SHL

Telemedicine

Annual Report 2016

Contents

Letter to the Shareholders

Dear Shareholders

For SHL, 2016 was a year of major changes and extraordinary events, including on management, board and shareholder level, that continued into the first half of 2017.

In the first half of 2016, following the termination of the merger agreement with Shanghai Jiuchuan Investment (Group) at the end of 2015, the company underwent a significant management and board change during the year and in the 2nd half of 2016, Mrs. Mengke Cai, the co-founder and Non-Executive Vice Chairman of Zhuhai Hokai Medical Instruments Co. Ltd ("Hokai"), acquired a 29.85% ownership of SHL's share capital from the then Controlling Shareholders, a group of investors under a common voting agreement consisting of Copper Valley Finance Ltd., Prime Finance Corporation, Eli Alroy and Barak Capital Ltd. Hokai has significant knowhow and access to the Chinese healthcare market and Mrs. Cai's investment represents a strong trust in SHL's products, management and its value for the Chinese market.

Following a review of the business and market opportunities, SHL management decided to focus on expanding our existing platforms in Germany and Israel, where we see an opportunity leveraging SHL's unique assets and market knowhow. In parallel, we are driving the growth of the smartheart™ platform, as it offers a lot of potential in various countries and market segments including the US and China and other global opportunities.

We were pleased with the results of our Chronic Disease Management Programs which generated an income of EUR 5.3 million from cost savings under a contract in Germany, relating to the year 2015, thus further demonstrating the value delivered by SHL.

One of the key priorities of 2016 was to streamline our operations and reduce our cost base. The reduction in costs will materialize in 2017 and beyond.

The financial results for the year were marked by extraordinary non-recurring items which have impacted SHL's equity.

In Germany, 2016 revenues reached USD 20.7million up 30.2% on revenue of 2015 due to an income of USD 5.8 million from cost savings delivered under a Chronic Disease Management Services contract relating to the year 2015. On the other hand, the Company had to further adjust its estimates regarding two performance-based contracts with an economic benefit lower than previously estimated associated with service year 2015 and reduce its related income receivable by USD 0.9 million. In Israel, revenues were USD 19.6 million, down 7.1% compared to 2015. The decline is mainly related to ending service contracts with institutions and decline in income from private subscribers.

In addition, the company conducted a thorough review of the financial accounts, as well of plans and projections with respect to SHL's future operations. In the course of this review a number of extraordinary non-recurring items have been identified and certain assets, including inventories, deferred taxes, fixed assets and intangible assets were impaired. Also, extraordinary financial and tax expenses were incurred due to a final tax judgement regarding previous years' income tax assessment resulting in an additional tax liability to be recognized in 2016. In addition, SHL elected to change its accounting policy with regards to sales wages and commissions such that only the portion of sales compensation expenses that is incremental in obtaining subscription sales contracts is deferred. Management believes that this change in policy better reflects recent development in accounting guidance, resulting in a retroactive adjustment of USD 3.8 million, comprised of a write-off of USD 3.4 million in the 2015 equity opening balance, plus additional expenses of USD 0.4 million in 2015. The impact due to the change in accounting policy in 2016 is marginal. These extraordinary items negatively impact SHL's equity in the amount of USD 16.8 million.

As a result of change in revenue estimates, extraordinary non-recurring items and additional income from cost savings delivered under a Chronic Disease Management Services contract in Germany, the Company recorded an Operating and Net loss in fiscal year 2016.

On an ongoing basis, SHL recorded revenues for the year of USD 40.5 million, an increase of 9.2% from 2015 revenues. Adjusted EBITDA amounted to USD 5.3 million and adjusted EBIT to USD 0.8 million in 2016 compared with adjusted LBITDA of USD 0.4 million and adjusted LBIT of USD 4.7 million in 2015. Operating cash flow for the year amounted to a deficit of USD 0.4 million, compared to cash received from operations of USD 4.0 million in 2015. Cash, cash equivalents and marketable securities amounted to USD 10.5 million at December 31, 2016.

While 2016 was a year of changes and extraordinary events on many levels as aforementioned, more stability is expected from the new board and management. On June 25, 2017 Mr. Xuewen Wu was elected as Chairman of the Board and on June 1, 2017 Mr. Yoav Rubinstein was elected as CEO, both of them signing this letter for the first time

What comes next?

SHL's businesses in Israel and Germany provide us with uniquely positioned assets in the area of remote patient management. In addition, the smartheart™ platform provides us with a unique opportunity to grow beyond these core territories leveraging our technological, clinical and operational knowhow. Alongside the growth initiatives, we need to continue to improve efficiency across the businesses while investing in the future to support our growth agenda.

We have an excellent group of people in the organization and are confident in their ability to carry out this vision.

On behalf of the Board of Directors and the management team, we thank all employees for their hard work and our business partners and shareholders for the trust they have placed in SHL.

Sincerely,

Xuewen Wu

Xuewen Wu
Chairman of the Board

Yoav Rubinstein
CEO

* For Adjusted Financial Information and Reconciliation of Adjusted Financial Information pls. go to the Financial Overview Section on page 64.

Information for Investors

Capital structure

The issued share capital is divided into 10,491,213 registered shares with a par value of NIS 0.01 each (excluding 387,278 ordinary shares of NIS 0.01 par value each held by SHL)

Significant shareholders'

As of December 31, 2016, SHL was aware of the following shareholders with more than 3% of all voting rights in the company.

	Number of Ordinary Shares Held	% Including Treasury shares	% Excluding Treasury shares
Cai Mengke	3,247,075	29.85%	30.95%
Alroy Group	2,507,608	23.05%	23.90%
G.Z. Assets and Management Ltd.	921,533	8.47%	8.78%
Himalaya Asset Management Limited	1,360,000	12.50%	12.96%
SHL Treasury shares	387,278	3.56%	-

The above table of Significant Shareholders reflects both actual holdings as of December 31, 2016, after deducting from the total number of shares outstanding 387,278 Ordinary Shares held by SHL, and actual holding as of December 31, 2016 calculated including ordinary shares held by SHL, all as indicated above, but does not reflect holding on a fully diluted basis. All in accordance with notifications received by the Company from shareholders and the SAG registrar as of December 31, 2016.

Statistics on SHL Telemedicine as at December 31, 2016

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares*	10,491,213
Market price high/low (CHF)	7.50/5.55
Market capitalization high/low (CHF million)	78.7/58.2
Market capitalization 31/12/16 (CHF million)	71.9
Share capital – nominal value (NIS)	104,912

* Excluding 387,278 ordinary shares held by SHL.

Share price development

Listing

All SHL shares are listed on SIX Swiss Exchange

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

Investor relations

SHL Telemedicine Ltd.

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Corporate Governance 2016

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SHL TeleMedicine Ltd. Corporate Governance Report

Introduction

The corporate governance framework of SHL Telemedicine Ltd. ("SHL" or the "Company") reflects a system of checks and balances among the powers of the shareholders, the Board of Directors (the "Board") and the management with the goal to safeguard the interests of SHL and its shareholders while creating sustainable value. SHL is committed to creating transparent, progressive and sustainable corporate management and strives to continuously improve these checks and balances.

Documents related to SHL's corporate governance can be accessed at the Corporate Governance Section of the SHL website (http://www.shl-telemedicine.com/investors-relations/corporate-governance/).

Changes in the Financial Year 2016

The year under review was a time certain substantial changes and extraordinary events, including changes on Board, management, and shareholder level.

Board of Directors

On February 25, 2016, following the Annual General Meeting held on February 24, 2016 (the "2016 AGM"), Mr. Uzi Blumensohn was elected as the Chairman of the Board, and has served in this position until his resignation on March 22, 2017. On March 23, 2017, following the resignation of Mr. Blumensohn, Mr. Elon Shalev was appointed as Chairman, and was replaced on June 25, 2017 by Mr. Xuewen Wu.

As to Board composition, at the 2016 AGM Mr. Eli Alroy, Mr. Erez Alroy, Mr. Eyal Bakshi, Mr. Uzi Blumensohn, Prof. Amir Lerman, Mr. Elon Shalev and Mr. Amnon Sorek were elected as Board members to serve until the following Annual General Meeting. Following the 2016 AGM, the Board of Directors was composed of five (5) out of nine (9) nominees proposed by a group of shareholders of the Company which by December 30, 2015 consisted of the following members: Copper Valley Finance Ltd., Prime Finance Corporation, Eli Alroy, and Barak Capital Ltd., who were parties to a voting agreement. Said group of shareholders were deemed controlling shareholders of the Company (for convenience purposes, hereinafter, the "Controlling Shareholders"), holding a higher percentage of voting shares than the Alroy group family (hereinafter the "Alroy Group") which had been leading the Company since its inception.

In April 2016, Mr. Amnon Sorek resigned from his position as director and was replaced by Mr. Doron Steiger, who had been serving as a Board member until his resignation in February 2017. Ms. Nehama Ronen has served her third and last three (3) year term as an Independent (external) Director until September 10, 2016. Dr. Ruth Ben Yakar, who was appointed in 2014, has been serving as an Independent (external) Director in the year under review until April 4, 2017 when she stepped down from this position. In December 2016 Mr, Eli Alroy and Mr. Eyal Bakshi resigned from their positions as Board members. In the 2017 Annual General Meeting held May 11, 2017 (the "2017 AGM"), Mr. Erez Alroy terminated his service as a director as of the 2017 AGM.

In the 2017 AGM, the following members of the Board were elected (by alphabetical order): Mr. Yi He, Prof. Amir Lerman, Mr. Elon Shalev, Mr. Cailong Su, Mr. Xuewen Wu and Ms. Shenlu Xu. Mr. Yi He, Mr. Cailong Su, and Mr. Xuewen Wu were proposed by Ms. Cai Mengke (who acquired the shares of the Controlling Shareholders in August 2016), Prof. Amir Lerman and Ms. Shenlu Xu by Himalaya Asset Management Limited ("Himalaya", who has been purchasing shares of the Company since the beginning of 2016) and Mr. Elon Shalev by the Alroy Group. (for changes on shareholder level see below).

In the Special General Meeting held on January 5, 2017, (the "First 2017 SGM") Mr. Ronen Harel was elected as an Independent (external) Director for a three (3) year term. Mr. Harel submitted his resignation on April 4, 2017, together with Dr. Ben Yakar, leaving the Company without Independent (external) Directors, which under Israeli law made it necessary to reconvene for the election of

Independent (external) Directors. In the 2017 AGM none of the candidates for the position of Independent (external) Directors was deemed to be elected. As a result, the Company convened another Special General Meeting held June 28, 2017 (the "Second 2017 SGM"), in which the following two (2) Independent (external) Directors were elected: Mr. Yehoshua Abramovich and Mr. Xuequn Qian.

On January 12, 2017, the Alroy Group has filed a law suit against SHL, Mr. Ronen Harel (the then elected Independent (external) Director), Mrs. Cai, and Himalaya asking the Tel Aviv district court to declare that Mrs. Cai and Himalaya are controlling shareholders of SHL acting in concert, that the appointment of Mr. Harel as an Independent (external) Director at the First 2017 SGM was against the governing laws of Israel and thus void, to instruct SHL to reconvene a Special General Meeting and instruct SHL to count Mrs. Cai and Himalaya's votes as controlling shareholders under the laws of Israel. In March 2017 the court granted the plaintiffs a permit to submit the lawsuit against Mrs. Cai and Himalaya in their respective countries, outside Israel, but as of the date hereof, to the Company's knowledge, the lawsuit has not been served. SHL is required to submit its defense by September 5, 2017. A pretrial hearing in the matter was set for October 16, 2017, (the "Alroy Lawsuit").

Should the court in the Alroy Lawsuit rule in favour of plaintiffs, the appointment of certain of the Independent (external) Directors might become void and resolutions on which such directors participated and voted would need to be ratified.

With regard to Board committees, in 2016 Mr. Doron Steiger was elected as a member of the Company's Audit Committee replacing Mr. Amnon Sorek, and as a member of the Company's Compensation Committee replacing Mr. Eli Alroy. In February 2017 Prof. Amir Lerman was elected to replace Mr. Steiger in the Compensation Committee and in March 2017 he was elected to replace Mr. Steiger in the Audit Committee. Ms. Nehama Ronen served as a member of said committees until September 10, 2016, and was replaced in January 2017 by the then newly elected Independent (external) Director, Mr. Harel, who served on both committees until his resignation in April 2017. Dr. Ben Yakar served on both committees until her resignation in April 2017. The current members of the Audit Committee and of the Compensation Committee are Mr. Yehoshua Abramovich, Mr. Xuequn Qian and Prof. Amir Lerman. (For further information regarding the members of the Audit Committee and the Compensation Committee and their respective tasks, please refer to Section 3.3 below).

Although not required under applicable law, on March 18, 2015 the Company resolved to appoint a committee for the examination of the Company's financial statements (the "FS Committee"). In the year under review the members were Ms. Nehama Ronen (until September 10, 2016), Dr. Ruth Ben Yakar and Mr. Amnon Sorek who served in said committee until the 2016 AGM, and was then replaced by Mr. Doron Steiger. Upon the election of Mr. Ronen Harel as an Independent (external) Director the members of the FS Committee were Dr. Ben Yakar, Mr. Ronen Harel and Mr. Erez Alroy. Mr. Erez Alroy resigned on March 12, 2017, and was replaced by Prof. Amir Lerman. On May 11, 2017, as no external directors were appointed, the Board had nominated an interim special FS committee, comprised of Mr. Xuewen Wu, Prof. Amir Lerman, and Ms. Shenlu Xu, all of whom had been appointed at the 2017 AGM. On June 14, 2017 Mr. Cailong Su replaced Ms. Shenlu Xu. Following the election of the Independent (external) Directors in the Second 2017 SGM, on July 5, 2017 the Board dissolved the interim special FS committee and appointed Mr. Yehoshua Abramovich, Mr. Xuequn Qian and Prof. Amir Lerman as members of the FS Committee (for further information regarding the members of the FS Committee and the committee's tasks, please refer to Section 3.3 below).

Resumes of the current Board members can be viewed on the Company's website at http://www.shl-telemedicine.com/about-us/board-of-directors as well as in Section 3.1. For short resumes of Board members in office on December 31, 2016 please see Section 3.1.

Management

In January 2016, Mr. Yariv Alroy and Mr. Erez Alroy, former CO-CEOs, stepped down from their positions. In March 2016, Mr. Yuval Shaked was appointed as CEO. In January 2017, Mr. Shaked submitted his resignation but continued working during most of his six (6) months notice period. Mr. Yoav Rubinstein, then Senior Vice President, Head of Global Business Development, was appointed as interim acting CEO in April 2017. On June 1, 2017 Mr. Rubinstein was appointed CEO.

In May 2016, Mr. Eran Kristal joined the Company as General Manager - SHL Israel and Executive Vice President of the Company. In September and December 2016, respectively, Mr. Eran Antebi, Chief Financial Officer (CFO), and Mr. Erez Nachtomy, Executive Vice President, stepped down from their positions. Mr. Nachtomy's position of Executive Vice President was discontinued and Mr. Ehud Ben Yair replaced Mr. Antebi as CFO as of September 2016, until his resignation on March 22, 2017. Mr. Yossi Vadnagra was appointed interim CFO in April 2017 and was appointed as CFO on June 14, 2017. In January 2017, Ms. Iki Alroy stepped down from her position as CTO and Mr. Yoni Dagan was appointed in her stead.

Shareholder level

On shareholder level, Himalaya notified the Company on February 16, 2016 that it was the beneficial owner of 3% of the voting shares of the Company. As of the date hereof Himalaya, pursuant to Himalaya's notifications, holds 20.05% of the voting shares of the Company.

In addition, in August 2016 Mrs. Mengke Cai purchased all of the shares of the then Controlling Shareholders and as of this date, pursuant to her notifications, she is holding a stake of 29.85% of shares of the Company. Mrs. Cai did not ask the then members of the Board previously proposed by the Controlling Shareholders to resign, and only proposed candidates to the Board in the 2017 AGM held May 2017. The question whether Mrs. Cai is holding shares together with Himalaya and acting in concert with Himalaya thus being deemed controlling shareholders of the Company for the purpose of Israeli Corporate Law (as claimed by the Alroy Group) is pending a court decision. For further reference see the Alroy Group Lawsuit Above.

In December 2016 the Alroy Group notified the Company it had sold shares of the Company reducing its stake to 23.05% of the then outstanding share capital.

Laws and regulations

The principles and rules of SHL on corporate governance are laid down in the Articles of Association of SHL, the Israeli Companies Law - 1999 (the "Israeli Companies Law") and the regulations promulgated thereunder, as well as other Israeli legislation applicable to SHL. As SHL is traded on the SIX Swiss Exchange, it has additionally taken upon itself to comply with certain reporting requirements of the listing rules of the SIX Swiss Exchange. In addition, certain reporting requirements apply to it directly as a foreign issuer with a main trading market on the SIX Swiss Exchange (for further information, please refer to Section 9 below).

SHL has a Level 1 ADR Program (the "ADR Program") effective until August 7, 2017, and was anyway not subject to full reporting obligations to the U.S. Securities and Exchange Commission ("SEC") in connection therewith, subject inter alia to publication of certain information in English on its website pursuant to the applicable SEC regulation (see Section 9 below).

