in case of illness, quicker help in an emergency and the availability of a contact person around the clock to be the main reasons why to rely on telemedicine services.

Based on four years of experience, and as one of the pioneering health care insurers in the telemedicine field, IKK is convinced that the medical assistance can significantly improve the safety and quality of life of severely ill chronic heart patients in their daily life.

Information for investors

Capital structure

The issued share capital is divided into 10,512,173 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	18.83%
Alroy Group*	18.77%
Tower Holdings B.V.	14.38%
G.Z. Assets and Management Ltd.	8.77%
Public	39.25%

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2008, after deducting from the total number of shares outstanding 221,922 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Statistics on SHL Telemedicine as at December 31, 2008

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,734,095
Market price high/low (CHF)	9.77/5.65
Market capitalization high/low (CHF million)	102.7/59.4
Market capitalization 31/12/08 (CHF million)	59.9
Share capital – nominal value (NIS)	107,341

Key figures per share at Decmber 31, 2008

Basic and diluted profit per share attributable to equity holders of SHL (USD)	0.21

Share price development

Listing

All SHL shares are listed on SIX Swiss Exchange

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

Investor relations

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Annual General Meeting

May 26, 2009

Next Publications

Q1 Results: May 13, 2009

Q2 Results: July 29, 2009

Q3 Results: November 11, 2009

Corporate Governance 2008

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SHL TeleMedicine Ltd. Corporate Governance Report

Introduction

In this section of our 2008 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, 2008, and complies with the Corporate Governance Directive of the SWX Swiss Exchange.

1. Group Structure and Shareholders

1.1 Group Structure

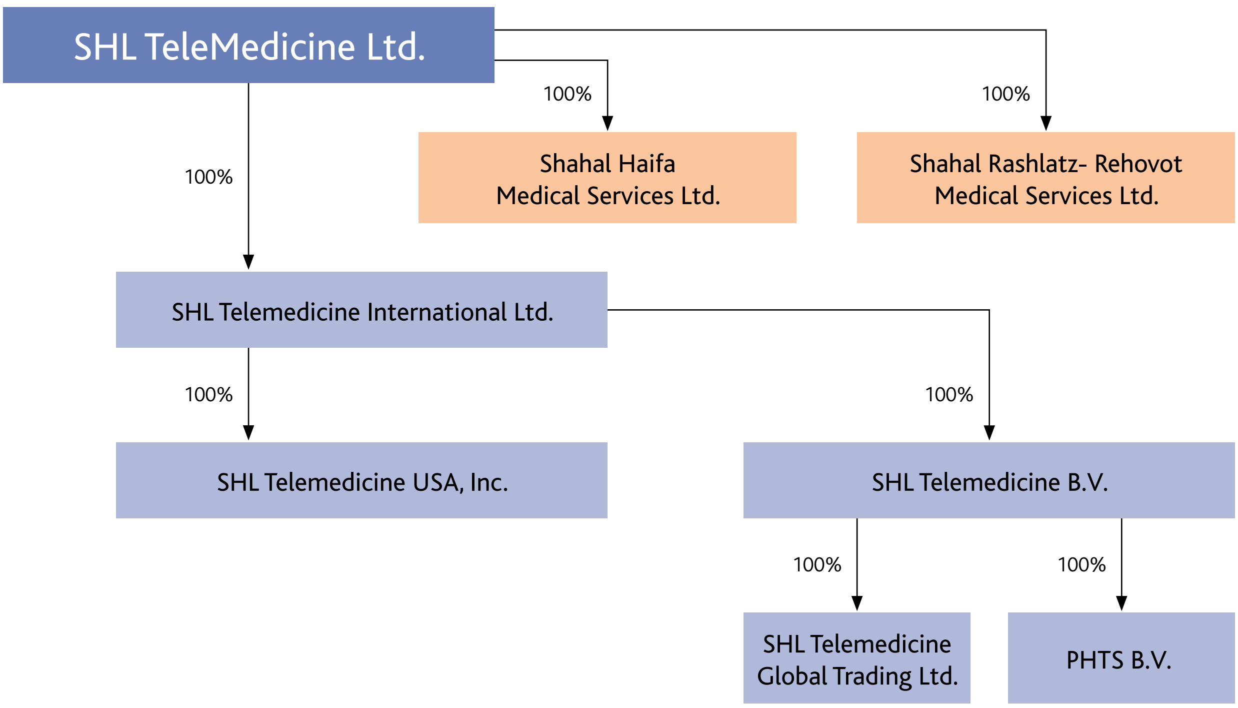
1.1.1 Management Principles:

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

During 2008 the Company and its subsidiaries in Israel, Germany and the U.S. operated in one business segment - Telemedicine Services.

Until near the end of 2007, the Company and its subsidiaries operated in two business segments – Telemedicine Services and Medical Services. During 2007 SHL completed the discontinuation and divesture of its remaining imaging centers in the US, and sold other ancillary operations to Royal Philips Electronics, one of the controlling shareholders of the Company (the "Philips Transaction"). As a result, SHL ceased its operations in the Medical Services business segment as at the end of 2007.

Telemedicine Services comprises the provision of telemedicine services and devices to subscribers utilizing telephonic and internet communication technology.



SHL's telemedicine solution offers centralized remote diagnostic and monitoring services to end-users, making use of computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.
Each of the operations in Germany and Israel enjoys a high degree of autonomy, with its own management group. Corporate management which is located in Israel complements and oversights those businesses. In addition, certain services are centralized in Israel and are provided to all group companies.

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

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 107,340.95 divided into 10,734,095 fully paid registered ordinary shares of NIS 0.01 par value each (including 221,922ordinary 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 20. 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, 2008, SHL's market capitalization was CHF 59.9 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 USA, Inc. ("SHL USA") –.SHL USA's authorized share capital is comprised of USD 1 divided into 100 shares of common stock of USD 0.01 par value each of which 100 shares of common stock of USD 0.01 par value each are issued and outstanding, all of which are held by STI. SHL USA's registered office is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

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

Raytel Medical Corporation LLC ("Raytel") – Raytel's authorized equity securities are comprised of 100 membership units which are all currently held by SHL N. America LLC. The company has its registered office at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

SHL Telemedicine Global Trading Ltd. ("SHL Global") - SHL Global's authorized share capital is comprised of EUR1,000,000 divided into 1,000,000 ordinary shares of

EUR 1.00 par value each, of which 1,000 ordinary shares of EUR 1.00 par value each are issued and outstanding, all of which are held by SHL BV. SHL Global's registered office is located at Wil House, Shannon Business Park, Shannon, Co. Clare, Ireland.

Personal Healthcare Telemedicine Services Europe B.V. ("PHTS BV") – PHTS BV's authorized share capital is comprised of EUR 4,000,000 divided into 400,000 shares of common stock of EURO 10 par value each, of which 81,500 shares of common stock of EUR 10 par value each are issued and outstanding, all of which are held by SHL BV. PHTS BV's registered office is located at Stadhouderskade 125 hs, 1074 AV, Amsterdam, The Netherlands

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

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

1.2 Significant Shareholders

Royal Philips Electronics	18.83%
Alroy Group*	18.77%
Tower Holdings B.V.	14.38%
G.Z. Assets and Management Ltd.	8.77%
Public	39.25%

* Alroy Group is comprised of Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.83% of the issued and outstanding share capital of SHL, Mr. Erez Alroy, Co-CEO of SHL that holds individually and through a company wholly owned by him 0.30% 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 6.84% 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 4.80 % 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, 2008, after deducting from the total number of shares outstanding 221,922 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Pursuant to the Shareholders Agreement (the "Shareholders Agreement") between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., (which is effective for a period of two (2) years commencing as of November 2007, and which shall be automatically renewed for additional two (2) year periods unless either party provides a three (3) months written notice to terminate the Shareholders Agreement), Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include three (3) nominees determined by the Alroy Group, two (2) nominees determined by Royal Philips Electronics, one (1) nominee determined by Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall have the right to nominate two (2) directors as long as it holds at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall be required to vote its shares to the appointment to the Board of (i) three (3) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least twelve-and-one half (121/2) percent of the issued and outstanding share capital of SHL; (ii) two (2) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least ten (10) percent of the issued and outstanding share capital of SHL; and (iii) one (1) director nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least five (5) percent of the issued and outstanding share capital of SHL. Philips has elected not exercise its right to appoint directors. Additionally, the Shareholders Agreement provides that any committee of the Board of Directors shall include one (1) of the members of the Board of Directors nominated by the Alroy Group, one (1) member of the Board of Directors nominated by Royal Philips Electronics and one (1) of the members of the Board of Directors nominated by either Tower Holdings B.V. or G.Z. Assets and Management Ltd. The Shareholders Agreement further provides a reciprocal right of first offer to each of the shareholders party thereto with respect to any disposition by any of them of all or any of their securities of SHL.

1.3 Cross-Shareholdings

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

2. Capital Structure

2.1 Capital on the Disclosure Deadline

Authorized share capital as of December 31, 2008

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, 2008

Number of Ordinary Shares	10,734,095*
Par value	NIS 0.01 each
Share capital	NIS 107,340.95

* Including 221,922 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 20.

2.2 Authorized and Conditional Capital

General

Under Israeli Law, a company's authorized share capital represents the maximum amount of shares which is authorized for issuance by the company. SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"). The issued and outstanding share capital of SHL is NIS 107,340.95 divided into 10,734,095 fully paid registered Ordinary Shares (including 221,922 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 20). According to the Articles of Association of SHL, any increase of the authorized share capital shall require a resolution approved by a sixty-six (66) percent majority of the voting power of the shareholders represented at the meeting and voting thereon. Any increase in the authorized share capital is valid as of the date of the approval thereof by the shareholders. Authorized share capital, or any increase thereof is not limited in time. However, the shareholders may, at the General Meeting, cancel authorized but not yet issued share capital, provided that the company did not undertake to issue shares out of such authorized but unissued share capital. Pursuant to SHL's Articles of Association, the unissued shares are under the sole control of the Board of Directors of SHL who has the authority to allot or otherwise dispose of them on such terms and conditions as it may see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

SHL approved a maximum number of up to 1,056,627 Ordinary Shares (subject to adjustments as set forth in the 2005 Key Employee Share Option Plan, as such term is hereinafter defined) reserved for issuance upon exercise of options that may be granted pursuant to the Option Plans. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 32.

As of December 31, 2008, SHL held 221,922 Ordinary Shares of SHL, purchased 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 20.

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"). In September 2000, SHL approved a maximum pool of up to 856,627 Ordinary Shares reserved for issuance upon exercise of Options that may be granted pursuant to the 2000 Share Option Plan (the "Option Pool").

In 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. CHF 6.89 was the market price on the date of grant. 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. CHF 5.5 was the market price on the date of grant.

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 was set at 856,627 Ordinary Shares at the time of adoption of the plan, subject to adjustments as provided in the 2005 Key Employee Share Option

Plan. The exercise price shall be the closing price for an Ordinary Share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors. Options granted under the 2005 Key Employee Share Option Plan shall vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board of Directors, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

In 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, which was the market price at the date of grant.