The information presented here is updated as of December 31, 2016, unless otherwise noted, and was prepared in accordance with the Corporate Governance Directive of the SIX Swiss Exchange.

1. Group Structure and Shareholders

1.1 Group Structure

1.1.1 Operational Group Structure:

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

During 2016 the Company and its subsidiaries in Israel, Germany, and the U.S. operated in one business segment - telemedicine services.

Telemedicine services are the provision of telemedicine services and devices to subscribers utilizing telephonic and internet communication technology. SHL's telemedicine solutions offer 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 platforms offer solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.

SHL Telemedizin GmbH, an indirectly wholly owned subsidiary of the Company, together with its subsidiaries Almeda Gesundheitsservices GmbH, Gesellschaft für Patientenhilfe DGP mbH (acquired in 2015) and SHL Telemedizin Europe GmbH (together "SHL Germany"), operate in the German market and provide telemedicine services to patients in Germany, mainly through German health insurers. SHL Germany is run as a stand-alone business and enjoys a high degree of autonomy, with its own management, whereby corporate headquarters at SHL provides certain central functions (such as business development and accounting), as well as oversight and control on an ongoing basis (see below).

SHL Telemedicine Ltd. and its Israeli subsidiaries Shahal Haifa - Medical Services Ltd. and Shahal Rashlatz-Rehovot Medical Services Ltd. (together "SHL Israel") operate in the Israeli market and provide telemedicine services mainly to private paying subscribers. SHL Israel is run as a stand-alone business and enjoys a high degree of autonomy, with its own management, and as of 2016 – with its own General Manager as aforementioned, with corporate headquarters providing certain central functions (such as business development and accounting), as well as oversight and control on an ongoing basis.

SHL Telemedicine USA, Inc. operates in the US market ("SHL USA") and sells telemedicine devices and services to healthcare professionals. SHL USA is active mainly in business development and sales and marketing activities together with corporate management.

SHL Telemedicine India Private Limited conducted the group's activities in India ("SHL India") and sold telemedicine devices and services to healthcare professionals and private paying subscribers. SHL India was active mainly in business development and sales and marketing activities together with corporate management, but it has ceased to promote its activities during the year under review and is in the process of winding down.

Research and development activities are conducted by SHL Telemedicine International Ltd. ("SHL INT"). Production of devices is outsourced by SHL INT to third party manufacturers with telemedicine devices being sold by SHL INT to SHL Germany, SHL Israel, SHL USA and SHL India. In addition, SHL INT provides software development and maintenance services to all group entities.

Corporate management is located at SHL Telemedicine and SHL INT and is active in performing its corporate duties, i.e. group management, business development, finance and oversight and control on an ongoing basis of its different territories (SHL Germany, SHL Israel, SHL USA, SHL India and SHL INT).

1.1.2 Description of the material group companies belonging to the SHL group:

SHL Telemedicine Ltd. ("SHL") - SHL's authorized share capital is comprised of New Israel Shekels ("NIS") 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each. As of December 31, 2016, SHL's issued and outstanding share capital was NIS 104,912.13 divided into 10,491,213 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 387,278 ordinary shares of NIS 0.01 par value each held by SHL). For additional information regarding the implications of the purchase by a company of its own shares, see Section 2.4.1 "The Ordinary Shares, Voting Rights". The registered shares of SHL are traded on the main board of the SIX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As of December 31, 2016, SHL's market capitalization was CHF 71.9 million.

SHL's registered office is located at 90 Yigal Alon Street (Ashdar Building), Tel-Aviv, Israel. None of the issued and outstanding share capital of SHL is held by SHL's subsidiaries.

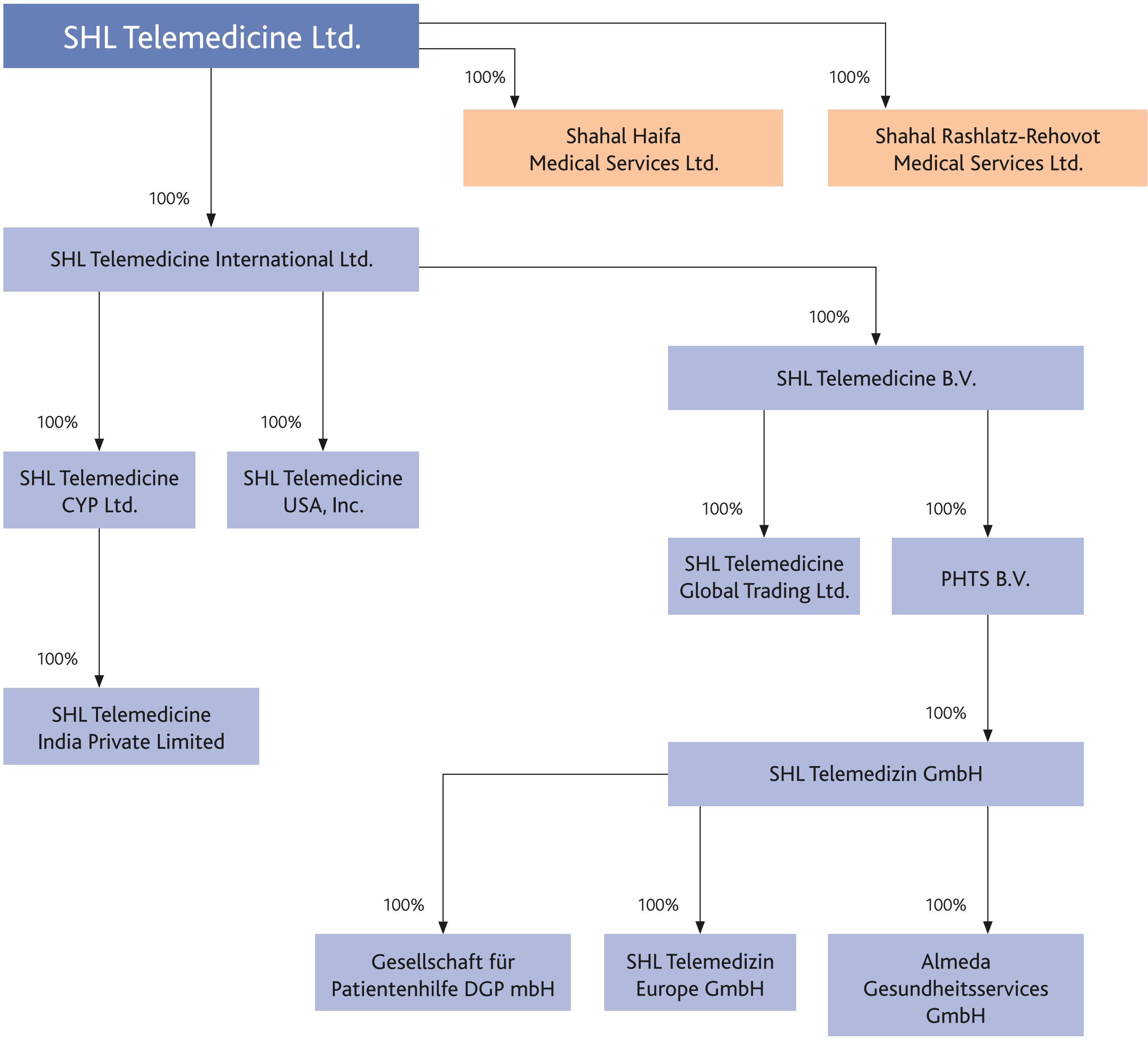
Non-Listed Companies Belonging to the SHL Group:

Name	Domicile	Share Capital and % of holding (directly or indirectly through wholly owned subsidiaries)
Shahal Haifa - Medical Services Ltd. ("SHL Haifa")	Tel-Aviv, Israel	*Authorized Share Capital:* NIS 13,000, divided into 13,000 Ordinary Shares par value NIS1.00 each. *Issued Share Capital:* 200 Ordinary Shares 100% (held by SHL)
Shl Rashlatz-Rehovot Medical Services Ltd. ("SHL Rashlatz")	Tel-Aviv, Israel	*Authorized Share Capital:* NIS 16,600 divided into 16,600 Ordinary Shares par value NIS1.00 each *Issued Share Capital:* 100 Ordinary Shares 100% (held by SHL)
SHL Telemedicine International Ltd. ("SHL INT")	Tel-Aviv, Israel	*Authorized Share Capital:* NIS 101,000 divided into 101,000 Ordinary Shares par value NIS1.00 each *Issued Share Capital:* 10,000Ordinary Shares 100% (held by SHL)
SHL Telemedicine B.V. ("SHL BV")	Amsterdam, Netherlands	*Authorized Share Capital:* EUR 75,000 divided into 300,000 Ordinary Shares par value EUR 0.25 each *Issued Share Capital:* 74,043 ordinary shares. 100% (held by SHL INT)
Personal Healthcare Telemedicine Services Europe B.V. ("PHTS")	Amsterdam, Netherlands	*Authorized Share Capital:* EUR 4,000,000 divided into 400,000[1] Ordinary Shares par value EUR 10.00 each *Issued Share Capital:* 811,500 ordinary shares 100% (held by SHL BV)
SHL IRL B.V.	Amsterdam, Netherlands	*Authorized Share Capital:* EUR 90,000 divided into 90,000 Ordinary Shares par value EUR 1.00 each *Issued Share Capital:* 18,000 ordinary shares. 100% (held by SHL BV). This company was liquidated on December 31, 2016.
SHL Telemedizin GmbH	Dusseldorf, Germany	*Authorized Share Capital:* EUR 300,000 divided into 2 Ordinary Shares par value EUR 25,000 and EUR 275,000 *Issued Share Capital:* 2 Ordinary Shares 100% (held by PHTS)
SHL Telemedicine Europe GmbH	Dusseldorf, Germany	*Authorized Share Capital:* EUR 25,000 divided into 1 Ordinary Share par value EUR 25,000 *Issued Share Capital:* 1 Ordinary Share 100% (held by SHL Telemedizin GmbH)
Almeda Gesundheitsservices GmbH	Munich, Germany	*Authorized Share Capital:* EUR 25,000 *Issued Share Capital:* 25,000 shares with par value EUR1.00 100% (held by SHL Telemedizin GmbH)
Gesellschaft für Patientenhilfe DGP mbH	Grunwald, Germany	*Authorized Share Capital:* EUR EUR 25,000 divided into 2 Ordinary Shares par value EUR 24,750 and EUR 250 *Issued Share Capital:* 2 Ordinary shares 100% (held by SHL Telemedizin GmbH)
SHL Telemedicine Global Trading Ltd.	Shanon, Ireland	*Authorized Share Capital:* EUR 1,000,000 divided into 1,000,000 Ordinary Shares par value EUR 1.00 each *Issued Share Capital:* 1,000 ordinary shares 100% (held by SHL BV)
SHL Telemedicine USA, Inc.	Delaware, USA	*Authorized Share Capital:* USD 1.00 divided into 100 Ordinary Shares par value USD 0.01 each *Issued Share Capital:* 100 Ordinary Shares 100% (held by SHL INT)
SHL Telemedicine CYP Ltd.	Nicosia, Cyprus	*Authorized Share Capital:* EUR 100 divided into 100 Ordinary Shares par value EUR 1.00 each *Issued Share Capital:* 100 Ordinary Shares 100% (held by SHL INT)
SHL Telemedicine India Private Limited	Haryana, India	*Authorized Share Capital:* Rs 7,000,000[2] divided into 700,000 Equity Shares of Rs 10, each *Issued Share Capital:* 625,126 Equity Shares 99.9% (held by SHL Cyprus) 0.01% (held by SHL BV)

1 Number of previous years corrected, no material change
2 Number of previous years corrected, no material change

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

Graphic Overview of Group Companies:



1.2 Significant Shareholders

As of December 31, 2016, SHL was aware of the following shareholders with more than 3% of all voting rights in the Company[3]:

	2016 Number of ordinary shares held	2016 % including treasury shares	2016 % excluding treasury shares	2015 % excluding treasury shares
Mrs. Mengke Cai[4]	3,247,075	29.85%	30.95%	-
Alroy Group[5]	2,507,608	23.05%	23.9%	26.53%
Copper Valley Finance Ltd./ Prime Finance Corporation/ Eli Alroy/Barak Capital Ltd.	-	-	-	30.93%
Himalaya Asset Management Limited	1,360,000	12.5%	12.96%	
G.Z. Assets and Management Ltd.	921,533	8.47%	8.78%	8.79%
S. W. Mitchell Capital LLP	-	-	-	3.25%
SHL Treasury shares	387,278	3.56%	-	-

3 The information below is based the notifications made by the shareholders to the Disclosure Office pursuant to art. 120 of the Swiss Financial Market Infrastructure Act of 19 June 2015, which are published on the website of SIX Swiss Exchange at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

4 Based on Mrs. Cai notification, dated August 11, 2016 Mrs. Cai purchased her shares in August 2016 from the then group of Controlling Shareholders: Copper Valley Finance Ltd./ Prime Finance Corporation/ Eli Alroy/ Barak Capital Ltd, who, on December 31, 2015 was holding 30.93% of the shares, excluding treasury shares.

5 According to the Alroy Group notification dated December 22, 2016, the Group held the number of shares set forth as in the table above. According to the Alroy Group notification, dated December 9, 2015, the Alroy Group is comprised of (i) Mr. Yoram Alroy; (ii) Nehama & Yoram Alroy Investment Ltd., (iii) Mr. Erez Alroy (the son of Mr. Yoram Alroy); (iv) Mr. Elon Shalev (the brother-in-law of Mr. Yoram Alroy); (v) Elon Shalev Investments Ltd.; (vi) Y. Alroy Family Ltd.; and (vii) Southland Holding Ltd. Further, pursuant to the Alroy Group Notification, beneficial owners include Yoram Alroy and his wife, Nehama Alroy, as well as their children Yariv Alroy, Erez Alroy and Hila Alroy, and also Elon Shalev and his wife, Ziva Shalev. The disclosed percentage excludes an aggregate number of 6,250 options to purchase the Company's Ordinary Shares held by members of the Alroy Group (for further information regarding such options, please refer to Section 2.2 below).

The above table of Significant Shareholders reflects both actual holdings as of December 31, 2016, after deducting from the total number of shares outstanding 387,278. Ordinary Shares held by SHL, (as described in Section 1.1.2 above), and actual holdings as of December 31, 2016 calculated including ordinary shares held by SHL, all as indicated above, but does not reflect holdings on a fully diluted basis.

All shareholdings that have been reported to SHL and the Disclosure Office of the SIX Swiss Exchange as per Art. 20 of the Federal Act on Stock Exchanges and Securities Trading (SESTA) and the provisions of the Stock Exchange Ordinance of the Swiss Financial Market Supervisory Authority (SESTO-FINMA) and published on SIX Swiss Exchange AG's electronic publication platform can be viewed at www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

The voting agreement entered into by and among Copper Valley Finance Ltd., Prime Finance Corporation, Eli Alroy and Barak Capital Ltd. (that contained a coordination mechanism according to which the parties would uniformly exercise their voting rights in the general meetings of the Company, with certain exceptions, , and pursuant to which prior to any Annual General Meeting, Barak had the right to recommend the identity of one (1) nominee to be elected as a director in the Company was valid until the sale of such shareholders shares to Mrs. Cai in August 2016.

The members of the Alroy Group cooperate amongst one another in the nomination and appointment of members of the Board.

SHL is not aware of any other agreements or arrangements among its shareholders. (for further information about the claim made by the Alroy group with respect to an alleged action in concert between Mrs. Cai and Himalaya and the Alroy Lawsuit see under "Change in the Financial Year 2016" above.)

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, 2016

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

Issued and outstanding share capital as of December 31, 2016

Number of Ordinary Shares	10,491,213
par value	NIS 0.01 each
Share capital	NIS 104,912.13

* Excluding 387,278 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section 2.4.1 "The Ordinary Shares, Voting Rights".

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, as of December 31, 2016, was NIS 104,912.13, divided into 10,491,213 fully paid registered Ordinary Shares (excluding 387,278 Ordinary Shares held by SHL). Any increase in the authorized share capital is valid as of the date of the approval thereof by the shareholders (with respect to special majority requirements, please refer to Section 6.2 below). 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. On November 17, 2016 SHL increased its option pool by 1,020,719 options[2] so that the maximum number would be up to 2,077,346 Ordinary Shares (subject to adjustments as set forth in the 2015 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. As of the date hereof, the pool is 2,077,346, out of which 996,244 are available for grant. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" below.

Share Options

Share options currently outstanding are share options which were granted pursuant to SHL's 2015 Executive and Key Employee Israeli Share Option Plan (the "2015 Share Option Plan"). The plan is in effect until April 2018.