In May 2007, SHL approved an additional pool of 200,000 Ordinary Shares which may be issued under the 2005 Key Employee Share Option Plan and under any other existing or future share incentive Option Plan, bringing the total number of Ordinary Shares available for issuance under any Option Plan to 1,056,627. In 2007 SHL approved the grant of 67,250 options to employees, consultants and Directors, including one external (independent) director, under the 2005 Key Employee Share Option Plan. The exercise price of such options granted is between 8.50 CHF and 11.50 CHF, which were the respective market prices at the date of grant.

In 2008 SHL approved the grant of 43,000 options to employees, consultants and Directors, including one external (independent) director, under the 2005 Key Employee Share Option Plan. The exercise price of such options granted is 8.3 CHF, which reflects the respective market price at the date of grant.

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	640	CHF	34.00
	7,750	** CHF	9.50
	15,168	** CHF	5.5
	532,802	*** CHF	4.98-11.50
	57,560	* CHF	6.89
	266,977	CHF	5.90
Total Outstanding at beginning of year	**880,897**	**CHF**	**6.47**
Granted ***	43,000	CHF	8.30
Exercised	(45,560)	CHF	6.16
Forfeited****	(300,425)	CHF	6.40
Outstanding at end of year	640	CHF	34.00
	22,418	** CHF	5.5
	278,067	*** CHF	4.98-11.50
	45,560	* CHF	6.89
	231,227	CHF	5.90
Total Outstanding at end of the year	**577,912**	**CHF**	**6.61**

* 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.

2.3 Changes in Capital Structure within the Last Three Financial Years

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

As of December 31, 2006, 2007 and 2008, SHL's issued share capital was comprised of 10,677,337, 10,677,337 and 10,734,095 Ordinary Shares, respectively. The foregoing changes in the Company's share capital result from the exercise of share options previously granted under SHL's Option Plans and the repurchase of shares by SHL under its share repurchase plan approved by the

Board of Directors of the Company on March 25, 2008. As part of its approval, the Board of Directors determined, in accordance with the requirements of the Israeli Companies Law, that the Company had sufficient profits and other surplus (as calculated under the Israeli Companies Law) in order to repurchase its Ordinary Shares traded on the SWX Swiss Exchange and that there was no reasonable concern that the repurchase would prevent SHL from satisfying its existing and foreseeable obligations as they become due. Under the approved repurchase plan, SHL was authorized to repurchase its own Ordinary Shares traded on the SWX Swiss Exchange, from time to time in an amount of up to an equivalent of US$2,000,000. The March 25, 2008 approval covered share repurchases for an initial period lasting up until June 30, 2008, whereby any further repurchases are subject to reaffirmation by the Board that such repurchase by the Company of Ordinary Shares satisfies the aforementioned conditions of the Israeli Companies Law. In accordance with the foregoing, the repurchase period has been extended three times by the Board of Directors, the most recent extension until June 30, 2009.

2.4 The Ordinary Shares

General

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

Liquidation and Dividend Rights

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

On March 25, 2008, the Board of Directors of the Company declared a dividend payable to the holders of Ordinary Shares of the Company in an aggregate amount of US$4,000,000, or a gross amount of US$0.37 per share. The record date for determining the shareholders of the Company entitled to receiving such dividends was April 14, 2008, and the ex-date and payment date were April 15, 2008. Pursuant to the Company's incorporation documents, the dividends were allocated among the shareholders of the Company entitled thereto in proportion to the nominal value of their holdings in the Company; provided that shares which were fully paid or which had been credited as fully or partly paid with regard to any period with respect whereof dividends were paid, were entitled to payment only pro rata temporis.

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 33.

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.

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

Duties of Shareholders

Under the Israeli Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns twenty-five (25) percent or more of the voting rights if no other shareholder owns more than fifty (50) percent of the voting rights. Subject to certain exceptions, extraordinary transactions (including a private placement which is an extraordinary transaction) with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee (including the terms and conditions of the directors and office holders insurance and indemnification), require the approval of the audit committee, the board of directors and the shareholders. The shareholder approval must include at least one-third of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of shareholders having no personal interest voted against the transaction do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

Any shareholder participating in such vote is required to disclose, prior to his or her vote, whether he or she has a personal interest in the transaction. Failure to comply with such duty will result in such shareholder not being entitled to vote.

An "interested party" in a private placement (i.e. a holder of more than five (5) percent of the shares of a company or one who may become such holder as a result of the private placement) must promptly disclose any personal interest that he or she may have and any material information known to him or her in connection with such private placement.

In addition, under the Israeli Companies Law, each shareholder has a duty to act in good faith and customary way toward the company and other shareholders and to refrain from abusing his or her powers in the company, such as in shareholder votes, and from discriminating other shareholders. In addition, a shareholder may not discriminate other shareholders. Furthermore, specified shareholders have a duty of fairness towards the company. These shareholders include any controlling shareholders, any shareholder who knows that he or she possesses the power to determine the outcome of a shareholders vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint an office holder or any other power with respect to the company. However, the Israeli Companies Law does not define the substance of this duty of fairness. The aforesaid duties of shareholders also apply to Registered Persons to the extent such Registered Persons exercise the rights attached to the Ordinary Shares.

2.5 Dividend-right Certificates

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

2.6 Limitations on Transferability and Nominee Registrations

Transfer of Ordinary Shares

Fully paid Ordinary Shares may be transferred freely. Pursuant to SHL's Articles of Association no transfer of shares shall be registered in SHL's Register of Shareholders unless a proper instrument of transfer in form and substance satisfactory to the Board of Directors has been submitted to SHL together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered, SHL may continue to regard the transferor as the owner thereof. Any Registered Person who wishes to become registered in SHL's Register of Shareholders may request SNOC to sign a deed of transfer. Pursuant to SHL's Articles of Association with regard to Ordinary Shares registered in the Register of Shareholders in the name of SNOC or any nominee substituting SNOC, a written request in a form satisfactory to the Board of Directors from a Registered Person, to be registered in the Register of Shareholders instead of SNOC, together with a written confirmation issued by SAG evidencing the registration of such person, including the number of Ordinary Shares registered on such person's behalf, in the SAG Register, shall also be a proper instrument of transfer.

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

SNOC Agreement and Shareholder Registration

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

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

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

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

2.7 Convertible Bonds and Options

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section "Share Options" on page 32.

3. Board of Directors

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

3.1 Members of the Board of Directors

The Articles of Association provide for a Board of Directors consisting of up to nine (9) members and not less than three (3) until otherwise determined by simple resolution of the shareholders of SHL. The Board of Directors of SHL currently consists of 7 members only, of whom the only executive members are Mr. Yoram Alroy and Mr. Erez Alroy. None of the current non-executive members of the Board of Directors was a member of the management of SHL or of any of SHL's group companies in the three (3) financial years preceding the period under review. The non-executive members of the Board of Directors have no important business connections with SHL or SHL's group companies. For family relationship between Mr. Elon Shalev and other members of the Alroy Group, see "Significant Shareholders" on page 16 and "Share Ownership" on page 32.

The following table sets forth the name, principal position, time of the first election, and the remaining term of office of each member of the Board of Directors:

Name	Nationality	Position	First Election	Remaining Term*
Yoram Alroy	Israeli	Chairman of the Board of Directors and President	1987	2009
Erez Alroy	Israeli	Co-CEO	2008	2009
Elon Shalev	Israeli	Non-executive member	1987	2009
Colin Schachat	Israeli	Non-executive member	2001	2009
Ziv Carthy	Israeli	Non-executive member	1997	2009
Nehama Ronen	Israeli	Non-executive member/ Independent Director	2007	2010
Nissim Zvili	Israeli	Non-executive member/ Independent Director	2008	2011

* For additional information regarding the election and term of office of SHL's directors please refer to section "Election of Directors and term of Office" on page 24.

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/ Replaced
Monty Hilkowitz	Israeli	Non-executive member	2006	AGM 2008
Ron Salpeter	Israeli	Non-executive member/ Independent Director	2003	April 2, 2008

Yoram Alroy, Chairman, and President

Yoram Alroy founded SHL in 1987. Commencing in 1987 and until September 2003 he has served as CEO and Chairman of SHL's Board of Directors. As of September 2003, Mr. Alroy serves as the President of SHL and the Chairman of SHL's Board of Directors. Prior to founding SHL, Mr. Alroy was Executive Vice President of IBM

Israel and was for seventeen (17) years a member of IBM's Israeli executive committee. Mr. Alroy is also a member of the Board of Trustees of the Ofek College for Engineering. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Erez Alroy, Co-CEO

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

Elon Shalev

Elon Shalev has served as a director of SHL since 1987. From 1990 to 1993, he was SHL's Chief Operating Officer after which he served three (3) years as Chief Executive Officer for an Israeli TV News company. From 1996 to 1999, he was Editor in Chief of "Yediot Aharonot", the largest daily newspaper in Israel and from 2000-2001 was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group, one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur in the telecom market and is the Chairman and founder of Logia Ltd., a global provider of innovative mobile content solutions. In addition, Mr. Shalev serves as a consultant to the Saban Capital Group and also serves as a Board member in several large and well known Israeli firms which are Bezeq (the Israeli national telecommunications provider), Yes (a multi channel satellite broadcast company) and Bezeq International (a long distance telecommunications provider). Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Colin Schachat

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

Ziv Carthy

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

Nehama Ronen – Independent Director

Nechama Ronen joined the Board of Directors of SHL as an Independent Director on June 13, 2007. Ms. Ronen is currently the chairman of Maman Cargo Terminals & Handling Ltd. and of the Recycling Corp., both in Israel. In addition, Ms. Ronen currently serves as an independent director of Kamur Ltd., and as the chairman of the board of directors of Logisticare Ltd., a large logistics planning and storage company. Ms. Ronen is also a member of the presidency of the Israeli Chamber of Commerce. From 2001 to 2003 Ms. Ronen was a member of the Israeli parliament and from 1996 to 1999 she was the Director General of the Israeli Ministry of the Environment. Ms. Ronen holds a BA in Education and History and an MA in Public Administration, both from Haifa University. Nationality: Israeli.

Nissim Zvili – Independent Director

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

3.4 Election of Directors and Term of Office

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

Pursuant to the Shareholders Agreement (for a complete description of the Shareholders Agreement, please refer to the Section on "Significant Shareholders", on page 16) between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., the aforesaid shareholders of SHL agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include three (3) nominees determined by the Alroy Group, two (2) nominees determined by Royal Philips Electronics, one (1) nominee determined by Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall have the right to nominate two (2) directors as long as it holds at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall only be required to vote its shares to the appointment to the Board of (i) three (3) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least twelve-and-one half (121/2) percent of the issued and outstanding share capital of SHL; (ii) two (2) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least ten (10) percent of the issued and outstanding share capital of SHL; and (iii) one (1) director nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least five (5) percent of the issued and outstanding share capital of SHL.

Independent Directors

Israeli companies that have offered securities to the public in or outside of Israel under the provisions of the Israeli Companies Law are required to appoint two (2) Independent ("external") Directors, 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 (and his relatives, partners, employer, entities controlled by him, or someone that such individual is directly or indirectly subordinated to) may not have, and may not have had at any time during the two (2) years prior to such individual's appointment as an Independent Director, any affiliations with the company or its affiliates, or with its controlling shareholder or with any entity whose controlling shareholder, at the time of appointment or during the two (2) years prior to his appointment as an Independent Director is the company or its controlling shareholder, as such terms are defined in the Israeli Companies Law. In addition, no individual may serve as an Independent Director if the individual's position or other activities create or may create a conflict of interest with his or her role as an Independent Director or may adversely affect such role, or if such individual is an employee of the Israeli securities authority or an Israeli stock exchange. Furthermore, a director of a company is prevented from serving as an Independent director in another company, if a director of such second company serves as an Independent director in the first company. For a period of two (2) years from termination of office, a former Independent Director may not serve as a director or employee of the company in which he served as an Independent Director or provide professional services to such company for consideration. The Independent Directors generally must be elected by the shareholders, including at least one-third (1/3) of the shares of non-controlling shareholders voted on the matter. However, the independent directors can be elected by shareholders without this one-third approval if the total shares of non-controlling shareholders voted against the election do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). The term of an Independent Director is three (3) years and may be extended for one (1) additional three (3) year period. Each committee of a company's board of directors authorized to exercise the powers of the board of directors is required to include at least one (1) independent director, and pursuant to the Israeli Companies Law, the board of directors is required to appoint an audit committee which must be comprised of at least three (3) directors, including all of the Independent Directors.

Ms. Nehama Ronen serves as an Independent Director of SHL until 2010 and Mr. Nissim Zvili serves as an Independent Director of SHL until 2011.

3.5 Internal Organizational Structure

Pursuant to the Israeli Companies Law and SHL's Articles of Association, the Board of Directors is ultimately responsible for the general policies and management of SHL. The Board of Directors establishes the strategic, organizational, accounting and financing policies of SHL. The Board of Directors has all powers vested in it according to the Israeli Companies Law and the Articles of Association, is authorized to determine the policy of SHL and to supervise the performance and actions of the General Manager, and, without derogating from the above, has the following powers:

- determine SHL's plans of action, the principles for financing them and the order of priority among them;
- examine the financial status of SHL, and set the frame of credit that SHL shall be entitled to acquire;
- determine the organizational structure of SHL and its compensation policies;
- may resolve to issue series of debentures;
- prepare and approve the financial statements of SHL;
- report to the Annual General Meeting of the status of SHL's affairs and of their financial outcomes;
- appoint the General Manager and terminate such appointment, in accordance with the Israeli Companies Law;
- resolve in the matters on actions and transactions that require its approval according to the Israeli Companies Law and the Articles of Association;
- issue shares and convertible securities up to the total amount of the authorized share capital of SHL, in accordance with the Israeli Companies Law;
- decide on a "distribution" as set forth in Sections 307 – 308 of the Israeli Companies Law;
- express its opinion on a special tender offer, as set forth in Section 329 of the Israeli Companies Law.

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

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

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

Under the Israeli Companies Law, the same person may not act as both Chief Executive Officer and Chairman of the Board of Directors of a publicly-traded company, unless the shareholders consent to such service, which, in any event, may not exceed three (3) year periods from the date of each such approval. Approval shall be obtained by the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, approval by the shareholders requires that either (i) the majority vote in favor of the resolution shall include the consent of at least one-third of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than one (1) percent of the voting rights in the company

Committees of the Board and Internal Auditor

The Articles of Association of SHL provide that the Board of Directors may delegate any or all of its powers to committees of the Board of Directors as it deems appropriate, subject to the provisions of the Israeli Companies Law. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. Any such committee authorized to execute the powers of the Board of Directors shall include at least one (1) Independent Director. A committee authorized to execute the powers of the Board may only be comprised of members of the Board of Directors. A committee whose powers are limited to providing recommendations to the Board of Directors may be comprised of non members. The Shareholders Agreement provides that any committee of the Board of Directors shall include one (1) of the members of the Board of Directors nominated by the Alroy Group, one (1) member of the Board of Directors nominated by Royal Philips Electronics and, one (1) of the members of the Board of Directors nominated by either Tower Holding B.V. or G.Z. Assets and Management Ltd.

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

As required under the Israeli Companies Law the Board of Directors has appointed an Audit Committee. In addition, the Board of Directors further appointed a Compensation Committee and an Option Committee. The Committees of the board of Directors meet regularly and are required to make full reports and recommendations to the Board of Directors. Pursuant to the Israeli Companies Law, the Board of Directors also appointed an internal auditor proposed by the Audit Committee.

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

Audit Committee – Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent Directors. The Audit Committee may not include the chairman of the Board of Directors, a controlling shareholder, its relative, or any director who is employed by the company or provides services to the company on a regular basis. Currently, the Audit Committee is composed of the following members: Mr. Colin Schachat, Ms. Nehama Ronen and Mr. Nissim Zvili - The role of the audit committee is to examine flaws in the business management of the company, in consultation with the internal auditor and the independent accountants, and to propose remedial measures to the Board of Directors. The Audit Committee also reviews for approval transactions between the company and office holders or interested parties. The Audit Committee meets from time to time when deemed necessary. During the year under review it held two meetings

Compensation Committee - the Board of Directors has appointed a Compensation Committee composed of the following members: Mr. Colin Schachat, Ms. Nehama Ronen and Mr. Nissim Zvili. The Compensation Committee was appointed by the Board of Directors for the purpose of referring to it for its recommendations to the Board of Directors all matters regarding the compensation and terms of employment of any of SHL's controlling shareholders who are employed by the Company. The Compensation Committee does not have decision making powers. The Compensation Committee meets from time to time when deemed necessary. During the year under review it held one meeting. Compensation is determined inter alia based on external consultants, then recommended by said committee to the Board. As aforementioned, under Israeli Companies Law any the compensation to a controlling shareholder is deemed an extraordinary transaction and needs approval of the Audit Committee, the Board and the Shareholders Meeting with a special majority vote.

Option Committee – the Board of Directors has appointed an Option Committee, which is currently composed of the following members: Mr. Colin Schachat and Ms. Nehama Ronen. The Option Committee was appointed by the Board of Directors for the purpose of administering the "2005 Key Employee Share Option Plan" in accordance with its terms and conditions. The Options Committee has limited decision making powers as determined in said option plan. The Option Committee meets from time to time when deemed necessary. During the year under review it held no meetings.

Pursuant to the Articles of Association, the Committees conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee are, mutatis mutandis, governed by the provisions contained in the Articles of Association for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors.

Internal Auditor – The Board of Directors has appointed Avi Schwarztuch of the accounting firm, Schwarztuch, Widavski and Co. as an Internal Auditor, upon the recommendation of the Audit Committee. According to the Israeli Companies Law, neither an interested party nor an officer of the company, any relatives of the foregoing or the external auditor may serve in such position. The role of the Internal Auditor is to examine, among other things, whether SHL's activities comply with the law and orderly business procedure. Pursuant to the Israeli Internal Audit Law, 1992, in connection with the Israeli Companies Law, the Internal Auditor is authorized to demand and receive any kind of document and/ or information that is in the Company's or its employees' possession, which he deems necessary for the performance of his role, and he is to have access to all databases or data processing programs of the Company. Pursuant to the Israeli Companies Law the Chairman of the Board of Directors or the Chairman of the Audit Committee may order the Internal Auditor to conduct an internal audit on matters where an urgent need for examination arose. Pursuant to the Companies Law, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings. The Internal Auditor has no decision making powers..

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

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

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

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

- The CEOs and CFO inform the Board of Directors regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board of Directors and CEOs and CFO as deemed necessary.
- Control over financial management is exercised by the Board together with SHL's external auditors (for further information on the Company's external auditors, please refer to the Section tilted "Auditors" on page 35) through quarterly discussions of SHL's results, which are part of the external auditors' authorization of the Company's financial statements. The Board discusses with the auditors not only the financial statements themselves but also their assessment of the internal controls and whether any material weaknesses have come to the auditors' attention during their audit or review. Additionally, the Company's accountant and CFO are invited to board meetings where financial statements are discussed and approved.

- SHL has an internal auditor (for further information, please refer to p.[ ] above) who is appointed by the Board of Directors, upon recommendation by the Audit Committee. The Internal Auditor examines the processes and controls of the Company - not only with regard to financial operations, but also with regard to compliance of management with internal and external policies - and coveys his findings to the Audit Committee and the external auditors

4. Senior Management

4.1 Members of Senior Management

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

Name	Nationality	Position
Yoram Alroy	Israeli	Chairman of the Board of Directors and President
Yariv Alroy	Israeli	Co-CEO
Erez Alroy	Israeli	Co-CEO
Eran Antebi	Israeli	CFO
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Eyal Lewin	Israeli	Managing Director – 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 22.

Yariv Alroy, Co-CEO

Yariv Alroy has been a Managing Director of STI since its incorporation in 1997, and prior to that he was Chief Operating Officer of SHL Israel. Before joining SHL, Mr. Alroy served as a senior partner in a large Israeli law firm. Mr. Alroy holds an LL.B degree from Tel-Aviv University in Israel. Nationality: Israeli.

Erez Alroy, Co-CEO

For additional information see Section "Members of the Board of Directors" on page 22.

Eran Antebi, Chief Financial Officer

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

Irit Alroy, Executive Vice-President and CTO

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

Erez Nachtomy, Executive Vice-President

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

Eyal Lewin, Managing Director - 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 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
Haim Brosh	Israeli	Executive Vice President of Finance	2006-2008
Reuven Kaplan	Israeli	General Manager SHL Israel	2003-2008

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 Alroy Yoram Consulting and Management Ltd., an Israeli based company wholly owned by Mr. Yoram Alroy, (the "Service Provider"), pursuant to which the Service Provider, through Mr. Alroy exclusively, shall provide SHL with management and consulting services as the President of SHL. The 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 ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by Service Provider); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement. On November 30, 2005, Mr. Yariv Alroy's and Mr. Erez Alroy's employment agreements with SHL terminated. Following such termination, SHL entered into management services agreements with T.N.S.A Consulting and Management Ltd. and A.T.A.A Consulting and Management Ltd, Israeli based companies wholly owned by Mr. Yariv Alroy and Mr. Erez Alroy, respectively (each – a "Service Provider"; together - the "Service Providers"), pursuant to which the Service Providers, through each of Mr. Yariv Alroy and Mr. Erez Alroy, exclusively, shall provide SHL with management and consulting services as the CO-CEOs of SHL. The 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 ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by one of the Service Providers); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 31.