Pursuant to the 2015 Share Option Plan, options may be granted to executives, directors (whether executive or non-executive) and key employees of the Company or its subsidiaries, whereby the Board of Directors has full discretion to determine the specific grantees from time to time. The maximum number of Ordinary Shares which may be issued under the 2015 Share Option Plan and under any other existing or future share incentive Option Plans of the Company is 2,077,346, subject to adjustments as provided in the 2015 Share Option Plan. On December 31 2016 the number of options actually available for issuing was 446,000; as of to the date hereof the number is 996,244. Pursuant to the 2015 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 in its discretion. However, with respect to all option grants since May 2010, the Board of Directors determined in each case that the exercise price for such option grants shall be the average share price in the thirty (30) trading days preceding the date of grant. The foregoing has also been stipulated as the exercise price applicable to any grants of share-based compensation to the Company's officers pursuant to the Company's Officer Compensation Policy adopted in January 2014, which was in effect until January 6, 2017 (the "2014 Compensation Policy"), as well as in the 2017 Compensation Policy approved on May 11, 2017 (the "2017 Compensation Policy"). Further, pursuant to a resolution of the Board as of November 7, 2010, all options issued under the 2015 Share Option Plan are exercised by way of the net exercise method. Options granted under the 2015 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, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board, 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 Board may in its discretion reduce the relevant

2 Said increase was necessary due to an internal bona fide mistake in past calculation of the number of option available for issuance.

performance targets to zero, and has done so in all instances since June 2011. The options shall expire six (6) years from the date of grant (unless expired earlier under the terms of the 2015 Share Option Plan or the relevant award agreement). With respect to option grants to Company's officers, the Company's 2014 Compensation Policy (in effect in the year under review) provided for certain minimum vesting periods, as follows: (a) with respect to the first option grant to an officer: vesting shall be at a minimum (i) first cliff after one (1) year from the date of grant; and (ii) full vesting after twenty-four (24) months from the date of grant; and (b) with respect to further option grants to that officer, full vesting shall occur no earlier than 36 months from the date of grant. Said terms were not altered in the 2017 Compensation Policy which is in effect till May 11, 2020.

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

	2016	Weighted average exercise price in CHF	2015	Weighted average exercise price in CHF
As of January 1	515,914	7.32	647,514	7.21
Granted during the year	731,804	6.98	-	_
Forfeited during the year	(219,083)	7.28	(18,934)	7.75
Exercised during the year	(28,395)	6.19	(112,666)	6.60
Outstanding at the end of the year	**1,000,240**	**7.11**	**515,914**	**7.32**
Vested on December 31	**263,772**	**7.34**	**422,021**	**7.06**

2.3 Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2014, 2015 and 2016, SHL's issued share capital was comprised of 10,460,306, 10,489,333 and 10,491,213 Ordinary Shares, respectively. The foregoing changes in the Company's share capital result from the exercise of share options previously granted under previous option plans and the repurchase of shares by SHL under its share repurchase plan, first approved by the Board on March 25, 2008, as increased and extended over time. As part of its approval of the share repurchase program (and its respective extensions and increase), the Board determined, in accordance with the requirements of the Israeli Companies Law, that the Company had sufficient profits and other surplus (as calculated under the Israeli Companies Law) in order to repurchase its Ordinary Shares traded on the SIX Swiss Exchange and that there was no reasonable concern that the repurchase would prevent SHL from satisfying its existing and foreseeable obligations as they become due. Under the approved repurchase plan, SHL was authorized to repurchase its own Ordinary Shares traded on the SIX Swiss Exchange, from time to time, in an amount of up to an equivalent of US$ 4,000,000 (including all shares repurchased following the initial March 25, 2008 approval). The Board originally approved an initial repurchase period lasting up until June 30, 2008, and has since extended the duration of the share repurchase program several times, the last such extension applicable to share repurchases made up until March 31, 2013, and was not extended since. Each extension was made under reaffirmation by the Board that such repurchase by the Company of Ordinary Shares continued to satisfy the requirements of the Israeli Companies Law (as described above) at such time. The Board did not further extend the repurchase period beyond the aforementioned date.

The registration statement with respect to the Company's ADR Program, pursuant to which American Depositary Shares (each representing one (1) Ordinary Share of SHL) were traded in the U.S. over-the-counter market became effective as of January 31, 2014 until August 7, 2017 (for rights of holders of American Depositary Shares, please see the following Section.)

2.4 The Ordinary Shares and the American Depositary Receipts

2.4.1 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, as set forth above. All the issued Ordinary Shares rank pari passu in all respects. The Ordinary Shares do not have preemptive rights. The ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by the Articles of Association of SHL or the laws of the State of Israel. The Ordinary Shares are in book entry form only. No share certificates are issued; however, shareholders of record are entitled to receive non-negotiable confirmations from SHL evidencing their ownership of Ordinary Shares. Based on an agreement between SHL and SIX SIS AG (formerly SIS SegaInterSettle AG) ("SIS"), all issued Ordinary Shares will be booked into the SIS Clearing System. As of January 1st, 2017, Computershare Schweiz AG ("Computershare") is handling the registrar. All of the issued and outstanding Ordinary Shares have been fully paid up.

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, or as accrued over a period of two years, whichever is higher, each based on the most recent financial statements of the Company (provided that the date with respect to which such financial statements were prepared does not pre-date the distribution by more than six (6) months); provided, however, that there is no reasonable concern that the payment of such 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 SIS Agreement, each Registered Person is entitled to dividends (for a definition of such terms, please refer to Section 2.6 below).

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 6.1 "Voting Rights Restrictions and Representations".

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. As of December 31, 2016, the Company held 387,278 of its own Ordinary Shares.

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

2.4.2 The American Depositary Shares ("ADS")

SHL has entered into a Deposit Agreement with the Bank of New York Mellon (acting as depositary with respect to the ADR Program, the "Depositary") and all owners and holders of ADS from time to time (the "Deposit Agreement") setting forth the terms and applicable to the deposit of ordinary shares of the Company with the Depositary (or the Zurich office of UBS A.G. acting as custodian) for the purposes set forth under the Deposit Agreement, the creation of ADS representing Ordinary Shares of SHL deposited and the execution and delivery of American Depositary Receipts evidencing the ADS. As aforementioned, Deposit Agreement was in effect in the year under review but was terminated by the Depositary as of 5 PM (Eastern time) on August 7, 2017.

Pursuant to the Deposit Agreement (and the form of American Depositary Receipt annexed thereto), each ADS represents one (1) Ordinary Share of SHL (subject to adjustments). ADS may be certificated securities, evidenced by American Depositary Receipts, or uncertificated securities. The Depositary is required to maintain books with respect to both issuance of American Depositary Receipts and any transfer thereof, as well as delivery of ADS and transfers with respect thereto. Each owner of ADS shall be entitled to delivery of the relevant number of Ordinary Shares of SHL represented by such ADS, upon surrender by him/ her, at the offices of the Depositary, of the ADS (subject to payment of all applicable fees and charges and subject to the further terms of the Deposit Agreement).

The Depositary may treat any person registered on the books of the Depositary as owner of ADS as the absolute owner thereof for purposes of determining the person entitled to dividends or other distributions. Dividends are distributed by the Depository to the owner of the relevant ADS in proportion to the number of ADS representing the Ordinary Shares held by such owner of ADS. The record date determining which holders of ADS shall be entitled to dividends shall be the record date determined by the Company (to the extent practicable) and if different, as close as practicable to the date fixed by the Company.

The Ordinary Shares represented by ADS are voted by the Depositary pursuant to instructions given by the relevant owner of such ADS to the Depositary. The Depositary shall inform the relevant owner, upon receipt of a notice of any meeting of shareholders of SHL, inter alia regarding the manner in which such instructions may be given and the number of Ordinary Shares represented by the ADS held by such owner. The record date with respect to determination of the owners of ADS entitled to give instructions for the exercise of voting rights shall be the date so fixed by the Company, or if a different date, then as close as practicable to the date fixed by the Company. The Depositary undertook not to vote any Ordinary Shares underlying the ADS other than in accordance with the instructions given by the relevant owner thereof. (For information regarding notice of convocation of shareholders meetings for holders of ADS, please refer to Section 6.3 below).

In the event of a rights offering by the Company, the Depositary has discretion, upon consultation with the Company (to the extent practicable), regarding the procedure to be followed in making such rights available to the registered owners of ADS or whether to dispose of such rights and make the relevant net proceeds available to such holders instead. Where for any reason, the Depositary may not do either of the foregoing, the Depository is allowed to let the relevant rights lapse without any further liability to registered owners of ADS or holders of ADRs.

Upon termination, the Depositary shall mail a notice of termination to the Owners of all ADS then outstanding at least 30 days prior to the termination date. On and after the date of termination, the Owner of ADS will, upon (a) surrender of such ADS, (b) payment of the fee of the Depositary for the surrender of ADS, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by those ADSs. If any ADS shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of American Depositary Shares, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in this Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, upon surrender of ADS (after deducting, in each case, the fee of the Depositary for the surrender of ADS, any expenses for the account of the Owner of such ADS in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of four (4) months from the date of termination, the Depositary may sell the Deposited Securities then held under this Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of ADS that have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under this Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of ADS, any expenses for the account of the Owner of such ADS in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges.

2.4.3 Duties of Shareholders

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. 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 (for a definition of the term "Registered Persons", please refer to Section 2.6 below).

In addition, under the Israeli Companies Law, the disclosure requirements that apply to an office holder in a public company with respect to a personal interest such office holder may have with respect to an existing or proposed transaction of the company also apply to a controlling shareholder of a public company. For such purpose, 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, and whereby a person holding more than half of the means of control of a company (including the right to appoint a majority of the directors or the right to appoint a company's general manager) is presumed to control such company. Further, any shareholder participating in a vote on an extraordinary transaction (including a private placement which is an extraordinary transaction) with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest, or the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of the directors and office holders insurance and indemnification), must notify the Company prior to the relevant vote whether or not it has a personal interest in the relevant transaction - if no such notification is made, such shareholder is not entitled to vote and any vote of such shareholder is not counted (for approval requirements in connection with controlling shareholder transactions, please refer to the Section on "Statutory Quorums" below). The same notification requirement applies to (a) shareholders that have a personal interest in the appointment of an Independent (External) Director (for election of Independent (External) Directors, please see Section 3.1 below); (b) shareholders that have a personal interest in a full purchase offer (for full purchase offers, please see Section 7.1 below), and (c) any shareholder that has a personal interest in the approval of the Compensation Policy of the Company (for further details regarding the Compensation Policy, please see Section 5.1 below).

Further, 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.

Pursuant to the Swiss Financial Market Infrastructure Act of 19 June 2015 ("FMIA"), any holder of a significant interest in the Company is required to notify the Company and the SIX Swiss Exchange if its holding in the Company's equity securities reaches, exceeds or falls below certain thresholds, subject to limited exceptions. The relevant thresholds triggering notification are 3%, 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% and 66 2/3% of the voting rights of the Company. Persons acting in concert must disclose their shareholdings on a consolidated basis and the holdings of all such a group's members are aggregated in order to calculate compliance with relevant thresholds. The relevant shareholdings must be notified to the Company and Disclosure Office of the Six Swiss Exchange within four (4) trading days from execution of the relevant transaction. The Company shall then publish the information received within two (2) trading days from receipt of the notification

With respect to disclosure duties of shareholders submitting shareholder statements to the Company, please refer to Section 6.3 below.

2.5 Dividend-right Certificates

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

2.6 Nominee Registrations and Limitations on Transferability

SIS Agreement and Shareholder Registration

SHL is currently party to an agreement with SIX SIS AG ("SIS", the "SIS Agreement"), according to which SIS agrees to act as a nominee on behalf of any person registered in a Share Register maintained by Computershare Switzerland Ltd ("Computershare", the "Share Register"). SIS is registered in SHL's Register of Shareholders as shareholder of all of the issued and outstanding Ordinary Shares. The registration of SIS 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 SIS Agreement, SIS has irrevocably agreed and instructed SHL to enable each person registered from time to time with the Computershare Register (a "Registered Person") to exercise, on behalf of SIS, 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 SIS's name in SHL's Register of Shareholders. SHL has irrevocably acknowledged and accepted such instruction of SIS 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 Share Register.

SIS 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 Share Register, record ownership of the number of Ordinary Shares registered in the name of such person in the Share 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.

Transfer of Ordinary Shares and ADS

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 SIS 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 SIS or any nominee substituting SIS, 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 SIS, together with a written confirmation issued by Computershare evidencing the registration of such person, including the number of Ordinary Shares registered on such person's behalf, in the Computershare Register, shall also be a proper instrument of transfer.

Subject to the terms of the Deposit Agreement, a transfer of ADS shall be registered by the Depositary upon (a) in the case of ADS evidenced by an American Depositary Receipt, surrender of the receipt evidencing those ADS, by the owner of such ADS or a duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer, or (b) in the case of ADS not evidenced by a receipt, receipt from the owner of the ADS of a proper instruction, and, in either case, duly stamped as may be required by the laws of the State of New York. Thereupon the depositary undertook to deliver those ADS to or upon the order of the person entitled thereto.

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

2.7 Convertible Bonds and Options

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section 2.1 "Share Options".

3. Board of Directors

The primary duties of the Board are defined in the Israeli Companies Law and in the Articles of Association of SHL. For a description of powers and duties of the Board of Directors, please refer to Section 3.3 of this report.

3.1 Members of the Board of Directors

The Articles of Association provide for a Board consisting of up to nine (9) members and not less than three (3) members until otherwise determined by simple resolution of the shareholders of SHL. Following the 2017 AGM and the Second 2017 SGM, the Board currently consists of eight (8) members, (as mentioned under "Change in the Financial Year 2016" above, of whom two (2) members are Independent (external) Directors (Mr. Abramovich and Mr. Qian) (for further information on Independent Directors, please refer to the following Section of this report; for further information about a dispute concerning the question of controlling shareholders and the impact of the election of Independent (external) Directors please see under "Change in the Financial Year 2016").

Independent ("External") Directors

Israeli companies that have offered securities to the public in or outside of Israel are required to appoint two (2) Independent ("external") Directors under the provisions of the Israeli Companies Law. 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 of a public company is required to appoint an audit committee and a compensation committee which must be comprised of at least three (3) directors, including all of the Independent (external) Directors. For the tasks of the audit committee and the compensation committee, respectively, and further requirements regarding the composition of the audit committee and the compensation committee, please refer to Section 3.3 below. As a general rule, Independent (external) Directors shall be Israeli residents, however, in a company whose shares are traded abroad (such as SHL), Independent (external) Directors may also be foreign residents. One of the current two (2) Independent Directors is a foreign one.

Pursuant to the Israeli Companies Law, to qualify for an appointment as an Independent (external) Director, the relevant candidate must possess either 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 appointed possesses financial and accounting expertise. Further, all of the following persons are prevented from serving as Independent Directors: (a) any individual that is a relative of a controlling shareholder (as such terms are defined under the Israeli Companies Law); (b) any individual who has (or any of whose relatives, partners, employer, entities controlled by him, or someone that such individual is directly or indirectly subordinated to has) at the time of appointment or at any time during the two (2) years prior to such individual's appointment as an Independent Director, any "connection" (including, in general, employment, business and/ or professional relationships, control and/ or service as an office holder) with (i) the Company, (ii) its controlling shareholder(s) at the time of appointment, (iii) a relative of a controlling shareholder at the time of appointment, (iv) any entity whose controlling shareholder(s), at the time of appointment or during the two (2) years prior to the relevant Independent Director appointment is the Company or its controlling shareholder, or (v) the Chairman of the board, the general manager, a holder of 5% or more of the issued and outstanding share capital or voting rights in the company or the most senior financial executive in the company, at the time of appointment, and only if there is no controlling shareholder in the relevant company or a holder of at least 25% of the voting rights in the company; (c) any individual whose 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 which may compromise such individual's ability to serve as an Independent Director; (d) an employee of the Israeli securities authority or an Israeli stock exchange; (e) a director of another company, if a director of such other company serves as an Independent Director in the first company; (f) without derogating from the restrictions set forth under (b) above, any individual who has (or whose relative, partner, employer or person to whom he/ she is directly or indirectly subordinated to, or a company in which he/ she is a controlling shareholder has) business or professional relationships with any person with respect to which an affiliation is prohibited under (b) above, even if such relationship is not an ongoing, constant relationship, and excluding relationships that are negligible; or (g) any person which in his/ her service as an Independent Director received any compensation for his/ her service beyond that authorized in accordance with applicable regulations promulgated under the Israeli Companies Law.

In addition, for a period of two (2) years following termination of the service of an Independent Director, the company in which such Independent Director served, as well as its controlling shareholder and/ or any entity under such controlling shareholder's control may not directly or indirectly provide any benefit to such Independent Director (as well as his/ her spouse and children), including without limitations appointment as an officer holder, engagement as an employee or provider of professional services against consideration, whether directly or indirectly and whether individually or through an entity controlled by such Independent Director, all with respect to the company and any entity under control of the controlling shareholder of the company. The foregoing limitations also apply to relatives (as defined under the Israeli Companies Law) of the Independent Director who are not his/ her spouse or child, but then for a period of one (1) year from termination of service.

The Independent Directors generally must be elected by a majority vote of the shareholders, provided that (a) such majority includes a majority of shares held by shareholders who are not a controlling shareholder or who do not have a personal interest in the appointment (except a personal interest which is not the result of a relationship with the controlling shareholder) and who are voting thereon, whereby abstaining votes will not be taken into account, or (b) the percentage of the voting rights held by shareholders as described under (a) and which object to the appointment is not more than two (2) percent of the voting rights of the company (the Minister of Justice may determine a different percentage; no such determination has been made to date).