5. Compensation, Shareholdings and Loans

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

The goal of SHL's compensation scheme is to attract and retain qualified and motivated board members, senior executives and employees. SHL's Option Plans are reviewed regularly by the Board of Directors for compliance with the Company's compensation goals, and further to the first, 2000 Share Option Plan, new and revised Option Plans were adopted in 2002, 2003, 2004, and 2005 (for a full description of the Option Plans, please refer to the Section titled "Share Options", on page [ ]). SHL's current 2005 Option Plan is administered by the Compensation Committee, which may determine from time to time and subject to the provisions of the 2005 Option Plan, additional grantees of options under the plan and any matter related to the administration of the 2005 Option Plan. The Compensation Committee informs the Board of Directors of its decisions and recommendations with regard to the Option Plans. The vesting of options granted to a particular grantee pursuant to the 2005 Option Plan is, with regard to 50% of such options, subject to the achievement of performance goals with regard to the increase of the market price of SHL's shares, and, with regard to the other 50% of such options, subject to performance goals in connection with earnings per share figures.

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

Overall, the compensation of senior management in the year under review was comprised, on an average, approximately to 59 % of a cash base salary and 41% of cash bonuses, mainly related to the Philips Transaction consummated at the end of 2007 and paid at the beginning of 2008 (for more information on Philips Transaction and the restructuring in connection therewith, please refer to the Section titled "Group Structure" on page 14; for more information on senior management compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies" on page 31). The aggregate amount of cash bonuses paid to certain members of senior management, who are deemed controlling shareholders of the Company, in connection with the Philips Transaction was approved at a Special General Meeting of shareholders held in relation to the approval of the consummation of said transaction on November 27, 2007. Further to the aforementioned approval and authorization by the Shareholders General Meeting, the Audit Committee and the Board of Directors of the Company approved and authorized the allocation of the aggregate cash bonus amount among the relevant members of senior management, divided into a one-time cash bonus paid in 2007, and certain future bonus payments subject to the achievement of certain milestones in the years 2008 - 2010.

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

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

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

Responsibility and Procedure:

Pursuant to the Articles of Association the salaries and emoluments of the executives of SHL are determined by the Chief Executive Officers. Notwithstanding the aforesaid and except for limited circumstances provided for under regulations promulgated under the Israeli Companies Law, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment (including, except for the Independent Directors, the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, and the engagement of a controlling shareholder, or with any relative thereof, as an office holder or employee, require the approval of the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee, requires either (i) the majority vote in favor of the resolution shall include the consent of at least one-third of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than one percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

The grant of share options to employees, directors and consultants of SHL and its subsidiaries is in the sole discretion of the Board of Directors. Notwithstanding the aforesaid, should such options be granted to the directors or any of the controlling shareholders as part of their compensation, such grant shall require the approval of the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, the qualified majority described above with respect to the approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee is also required for the approval by the shareholders of the grant of share options to the controlling shareholders as part of their compensation.

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

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

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

Compensation for Acting Members of Governing Bodies

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which is payable to the executive members of the Board of Directors and the Senior Management amounted in the financial year 2008 to approximately USD 3,928 thousand of which USD 3,840 thousand to Senior Management and USD 89 thousand to non executive members of the Board of Directors.

None of the executive members of the Board of Directors received any compensation for their service as directors during the year under review.

The aforesaid compensation of Senior Management includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section 4.2 "Management Contracts" on page 28, and a one-time bonus paid to certain members of Senior Management who are deemed controlling Shareholders of SHL in connection with the Philips Transaction (for further information on the Philips Transaction, see the Section titled "Group Structure" on page 14; for further information on the bonuses approved in connection with the Philips Transaction, please refer to the Section titled "Content and Method of Determining the Compensation and of the Shareholding Programs" on page 29).

The compensation awarded to each member of the Board of Directors in 2008 is set forth separately in the table below.

Name	Function	Cash Compensation (in USD thousands)	No. of Share Options*
Yoram Alroy**	Executive member/President	26	-
Erez Alroy**	Executive member/Co-CEO	1,280 ****	-
Elon Shalev***	Non-executive member	19	-
Colin Schachat	Non-executive member	20	-
Ziv Carthy	Non-executive member	16	-
Nehama Ronen	Non-executive member/ Independent director	20	-
Nissim Zvili	Non-executive member/ Independent director	14	18,000

* The exercise price of the Options granted is 8.30 CHF

** Represents compensation for function as member of Senior Management.

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

**** Includes a one-time bonus paid to Mr. Erez Alroy in connection with the Philips Transaction (for further information on the Philips Transaction, see the Section titled "Group Structure" on page 14; for further information on the bonuses approved in connection with the Philips Transaction, please refer to the Section titled "Content and Method of Determining the Compensation and of the Shareholding Programs" on page 29).

In May 2005, as a result of a change in the Israeli Companies Law, the shareholders adopted the recommendations of the Audit Committee and the Board of Directors and approved (i) the renewal and/or purchase of insurance policy of all directors and officers, in office from time to time, in a total coverage of up to USD 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. The company currently maintains insurance coverage for its officers and directors with a total coverage of USD 10 M, with an additional coverage for legal expenses solely in Israel of up to an aggregate of USD 2 M.

Compensation for Former Members of Governing Bodies

Two non-executive directors, Ron Salpeter and Monty Hilkowitz, gave up their functions during the year under review. The total compensation paid to Ron Salpeter based on his former service as a member of the Board of Directors amounted to USD 5 thousand and such compensation to Monty Hilkowitz amounted to USD 6 thousand.

In the financial year 2008, total compensation including severance and other payments with regard to termination of employment of Haim Brosh, the Company's former

Executive Vice-President of Finance amounted to USD 222 thousand and with regard to Reuven Kaplan the former General Manager – SHL Israel, such compensation amounted to USD 101 thousand.

Share Allotment in the Year Under Review

No Ordinary Shares of SHL were allotted to the executive or to the non-executive members of the Board of Directors, or to the Management or parties closely linked to any such person during the year under review, except for Ordinary Shares issued pursuant to the exercise of Options previously allotted. For information on option allotments to directors, please refer to the Section entitled "Compensation for Acting Members of Governing Bodies" on page 31.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2007 by the executive members of the Board of Directors and Senior Management and parties closely linked to such persons amounted in aggregate to 1,973,407

Elon Shalev, a non-executive member of the Board of Directors is a member of the Alroy Group. The Alroy Group holds, as of December 31, 2008, an aggregate of 1,973,407 Ordinary Shares For information regarding the shareholdings of the Alroy Group, please refer to the Section entitled "Significant Shareholders" on page 16.

Ziv Carthy, a non-executive member of the Board of Director is a controlling shareholder of G.Z. Assets and Management Ltd., which holds, as of December 31, 2008, 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, 2008, Ordinary Shares.

Share Options

Information with regard to Options held pursuant to the Option Plans as of December 31, 2008 by the non-executive and executive members of the Board of Directors and Senior Management and parties closely linked to such persons is as follows:

Name	Function	Share Options	Of which vested
Yoram Alroy	Chairman of the Board of Directors and President	32,560	32,560
Erez Alroy	Co-CEO	60,664	60,664
Elon Shalev	Non-executive member	-	-
Colin Schachat	Non-executive member	18,000	6,000
Ziv Carthy	Non-executive member	-	-
Nehama Ronen	Non-executive member/ Independent director	18,000	-
Nissim Zvili	Non-executive member/ Independent director	18,000	-
Yariv Alroy	Co-CEO	90,904	90,904
Eran Antebi	CFO	28,500	3,500
Erez Nachtomi	Executive vice president	50,661	40,661
Irit Alroy	Executive Vice President and CTO	29,118	29,118
Eyal Lewin	Managing Director – PHTS Germany	30,656	30,656
Arie Roth	Chief Medical Manager	5,760	5,760

The weighted average exercise price of the Options is 4.59 CHF

For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 17 above.

In 2008 SHL approved the grant of 25,000 options to Senior Management, under the 2005 Key Employee Share Option Plan. The exercise price of such options granted is 8.30 CHF, which reflected the market price on the date of each grant.

As to Option grants to members of the Board of Directors see Section "Compensation for Acting Members of Governing Bodies" on page 31.

As of December 31, 2008 parties closely linked to the non-executive members of the Board of Directors hold 1,413 Options with an exercise price of CHF 5.90 each, pursuant to the Option Plans. This includes 901 Options held by Neomi Weinstock, Yoram Alroy's sister-in-law and 512 Options held by Oded Partom, Iki Alroy's brother.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2008 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. For Mr. Elon Shalev's remuneration for his service as a director of the Company, please refer to the Section titled "Compensation for Acting Members of Governing Bodies" on page Ms. Irit Alroy, wife of Mr. Yariv Alroy, is engaged by the Company as the Company's Chief Technology Officer pursuant to a market standard employment agreement. In addition two (2) further persons closely linked to the members of the Board of Directors and the Management are employees of SHL, with market standard employment agreements. Total remuneration in the year under review to these three employees amounted to approximately USD 211 thousand

Loan Granted to Governing Bodies

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

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

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 a member of a governing body of the Company was paid to the Company's Co-CEO, Mr. Erez Alroy, and amounted in the year under review to approximately USD 1,280 thousand, see also Section "Compensation for Acting Members of Governing Bodies" on page 31 above .Except for Ordinary Shares issued to Mr. Erez Alroy pursuant to the exercise of Options previously held by him, SHL has neither issued any Ordinary Shares nor any Options to purchase Ordinary Shares to Mr. Erez Alroy during the financial year 2008.

6. Shareholders' Participation

6.1 Voting Rights' Restrictions and Representation Restrictions

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

Under SHL's Articles of Association all resolutions submitted to the shareholders, unless provided for otherwise in the Articles of Association or under any applicable law, shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon. For resolutions that require special majority, see Section "Statutory Quorums" on page 33.

6.2 Statutory Quorums

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

6.3 Convocation of the General Meeting of Shareholders

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

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

In addition, SHL and SAG will, pursuant to an agreement between SHL and SAG, take all necessary steps to ensure that notices will be sent to the persons registered in the SAG Register. Pursuant to the Israeli Companies Law, the notice of the General Meeting shall include the agenda.

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

6.4 Agenda

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

6.5 Registration in the Share Register

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

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

Pursuant to the applicable provisions of the Swiss Stock Exchange Act any person who by acquiring exceeds the threshold of thirty-three and one third (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.

7.2 Clauses on Changes of Control

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

8.Auditors

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

Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent resolution. SHL's auditors were last re-appointed at the 2008 Annual General Meeting.

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

8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2008 approximately USD 548 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group.

8.3

In addition, Ernst & Young charged approximately USD 482 thousand for additional services performed for the SHL Group in the field of management consulting, tax advice, due diligence and other auditing activities. The aforesaid sums include payments made to other member firms of Ernst & Young outside of Israel.

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

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

9. Information Policy

SHL is committed to a policy of open and effective communications with customers, partners, shareholders and staff alike. SHL's investor relations program features regular publication of relevant information for the benefit of the public and the capital markets. SHL publishes price-sensitive information in accordance with the obligation to disclose price-sensitive facts (ad-hoc publicity) as required by the 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.shahal.co.il**.

Investor's calendar

Annual general meeting	May 26, 2009
Q1 Results	May 13, 2009
Q2 Results	July 29, 2009
Q3 Results	November 11, 2009

Contact persons for Investor Relations

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Consolidated Financial Statements 2008

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Financial Overview

General

2008 is marked by the strong growth achieved in SHL's German operation, which reached profitability for the first time after substantial investments made over the years. This growth is the main driver leading to the significant improvement in the overall financial performance of 2008.

Highlights

- Continued rapid growth achieved in SHL's German operation, despite challenging economical environments
  - Expansion of subscriber base led to 77% top line growth.
  - Reached profitability for the first time.
  - Generating cash.
- Israel business with steady growth and solid financial performance.
- FDA approval received for CardioSen'C, the world's first personal cellular-digital 12-lead ECG transmitter launched at the end of 2007.

Business segments:

Until November 2007, the Company and its subsidiaries operated in two business segments – Telemedicine Services and Medical Services. During 2007 SHL completed the discontinuation and divesture of its remaining imaging centers in the US, and sold other ancillary operations to Royal Philips Electronics. As a result, SHL ceased its operations in the Medical Services business segment at the end of 2007.

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.

Results of Operations

SHL's financial results for 2008 do not include the results of operations of Raytel sold at November 30, 2007.

Revenues

Revenues in 2008 amounted to USD 44.6 million compared to revenues of USD 62.1 million in 2007 (USD 27.5 million excluding the operations of Raytel).

Revenues from the German operations increased by 77 % to USD 15.8 million up from USD 8.9 million in 2007 with the Israeli operations reporting revenues of USD 21.8 million (USD 18.6 million in 2007) and an additional USD 7.0 million from the delivery of IT platform and related services to Philips/Raytel.

Gross profit

Gross margins improved considerably to 64.9% up from 52.4% bringing gross profit to USD 28.9 million compared to USD 32.6 million in 2007 (USD 15.4 million excluding the operations of Raytel).

Research and Development costs, net

R&D costs, net amounted to USD 1.0 million compared to USD 2.6 million in 2007 (included an impairment charge of USD 1.4 million). R&D expenses before capitalization and amortization amounted to USD 1.7 million and USD 1.5 million for 2008 and 2007, respectively.

Selling and Marketing Expenses

Selling and marketing expenses amounted to USD 12.2 million in 2008, 27.3% of revenues compared to USD 12.6 million or 20.3 % of revenues in 2007 (USD 9.7 million excluding the operations of Raytel).

General and Administrative Expenses

G&A expenses amounted to USD 11.5 million in 2008, 25.9% of revenues compared to USD 27.5 million or 44% of revenues in 2007 (USD 12.4 million excluding the operations of Raytel).

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Earnings/Loss Before Interest and Taxes (EBIT/LBIT)

EBITDA for the year amounted to USD 9.1 million (20.5% of revenues) compared to an LBITDA of USD 1.6 million in 2007 (LBITDA of USD 3.5 million excluding the operations of Raytel) with EBIT amounting to USD 4.2 million (9.5% of revenues) compared to an LBIT of USD 10.1 million in 2007 (LBIT of USD 9.3 million excluding the operations of Raytel).

Financial Expenses

Financial expenses, net, for the year amounted to USD 4.4 million compared to USD 3.2 million in 2007. The increased financial expenses are related to the placing of the proceeds of some USD 100 million received from the sale of Raytel during the first quarter of the year, which due to the significant devaluation of the USD against the NIS resulted in one time exchange rate losses of some USD 4.1 million. Excluding this one time charge, the Company would have recorded financial expenses of only USD 0.3 million. This considerable improvement results from the Company's significantly improved cash position and repayment of debt after the Raytel deal at the end of 2007.

Other Income (expenses), net

Other income (expenses), net amounted to USD (1.1) million in 2008 compared to USD 43.5 million in 2007, which included the capital gain from the sale of Raytel.

Taxes on Income

Tax benefit for the year amounted to USD 3.5 million, and is mainly related to an additional tax asset recorded, based on the assumption that the Company is now generating sufficient taxable income to utilize this previously unrecorded tax asset.

Tax expenses in 2007 amounted to USD 6.5 million of which USD 3.5 million was related to the capital gain recorded from the Raytel sale.

Net Income from Continuing Operations

SHL's net income from continuing operations amounted to USD 2.2 million compared to a net income of USD 23.7 million in 2007, of which USD 39.3 was related to the capital gain, net of taxes due to the Raytel sale.

Discontinued Operations

In 2007 SHL discontinued the operations of its medical services business segment which is categorized as discontinued operations and recorded from the medical services business segment a net gain of USD 4.0 million.

Net Income

Net income for the year amounted to USD 2.2 million (USD 0.21 per share) compared to a net income of USD 27.6 million (USD 2.20 per share) in 2007, of which USD 39.3 was related to the capital gain, net of taxes due to the Raytel sale.

Major Changes in Assets, Liabilities and Equity

SHL's balance sheet remained strong.

The proceeds received from the Raytel transaction in late 2007, were used mainly to repay all outstanding debt of some USD 52.3 million. This has resulted in a much leaner and healthier balance sheet with current assets amounting at year end to USD 30.7 million of which USD 23.5 million is cash, cash equivalents and available-for-sale investments against current and long-term liabilities of USD 22.8 million. This is compared with current assets of USD 91.6 million in 2007 of which USD 84.6 million was in cash, cash equivalents and short-term investments against current and long-term liabilities of USD 83.7 million.

SHL's long-term assets remained steady and amounted to USD 18.5 million compared with USD 20.4 million at the end of 2007.

Fixed assets, net amounted to USD 15.3 million, of which USD 11.1 million are devices on loan to subscribers, compared with USD 15.6 million in 2007. Intangible assets amounted to USD 17.3 million compared with USD 16.5 million in 2007.

Total equity at December 31, 2008 amounted to USD 59.1 million compared to USD 60.5 million at December 31, 2007. Changes in SHL's equity are mainly due to the distribution of dividend in April 2008 in the amount of USD 4 million, the repurchase of SHL shares in the amount of USD 1.1 million offset by the net income from operations.

Cash Flow

Cash flow used in operations amounted to USD 7.6 million. Our operating cash flow was negatively affected by the one-time exchange rate losses of some USD 4.7 million and remaining payments related to the Raytel sale of some USD 3.3, all in the first quarter of 2008. Since then SHL has generated cash from its operations.

The Company invested during the year in fixed and intangible assets USD 5.2 million compared with USD 5.9 million in 2007. In addition, with most of its remaining funds after debt repayment the Company purchased available-for-sale investments in a net amount of USD 17.1 million.

During the year the Company used USD 57.2 million for financing activities, of which USD 52.3 million was used for repayment of debt, USD 4 million for dividend paid and USD 1.1 million for the repurchase of SHL shares.

Eran Antebi,
Chief Financial Officer

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

We have audited the accompanying financial statements of SHL Telemedicine Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2008 and 2007, 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 audit 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, 2008 and 2007, 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 18, 2009

Kost Forer Gabbay and Kasierer

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2008	2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	3,265	84,546
Available for sale investments	6	20,210	-
Trade receivables	7	3,558	2,641
Prepaid expenses	9	2,065	2,066
Income tax receivable		590	514
Other accounts receivable	10	422	1,277
Inventory		600	601
		30,710	**91,645**
NON CURRENT ASSETS:			
Trade receivables	8	2,782	3,385
Prepaid expenses	9	5,541	5,916
Investment in associate		-	59
Long-term deposits	11	117	4,363
Deferred taxes	22d	10,049	6,717
		18,489	**20,440**
FIXED ASSETS:	12		
Cost		45,820	42,316
Less - accumulated depreciation		30,531	26,689
		15,289	**15,627**
INTANGIBLE ASSETS	13	**17,337**	**16,451**
Total assets		**81,825**	**144,163**

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2008	December 31, 2007
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	14	583	42,422
Deferred revenues	15	6,747	10,548
Trade payables		1,502	1,998
Income tax payable		2,776	2,826
Other accounts payable	16	6,718	9,797
		18,326	67,591
NON CURRENT LIABILITIES:			
Loans from banks	17	-	7,649
Provisions	19	1,422	2,194
Accrued severance pay	20	777	452
Deferred revenues	15	1,895	5,435
Deferred taxes	22d	332	346
		4,426	16,076
COMMITMENTS AND CONTINGENT LIABILITIES	24		
Total liabilities		**22,752**	**83,667**
EQUITY:	25		
Equity attributable to equity holders of the Company			
Issued capital		31	31
Additional paid-in capital		92,738	92,295
Treasury shares at cost		(1,405)	(269)
Foreign currency translation reserve		1,026	(120)
Net urealized gain reserve		(66)	-
Accumulated deficit		(33,251)	(31,529)
		59,073	60,408
Minority interests		-	88
Total equity		**59,073**	**60,496**
Total liabilities and equity		**81,825**	**144,163**

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

March 18, 2009		
Date of approval of the financial statements	Yariv Alroy Co - CEO	Yoram Alroy Chairman of the Board of Directors and President

CONSOLIDATED STATEMENTS OF INCOME U.S. dollars in thousands (except per share data)

	Note	Year ended December 31, 2008	2007
Continuing operations:			
Revenues		44,554	62,124
Depreciation and amortization		2,831	5,244
Cost of revenues	26a	12,791	24,330
Gross profit		28,932	32,550
Research and development costs, net	26b	1,003	2,550
Selling and marketing expenses	26c	12,160	12,610
General and administrative expenses	26d	11,527	*) 27,534
Operating profit (loss)		4,242	(10,144)
Financial income	26e(1)	8,198	4,758
Financial expenses	26e(2)	(12,608)	(7,988)
Other income (expenses), net	26f	(1,062)	43,524
Profit (loss) before taxes on income		(1,230)	30,150
Taxes on income (tax benefit)	22c	(3,463)	6,497
Profit from continuing operations		2,233	23,653
Discontinued operations:			
Profit from discontinued operations	4	-	3,981
Net profit		**2,233**	**27,634**
Attributable to:			
Equity holders of the Company		2,233	23,375
Minority interest		-	4,259
		2,233	**27,634**
Earnings per share	27		
Basic profit for the year attributable to ordinary equity holders of the Company		0.21	2.20
Diluted profit for the year attributable to ordinary equity holders of the Company		0.21	2.16
Earnings per share for continuing operations			
Basic profit for continuing operations attributable to ordinary equity holders of the Company		0.21	1.83
Diluted profit for continuing operations attributable to ordinary equity holders of the Company		0.21	1.79

*) Includes one-time expenses related to the sale of Raytel - see Note 3.