The term of an Independent Director is three (3) years and may be extended by two (2) additional terms of three (3) years each. Independent Directors may be re-elected to any of the two (2) additional terms beyond their initial three (3) year term as aforesaid only subject to fulfillment of either of the following conditions:

(a) one or more shareholders holding one (1) percent or more of the voting rights of the company proposed such additional service period, and the appointment is approved by the general meeting with a majority of votes subject to the following: (i) the votes of controlling shareholders or anyone who has a personal interest in the appointment (excluding a personal interest which is not the result of a relationship with the controlling shareholder) and abstaining votes are not counted; (ii) the number of votes supporting the appointment (from among those shareholders which are not controlling shareholders or have a personal interest as aforesaid) amounts to more than two (2) percent of the overall voting rights in the company (the Minister of Justice may determine a different percentage; no such determination has been made to date); and (iii) such Independent (external) Director may not be (A) at the time of appointment a Related or Competing Shareholder (as defined hereafter) or a relative thereof; or (B) a person with "connections" (as defined above) to a Related or Competing Shareholder at the time of appointment and the two (2) years prior thereto. "Related or Competing Shareholder" is defined under the Israeli Companies Law as (x) the shareholder proposing such appointment; or (y) a holder of shares or voting rights in the company of at least 5%; and with respect to either of the foregoing, to the extent that at the time of appointment of the Independent Director such shareholder, a controlling shareholder thereof or a company under the control of the foregoing has business connections with the company, or that it, a controlling shareholder thereof or a company under the control of the foregoing is a competitor of the company; or

(b) the Board proposed the additional service term of such Independent Director and such appointment is approved in the same way as the appointment for the initial term is approved (see above); or

(c) the Independent (external) Director himself/ herself proposed his/ her re-election and the appointment is approved in accordance with the conditions described under (a) above.

Independent ("Non-Dependent") Directors

Pursuant to the Israeli Companies Law, a public company may also designate certain directors as independent (non-dependent) directors. Pursuant to the relevant provisions of the law, independent (non-dependent) directors are either (i) Independent (external) Directors as set forth above, or (ii) such persons who fulfill all of the requirements applicable to Independent (external) Directors, as confirmed by the Audit Committee, except special financial or professional qualifications, and who have not served as a director of the Company for more than nine (9) continuous years (whereby any interruption of less than two (2) years does not suffice to constitute a disruption of such continuance). Unlike Independent (external) Directors, independent (non-dependent) directors are not elected for three (3) year terms, but may be re-elected each year. No special majority requirements apply with respect to their election.

As set forth below, a majority of the members of the Company's Audit Committee are required to be independent (non-dependent) directors (i.e. including the Independent (external) Directors). The Company has currently no directors that have been designated by the Audit Committee as independent (non-dependent) directors.

Executive and Non-Executive Members of the Board

There are currently no executive directors on the Board of the Company. None of the non-executive members of the Board in the year under review 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 (with respect to the election of Mr. Erez Alroy, former Co-CEO of the Company, as a director as of the 2016 AGM and until May 11, 2017, please see under "Change in the Financial Year 2016" above). The non-executive members of the Board have no significant business connections with SHL or SHL's group companies. For a description of the family relationship between Mr. Elon Shalev, a non-executive member of the Board (and its Chairman in the past, as well as between March 23, 2017 and June 14, 2017), and other members of the Alroy Group (including the former Co-CEOs, Messrs. Yariv and Erez Alroy), see "Significant Shareholders" in Section 1.2 above and "Share Ownership" in Section 5.2.

Board Members as of December 31, 2016

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 as of December 31, 2016. For changes to the composition of the Board following December 31, 2016, please refer to "Change in the Financial Year 2016" above.

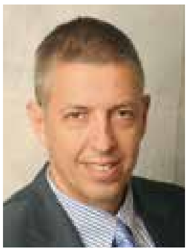
Name	Nationality	Position	First Election	Remaining Term*
Uzi Blumensohn	Israeli	Chairman of the Board/Non-executive member	2015	NA
Erez Alroy	Israeli	Non-executive member	2016	NA
Dr. Ruth Ben Yakar	Israeli	Non-executive member/Independent (external) Director	2014	NA
Prof. Amir Lerman	Israeli and US	Non-executive member	2016	2018
Elon Shalev	Israeli	Non-executive member	1987	2018
Doron Steiger	Israeli	Non-Executive member	2016	NA

* Where the remaining term is indicated as 2018, this means until the 2018 AGM. "NA" – not applicable – due to the person's resignation following December 31, 2016. For additional information regarding the election and term of office of SHL's directors please refer to Section 3.2 "Election of Directors and Term of Office".

Uzi Blumensohn

Mr. Blumensohn joined the Board of Directors of SHL as a non-executive Director at the end of 2015, was elected as Chairman on February 25, 2016, and has served in this position until his resignation on March 22, 2017. From 2008 to 2014 Mr. Blumensohn was the CEO and Chairman of the Board of Endymed Medical Ltd. (TLV:ENDY) a medical technology company that designs, develops, and commercializes energy based aesthetic treatment systems for the professional markets. From 2007 to 2008, Mr. Blumensohn was the VP Cardiology of McKesson Corporation (NYSE:MCK), ranked 11th on the FORTUNE 500 list, a healthcare services and information technology company. From 1995 to 2006, Mr. Blumensohn was the Chairman of the Board and CEO of Medcon Ltd., a cardiac image and information management solutions company, traded on the Tel Aviv Stock exchange and sold to McKesson Corporation. Mr. Blumensohn holds a B.Sc. in Mathematics & Computer Science, an MBA and an MA in Conflict Resolution - all from the Tel-Aviv University. Nationality: Israeli.

Erez Alroy



Mr. Erez Alroy served a Board member in the year under review until the 2017 AGM. Mr. Alroy has served as Co-CEO of SHL from 2000 until January 15, 2016. Mr. Erez Alroy served in executive positions in SHL since its inception. Prior to holding the position of Co-CEO, he served as the General Manager of SHL's operations in Israel from 1997 to 2000. Before that he served as SHL's Vice President of Marketing, Israel (from 1993 to 1997) and Sales Manager, Israel (from 1987 to 1993). Mr. Erez Alroy also served as a director of the Company from 2008 to 2014 and in 2015 also served as a director of Shahal Haifa, Shahal Rishon and SHL INT (from which positions he resigned as of January 15, 2016). Mr. Alroy is currently a board member in Merhavia Investments Ltd., a public company traded on TASE. Mr. Erez Alroy holds an MBA from the Hebrew University in Jerusalem. Nationality: Israeli.

Dr. Ruth Ben Yakar

Dr. Ruth Ben Yakar joined the Board of Directors of SHL as an Independent (external) Director in 2014, until her resignation on April 4, 2017. Dr. Ben Yakar currently serves as the CEO of BioSight Ltd., a private pharmaceutical development company, active in the field of oncology, and the Chairperson of RAM Technologies Ltd., which provides management and consulting services to biotech companies. From 2012 to 2015 Dr. Ben Yakar served as a Director at the Board of Directors of IATI (Israel Advanced Technologies Industries) organization. From 2012 to 2014, Dr. Ben Yakar was the CEO of Procognia Ltd. (TASE: PRCG), active in the biopharmaceutical analytics and development field and from 2011 to 2012, she served as the CEO of Thrombotech Ltd., a phase II clinical stage Israeli biotech company, active in the fields of CNS and cardiovascular therapeutics. From 2009 to 2011, Dr. Ben Yakar was the Chief Business Officer of YEDA Research and Development Ltd., the technology transfer company of the Weizmann Institute of Science, and from 2008 to 2009 she served as Vice President at the cell therapy company Gamida Cell Ltd. Dr. Ben Yakar currently also serves as a director on the Board of Directors of Cellect Biomed Ltd. (TASE: CLBD). Dr. Ben Yakar was awarded a Ph.D. Cum Laude, in Life Sciences, from the Weizmann Institute of Science, and a B.Sc. Cum Laude in Life Sciences from the Tel-Aviv University. Nationality: Israeli.

Prof. Amir Lerman

Prof. Lerman joined the Board of Directors of SHL as a non-executive Director in 2016. Prof. Lerman is the Vice-Chair, Cardiovascular Department and the Director of the Cardiovascular Research Center at the Mayo Clinic in Rochester (USA) since 2010. He is also the Program Director for vascular and valve, Center for Regenerative Medicine at the Mayo Clinic, since 2012. In addition, Prof. Lerman serves as the Director of the Mayo-Israeli start up company initiative as well as a faculty member at the Mirage Institute: US-Israel innovation bridge business leadership program, since 2009, in addition to various other positions held at the Mayo Clinic. Prof. Lerman also holds an appointment as Professor of Medicine at the Mayo Medical School since 2001. Prof. Lerman graduated from the Technion school of Medicine in Haifa Israel in 1985 and completed his training in internal medicine, cardiovascular diseases and invasive cardiology at the Mayo Clinic in 1994. Prof. Lerman published more than 500 manuscripts, book chapters and reviews; the NIH, AHA, and several foundations support his research. Nationality: American/ Israeli.

Elon Shalev

Elon Shalev is co-founder of SHL, has served as a director of SHL since its inception in 1987 and was its Chief Operating Officer from 1990 to 1993. In edition he served as Chairman from March 23, 2017 till June 25, 2017, as well as in the past. Mr. Shalev currently serves as the Vice Chairman of the board of directors of Partner Communications Company (NASDAQ, TASE: PTNR), a leading Israeli provider of telecommunications services since 2013. Mr. Shalev was the founder of Channel 2 news in Israel and from 1993 to 1995 served as its CEO. From 1996 to 1999, he was Editor in Chief of "Yediot Aharonot", the largest daily newspaper in Israel and from 2000-2001 he was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group. Mr. Shalev has been serving as a senior advisor to the Saban Capital Group since 2004. He was a director in several large and well known Israeli firms. Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Nationality: Israeli.

Doron Steiger

Mr. Doron Steiger has served on SHL Board from April 2016 until February 2017. He has been serving as active Chairman and adviser to Kibbutz Revivim since 2011 and currently serves as a director in a number of private and public companies, including Kerur Holdings Ltd. (TASE: KRUR), Ashdar Building Co. Ltd. (TASE: ASDR) and Raval ACS Ltd. (TASE: RVL). From 2006 to 2009, he was a partner in ART PE, a private equity fund. Prior thereto, from 1998 to 2006 he was co-founder and managing partner of Dirad Investments Ltd., a private equity investment firm. Before that he held senior managerial positions including serving as the CEO of Israel Corporation (TASE: ILCO), one of the largest holding companies in Israel (from 1996 to 1997) and deputy CEO of Clal Industries Ltd., an Israel based investment company (from 1993 to 1996). Mr. Steiger holds a BA degree in economy and an MBA in finance and accounting - all from Tel-Aviv University. Nationality: Israeli.

The following persons have served as Board members for part of the year under review, until their respective resignations: Mr. Eli Alroy served as a Board member from April 26, 2015 until his resignation on December 16, 2016; Mr. Eyal Bakshi served as a Board member from the 2016 AGM until his resignation on December 15, 2016; Mr. Amnon Sorek served as a Board member from November 27, 2014, until his resignation on April 18, 2016. In addition, Mr. Oren Most, Mr. Ziv Carthy, and Mr Elad Magal have served as directors at the beginning of the year under review until the 2016 AGM, held in February 2016.

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 as of the date hereof.
For changes to the composition of the Board following December 31, 2016, please refer to "Change in the Financial Year 2016" above.

Name	Nationality	Position	First Election	Remaining Term*
Xuewen Wu	Chinese	Chairman of the Board/ Non-executive member	2017	2018
Yehoshua Abramovich	Israeli	Non-executive member/ Independent (external) Director	2017	2020
Yi He	Chinese	Non-executive member/	2017	2018
Prof. Amir Lerman	Israeli and US	Non-executive member	2016	2018
Xuequn Qian	Chinese	Non-executive member/ Independent (external) Director	2017	2020
Elon Shalev	Israeli	Non-executive member	1987	2018
Cailong Su	Chinese	Non-executive member	2017	2018
Shenlu Xu	Chinese	Non-executive member	2017	2018

Below are the resumes of the current members of the Board, to the extent not mentioned above:

Xuewen Wu – Chairman of the Board

Mr. Wu joined the Board of Directors of SHL as a Director in May 2017. He is the Vice President and CTO of the Beijing Hospmall Technology Co., Ltd. which is a leading internet medical company in China since 2014. Prior to that, he served as Senior Manager and Chief Architect in Digital Film Research Institute of Dadi Culture Communication Group, and Project Manager in Research and Development Center of Toshiba (China). Mr. Wu has many years of experience in system architecture design and software development, as well as in technical team management and project management. Mr. Wu holds a Bachelor degree from National University of Defense Technology, a Master degree from Tsinghua University, and a Doctor degree from Beijing Normal University, China. Nationality: Chinese.

Yehoshua Abramovich

Mr. Abramovich joined the Board of Directors of SHL as a non-executive Director/ Independent (external) Director in June 2017. Mr. Abramovich has held key positions in the Israeli capital market for over 25 years. He serves as the chairman of the board of Somoto limited ,chairman of Atrade , Member of the board of directors and chairman of the investment committee of I.D.I Insurance company and as a director in few other high-tech companies. Mr. Abramovich was the CEO of Clal Finance during several years, one of Israel's largest financial institution who provided a broad array of financial services ranging from portfolio management to brokerage and underwriting services. Clal Finance owned and managed mutual funds, an in-house hedge fund, and offered individually tailored structured products to clients.. Prior to that, he served in various positions in Clal group, including Deputy CEO of Clal Insurance Enterprises Holdings. He served on the board of directors of the Tel-Aviv Stock Exchange until Sept 2009,and he is a member of the board of trustees of the Academic Track of the College of Management (COM). He has a B.A. in Economics & business management and a MBA from Tel Aviv University. Nationality: Israeli.

Yi He

Mr. He joined the Board of Directors of SHL as a Director in May 2017. He is the Co-founder and CEO of the Beijing Hospmall Technology Co., Ltd. From 2008 to 2014, He is the Vice General Manager and Board Director in Mengdong Energy Holding Company. Prior to that, he served as Vice Present and Director of Asset Management in Zhongke Merchants Investment Group. Mr. He holds a BA degree from China Youth University for Political Sciences, a Master degree from Chinese Academy of Sciences, and an EMBA from China Europe International Business School. Nationality: Chinese.

Xuequn Qian

Mr. Xuequn Qian joined the Board of Directors of SHL as a non-executive Director/ Independent (external) Director in June 2017. Mr. is a registered practicing lawyer in China and specializes in financial and corporate law. Since 1999, He has been practicing with Fujian Far Wide Law Firm. In his distinguished legal career, he has represented many technology companies, such as Xiamen Faratronic, a world leading manufacturer of film capacitors and metallized film. He also served as a postgraduate advisor for Xiamen University Law School. Mr. Qian also has broad experience in finance and consulting. From 1990 to 1993, he worked as the risk management manager in Xiamen International Trust. He subsequently founded Shenzhen Xiaxin Security in 1993 and served as its General Manager. He then served as the Executive Director and Vice General Manager in Xiamen Hongxin Investment Advisory from 1995 to 1999. In 2007, Mr. Qian was admitted by the Hong Kong Quality Migrant Admission Scheme, which allows him to advise clients in both Mainland China and in Hong Kong. He currently serves as the Deputy Head of the Specialized Committee for Hong Kong, Macau, and Taiwan in the China Xiamen Bar Association. Mr. Qian obtained a Bachelor degree in Economics and a Masters degree in Law from Xiamen University. Nationality: Chinese.

Cailong Su

Mr. Su joined the Board of Directors of SHL as a Director in May 2017. Mr. Su is the Vice Chairman of the Board of Directors of Shenzhen Yanghe Biomedicine Industry Investment Co., Ltd. in China since 2013. Since 2002, Mr. Su served in various executive positions in Zhuhai Hokai Medical Instruments Co., Ltd., a leading public listed Chinese medical device company, as its Board member, Vice President and Board Secretary from 2007 to November 2013. From 1995 to 2002, Mr. Su was the Manager of Business Development Department, Credit Department and Legal Affairs Department of Zhuhai Branch, the Bank of East Asia, Ltd., a bank based in Hong Kong. Mr. Su holds an MBA from Murdoch University, Australia. Nationality: Chinese.

Shenlu Xu

Ms. Shenlu Xu joined the Board of Directors of SHL as a Director in May 2017. Ms. Xu is currently pursuing a Juris Doctor degree at Harvard Law School where she focuses her studies on corporate transactions and corporate governance. Previously, Ms Xu obtained a Bachelor of Business Administration (Accounting and Finance) from University of Hong Kong where she was awarded several scholarships and graduated with first class honors. She has years of experience in investing in the stock market and has interned with various financial institutions and law firms, such as Simpson Thacher & Bartlett LLP, Taikang Asset Management, Himalaya TMT Fund and Hadef & Partners. Ms. Xu is the daughter of Mr. Xu Xiang, who is the Managing Director of Himalaya Asset Management Limited. Nationality: Hong Kong SAR, China.

3.2 Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, all members of the Board, except the two (2) Independent (external) Directors (who are to be elected as described above), 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 (external) Directors - who may only serve three (3) three-year terms (please refer to the description above) - may be re-elected with no limit.

Pursuant to the provisions of the Israeli Companies Law, each candidate for directorship in a public company is required to execute a written declaration pursuant to which such person has the requisite qualifications and is able to dedicate the required time to its service as a director, and further that none of the reasons stipulated under the Israeli Companies Law preventing such director from being eligible for service as a director (such as a court conviction of an offense of corruption, fraud or use of inside information so long as five (5) years have not yet lapsed from the date of the relevant verdict) apply. With respect to Independent (external) Directors, the proposed candidates have to further submit a declaration that they fulfill the special professional qualification requirements stipulated under the Israeli Companies Law applicable to Independent Directors (see Section 3.1 above). The foregoing declarations have to be submitted prior to the call for a shareholders' meeting at which the relevant candidate is proposed to be elected as a director.

In addition to the foregoing, a person who is a candidate to be a director of a company is required to disclose to the company, amongst others, whether the enforcement committee instituted under the Israeli Securities Law has imposed certain enforcement measures on such person preventing him/ her from serving as a director in a public company, so long as the applicable period of restriction imposed has not yet lapsed. If sanctions were imposed which prohibit service as a director in a public company, then (a) the relevant candidate will not be appointed as a director; and (b) the service of any person already serving as a director will immediately terminate with submission of notice by the relevant director regarding such enforcement measures.

Under the Israeli Companies Law, the following persons may not be appointed as Chairman of the Board of a public company: (a) neither the Chief Executive Officer himself/ herself nor any of his/her relatives (as such term is defined under the Israeli Companies Law and which does not include uncles, aunts or cousins) may at the same time serve as Chairman of the Board, 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 and the shareholders. Approval by the shareholders requires that either (i) pursuant to a change in applicable law, if effect as of the year under review, the a majority vote in favor of the resolution shall include the consent of at least a 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 and who are not controlling shareholders of the Company (whereby abstaining votes will not be counted), or (ii) the total shares of the shareholders who are not controlling shareholder and have no personal interest in approving the resolution voted against the resolution do not represent more than two (2) percent of the voting rights in the Company; or (b) a person directly or indirectly subordinated to the CEO. In addition, in a public company, the Chairman of the Board or his/ her relatives may not be authorized to exercise the powers of (a) the CEO, unless under the special approval requirements set forth above and each time only for a period of up to three (3) years; or (b) a person directly or indirectly subordinated to the CEO, and the Chairman is also prevented from serving in any other position in the company or an entity in its control (except service as a director or Chairman of a company under its control.) Shareholders participating in the special approvals as described above must disclose prior to the vote whether or not they have a personal interest - if no such disclosure is made, the votes of such shareholders will not be counted.

3.3 Internal Organizational Structure

Pursuant to the Israeli Companies Law and SHL's Articles of Association, the Board is ultimately responsible for the general policies and management of SHL. The Board establishes the strategic, organizational, accounting and financing policies of SHL. Specifically, the Board of SHL reviews, discusses and approves the quarterly financial statements of the Company, and is updated on a regular basis regarding the development of SHL's business.

The Board meets at least once each quarter. Topics addressed in the meetings include the strategy, business reviews and major projects, investments and transactions. Each of the Board Committees conducts its meetings according to the needs of the relevant Board Committee. The Chief Executive Officer and the Chief

Financial Officer of the Company are invited to Board meetings and attend such as the Board deems necessary. The Board regularly invites its external legal counsel to participate in meetings. Pursuant to the Israeli Companies Law, persons that may not be elected as members of the audit committee and the compensation committee of a company (for further information regarding persons not qualified to be audit committee or compensation committee members, please see the relevant sub-sections of this section below), respectively, may not be present at meetings of these committees unless the chairman of the committee determined that his/ her presence is required in order to present a certain topic; provided that (a) an employee of the company (who is not a controlling shareholder or its relative) may be present at the discussion in such meeting (but not at the time any resolution is taken) if such presence was requested by the committee; and (b) the company's legal counsel and the company corporate secretary (who are not controlling shareholders or their relatives) may be present both at discussions and resolutions of the audit or compensation committees if so requested by such committee.
The Board 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 CEO of the Company, 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;
- 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 CEO 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 (including without limitations, dividends and share repurchases);
- 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 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 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 held seventeen (17) meetings. The length of such meeting depends on the agenda. Meetings of the Board may also 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 at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board. A resolution proposed at any meeting of the Board 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 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 (external) Director, such alternate director shall have financial and accounting expertise or professional skills, dependant on the expertise and skills of the Independent (external) Director such alternate director is supposed to replace. An alternate director to an Independent (external) 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 who shall be responsible for the day-to-day operation of the company within the limits of the policy determined by the Board and subject to its direction. In a public company, office holders who are not directors are appointed by the General Manager/ CEO who may determine the powers and duties of such office holders.

Committees of the Board and Internal Auditor

The Articles of Association of SHL provide that the Board may delegate any or all of its powers to committees of the Board 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. 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, so far as not superseded by any regulations adopted by the Board of Directors. Any such committee authorized to execute the powers of the Board shall include at least one (1) Independent (external) Director. A committee authorized to execute the powers of the Board may only be comprised of members of the Board. A committee whose powers are limited to providing recommendations to the Board may be comprised of non members.

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 re-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, in the year under review, the Board of Directors has appointed an Audit Committee and a Compensation Committee. These committees were not able to fulfill their roles from the end of the term of Mrs. Ronen in September 2016 until the appointment of Mr. Harel in January, and from the resignations of Mr. Harel and Dr. Ben Yakar in April 2017 until the Second 2017 SGM (end of June 2017).

Although not mandatory, under the provisions of the Israeli Companies Law for a company which is not subject to reporting obligations under the Israeli Securities Law, the Board of Directors has voluntarily appointed a Committee for the Examination of the Financial Statements as of March 18, 2015 (the "FS Committee"). For further details regarding the composition of said committee in the year under review and as of the date hereof, please see below.

In addition, in 2015 as well as in 2017 the Board appointed a CEO Search Committees for the appointment of Mr. Shaked in January 2016 as CEO, and following his resignation in 2017 (see under "Change in the Financial Year 2016").

The committees of the Board of Directors meet as necessary and are required to take minutes, make full reports and recommendations to the Board of Directors.

Pursuant to the Israeli Companies Law, the Board of Directors also appointed an internal auditor proposed by the Audit Committee.

Audit Committee – Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent (external) Directors, and a majority of its members must be Independent (Non-Dependent) Directors (i.e. including the Independent (external) Directors). The following persons may not be members of the Audit Committee: (a) the Chairman of the Board; (b) any director employed by the Company; (c) any director employed by a controlling shareholder of the Company or an entity under the control of such controlling shareholder; (d) any director who provides services, on a regular basis, to the Company, a controlling shareholder or an entity under the control of a controlling shareholder; (e) a director whose main livelihood is based on a controlling shareholder; and (f) a controlling shareholder or any of its relatives. Subject to limited exceptions, any person who could not be a member of the Audit Committee may not be present at its meetings. The Chairman of the Audit Committee shall be an Independent (external) Director not serving for more than nine (9) years. The legal quorum for any meeting of the Audit Committee shall be a majority of its members, provided that the majority of those present shall be Independent (non-dependent) Directors (see description above), and further provided that at least one (1) Independent (external) Director shall be present. The role of the Audit Committee includes, amongst others, the following: (a) to examine flaws in the business management of the Company, in consultation with the Internal Auditor and the external auditors, and to propose remedial measures to the Board; (b) to determine whether an interested party transaction is an ordinary or extraordinary transaction (where extraordinary transactions are subject to special approval requirements) (for special approval requirements with respect to controlling shareholder and director engagement terms, please refer to the Section on “Compensation, Shareholdings and Loans” below); (c) to approve interested party transactions, where so required under the Israeli Companies Law; and (d) to examine the existing internal control measures of the Company and the functioning of the Internal Auditor (see below). The Audit Committee is also charged with (a) prescribing with respect to transactions with controlling shareholders or another person in which a controlling shareholder has a personal interest (even if they are determined by the Audit Committee not to be extraordinary transactions), as well as with respect to the engagement terms of controlling shareholders and their relatives, the obligation to conduct either (i) a competitive process under the supervision of either the Audit Committee or who else the Audit Committee may determine in respect thereof pursuant to the criteria set by it; or (ii) other processes as determined by the Audit Committee, prior to the relevant transaction, and all in accordance with the type of transaction in question, and the Audit Committee may set the relevant criteria therefore once a year in advance; and (b) to determine the manner of approval of transactions with controlling shareholders or another person in which a controlling shareholder has a personal interest and to determine kinds of such transactions which require the approval of the Audit Committee, all with respect to such transactions which pursuant to the determination of the Audit Committee are not extraordinary transactions but also not negligible - the Audit Committee may so determine with respect to types of transactions according to criteria it may set one a year in advance. The Audit Committee also determines whether a director or candidate for director fulfills the requirements for being classified as an independent (non-dependent) director. Neither the Israeli Companies Law nor the Company’s Articles of Association prescribe a certain frequency at which meetings of the Audit Committee are to take place. Accordingly, the Audit Committee meets from time to time when deemed necessary. Pursuant to the Israeli Companies Law, the Internal Auditor (see below) may request the chairperson of the Audit Committee to convene a meeting and the chairperson shall then convene such meeting if it deems it fit. In addition, should the Audit

Committee find that there is a material flaw in the business management of the Company, it shall hold at least one meeting with respect to such material flaw in the presence of the Internal or external auditor, as the case may be, without any office holders that are not members of the committee present; provided that an office holder may be present for the purpose of presenting an opinion with respect to a matter which is in his/ her field of responsibility. The duration of the meetings varies in accordance with the topics discussed. During the year under review the Audit Committee held one (1) meeting, the duration of which was approximately one (1) hour.
In the year under review and until the end of Ms. Nehama Ronen's term as Board member in September 2016, the Audit Committee was composed of the following members: Ms. Nehama Ronen (who served as Chairperson), Dr. Ruth Ben Yakar, and Mr. Doron Steiger. Currently, following the 2017 AGM and the Second 2017 SGM, the members are Mr. Yehoshua Abramovich, Mr. Xuequn Qian, and Prof. Amir Lerman (for details of changes please refer to "Change in the Financial Year 2016" and secion 3.1 "Board of Directors" above).

Compensation Committee – Pursuant to the Israeli Companies Law, an Israeli public company is obligated to appoint a Compensation Committee, which shall be comprised of at least three (3) members and of which all Independent (external) Directors shall be members and constitute a majority. The remaining members of the Compensation Committee shall be such whose engagement terms correspond to the rules of compensation set forth under applicable regulations under the Companies Law with respect to Independent (external) Directors. Persons who may not be members of the Audit Committee (see description above) may also not be members of the Compensation Committee. The Chairman of the Compensation Committee shall be an Independent (external) Director not serving for more than nine (9) years. The Audit Committee and the Compensation Committee may have identical members and an Audit Committee fulfilling the above requirements may at the same time also serve as the Compensation Committee.

The role and authority of the Compensation Committee shall include (a) the issuance of a recommendation to the Board of Directors regarding the Compensation Policy, (b) issuance of a recommendation to the Board of Directors once every three (3) years regarding the extension of the Compensation Policy; (c) recommendation to the Board of Directors from time to time regarding any amendments to the Compensation Policy, as well as examination regarding its implementation; (d) approval of transactions with office holders (including controlling shareholders) regarding the terms of their engagement with the Company as required under the Israeli Companies Law; and (e) exemption of certain transactions from the shareholder approval requirement which may otherwise apply pursuant to the Israeli Companies Law. Neither the Israeli Companies Law nor the Company's Articles of Association prescribe a certain frequency at which meetings of the Compensation Committee are to take place. Accordingly, the Compensation Committee meets from time to time when deemed necessary. During the year under review it held twelve (12) meetings. The duration of the meetings varies in accordance with the topics discussed. In the year under review the average meeting duration was approximately one (1) hour.
In the year under review and until the end of the term of Ms. Nehama Ronen as Board member in September 2016, the Compensation Committee was composed of the following members: Ms. Nehama Ronen (who served as Chairperson), Dr. Ruth Ben Yakar, and Mr. Steiger. Currently, following the 2017 AGM and the Second 2017 SGM, the members are Mr. Yehoshua Abramovich, Mr. Xuequn Qian, and Prof. Amir Lerman (for details of changes please refer to "Change in the Financial Year 2016" and secion 3.1 "Board of Directors" above).

Committee for the Examination of the Financial Statements ("FS Committee") – Pursuant to the Israeli Companies Law, only companies which are "reporting companies" (for such purpose only companies subject to reporting obligations to the Israeli Securities Authority) must establish a FS Committee. However, the Board has voluntarily appointed a FS Committee as of March 18, 2015. Pursuant to regulations promulgated under the Israeli Companies Law, the FS Committee shall be comprised of at least three (3) members and those persons which may not serve on the Audit Committee are also prevented from serving on the FS Committee. The majority of its members must be independent (non-dependent) directors (i.e. including independent (external) directors). The committee's chairperson shall be an Independent (external) Director. All members must be able to read and understand financial reports and at least one of the Independent (non-dependent) Directors must be a director with financial and accounting expertise (as such term is defined under applicable regulations promulgated under the Israeli Companies Law). The Audit Committee may at the same time serve as the FS Committee if all of the legal requirements with respect to the committee members are met.

The task of the FS Committee is to examine the financial statements of the Company prior to their approval by the Board. In particular, the financial statements shall only be brought to the Board for approval, if all of the following have been complied with: (A) The FS Committee shall have discussed and submitted its recommendations to the Board on all of the following items: (a) evaluations and estimations that were made in connection with the financial statements; (b) internal controls over financial reporting; (c) completeness and fairness of disclosures made under the financial statements; (d) the financial guidelines adopted and financial treatment implemented with respect to material matters of the Company; and (e) valuations, including assumptions and estimations on which they are based, on which the financial statements rely; (B) the external auditor shall be invited to all meetings of the FS Committee, and the Internal Auditor of the Company shall receive notices of its meetings and may participate therein; (C) the FS Committee shall have submitted its recommendation regarding the approval of the financial statements a reasonable time prior to the discussion thereof by the Board and shall have reported to the Board regarding all defects or problems which it may have discovered during its examination of the financial statements; and (D) the Board shall discuss the recommendations of the FS Committee.

During the year under review the FS Committee held two (2) meetings. In the year under review the average meeting duration was approximately two (2) hours.

The members of the FS Committee in the year under review and until the end of the term of Ms. Nehama Ronen as Board member in September 2016 were Ms. Nehama Ronen (who served as Chairperson), Dr. Ruth Ben Yakar and Mr. Doron Steiger. Currently, following the 2017 AGM and the Second 2017 SGM, the members are Mr. Yehoshua Abramovich, Mr. Xuequan Qian, and Prof. Amir Lerman

The 2015 CEO Search Committee – The 2015 CEO Search Committee, appointed in March 2015 fulfilled its task with the appointment of Mr. Shaked. In addition to the meetings held in 2015, in January 2016 they held 1 meeting. The average meeting duration was approximately 1 hour. The 2015 CEO Search Committee was initially composed of Dr. Ben Yakar and Mr. Most. Mr. Eli Alroy joined the CEO Search Committee following his election to the Board.

Internal Auditor – Pursuant to the Israeli Companies Law, the Board of a public company shall appoint an internal auditor. Such appointment is made upon recommendation of the Audit Committee. Neither an interested party nor an officer of the company, any relatives of the foregoing or the external auditor or anyone on its behalf 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, together 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 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. In addition, 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. Pursuant to the Israeli Companies Law and the Company's Articles of Association, the internal auditor has to submit a work program to the Company's Audit Committee for approval.

Mr. Gil Ruguz'inski has served as SHL's Internal Auditor since December 2013 until he was replaced by Mr. Avner Eliav in June 2016.

3.4 Definition of Areas of Responsibility of Management; Information and Control Instruments Vis-À-Vis Senior Management

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

- Regularly assessing the achievement of targets set for the Company's business;
- Implementing the corporate policies, strategies and strategic plans given by the Board;
- 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 controls the actions of Senior Management through a variety of control mechanisms:

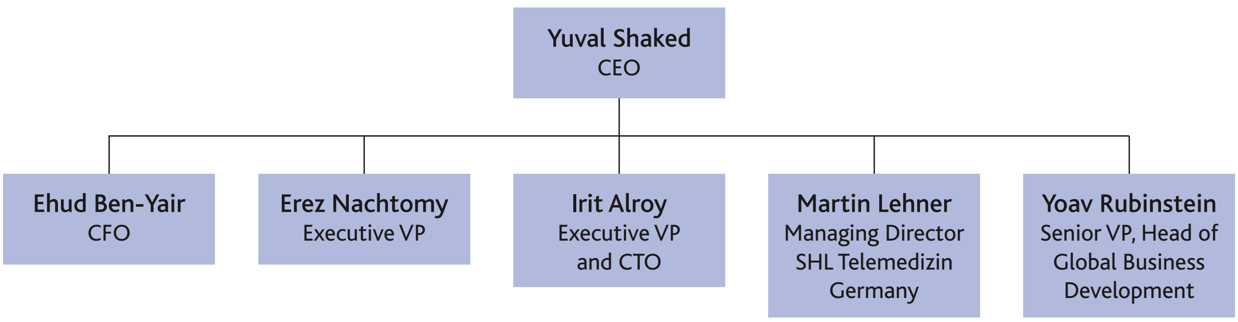
- The CEO and CFO inform the Board regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board and CEO(s) and CFO as deemed necessary.
- Control over financial management is exercised by the FS Committee and the Board, which invite the CFO to each meeting at which financial results are discussed, as well as SHL's external auditors, as deemed necessary (for further information on the Company's external auditors, please refer to the Section titled "Committee of the Board and Internal Auditors"). The FS Committee and the Board discuss with the CFO and the auditors (to the extent applicable) not only the financial statements themselves but also their assessment of the internal controls and whether any material weaknesses have come to their attention
- SHL has an Internal Auditor (for further information, please refer to "Committees of the Board and Internal Auditor" above). 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 Chairman of the Board, the CEO and the Chairman of the Audit Committee.