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

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

	Attributable to equity holders of the Company									
	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Net unrealized gain reserves	Accumulated deficit	Total	Minority interest	Total equity	Total recognized income (expenses)
Balance at January 1, 2007	**31**	**92,006**	**(269)**	**(7,773)**	**-**	**(54,904)**	**29,091**	**715**	**29,806**	
Exercise of options	*)	52	-	-	-	-	52	-	52	
Share-based payments	-	237	-	-	-	-	237	-	237	
Currency translation differences	-	-	-	7,653	-	-	7,653	-	7,653	7,653
Distribution to minority interest	-	-	-	-	-	-	-	(4,754)	(4,754)	
Change in equity of minority interest	-	-	-	-	-	-	-	(132)	(132)	
Net profit	-	-	-	-	-	23,375	23,375	4,259	27,634	27,634
										35,287
Balance at December 31, 2007	**31**	**92,295**	**(269)**	**(120)**	**-**	**(31,529)**	**60,408**	**88**	**60,496**	
Dividend paid (Note 25e)	-	-	-	-	-	(3,955)	(3,955)	-	(3,955)	-
Treasury shares	-	-	(1,136)	-	-	-	(1,136)	-	(1,136)	-
Net loss on available-for-sale financial investments	-	-	-	-	(66)	-	(66)	-	(66)	(66)
Exercise of options	*)	260	-	-	-	-	260	-	260	-
Share-based payments	-	183	-	-	-	-	183	-	183	-
Currency translation differences	-	-	-	1,146	-	-	1,146	-	1,146	1,146
Change in equity of minority interest	-	-	-	-	-	-	-	(88)	(88)	-
Net profit	-	-	-	-	-	2,233	2,233	-	2,233	2,233
										3,313
Balance at December 31, 2008	**31**	**92,738**	**(1,405)**	**1,026**	**(66)**	**(33,251)**	**59,073**	**-**	**59,073**	

*) Represent an amount of less than $1.

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

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

	Year ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net profit	2,233	27,634
Adjustments required to reconcile profit to net cash used in operating activities (a)	(9,783)	(29,435)
Net cash used in operating activities	(7,550)	(1,801)
Cash flows from investing activities:		
Purchase of fixed assets	(3,595)	(4,524)
Cash received (refunded) upon sale of subsidiaries (b)	(488)	107,283
Investment in intangible assets	(1,654)	(1,388)
Proceeds from sale of fixed assets	46	199
Marketable securities, net	-	2,884
Purchase of available-for-sale investments	(69,433)	-
Proceeds from sale of long-term deposits	4,200	
Proceeds from sale of available-for-sale investments	48,100	-
Net cash provided by (used in) investing activities	(22,824)	104,454
Cash flows from financing activities:		
Proceeds from exercise of options	260	52
Proceeds from long-term loans from banks and others	-	14,833
Repayment of long-term loans from banks and others	(29,834)	(37,239)
Short-term bank credit, net	(22,440)	(519)
Distributions to minority interest	(88)	(4,886)
Treasury shares purchased	(1,136)	-
Dividend paid	(3,955)	-
Net cash used in financing activities	(57,193)	(27,759)
Effect of exchange rate changes on cash and cash equivalents	6,286	(26)
Increase (decrease) in cash and cash equivalents	(81,281)	74,868
Cash and cash equivalents at the beginning of the year	84,546	9,678
Cash and cash equivalents at the end of the year	**3,265**	**84,546**

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

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

	Year ended December 31, 2008	2007
(a) Adjustments required to reconcile profit to net cash used in operating activities:		
Income and expenses not involving operating cash flows:		
Gain on sale of subsidiary	-	(48,248)
Loss from sale price adjustments	488	
Depreciation, amortization and impairment	4,834	8,730
Deferred taxes, net	(3,468)	920
Loss (gain) on disposal of fixed assets	(44)	14
Accrued severance pay	339	(350)
Exchange rate and linkage differences on principal of long-term liabilities, net	(695)	(270)
Realized gain on available-for-sale investments	(153)	-
Exchange rate differences on short-term and long-term deposits, net	434	(2)
Cost of share-based payments	183	237
Others	59	-
	1,977	**(38,969)**
Changes in operating assets and liabilities:		
Decrease (increase) in short and long-term trade receivables, net	(302)	5,048
Decrease in prepaid expenses	493	1,337
Decrease (increase) in other accounts receivable	828	(1,039)
Decrease in inventory	8	59
Increase (decrease) in trade payables	(541)	149
Decrease in deferred revenues	(7,974)	(1,792)
Increase (decrease) in short and long-term other payables	(4,272)	5,772
	(11,760)	9,534
	(9,783)	**(29,435)**
(b) Net cash received upon sale of businesses (Note 3 and 4):		
Working capital (excluding cash and cash equivalents)	-	14,810
Fixed assets, net	-	7,789
Intangible assets, net	-	31,737
Long-term liabilities	-	(5,718)
Gain on sale	-	48,248
Sale price adjustments	(488)	-
Currency translation differences	-	10,367
	(488)	**107,283**
(c) Supplemental disclosure of cash flows activities:		
Interest received	**1,018**	**625**
Interest paid	**1,238**	**4,477**
Income taxes paid	**127**	**4,156**

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

The Company completed on November 30, 2007, the sale of Raytel Cardiac Services and other ancillary operations in the U.S. ("Raytel") to Royal Philips Electronics ("Philips") (the "Transaction"), an 18.6 % shareholder in the Company, following the approval of the Transaction by a Special General Meeting of the Company's shareholders on November 27, 2007 (see Note 3).

During 2007 the Company completed the discontinuation and divesture of its remaining imaging centers in the US (see Note 4) and has sold other ancillary operations to Philips and as a result has ceased its operations in the medical services business segment which is classified as discontinued operations (see Note 28).

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

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. Accounting policies:

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

c. Significant accounting judgments, estimates and assumptions:

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

1. Impairment of non-financial assets:

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

2. Share-based payments:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 25c.

3. Deferred tax assets:

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 22.

4. Development costs are capitalized in accordance with the accounting policy in Note 2n. 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.

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

The majority of the Company's revenues from the operations in Israel are received in New Israeli Shekels ("NIS") and the majority of the costs are paid in NIS, thus the NIS is the currency of the primary economic environment of the Company and therefore its functional currency is the NIS.

The Company has selected the U.S. dollar as the presentation currency in the consolidated financial statements. The Company believes that most of the users of its financial statements are more familiar with the U.S. dollar, than the NIS.

Because the presentation currency is the U.S. dollar, the financial statements of the Company and of subsidiaries whose functional currencies is the NIS or Euro have been translated from the functional currency to the presentation currency, in accordance with the following principles set forth in IAS 21 "The Effects of Changes in Foreign Exchange Rates", as follows:

Assets and liabilities are translated into U.S. dollars at the closing rate at the date of each balance sheet. Income and expenses are translated at average monthly exchange rates for the periods presented.

Share capital, additional paid-in capital and treasury shares are translated into U.S. dollars using the exchange rate at the date of the transaction.

The exchange differences resulting from the translation are reorgenigzed as a separate component of equity.

e. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances between the Company and its subsidiaries are eliminated in consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Acquisition of subsidiaries is accounted for using the purchase method of accounting.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

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

f. Business combinations and goodwill:

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

g. Investment in associate:

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

h. Cash and cash equivalents:

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

i. Inventory:

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

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

j. Trade receivables:

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

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

k. Financial instruments:

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, 2008, all marketable securities of the Group are classified as available-for-sale. Available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in the statement of operations.

l. Prepaid expenses:

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

m. Fixed assets:

1. Fixed assets are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earning.

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

n. Intangible assets:

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

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

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

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

o. Impairment of assets:

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

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

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

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

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

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

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

p. Deferred taxes:

1. Deferred taxes are provided using the liability method for temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

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

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

q. Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

r. Treasury shares:

The cost of shares held by the Company is presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the statement of operations on the purchase, sale, issue or cancellation of the Group's own equity instruments.

s. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from services and sales of devices are recognized ratably over the estimated average service period of subscriber contracts (eight years), as adjusted for cancellations.

A consideration received for services not yet performed as of balance sheet date, is recorded as deferred revenue, which is recognized as the services are performed.

Revenues from the sale of IT platform modules and related services are recognized as the services and modules are delivered.

Interest income is recognized as the interest accrues.

t. 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, 2008.

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	Exchange rate of CHF 1
	Points *)	NIS	NIS	NIS
December 31, 2008	198.4	5.30	3.80	3.56
December 31, 2007	191.1	5.66	3.85	3.42
December 31, 2006	184.9	5.56	4.23	3.47

Change during the year	%	%	%	%
2008	3.8	(6.4)	(1.1)	4.1
2007	3.4	1.7	(9.0)	(1.3)

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

u. Earnings per share:

Basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings 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.

v. Accrued severance pay:

The Company operates a defined benefit plan for severance pay pursuant to Israel's 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.

w. 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 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 25c.

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

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as 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 recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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

x. IFRS and IFRIC Interpretations not yet effective:

IAS 1 (Revised), "Presentation of Financial Statements":

The revised IAS 1, "Presentation of Financial Statements", was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together will all other items of recognized income and expense, either in one single statement, or in two linked statements.

The effect of the adoption of IAS 1 (Revised) will require the Company to disclose the above items in the financial statements.

IFRS 3 (Revised), "Business Combinations" and IAS 27 (Revised) Consolidated and Separate Financial Statements:

The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on a goodwill, nor will it give rise to a gain or loss.

Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

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

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

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

NOTE 3 | SALE OF SUBSIDIARY

The Company completed on November 30, 2007, the sale of Raytel Cardiac Services and other ancillary operations in the U.S. ("Raytel") to Royal Philips Electronics ("Philips") (the "Transaction"), an 18.6 % shareholder of the Company, following the approval of the Transaction by a Special General Meeting of the Company's shareholders on November 27, 2007.

The Transaction consisted of the sale of 100% of Raytel's stock, the granting to Philips (Raytel) of an exclusive license for the North American market to use the Company's IT platform to provide current and future services by Philips (Raytel) in the North American market, and the future sale of the Company's proprietary telemedicine devices to Philips (Raytel) in the North American market. At the closing of the Transaction, and subject to final immaterial purchase price adjustments, the Company received cash in the amount of $ 103,594, in addition to a debt assumption by Philips of Raytel's debt in the amount of about $ 6,500. In addition, the

Company is entitled to receive additional payments during the years 2008-2016, subject to milestones and conditions related to revenues derived by Philips (Raytel) from certain current and future services provided in the North American market, with guaranteed minimum payments of $ 13,000 by the end of 2012.

The total amount of the cash and future guaranteed payments (discounted to their present value of $ 11,485) was allocated between the different elements included in the Transaction based on their relative fair values, as determined by an independent valuation expert. The fair value allocated to the Raytel business sold and those parts of the exclusively licensed IT platform already delivered to Philips (Raytel) amounted to $ 92,059, which resulted in a gain to the Company, in an amount of $ 42,789 ($ 39,263, net of income taxes) which is included in “other income (expenses)”. The fair value allocated to the other elements included in the Transaction of $ 23,020 will be recognized as the software and business processes are delivered. Commencing in 2008, the revenues from these services comprise the Company's operations in the United States (see Note 28).

The Group ceased consolidating Raytel's results of operations as of November 30, 2007.

In 2008, the Company repaid Philips $ 488, in respect of certain sales price adjustments, pursuant to the agreement for the sale of Raytel.

NOTE 4 | DISCONTINUED OPERATIONS

During 2007, the Company completed the discontinuation and divesture of its remaining imaging centers in the U.S., and sold other ancillary operations to Philips (see Note 1b). As a result, these operations have been reported as discontinued operations.