4. Senior Management

4.1 Members of Senior Management; Other Activities and Vested Interests

4.1.1 Organizational Structure as of December 31, 2016

For changes following December 31, 2016, please refer to "Change in the Financial Year 2016" above.



4.1.2 For developments in the Year under Review see "Change in the Financial Year 2016" and Management Section above

For further developments following December 31, 2016 see "Change in the Financial Year 2016" and Management Section above.

For changes following the year under review, please see "Change in the Financial Year 2016" and Management Section above.

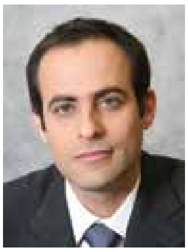
The following members of management were in office as of December 31, 2016:

Yuval Shaked, Chief Executive Officer

Yuval Shaked joined SHL as its CEO in March 2016 until his resignation in January 2017.. Prior to joining SHL Yuval served as the General Manager – Diagnostic Cardiology of GE Healthcare in the US from 2012 to 2016, being responsible for the P&L of the division and leading both on and off-shore R&D and marketing teams conducting worldwide sales of devices and IT solutions in the cardiology field. During his service, Yuval Shaked gained extensive experience in the telemedicine space. Prior thereto, Yuval Shaked held the positions of General Manager of the VersaMed Business of GE Healthcare in Israel from 2010 to 2012 and Global Marketing and EMEA Home Sales Manager of GE Healthcare from 2009 to 2010, as well as VP Operations of VersaMed in Israel (a company acquired by GE) from 2007 to 2009. Mr. Shaked holds a B.A. in Economics (summa cum laude) from Haifa University, as well as an MBA from Tel Aviv University. Nationality: Israeli

Ehud Ben Yair, Chief Financial Officer

Ehud Ben-Yair has served as SHL's CFO from September 15, 2016 until his resignation on March 22, 2017.. He is an experienced CFO with an extensive background in global technology companies (both publicly traded and private) with a wide scope business activity. Previous to joining SHL he served as CFO of Opgal Optronics, a subsidiary of Elbit Systems (NASDAQ ESLT) and Rafael, a company developing and selling thermal imaging cameras for military and civilian markets worldwide (2013-2016) His former roles include CFO & VP Finance of Orad Hi-Tec Systems (2005-2011), a multinational hi-tech company formerly traded on AIM and the Frankfurt stock exchange (ORAD); CFO & VP Operations of Olive Software (2002-2005), a global software company; and Director of Finance of Voltaire (2000-2002), a public company formerly traded on NASDAQ (VOLT), developing and marketing switches for fast communications. He started his career 1994 as an audit manager for EY in Israel. Ehud Ben Yair is a CPA in Israel and holds a B.A. in Economics and Accounting from Ben Gurion University, Israel. Nationality: Israeli.



Yoav Rubinstein, Currently – Chief Executive Officer; in 2016 - Senior Vice-President, Head of Global Business Development

In the Year under review Mr. Rubinstein served as Senior Vice-President, Head of Global Business Development as well as Interim CEO from 16 January 2016 until 2 March 2016, and from April, 21, 2017 until his appointment as CEO On June 1, 2017.

Mr. Rubinstein has served as Senior Vice-President, Head of Global Business Development since March 2012, and was appointed as interim CEO as of January 2016 until Mr. Shaked, commenced his employment with the Company on March 2, 2016, as well as from April, 21, 2017 until his appointment as CEO On June 1, 2017. Before joining SHL, Mr. Rubinstein worked in the private equity industry, for 9.5 years as a Principal for Apax Partners (from 2000 to 2010) and then as a Senior Advisor to Saban Capital Group from 2010 to 2012. Mr. Rubinstein holds a B.A. in Business Administration from the Interdisciplinary Center, Israel. Nationality: Israeli and American.

Irit Alroy, Executive Vice-President and CTO see above

Ms. Alroy has served as SHL's Executive Vice-President and Chief Technology Officer since SHL's inception until her resignation in January 2017. Prior to that Mrs. Alroy held different positions in the field of IT development in Israel until her resignation in January 2017. Ms. Alroy holds a B.Sc. in Geology and Biology from the Hebrew University of Jerusalem, Israel and an MBA from the Interdisciplinary Center, Israel. Nationality: Israeli.

Eran Kristal, General Manager – Israel and Executive Vice President

Eran Kristal joined SHL in May 2016. Prior to his engagement with SHL, since 2010, Eran Kristal served as the CEO of BezeqOnline Ltd., a known leader in the establishment and operation of call center services. Prior to that, he held several positions at Bezeq International Ltd., Israel's largest Internet services and international telecommunications provider: as VP Customer Service (from 2004 to 2010), Sales director Customer Division (from 2001 to 2004) and Manager of Direct Sales division (from 1999 to 2001). Eran Kristal holds a bachelor's degree in business (with distinction), as well as an MBA. Nationality: Israeli.

Martin Lehner, Managing Director - SHL Telemedizin, Germany

Mr. Lehner joined SHL as Managing Director, SHL Group Germany in May 2014. Prior to joining SHL, from 2008 to 2012, Mr. Lehner served as CEO & President of the Amoena Group, Germany, a world market leading medical products company with around 800 employees and 17 subsidiaries, as Executive Vice President Sales & Marketing at Elan Group, Slovenia from 1997 to 2008 and CEO and Chairman of Profeet Functional Wear, Germany from 2012 to 2014. From 1994 to 1996 Mr Lehner was engaged at the MIT- Institute and worked from 1991 – 1992 at Quelle, Hong Kong. Mr. Lehner holds a B.A. in international marketing and HR from the Hochschule für Technik und Wirtschaft Kempten, Germany Nationality: German.

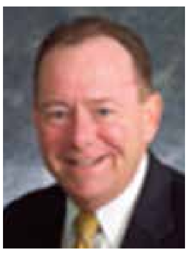
The following members of management have served as management for part of the year under review, and are no longer employed by SHL:

Eran Antebi, Chief Financial Officer

Mr. Antebi has served as the CFO of the SHL Group since 2008 until September 30, 2016. Mr. Antebi joined SHL in May 2004 as CFO of Shahal Israel. Prior to joining SHL, from 2000 to 2004, Mr. Antebi was a manager with Ernst & Young in Israel. Mr. Antebi is a certified public accountant (CPA) in Israel and holds a B.A. in Accounting and Economics from Tel Aviv University. Nationality: Israeli.

Erez Nachtomy, Executive Vice-President

Mr. Nachtomy has served as Executive Vice President in SHL from March 2004 until December 2016. From 2001 to 2004, Mr. Nachtomy held the position of Vice President in SHL. Before joining SHL, from 1990 to 2001, Mr. Nachtomy worked for one of the leading law firms in Israel with his last position being a senior partner (Corporate and M&A). Mr. Nachtomy holds an LL.B. from Tel-Aviv University. Nationality: Israeli.



Mr. Robert E. Sass, General Manager - SHL Telemedicine USA

Mr. Sass has served as General Manager of SHL Telemedicine, USA from the end of 2013 until August 2016. Prior to joining SHL, from 2007 to 2012, he spent six years with Philips Healthcare in a variety of executive leadership assignments in Remote Patient & Home Monitoring. Mr. Sass came to Philips through the acquisition of Raytel Cardiac Services, formerly owned by SHL. Mr. Sass has over thirty years of experience in the medical industry including being one of the founding corporate officers of Viterion Telehealthcare where he served from 2002 to 2005. Mr. Sass also served as a board member (for six years) and President (from 2011 to 2012), of the Remote Cardiac Services Provider Group, an industry association. Mr. Sass holds a B.Sc. in Business Administration from the University of Dayton, Ohio. Mr. Sass was recently appointed to the Dean's Advisory Counsel of the University of Dayton, School of Business, for a period of three years. Nationality: U.S.

The current members of management are:

Yoav Rubinstein - CEO (see above)

Yossi Vadnagra - Chief Financial Officer

Yossi Vadnagra joined SHL in February 2017 as Director of Business Development in Israel and has been appointed CFO in June 2017. With over Eighteen years of experience in international markets with Blue Chip companies as CFO in the Healthcare, Retail, and Engineering sectors. Before joining SHL, he worked for six years as Chief Financial Officer and Co-CEO for G&V Business Solutions Ltd. in Israel and India, and in this capacity, worked with SHL on business development projects in India. Prior to that, Yossi worked for five years as Chief Financial Officer and Strategic Planning for Elbit India Healthcare, a subsidiary of Elbit Imaging Ltd. (NASDAQ: EMITF).Yossi Vadnagra is a CPA (Israel) with an MBA in Finance, both degrees achieved with honors from the College of Management in Israel. Nationality: Israeli.

Eran Kristal (see above)

Yoni Dagan, CTO

Yoni Dagan joined SHL in February 2017 from US-based medCPU, a company which's enterprise decision support software and services captures and analyses the clinical picture from clinicians' freetext notes, dictations, and structured documentation entered into any Electronic Medical Record. At medCPU, Yoni Dagan was leading the R&D group based in Tel Aviv of over 30 engineers including R&D, integration, QA and algorithms teams. He has over 15 years of experience as a technology expert specializing in medical devices, multidisciplinary systems, and leading multidisciplinary projects. Prior to his role with medCPU, he served as Vice President of R&D in PulmOne Advanced Medical Devices, and CTO in SleepRate leading teams that developed novel medical devices and technologies. Yoni Dagan holds an MSc and a BSc in biomedical engineering, and an MBA from Tel Aviv University. He is a member of the medical devices standardization committee in the Israeli Institute of Standards Nationality: Israeli.

Martin Lehner - Managing Director - SHL Telemedizin, Germany (see above).

4.2 Management Contracts

SHL has not entered into management contracts with third parties, except as set forth below. In March 2001 SHL entered into a management contract with Erez Nachtomy pursuant to which Mr. Nachtomy was to provide SHL with services as an Executive Vice President. The aforesaid management was terminated by mutual consent on December 31, 2016. The compensation paid to Mr. Nachtomy pursuant to this agreement is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in "Compensation for Acting Members of Governing Bodies" Section below.

In March 2012 SHL entered into a management contract with Yoav Rubinstein pursuant to which Mr. Rubinstein provided SHL with services as Senior Vice President, Head of Global Business Development. As of end of 2016, said agreement was terminated and Mr. Rubinstein is employed under an employment agreement. The compensation paid to Mr. Rubinstein pursuant to this agreement in the year under review is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in "Compensation for Acting Members of Governing Bodies" Section below.

For information regarding Share Options please refer to "Share Options" Section.
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".

5. Compensation, Shareholdings and Loans

5.1 Content and Method of Determining the Compensation and of the Shareholding Programs – Compensation Policy

Pursuant to the Israeli Companies Law, an Israeli public company is required to adopt a compensation policy with respect to the terms of engagement of its officer holders (as such term is defined under the Israeli Companies Law and including without limitations, directors and controlling shareholders engaged as officers of the Company)(the "Compensation Policy"), subject to limited exceptions set forth in the regulations promulgated under the Israeli Companies Law in connection therewith (which are not applicable to SHL). The adoption of the Compensation Policy requires approval by the shareholders of the Company, further to approval by the Board which has to take into consideration the recommendations issued by the Compensation Committee in this respect. The relevant shareholder approval is subject to a special majority requirement of either (a) the majority vote in favor of the resolution including the consent of at least a majority of the shareholders' voting power represented at the meeting in person or by proxy and voting thereon who are neither controlling shareholders of the Company nor have a personal interest in approving the Compensation Policy (not including abstaining votes), or (b) the total number of votes of those shareholders described in (a) above and objecting to the adoption of the Compensation Policy not representing more than two (2) percent of the voting rights in the Company. Any shareholder participating in the vote on the adoption of the Compensation Policy has to inform the company prior to the relevant vote whether or not he/she/it has a personal interest therein. Votes of shareholders who did not notify the Company on whether or not they have a personal interest in accordance with the foregoing are not be counted.
Notwithstanding the aforesaid shareholder approval requirement, the Compensation Policy may also be approved, despite objection by the Company's shareholders in the event that after renewed consideration of the Compensation Policy and based on detailed reasons, both the Compensation Committee and thereafter the Board resolve that the adoption of such Compensation Policy despite the shareholders' objection is in the Company's best interest.
SHL's 2014 Compensation Policy was brought to the approval of the shareholders of the Company at the 2013 AGM, but failed to obtain the relevant special majority approval as set forth above. In January 2014, the Compensation Committee and the Board approved the Compensation Policy despite the objection of the general meeting after having reconsidered the Compensation Policy and having determined that the adoption thereof is in the Company's best interest, all in accordance with the provisions of the Israeli Companies Law, as described above. The 2014 Compensation Policy (including the amendments thereof approved by the Special General Meeting of the shareholders held in September 2015) has expired in January 2017. Certain amendments of the Compensation Policy were approved by the Company's Compensation Committee and Board, as well as by the Special General Meeting of the shareholders held in September 2015 (the "2015 SGM"), including (a) granting the Compensation Committee and the Board authority to accelerate the vesting of outstanding options in the event of a Corporate Transaction (as defined under the Company's 2015 Share Option Plan); (b) granting the Compensation Committee and the Board discretion to determine an exercise price different from the usual exercise price equal to the average trading price during the thirty (30) days prior to grant in exceptional circumstances or special cases as laid out by the Compensation Committee and the Board; and (c) granting the Compensation Committee and the Board authority to grant a cash compensation in lieu of an option grant under the 2015 Option Plan (equal to the sum which would have been received if such options had been

granted), subject to applicable law. The latter was annulled in the 2017 Compensation Policy. The 2017 Compensation Policy was approved by the Compensation Committee, the Board and the Shareholders of SHL.

Under law, the Board is required to examine from time to time whether any amendments to the Compensation Policy are necessary in light of changing circumstances or for any other reason, and similarly, the Compensation Committee shall issue recommendations to the Board in this respect from time to time. The Israeli Companies Law provides that the Compensation Policy shall be determined under consideration, amongst others, of the following points: (a) furtherance of the Company's objectives, its business plan and policies, with a long term view; (b) creation of adequate incentives for officer holders of the Company under consideration of the Company's risk management policy; (c) size of the Company and the nature of its operations; and (d) with respect to variable compensation components - the contribution of the office holder to the achievement of the Company's targets and increase in revenues, all with a long term view and in accordance with the position of the relevant office holder.

Further, the Compensation Policy shall deal with the following matters: (a) education, qualifications, expertise, professional experience and achievements of the relevant office holder; (b) the position of the office holder, his/ her responsibilities and previous engagements signed with him/ her; (c) the relation between the engagement terms of the relevant office holder to the engagement terms of the other employees and/ or subcontractors of the Company and particularly, the relation to the average salary and to the median (i.e. 50th percentile) salary of such employees and the impact of the difference between the foregoing on the working relationships in the Company; (d) in the event officer engagement terms include variable components - the possibility of reducing such components in the discretion of the Board of Directors, as well as the possibility to determine ceilings for the value of variable components which are not paid in cash; and (e) in the event the officer engagement terms include retirement grants - the period of engagement of the office holder, the applicable engagement terms during such time period, the performance of the Company during such period, the contribution of the officer holder to the achievement of the Company's targets and increase of its revenues, as well as the circumstances of retirement. At last, the Compensation Policy must contain the following provisions: (a) with respect to variable compensation components: (i) such must be based on the achievement of long-term performance goals and objectively measurable criteria (although with respect to an immaterial part of such components, the Company may resolve that such shall be granted based on criteria not objectively measurable under consideration of the officer holder's contribution to the Company); and (ii) the proportion between fixed and variable compensation components must be set, as well as a ceiling for the value of variable components at the time of payment (provided that with respect to variable components which are not paid in cash, a ceiling needs to be fixed at the time of grant); (b) a provision pursuant to which an office holder will repay to the Company any sums paid to him/ her as part of his/ her compensation if such sum was paid based on data which later turned out to be faulted and which was restated under the Company's financial statements, all on such conditions as set forth under the Compensation Policy; (c) a minimum holding and vesting period for variable compensation components in the form of equity, under reference to adequate incentives with a long-term view; and (d) a ceiling with respect to retirement grants. In an amendment to regulations promulgated under the Companies Law, certain reliefs were permitted, such as allowing a CEO to approve not material increases in salaries of office holders, yet in its 2017 Compensation Policy the Company elected not to implement same.

SHL's 2014 Compensation Policy as adopted stipulated that its main principles and objectives were as follows: (a) to promote SHL's mission, long term goals and targets; (b) to create appropriate incentives for SHL's officers with the aim of aligning such officers' compensation with SHL's mission and goals, taking into account, inter alia, SHL's risk management policy; (c) to adapt a compensation package combination that matches the size of SHL and the nature of its activities; and (d) to comply with the provisions of the law by compensating those eligible pursuant to the Compensation Policy, based on their contribution and their efforts to the development of SHL's business and promotion of its goals, in the short and long term.

The 2014 Compensation Policy further provided that in general, the compensation terms of officers were to be examined while taking, inter alia, the following parameters into account: (i) the education, qualifications, expertise, seniority (in SHL in particular, and in the officer's profession in general), professional experience and achievements of the officer; (ii) the officer's position, and his previous agreements; (iii) the officer's contribution to SHL's business, profits and stability; (iv) the degree of responsibility imposed on the officer; (v) SHL's need to retain officers who have skills, know-how or unique expertise; (vi) SHL's global nature; (vii) the ratio between the officer's employment terms and conditions of and other Company employees and/or contract workers employed by SHL and in particular the ratio between such officer's compensation to the average wage and the median wage in the Company and the impact of the differences on labor relations in the Company.

Pursuant to the 2014 Compensation Policy, SHL was entitled to grant to some or all of its officers (who are not directors) a compensation package including any or all of the following: signing bonus, base salary, commissions, annual cash bonus, retirement grant, share-based compensation. The compensation for each officer could also include additional standard benefits such as social benefits, pension insurance, managers insurance, study fund, severance payment, car allowance, mobile phone allowance, and medical insurance, provided that, in any event, the aggregate amount and/or update of such additional benefits shall not exceed 50% of the officer's base salary (except with respect to such officers whose company car tax liability is grossed up, in which case such additional benefits shall not exceed 70% of the officer's base salary). The 2014 Compensation Policy further provided that SHL's officers were entitled to benefit from insurance, exculpation and indemnification arrangements to be approved from time to time pursuant to applicable law and the Articles of Association of the Company. The 2014 Compensation Policy also stipulated that the Compensation Committee and the Board were entitled to update the base salary of each of its officers based on the parameters specified above. In general, updating the base salary at a rate that exceeded 8% per year, of the base salary prior to such update (without taking into account any linkage differentials) was deemed a "material change" and considered as a deviation from the Compensation Policy. Pursuant to the provisions of the Companies Law, an immaterial change to existing compensation terms of office holders who are not directors or controlling shareholders only requires approval of the Company's Compensation Committee, whereas a material change to such terms would also require approval by the Board (for approval requirements, please also refer to Section 5.2 of this report below). Immaterial changes to office holders subject to the CEO may, under law, approved by the CEO, if the compensation policy of a company so allows, which SHL's policy in effect (the 2017 Compensation Policy) does not. In addition, approval of such compensation terms not in accordance with the Compensation Policy could only be approved by the Compensation Committee and the Board under limited circumstances specified under the Israeli Companies Law and in general, such transaction would be also subject to shareholder approval with a special approval requirement (a limited exception exists under the Israeli Companies Law).

With respect to retirement terms, the 2014 Compensation Policy provided, inter alia, that (a) any advance notice period was not to exceed six (6) months; and (b) the amount or value of any retirement grant, if granted, was not to exceed an additional six (6) months of base salary in addition to the advance notice period; provided that overall, the combination of the advance notice and retirement grant (if applicable) did not exceed a period of twelve (12) months altogether.

Pursuant to the 2014 Compensation Policy, any annual cash bonus granted to an officer was not to exceed twelve (12) times such officer's monthly base salary and in any event, the aggregate amount of all annual cash bonuses paid together to the Company's officers (on an annual basis), on the date of payment thereof, was not to exceed the gross sum of US$1,000,000 with respect to all of the Company's officers. Further, the 2014 Compensation Policy provided that any annual cash bonus was to be based mainly (at least 80%) on measurable criteria (including overall revenue growth and in Germany specifically; entry by SHL into new markets; launch of new products; increase in the number of patients serviced in Germany; increase in the number of subscribers and/or users in India; regulatory standing; and the meeting of consolidated budget targets), and, with respect to its less significant part (up to 20%), in the Board's sole discretion based on non-measurable criteria (including the contribution of the officer to the Company's business, its profitability and stability; the officer's unique contribution to the Company; satisfaction with the officer's performance (including the degree of involvement of the officer and devotion of efforts in the performance of his duties); the officer's ability to work in coordination and cooperation with other employees of the Company; and the officer's contribution to an appropriate control environment and ethical environment).

With respect to share based compensation, the 2014 Compensation Policy provided that the Company was entitled to grant its officers options, restricted stock units or any other share-based compensation pursuant to an equity plan as adopted or shall be adopted, from time to time and subject to any applicable law. The aggregate fair value of such share-based compensation, measured at the time of grant, for all of the officers of the Company as a group, in a three (3) year period, was not to exceed a fair value of US$2,500,000, and individually for each officer was not to exceed a fair value which was the higher of: (i) three (3) times such officer's yearly base salary; or (ii) US$300,000, whereby the fair value of the share-based compensation was to be calculated, at the time of grant, in accordance with the costs recorded in the Company's financial statements. The group limitation was annulled in the 2017 Compensation Policy and the individual cap was reduced from tree (3) to one and a half (1.5) the annual base salary. Any share based compensation, if granted, was to mature in installments or vesting periods (or depend on meeting milestones) which shall take into account the appropriate incentive, in light of the Company's objectives in the years following the approval of the grant, and in any event the vesting shall be at a minimum as follows: (i) first cliff following one (1) year from the date of grant; and (ii) full vesting following twenty-four (24) months from the date of an officer's first grant. As of the second grant to an officer, full vesting was to occur no earlier than 36 months from the date of such grant. Pursuant to the 2014 Compensation Policy, the applicable exercise price of share based compensation was to be equal to the average closing price of the SHL's share during the thirty (30) trading day period preceding the date of grant; however, pursuant to an amendment approved in 2015, the Compensation Committee and the Board had discretion to determine a different price under special circumstances and in exceptional cases, as laid out in their decision.

The 2014 Compensation Policy also stipulated that with respect to SHL's directors who also serve as executive officers compensation shall be subject to the limitations as set forth in the Compensation Policy (see description above).

With respect to the Company's non-executive directors (including also Independent (external) Directors and Independent (non-dependent) Directors), compensation was to be in accordance with the Rules Regarding the Compensation and Expenses of an External Director – 2000 (as promulgated under the Israeli Companies Law)(the "Director Compensation Regulations"). Subject to applicable law, compensation shall be allowed in amounts higher than what is stated in the Director Compensation Regulations, if any of such Independent (external) Directors or Independent (non-dependent) Directors is a professional director, an expert director or a director who makes a unique contribution to the Company. Further, SHL was also entitled to pay to its non-executive directors share-based compensation (subject to applicable law and the restrictions applicable thereto in general under the Compensation Policy, as described above), but in any event the aggregate fair value of the share-based compensation, measured at the time of a new grant, for all of such non-executive directors, as a group, in any three (3) year period, did not exceed a fair value of US$500,000. Said terms were not altered in the 2017 Compensation Policy.

As stated under the 2014 Compensation Policy, the Compensation Committee had also resolved that the ratio between the fixed and variable components of compensation with respect to the Company's officers and non-executive directors shall not exceed a ratio of 1:3.

On May 11, 2017 the shareholders have approved the 2017 Compensation Policy. The main changes in the 2017 Compensation Policy (vis-à-vis the 2014 Compensation Policy) are as follows:

a. **Chairman Compensation:** An active chairman of the Board who takes on increased duties on behalf the Company may receive a different or higher compensation in recognition of such increased duties, as long as such person is and active chairman and provided that such active chairman is not a controlling shareholder of the Company. The Chairman's compensation will be evaluated by conducting an external benchmarking using a defined peer group, selected based on such factors, among others, as Company's size, global footprint, nature of activities and competitors of similar talent.

b. **Base salary:** the base salary of each executive officer shall be determined based on a variety of considerations taking into considerations: (i) competitiveness - the base salary of executive officers will be evaluated by conducting external benchmarking using a defined peer group, selected based on such factors, among others, as Company's size, global footprint, nature of activities and competitors of similar talent; and (ii) internal fairness.

c. **Update of base salary:** The Compensation Committee and the Board shall be entitled to update the base salary from time to time provided such update does not constitute a "material change" (as hereinafter defined). Updating the Base Salary at a rate that exceeds 10% per year (versus 8% in the 2014 compensation Policy), of the base salary prior to such update (without taking into account any linkage differentials) will be deemed a material change and shall be considered as a deviation from the 2017 Compensation Policy.

d. **Annual bonus:** executive officers may be entitled to a cash bonus in accordance with an annual bonus plan, aimed to create an alignment between the compensation of the executive officers and the Company's annual and long term goals while focusing, inter alia, on individual goals that will be defined for each of the executive officers. The Board shall have the full discretion to determine the amount of the bonus payout, if any, of any and all executive officer(s) in any given year, up to the maximum amounts set forth below, and may also reduce such bonuses. The actual grant of bonuses shall be approved pursuant to applicable law. Annual bonus payout to executive officers may be calculated by using financial metrics and/or measurable key performance indicators ("KPI"), as pre-determined by the Compensation Committee and the Board, and/or qualitative evaluation, as follow: (i) CEO – measurable KPI – group/company KPI - 80%-100%; qualitative evaluation - up to 20%. (ii) VPs (other executive officers subject to the CEO) - group/company KPI - up to 100%; individual KPI - up to 60%; qualitative evaluation – up to 20%.

e. **Maximum amount of the annual cash bonus** shall be as follow: (i) CEO - up to twelve (12) times of his or her Base Salary; VPs – up to six (6) times of such VP's base salary.

f. **Entitlement to annual bonus:** (i) The 2017 Compensation Policy lists some, but not all of the eligible KPIs for the annual bonus plan both on a group or company level, such as budget, cash flow or profit targets, or on an individual level, such as number of subscribers, meeting objectives of product development and more; (ii) The measurement of profit targets shall be based on the audited annual financial statements of the Company. For the purpose of calculating a profit target, revenue and expenses not involving cash flow and/or re-evaluation of assets will not be taken into account; (iii) The annual cash bonus parameters will be determined by the Compensation Committee and the Board, taking into account the Company's risk management policy. The number of KPIs in the annual cash bonus for each executive officer will be based upon up to six (6) KPIs; (iv) Entitlement of an executive officer to receive any annual bonus shall be conditioned upon the achievement of a minimal threshold of 80% of the target performance of each of his or her KPIs (the "Threshold"). Performance below the Threshold of a KPI shall not entitle such executive officer to any bonus payment with respect to such KPI; however, achievement of such Threshold of other KPIs of an executive officer may entitle same to a bonus payment with respect thereto. Performance above the Threshold may entitle the executive officer to a linear pro rata portion of the bonus set for such KPI (up to the ceiling of the bonus allocated thereto, provided that the aggregate annual bonus paid to an executive officer shall not exceed the ceiling set forth hereinabove.

g. **Special bonus:** in addition to the annual cash bonus, under special circumstances, the Compensation Committee and the Board may determine that an executive officer is also entitled to other cash bonuses in recognition of a Significant Achievement such as: merger, consolidation or acquisition of the Company with, by or into another corporation or entity; private placements to a strategic investor; public offering in a sum and a valuation predetermined by the Board: "Significant Achievement" - for the purpose of this section means an increase of at least 20% of the Company's equity or Company's market value or Company's annual revenue. The total amount of special cash bonuses awarded to an executive officer for any given calendar year may be up to six (6) times of the base salary of the CEO and three (3) times of the base salary of any other executive officer.

h. **Share-based compensation:** (i) the fair value of the of the share based compensation of an executive officer shall not exceed one and half (1.5) times (versus three (3) times in the 2014 Compensation Policy) such executive officer's yearly base alary; (ii) **acceleration in a change of control event:** in the event of a Corporate Transaction (as such term is defined under the Company's 2015 Executive and Key Employee Share Option Plan, or any option plan as in effect, from time to time, or in the event of termination by the Company of an executive officer (except for "cause") in a Change of Control event (as defined under law), subject to the recommendation and approval of the Compensation Committee (and subject to shareholder approval, if required under the Companies Law), the Board may authorize and approve the acceleration of all or any part of any unvested options outstanding immediately prior to the consummation of the Transaction.

i. **Advance notice period:** the advance notice period shall be determined individually with respect to each executive officer, and shall not exceed a period of six (6) months advance notice for the CEO (versus nine (9) months in the 2014 Compensation Policy) and three (3) months periods for other executive officers.

j. **The severance payments** of executive officers shall be in accordance with the provisions and conditions of the Israeli "General Approval regarding the Payments by Employers to Pension Funds and Insurance Funds, in Lieu of Severance Payments pursuant to the Severance Pay Law, 5723 - 1963".

k. **Retirement grant:** an executive officer may become entitled to a retirement grant in the event of termination by the Company (except for "cause"), such grant to be examined in light of the period of service or employment of the executive officer in the Company, the terms of service, the Company's performance during said period, the contribution of the executive officer to achieving the Company's goals and its profitability, and the circumstances of retirement. The amount or value of such retirement grant shall not exceed an additional six (6) months for the CEO (provided he is not a controlling shareholder) and three (3) months for the executive officers, of base salary, all in addition to the advance notice.

l. **Retirement grant in a Change of Control event:** upon termination of service or employment by the Company (except for "cause") of the CEO, or by the CEO (provided he is not a controlling shareholder) resulting from a Change of Control event, and during a six (6) months period following the closing date of such event, such terminated CEO may be entitled to an additional retirement grant of up to three (3) times of such CEO monthly base salary. Company may elect to pay such additional grant, to the extent approved, by acceleration of any future grants to the extent same exist under the employment agreement of any so eligible CEO. "Change of Control" - as such term is defined under the Israeli Companies Law.

5.2 Approval Requirements

Board of Directors

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 the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, require the approval of the Compensation Committee, the Board and the shareholders (by a simple majority) and the relevant approvals by the Compensation Committee and the Board need to be made in accordance with the Compensation Policy in effect (subject to a limited exception). Further, pursuant to the Israeli Companies Law, approval by the shareholders of the terms of engagement of a controlling shareholder as an office holder (including as a director) or employee (and subject to the limited circumstances provided for under regulations promulgated under the Israeli Companies Law in which such shareholder approval is not required), requires either (i) that the majority vote in favor of the resolution shall include the consent of at least a majority 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) that the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than two (2) 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).

Pursuant to the provisions of the Israeli Companies Law, as a general rule, any person that has a personal interest in a transaction (including approval of the terms of office of a director) may not participate or vote at the relevant Board, Audit Committee, or (with respect to the approval of engagement terms) Compensation Committee meeting where the transaction is discussed; *provided that* office holders who have a personal interest in a transaction may be present for the purpose of presenting such transaction, if the Chairman of the Audit Committee, the Chairman of the Board or the Chairman of the Compensation Committee, as the case may be, determined that such presence is required. In addition, if the majority of the members of the Board of Directors, the Audit Committee or the Compensation 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, and in such event, shareholder approval is also required.

The compensation payable to the directors of the Company is approved annually, except with respect to the compensation payable to Independent (external) Directors, which compensation is approved at the time of his/her election (Independent (external) Directors are elected for a term of three (3) years). Pursuant to regulations promulgated under the Israeli Companies Law, all Independent (external) Directors shall be entitled to the same compensation. Accordingly, in the event a newly elected Independent (external) Director is entitled to compensation higher than that of an already serving Independent (external) Director, identical compensation to such already serving director must be approved.

In the year under review, the Compensation Committee and the Board approved the payment of a compensation to all of the non executive Board members (or corporate entities on their behalf) (except for the Independent (external) Directors whose compensation was approved upon appointment for the entire three (3) years term), for their service as non-executive directors, equivalent in amount equal to that paid to Independent (external) Directors of the Company (not including option grants). No shareholder approval was required pursuant to an exemption available under regulations promulgated under the Israeli Companies Law.

No option grants were approved with respect to said directors, except as set forth in the table under "Compensation for Acting Members of Governing Bodies in Year of 2016 under Review" on page 51, during the year under review, however in the First 2017 SGM it was approved to issue to each "Other" director as such term is defined under Israeli law (.i.e. *Inter alia*, not a controlling shareholder of a company) (then Prof. Lerman and Mr. Steiger) the grant of 18,000 options to purchase 18,000 Ordinary Shares of SHL under SHL's 2015 Share Option Plan. In said First 2017 SGM the issuance to the then Chairman of the Board, Mr. Blumensohn, of 50,000 Options to purchase 50,000 Ordinary Shares of SHL under SHL's 2015 Share Option Plan as also approved. In the 2017 AGM it was approved to issue 18,000 options to purchase 18,000 Ordinary Shares of SHL under SHL's 2015 Share Option Plan to each of the newly elected Independent (external) Directors (currently Mr. Abramovich and Mr. Qian who were appointed in the Second 2017 SGM).