The results of the discontinued operations are presented below:

	Year ended December 31,
	2007
Revenues	18,579
Cost of revenues	(12,967)
Selling, general and administrative	(5,973)
Other expenses	(366)
Gain on sale	5,459
Profit before tax from discontinued operations	4,732
Income taxes	(751)
Profit	3,981

The net cash flows of discontinued operations are as follows:

	Year ended December 31,
	2007
Operating cash flows	926
Investing cash flows	6,761
Financing cash flows	(7,224)
Net cash in flows	463

NOTE 5 | CASH AND CASH EQUIVALENTS

	December 31,	
	2008	2007
Cash in banks	2,359	2,356
Short-term deposits	726	82,190
	3,265	**84,546**

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates (weighted average rate at December 31, 2008 and 2007 is 1.43% and 4.65%, respectively).

NOTE 6 | AVAILABLE-FOR-SALE INVESTMENTS

	December 31,	
	2008	2007
Marketable securities:		
Corporate debentures - in Euros	209	-
Corporate debentures - in U.S. dollars	5,624	-
Corporate debentures - in NIS	2,616	-
Government debentures - in NIS	11,761	-
	20,210	-

The fair value of the quoted marketable securities is determined by reference to published price quotations in an active market.

NOTE 7 | TRADE RECEIVABLES

a. Composition:

	Year ended December 31, 2008	2007
Gross amount *)	5,242	4,190
Less - allowance for doubtful accounts	2,456	2,456
	2,786	**1,734**
Current maturities of long-term receivables	772	907
	3,558	**2,641**

*) Trade receivables are non-interest bearing and are generally for up to 60 day terms.

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

	Collectively impaired
At January 1, 2007	19,797
Charge for the year	2,438
Utilized	(11,731)
Allowance in respect of subsidiary sold	(8,048)
At December 31, 2008 and 2007	**2,456**

c. The net trade receivables amounts of 2008 and 2007 represent amounts neither past due nor impaired.

NOTE 8 | LONG-TERM TRADE RECEIVABLES

	December 31, 2008	2007
Gross amounts (1)	26,629	37,941
Less - deferred revenues	23,075	33,649
	3,554	4,292
Less - current maturities	772	907
	2,782	**3,385**

(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 9 | PREPAID EXPENSES

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

	December 31, 2008	2007
First year prepaid expenses - short-term	2,065	2,066
Second year	1,734	1,648
Third year	1,505	1,499
Fourth year	965	1,205
Fifth year	638	824
Thereafter	699	740
Prepaid expenses - long-term	5,541	5,916
Total prepaid expenses	**7,606**	**7,982**

NOTE 10 | OTHER ACCOUNTS RECEIVABLE

	December 31, 2008	2007
Government authorities	6	722
Employees	74	52
Interest receivable	238	-
Others	104	503
	422	**1,277**

NOTE 11 | LONG-TERM DEPOSITS

	December 31, 2008	2007
Structured deposit	-	2,000
Structured deposit	-	2,200
Bank deposit (1)	117	163
	117	**4,363**

(1) In Euro and bears interest at the annual rate of 2.3%.

NOTE 12 | 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, 2007	11,726	13,353	823	1,374	2,106	24,413	53,795
Additions during the year	2,107	905	70	262	35	1,145	4,524
Disposals during the year	(7,482)	(10,697)	(215)	(189)	(1,137)	-	(19,720)
Currency translation differences	516	347	67	144	99	2,544	3,717
Balance at December 31, 2007	6,867	3,908	745	1,591	1,103	28,102	42,316
Additions during the year	1,596	181	114	122	162	1,420	3,595
Disposals during the year	-	-	-	(226)	-	-	(226)
Currency translation differences	(99)	35	2	25	4	168	135
Balance at December 31, 2008	**8,364**	**4,124**	**861**	**1,512**	**1,269**	**29,690**	**45,820**
Accumulated depreciation:							
Balance at January 1, 2007	8,520	6,066	430	782	1,170	13,166	30,134
Additions during the year	1,853	2,183	175	157	199	1,708	6,275
Disposals during the year	(5,471)	(5,318)	(268)	(189)	(734)	-	(11,980)
Currency translation differences	418	278	33	78	60	1,393	2,260
Balance at December 31, 2007	5,320	3,209	370	828	695	16,267	26,689
Additions during the year	938	441	50	236	112	2,142	3,919
Disposals during the year	-	-	-	(224)	-	-	(224)
Currency translation differences	(40)	12	2	9	2	162	147
Balance at December 31, 2008	6,218	3,662	422	849	809	18,571	30,531
Depreciated cost at December 31, 2008	2,146	462	439	663	460	11,119	15,289
Depreciated cost at December 31, 2007	**1,547**	**699**	**375**	**763**	**408**	**11,835**	**15,627**

As for charges, see Note 24.

NOTE 13 | INTANGIBLE ASSETS, NET

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

The recoverable amount of the telemdicine operations in Germany to which the goodwill relates has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.
The pre-tax discount rate applied to cash flow projections is 17% (2007:17%) and cash flow beyond the 5 year period are extrapolated using a 1% growth rate (2007:1%).

NOTE 14 | SHORT-TERM CREDIT FROM BANKS AND CURRENT MATURITIES OF LONG-TERM LOANS

	Interest rate	December 31,	
	%	2008	2007
Credit from banks:			
NIS - unlinked	Prime (1)+0.2	526	19,240
U.S. dollars	Libor (2)+0.6	-	2,200
CHF		57	-
Current maturities of long-term loans (see Note 16)		-	20,982
		583	**42,422**

(1) The Prime rate as of December 31, 2008 - 4.00% (December 31, 2007 - 5.75%).
(2) Three-month Libor as of December 31, 2007 – 5.13%.

As for collateral, see Note 24a.

NOTE 15 | DEFERRED REVENUES

	December 31,	
	2008	2007
At Janaury 1	49,632	48,235
Deferred during the year	16,112	19,159
Released to the statement of income	(30,110)	(16,737)
Cancelled	(4,505)	(5,595)
Currency translation differences	588	4,570
At December 31	31,717	49,632
Offset from trade receivables (Note 8)	23,075	33,649
	8,642	**15,983**
Current	6,747	10,548
Non-current	1,895	5,435
	8,642	**15,983**

NOTE 16 | OTHER ACCOUNTS PAYABLE

	December 31,	
	2008	2007
Employees and payroll accruals	1,422	1,448
Accrued expenses	2,389	6,660
Government authorities	186	84
Former Raytel shareholders	384	384
Future participation rights - current portion (Note 19)	2,146	1,167
Other	191	54
	6,718	**9,797**

NOTE 17 | LONG-TERM LOANS FROM BANKS

a. Composed as follows:

	Average interest rate 2007	December 31,
	%	2007
Loans from banks:		
NIS - unlinked	NIS Prime (1) + 0.44	7,807
NIS - linked to Israel's CPI	5.75	4,327
U.S. dollars	Libor(2) + 1.63	6,206
CHF	4.745	9,510
Promissory notes - U.S. dollars	Libor(2)+1.95	781
		28,631
Less - current maturities		**20,982**
		7,649

(1) The NIS Prime rate as of December 31, 2007 - 5.75%.

(2) Three month Libor as of December 31, 2007 - 5.13%.

b. The long-term loans are repayable in future years, based on contractual undiscounted payments (including interest), as follows:

	December 31,	
	2008	2007
First year	-	22,338
Second year	-	2,634
Third year	-	2,134
Fourth year	-	1,442
Fifth year	-	836
Thereafter	-	1,691

c. The Company was required to meet certain financial covenants, such as equity financial ratios and amounts. As of December 31, 2007 was in compliance with all such requirements.

d. As for collateral, see Note 24a.

NOTE 18 | FINANCIAL INSTRUMENTS

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

It is, and has been throughout 2008 and 2007, the Group's policy that no trading in derivatives shall be undertaken.

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

a. Interest rate risk:

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

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

b. Concentration of credit risks:

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

The Company's trade receivables are mainly derived from sales to customers in Israel, Germany 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.

c. Foreign currency risk:

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

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

	Increase/ decrease in exchange rates	Effect on profit before tax
2008	+10%	742
	-10%	(742)
2007	+10%	7,719
	-10%	(7,719)

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

	Increase/ decrease in exchange rates	Effect on profit before tax
2008	+5%	3
	-5%	(3)
2007	+5%	(472)
	-5%	472

d. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments 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.

In 2007 the fair value of long-term bank loans also approximate the carrying value, as these loans bear interest in mainly variable rates.

e. Liquidity risk:

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

See Note 17b for a summary of the maturity profile of the Group's long-term financial liabilities.

f. Capital management:

The Company's capital management objectives are:

1. To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.
2. To ensure adequate return for the shareholders by pricing of products and services that is adjusted to the level of risk in the Group's business activity.

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

g. 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	NIS	Total
December 31, 2008						
Assets:						
Cash and cash equivalents	1,798	59	840	-	568	3,265
Available for sale investments	5,623	-	209	-	14,378	20,210
Trade receivables	-	-	1,850	3,554	936	6,340
Other accounts receivable	3	-	31	590	388	1,012
Long-term deposits	-	-	117	-	-	117
	7,424	**59**	**3,047**	**4,144**	**16,270**	**30,944**
Liabilities:						
Credit from banks and others	-	57	-	-	526	583
Trade payables	-	-	415	-	1,087	1,502
Income tax payable					2,776	2,776
Short and long-term other accounts payable	584	-	3,252	-	2,882	6,718
Accrued severance pay	-	-	86	-	691	777
	584	**57**	**3,753**	**-**	**7,962**	**12,356**
December 31, 2007						
Assets:						
Cash and cash equivalents	83,311	136	426	-	673	84,546
Trade receivables	610	-	282	4,292	842	6,026
Other accounts receivable	294	-	740	-	757	1,791
Long-term deposits	4,200	-	163	-	-	4,363
	88,415	**136**	**1,611**	**4,292**	**2,272**	**96,726**
Liabilities:						
Credit from banks and others	2,200	-	-	-	19,240	21,440
Trade payables	151	-	652	-	1,195	1,998
Income tax payable	-	-	-	-	2,826	2,826
Short and long-term other accounts payable	1,180	-	2,381	-	6,236	9,797
Long-term loans and leases from banks and others (including current maturities)	6,988	9,510	-	4,326	7,807	28,631
Accrued severance pay	-	-	99	-	353	452
	10,519	**9,510**	**3,132**	**4,326**	**37,657**	**65,144**

NOTE 19 | PROVISIONS

	December 31, 2008	December 31, 2007
Provision for future participation rights (1)	3,567	3,361
Less - current maturities	2,146	1,167
	1,421	2,194

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

NOTE 20 | 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, 2008	December 31, 2007
Present value of funded obligation	3,594	3,160
Fair value of plan assets	2,817	2,708
	777	452

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

Liability at the beginning of the year	452	752
Expense recognized in the statement of operations	951	241
Benefits not paid from assets	(162)	(206)
Contribution to assets	(450)	(385)
Currency translation differences	(14)	50
Liability at the end of the year	777	452

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

	December 31, 2008	December 31, 2007
Current service cost	439	350
Interest cost	203	161
Expected return on plan assets	(95)	(131)
Net actuarial loss (gain) recognized in the year	404	(139)
Total expense included in statement of operations	951	241

d. The principal actuarial assumptions used are as follows:

Discount rate	3.2%	3.92%
Future salary increase	3%	3%

NOTE 21 | INVESTMENTS IN SUBSIDIARIES

Principal subsidiaries:

	Country of incorporation	Percentage in equity 2008 and 2007
Shahal Haifa - Medical Services Ltd.	Israel	100
SHL Telemedicine International Ltd. ("STI")	Israel	100
Shahal Rashlatz Rehovot Medical Services Ltd.	Israel	100
SHL Telemedicine B.V.	Netherlands	100
SHL Telemedicine Global Trading Ltd.	Ireland	100
SHL Telemedicine North America LLC.	U.S.A.	100
SHL U.S.A. Inc.	U.S.A.	100
Personal Healthcare Telemedicine Services B.V.	Netherlands	100
Personal Healthcare Telemedicine Services GmbH	Germany	100

NOTE 22 | TAXES ON INCOME

a. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

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

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

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

1. Companies in Israel:

On July 25, 2005 the Knesset (Israeli Parliament) approved the Law of the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: 2005 -34%, 2006 - 31%, 2007 - 29%, 2008 - 27%,2009 - 26% and 2010 and thereafter - 25%.

2. Foreign subsidiaries:

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

The U.S.	tax at the rate of 34%.
Germany	tax at the rate of 39.8%.
Ireland	tax at the rate of 12.5%.

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

	Year ended December 31,	
	2008	2007
Current taxes	-	4,028
Deferred taxes	(3,463)	920
Taxes in respect of previous years (see g below)	-	2,300
	(3,463)	**7,248**
Tax expense (benefit) - continuing operations	(3,463)	6,497
Tax expense - discontinued operations	-	751
	(3,463)	**7,248**

d. Deferred tax assets (liabilities):

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

	Balance sheet items					
	Deferred revenues, net	Fixed and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Others	Total
Balance at January 1, 2007	4,319	(565)	280	1,816	841	6,691
Amount included in statement of operations	(811)	280	(95)	(140)	(154)	(920)
Currency translation differences	369	(34)	28	168	69	600
Balance at December 31, 2007	3,877	(319)	213	1,844	756	6,371
Amount included in statement of operations	3,949	19	71	(616)	40	3,463
Currency translation differences	(173)	(4)	(2)	56	6	(117)
Balance at December 31, 2008	**7,653**	**(304)**	**282**	**1,284**	**802**	**9,717**

The balance is presented as follows:

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

	December 31, 2008	2007
Non-current asset	10,049	6,717
Non-current liability	(332)	(346)
	9,717	6,371

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, 2008	2007
Profit (loss) before taxes on income from continuing operations	**(1,231)**	**30,150**
Profit before taxes on income from discontinued operations	**-**	**4,732**
Profit (loss) before taxes on income	**(1,231)**	**34,882**
Statutory tax rate in Israel	**27%**	**29%**
Theoretical tax expense (benefit)	**(332)**	**10,116**
Increase (decrease) in taxes resulting from:		
Losses and other items for which deferred taxes were not provided	314	2,935
Tax adjustment in respect of inflation in Israel	(149)	(138)
Non-deductible expenses	185	357
Realization of carryforward tax losses and defened revenues for which deferred taxes were not recorded in prior years	(3,358)	(1,879)
Different tax rates	(11)	222
Taxes in respect of previous years	-	2,300
Tax on minority interest in earnings of subsidiaries	-	(1,448)
Change in deferred taxes due to changes in tax rates	-	-
Differences on capital gain measurement between financial reporting basis and tax reporting basis	-	(5,263)
Other	(112)	46
Total tax expense (benefit)	(3,131)	7,248
Income tax expense (benefit) reported in the consolidated statements of income	(3,463)	6,497
Income tax attributable to discontinued operation	-	751
	(3,463)	**7,248**

f. Carryforward tax losses:

The carryforward losses for tax purposes as of December 31, 2008 amount to $ 17,500 (2007 - $ 16,500) in Israel (which may be carried forward indefinitely) and $ 53,255 (2007 - $ 60,485) in Europe. In the U.S., as of December 31, 2008, SHL USA has federal net operating losses and credits of $ 869 (2007 - $ 1,039) 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 $ 20,432 (2007 - $ 24,377) are not included in the consolidated financial statements as the management presently believes that it is not probable that these deferred taxes will be realized in the foreseeable future.

g. Tax assessment in dispute:

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

NOTE 23 | TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions:

	Year ended December 31,	
	2008	2007
Revenues	6,972	-
Rent expense to shareholders	198	120

b. Compensation of key management personnel:

	2008	2007
Short-term employee benefits	1,299	2,818
Share-based compensation	13	52
	1,312	2,870

c. Balances:

	December 31,	
	2008	2007
Provisions	3,567	3,361

d. Regarding the sale of a subsidiary to a shareholder - see Note 3.

NOTE 24 | COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

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

b. Lease commitments:

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

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

	2008	2007
First year	442	424
Second to fifth years	977	983
Thereafter	-	226
	1,419	1,633

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 22g.

NOTE 25 | EQUITY

a. The share capital is composed as follows:

	December 31, 2008		December 31, 2007	
	Authorized	Issued and outstanding*)	Authorized	Issued and outstanding*)
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,511,610	14,000,000	10,626,813

*) Net of treasury shares.

b. Treasury shares:

The Company holds 221,922 (61,159 as of December 31, 2007) shares for a total cost of $ 1,405 as of December 31, 2008 ($ 269 as of December 31, 2007).

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.

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, subject to early termination due to cessation of employment of the option holder.

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

On May 7, 2007, the BOD decided to increase the maximum number of shares which may be issued under the Company's Option Plans from 856,627 shares to 1,056,627 shares.

On July 8, 2007 and October 15, 2007, the BOD approved the grant of 61,000 and 6,250 options, respectively, under the 2005 Share Option Plan. The weighted average fair value of options granted by the Company in July and October 2007, in the amount of CHF 2.47, was estimated based on the following data and assumptions (weighted average): share price - CHF 8.27; exercise price - CHF 8.78; expected volatility - 46%; risk-free interest rate - 3.1%; expected divided - 0%; and expected average life of options - 6 years.

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

In the years ended December 31, 2008 and 2007, the Company recorded share-based compensation in general and administrative expenses in the amount of $ 183 and $ 237, respectively.

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

	2008		2007	
	No.	WAEP (CHF)	No.	WAEP (CHF)
Outstanding at the beginning of the year:	880,897	6.47	855,127	6.38
Granted during the year	43,000	8.30	67,250	8.78
Forfeited during the year	(300,425)	6.40	(30,845)	8.26
Exercised during the year *)	(45,560)	6.16	(10,635)	5.89
Outstanding at the end of the year	**577,912**	**6.61**	**880,897**	**6.47**
Exercisable at the end of the year	**459,357**	**6.54**	**383,041**	**6.32**

*) The weighted average share price at the date of exercise of these options was CHF 6.54 (2007 - CHF 10.6).

e. Dividend paid:

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

NOTE 26 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

a. Cost of revenues:

	Year ended December 31,	
	2008	2007
Salaries and related benefits	7,564	14,119
Payment to service providers	-	804
Rental fees and maintenance	1,354	2,371
Materials and components	104	1,129
Others	3,769	5,907
	12,791	**24,330**

b. Research and development costs, net:

	2008	2007
Salaries and related benefits	1,363	1,100
Amortization and impairment of development costs	915	2,413
Others	379	425
	2,657	**3,938**
Less - capitalization of development costs	**(1,654)**	**(1,388)**
	1,003	**2,550**

c. Selling and marketing expenses:

	2008	2007
Salaries and related benefits	6,725	6,688
Advertising	2,292	2,169
Depreciation	436	286
Rental fees and maintenance	304	237
Maintenance of motor vehicles	691	459
Others	1,712	2,771
	12,160	**12,610**

d. General and administrative expenses:

	Year ended December 31,	
	2008	2007
Salaries and related benefits	4,627	14,929
Rental fees and office expenses	672	2,798
Professional fees	2,841	2,903
Depreciation and amortization	688	1,016
Doubtful accounts and bad debts	-	5,245
Others	2,699	643
	11,527	**(* 27,534**

*) Includes one-time expenses related to the sale of Raytel - see Note 3.

e. Financial income (expenses):

1. Financial income:

Exchange rate differences	1,879	3,247
Gain on marketable securities	400	60
Interest	1,267	545
Others	4,652	906
	8,198	4,758

2. Financial expenses:

Exchange rate differences	(4,755)	(1,140)
Interest	(591)	(3,673)
Others	(7,263)	(3,175)
	(12,608)	(7,988)

f. Other income (expenses), net:

Loss on sale of fixed assets	-	-
Gain on sale of subsidiary (Note 3)	-	42,789
Other	(1,062)	735
	(1,062)	43,524

NOTE 27 | NET GAIN PER SHARE

	Year ended December 31,	
	2008	2007
Weighted average number of Ordinary shares (excluding treasury shares) for basic earnings per share	10,574,629	10,619,382
Effect of dilution:		
Share options	18,211	192,597
Weighted average number of Ordinary shares (excluding treasury shares) adjusted for the effect of dilution	10,592,840	10,811,979

NOTE 28 | SEGMENT INFORMATION

1. At the end of 2007, the Company ceased its operations in the medical services business segment (included in discontinued operations in 2007 - Note 7) and continues to operate in its main business segment of telemedicine services. The Group operates in three principal geographical segments according to IAS 14: Europe, United States and Israel.

2. 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. Geographic segments:

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

1. Revenues:

	Year ended December 31,	
	2008	2007
Sales to external customers:		
Europe	15,812	8,917
United States *)	6,972	34,586
Israel	21,770	18,621
	44,554	62,124
Intersegment sales:		
Europe	1,186	455
Israel	3,018	2,943
	4,204	3,398
Total revenues	48,758	65,522
Adjustments	(4,204)	(3,398)
Total revenues in financial statements	44,554	62,124

2. Segments results:

Sales less directly attributable and allocable expenses:		
Europe	1,659	(1,581)
United States *)	6,305	(858)
Israel	2,777	2,976
	10,741	537
Unallocated expenses	(6,499)	(10,681)
Operating profit (loss)	4,242	(10,144)

*) 2008 - from delivery of IT platform and related services, see Note 3.

3. Segment assets:

	Year ended December 31,	
	2008	2007
Europe	11,526	10,121
United States	782	2,092
Israel	69,517	131,950
Total assets	**81,825**	**144,163**

4. Segment liabilities:

Europe	8,736	7,922
United States	3,025	3,558
Israel	10,408	24,405
	22,169	**35,885**
Unallocated liabilities	**583**	**47,782**
Total liabilities	**22,752**	**83,667**

5. Tangible and intangible fixed assets:

a) Capital expenditure:

Europe	1,825	1,697
United States	-	3,730
Israel	3,424	485
	5,249	**5,912**

b) Depreciation:

Europe	837	545
United States	-	3,056
Israel	**3,997**	**5,129**
	4,834	**8,730**

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