There are currently no executive directors on the Board of Directors. The applicable compensation paid to the non-executive directors and the Chairman in the year under review pursuant to the foregoing is reflected in the table on "Compensation for Acting Members of Governing Bodies".

The Independent (external) Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the Director Compensation Regulations in accordance with the Company's Compensation Policy (please refer to Section 5.1 above), which compensation is comprised of reimbursement of reasonable expenses and a fixed annual fee plus a participation fee per each Board or Committee meeting attended, all as set forth in the Director Compensation Regulations. Independent (external) Directors are not entitled to any performance based compensation. The Director Compensation Regulations provide, inter alia, for specific minimum, "set" and maximum amounts with respect to the annual fee and the participation fee to be paid to Independent Directors, dependent on the relevant company's "rank", as determined based upon the company's shareholders' equity as such appears in the company's audited balance sheet for the preceding year. In the event a public company chooses to pay to the independent directors an annual fee and a participation fee in an amount between the "set" amount and the maximum amount set under the regulations, then such compensation is not subject to approval by the shareholders of the company. The foregoing exception to the shareholder approval requirement does not apply with respect to compensation in the form of securities of a company. The payment of an annual fee in an amount between the "set" and the maximum amount, as well as a participation fee per meeting in the "set" amount, as stipulated under the Director Compensation Regulations was previously approved with respect to Ms. Nehama Ronen (or an entity controlled by her) at the 2013 Annual General Meeting, and with respect to Dr. Ruth Ben Yakar (or an entity controlled by her) such payment was approved at the 2014 AGM. The approved compensation included also the grant to Dr. Ben Yakar of 18,000 options to purchase 18,000 ordinary shares of SHL under SHL's 2015 Share Option Plan (subject to receipt of all required approvals with respect thereto). As aforementioned, in the 2017 AGM the issuance of same amount of options (18,000) to each newly appointed Independent (external) Director was also approved. For more information on share options, see also "Share Options" Section).

Directors are reimbursed for travel and other reasonable expenses related to their capacity as directors of SHL and all directors (including directors that are not compensation for their services) are entitled to indemnification and D&O insurance coverage, all as approved by the Compensation Committee, the Board and the shareholders.

(For more information on director compensation, see also "Compensation for Acting Members of Governing Bodies" Section).

Senior Management (Other Than the CEO)

Pursuant to the Israeli Companies Law, the engagement terms of office holders of the Company that are not directors, controlling shareholders or their relatives, or the CEO of the Company (including indemnification undertakings and officer insurance coverage) require approval by the Board following approval by the Compensation Committee, and the approval by the Board and the Compensation Committee shall be in accordance with the Compensation Policy (subject to a limited exception). Pursuant to the Israeli Companies Law, the salaries and emoluments of the executives of SHL were, in the year under review, governed by the 2014 Compensation Policy, taking into account with respect to each executive, the parameters set forth in the 2014 Compensation Policy and the framework set forth thereunder (for a further description thereof, please refer to Section 5.1 of this report). The relevant criteria were to be weighed by the CEO in his discretion and are brought before the Compensation Committee and Board for further approval taking into account the guidelines set forth in the 2014 Compensation Policy and described in Section 5.1 above. In general, compensation terms are reviewed when the CEO or the Board deem it necessary to review such terms, e.g. when market conditions change etc. Per the Company's 2014 Compensation Policy, any increase of the base salary (with respect to office holders that are not directors or controlling shareholders) of up to 8% requires only approval of the Company's Compensation Committee. Per the 2017 Compensation Policy, an increase of up to 10% requires the consent of the Compensation Committee and the Board. For approval requirements regarding higher increases, please refer to Section 5.1 above. Any such approvals made by the Compensation Committee only are brought to the attention of the Board.

In the year under review, the annual compensation of senior management, other than of the former CEO (whose terms are more detailed in the immediately following Section title "CEO"), was comprised of a base salary component, a cash bonus equal to an amount up to several monthly base salaries, and options. In the year under review the Company has granted bonuses inter alia for performance in 2015 to four then management members, as well as retirement bonuses to two former management members, as well as share option incentive awards, all in accordance with the Company's 2014 Compensation Policy. In addition to the foregoing, all members of senior management were entitled to additional benefits in the form of a company car and a mobile phone. All members of senior management that were employed by the Company (and not engaged through service agreements) are also entitled to customary contributions to pension funds and severance pay funds, as well as to "Study Funds" and some also have Disability Insurance. Such contributions amount on the Company's side to 5.15%-6.25% for the pension component, 8.33% to the severance pay component, 7.5% to the Study Fund, and 0.7%-2.5% to the Disability Insurance (if applicable).

As a general rule, base salary and performance based cash bonus are subject to the applicable effective Company's Compensation Policy and the conditions stipulated in such policy and are subject to the aforesaid corporate approval requirements for persons considered office holders, including office holders who may be deemed controlling shareholders, under the Israeli Companies Law. Share option incentive awards are subject to Compensation Committee approval in accordance with the Company's Compensation Policy and further Board approval and such additional corporate approvals as set forth above with respect to office holders.

Parameters taken into account related to the composition of the compensation packages of senior management members were set forth in SHL's 2014 Compensation Policy (for a list of such parameters, please refer to Section 5.1 above). For limitations applicable to annual cash bonuses for the year under review, please refer to the description of the Company's 2014 Compensation Policy under Section 5.1 above. Overall, the compensation of senior management in the year under review was comprised, on an average to approximately 54% of a cash base salary and 46% of cash bonuses and share options granted (i.e. performance based compensation amounted to 38% of the base salary).

CEO

Overall, the compensation of the CEO in the year under review was comprised of 38% of a base salary 164% of signing cash bonuses and share options granted (i.e. there was no performance based compensation in the year under review).

For more information on director and senior management compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies").

Shareholding Programs

The grant of share options to employees, directors and consultants of SHL and its subsidiaries is in the sole discretion of the Board which may determine from time to time and subject to the provisions of the 2015 Share Option Plan, additional grantees of options under the plan and any matter related to the administration of the 2015 Share Option Plan. Notwithstanding the aforesaid, pursuant to the provisions of the Israeli Companies Law, should such options be granted to the directors or a controlling shareholder as part of their compensation, such grant shall require the approval of the Compensation Committee, the Board and the shareholders, and with respect to office holders who are not directors, the CEO or controlling shareholders of the Company or their relatives, such grant shall require approval by the Compensation Committee, followed by approval by the Board, all of the foregoing approvals of the Compensation Committee and the Board to be made in accordance with the Compensation Policy. Pursuant to the Israeli Companies Law, the qualified majority described above (please refer to Section 5.2 -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 a controlling shareholder as part of its compensation. Further, SHL's 2014 Compensation Policy prescribed certain ceilings with respect to the value of any share-based compensation granted to (a) any individual officer; (b) the officers of SHL as a group; and (c) the non-executive directors as a group, in each case with respect to any three (3) year period (for more details regarding such ceilings, please refer to Section 5.1 above). The 2014 Compensation Policy also required that the Compensation Committee and the Board, when discussing the grant, shall consider whether such grant is a suitable incentive for increasing SHL's value in the long term, the economic value of the grant, the exercise price and the other terms. (for further details of the 2017 Compensation Policy with respect to shareholdings programs see Section 5.1.

For vesting conditions applicable to options, please refer to Section 2.2 "Share Options", above.

Compensation for Acting Members of Governing Bodies in Year of 2016 under Review

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which was paid to the members of the Board of Directors and the Senior Management for their service or employment, as the case may be, during the year under review, was as follows:
All figures are disclosed in their US dollar equivalent, based on a NIS/US$ exchange rate of 3.8404.

Board of directors

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised	Total
Uzi Blumensohn	Chairman/ non-executive member	54,853	-	-	54,853
Eli Alroy[1]	Non-executive member	23,360	-	-	23,360
Erez Alroy	Non-executive member	17,771	-	-	17,771
Dr. Ruth Ben Yakar	Non-executive member/ Independent director	34,229	-	-	34,229
Eyal Bakshi[1,2]	Non-executive member	16,841	-	-	16,841
Ziv Carthy[1]	Non-executive member				
(until the 2016 AGM)		5,346	-	29,188	34,534
Prof. Amir Lerman[2]	Non-executive member	16,419	-	-	16,419
Nehama Ronen[1]	Non-executive member/ Independent director	24,448	-	-	24,448
Elon Shalev	Non-executive member	22,369	-	-	22,369
Doron Steiger[2]	Non-executive member	22,191	-	22,191	
Amnon Sorek[1]	Non-executive member (until April 2016)	9,092	-	-	9,092
Elad Magal[1]	Non-executive member (until the 2016 AGM)	5,346	-	-	5,346
Oren Most[1]	Chairman (until the 2016 AGM)	7,138	-	-	7,138
Total for all Board Members:		**260,403**	**-**	**29,188**	**289,391**

1 Paid during the year under review until end of term or resignation.
2 These members were elected during the year under review. Compensation figures reflect compensation paid for service from such time.

Senior Management

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised*	Total
Yuval Shaked	CEO	494,096	112,835	696,426	1,303,357
Total for all Members of Senior Management:		**1,928,936**	**408,108**	**1,262,307**	**3,599,351**

The highest total compensation payable to a member of the governing bodies in 2016 was to the former CEO, Mr. Yuval Shaked (see above).

* Represents the fair value of the share options granted or exercised in the year under review based on the value of options exercised in 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".

Pursuant to the Israeli Companies Law, the Compensation Committee, the Board and the shareholders of SHL re-approved and confirmed the existing directors' and officers' insurance provided, and indemnification undertaking issued by, the Company in favor of all of its officers and directors (including controlling shareholders) and authorized the management of the Company to negotiate and execute, and to periodically renew and keep in force, for and on behalf of the Company, a liability insurance policy for all of the Company's directors and officers, as shall be in office from time to time, for a coverage of up to US$15 million. Accordingly, the undertaking by SHL to indemnify all directors and officers, in office from time to time, to the extent and limitations set forth in the indemnification letters issued to such persons, in an aggregate sum of up to US$ 15 million was re-confirmed. The entitlement to insurance, exculpation and indemnification arrangements, as may be approved by the Company from time to time, is also set forth in the Compensation Policy.

The table and numbers above include compensation to former board members and former members of governing bodies in the year under review.

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, or to the management or parties closely linked to any such person during the year under review. For information on option allotments to directors and management members, please refer to the Section immediately following.

Share Ownership as of December 31, 2016

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2016, by the members of the Board and the then Senior Management and parties closely linked to such persons amounted in the aggregate to 2,507,608 Ordinary Shares. For information on options allotted to the members of the Board and senior management, please refer to the table below.

Elon Shalev, a non-executive member of the Board, Erez Alroy, a non-executive member of the Board, (with both Yariv and Erez Alroy, being Co-CEOs of the Company until January 15, 2016), are all members of the Alroy Group. The Alroy Group held, as of December 31, 2016, an aggregate number of 2,507,608 Ordinary Shares. For information regarding the shareholding percentages of the Alroy Group, please refer to the Section entitled "Significant Shareholders".

No other non-executive member of the Board of Directors or parties closely linked to such person hold, pursuant to the Share Register, as of December 31, 2016, Ordinary Shares. Mr. Abramovich, a current non executive member of the Board, notified the Company that he held as of December 31, 2016, 20,000 Ordinary Shares of SHL (prior to his being nominated as Board member).

Share Options

Information with regard to Options granted in the year under review and held pursuant to the Option Plans as of December 31, 2016 by the non-executive and executive members of the Board of Directors and Senior Management, as well as parties closely linked to such persons, is as set forth below.

Name	Function	Share Options outstanding at December 31, 2016	Weighted Average exercise price in CHF	Granted during the year	Exercise price of options granted	Vested	Exercised
Elon Shalev	Non-executive member	-	-	-	-	-	
Erez Alroy	Non-executive member	-	-	-	-	-	
Nehama Ronen	(was a director until September 10, 2016)						
	Non-executive/ non-dependent director	18,000	CHF 7.78	-	18,000	-	
Uzi Blumenson	Chairman	-	-	-	-	-	-
Dr. Ruth Ben Yakar	Non-executive/ non-dependent director	18,000	CHF 8.15	-	-	12,000	-
Doron Steiger	Non-executive director	-	-	-	-	-	-
Yuval Shaked	CEO in the year under review	398,804	CHF 7.16	398,804	CHF 7.16	-	-
Ehud Ben Yair	CFO as of August 2016	130,000	CHF 6.62	130,000	CHF 6.62	-	-
Yoav Rubinstein	Then - Senior Vice President (currently CEO)	170,000	CHF6.96	85,000	CHF 6.97	-	85,000
Eran Kristal	General Manager Israel	50,000	CHF 6.29	50,000	CHF 6.29	-	-
Martin Lehner	Managing Director – SHL Telemedizin Germany	100,000	CHF 8.04	50,000	CHF 6.97	33,333	-
Irit Alroy	CTO	6,250	CHF 8.15	-	-	6,250	-
Erez Nachtomy	Executive Vice President	-	-	-	-	-	17,395

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” above.

Additional Honorariums and Remuneration

None of the members of the Board and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2016 to SHL or to any of its subsidiaries for additional services performed during the year under review.

Loans 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.

6. Shareholder Participation

6.1 Voting Rights Restrictions and Representation Restrictions

There are currently no voting-rights and representation restrictions in place. For voting rights of Ordinary Shares and ADS in general, please refer to Section 2.4 above.

The voting rights of the Ordinary Shares in general 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 pursuant to the Company's Articles of Association. 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".

6.2 Statutory Quorums

Pursuant to the Company's Articles of Association, 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. For special majority requirements with respect to the adoption of the Company's Compensation Policy, please refer to Section 5.1 above, with respect to controlling shareholder transactions, please refer to Section 5.2 above, and with respect to the election of Independent (external) Directors to the Board of Directors, please refer to Section 3.1 above.

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. All General Meetings other than Annual General Meetings are called "Special General Meetings". Pursuant to the Articles of Association of the Company and the Israeli Companies Law, the Board may, whenever it thinks fit, convene a Special General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board. Special General Meetings may also be convened upon requisition of either of the following (a) two (2) directors, or one fourth of the directors in service; or (b) one or more shareholders, holding not less than 5% of the issued and outstanding share capital of the Company and not less than 1% of the voting rights in the Company; or one or more shareholders holding not less than 5% of the voting rights of the Company. If a meeting shall be requisitioned as aforesaid, then the meeting shall be held not later than thirty-five (35) days from the time notice of such meeting is given to shareholders (unless otherwise required for a meeting at which matters may be voted on by ballot - see below).

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. As permitted under applicable law, as of January 2016, the Company no longer publishes the notices in the newspaper, nor does it mail hard copies to shareholders, and the material can be downloaded from its website, following ad hoc publications of the agenda of such meetings. 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, unless to the company's best knowledge, at the time of the resolution regarding convening of the meeting, a controlling shareholder of the company will hold, as of the record date, such number of votes which will enable the controlling shareholder to pass the required resolution, even if all other shareholders participate and vote against (i.e. in general more than 50% of the voting rights). Pursuant to relevant regulations promulgated under the Israeli Companies Law, in the event that a topic on the agenda requires also approval by the Board, then the relevant newspaper and shareholder notices shall not be published or sent, as the case may be, later than ninety (90) days following such Board approval. In connection with the establishment of the ADR Program and pursuant to the Deposit Agreement, SHL has further undertaken to provide the Depositary at least thirty-five (35) days prior notice of any general meeting and details concerning the matters to be voted upon. As of the year under review, as permitted under Israeli Law, Company does not provide written notices to shareholders nor does it publish invitations in newspapers and only publishes ad hoc publications in connection with general meetings as well as on its website. [Pursuant to the Deposit Agreement, the Depositary is obligated to provide, if requested by SHL, as soon as practicable after receipt of notice of any meeting of shareholders, a notice to the owners of SHL's ADS containing (a) such information as is contained in such notice of meeting received by the Depositary from SHL; (b) a statement that the owners of ADS as of a specified record date will be entitled, subject to applicable law and the Articles of Association of SHL, to instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Ordinary Shares represented by their ADS; and (c) a statement as to the manner in which such instructions may be given. Pursuant to the Israeli Companies Law, the notice of the General Meeting shall include the agenda. Pursuant to regulations promulgated under the Israeli Companies Law, the notice of a general meeting in a public company must in addition include the type of meeting, place and time thereof, a summary of the resolutions proposed to be adopted, the majority required with respect thereto and the record date. A public company must also include the phone number and address of its registered office and the times at which the full version of the proposed resolutions may be reviewed. In the event the agenda includes matters which may be voted on by Ballot, then additional details are required to be included in the notice, including, inter alia, the deadline for submitting shareholder statements to the company and the deadline for submitting Ballots.

A Proxy must be delivered to the registered office of SHL not later than 48 hours prior to the General Meeting. A Ballot must be delivered to the registered office of SHL not later than four (4) hours prior to the General 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 Computershare must enclose a written confirmation from Computershare as to its ownership of the voting shares.

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 Shareholder Statement must be delivered to the registered office of the Company not later than ten (10) days prior to the general meeting as such date is determined by the Board. A Shareholder Statement shall be delivered to all shareholders no later than one (1) day 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, no later than five (5) days prior to the 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. 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 not later than 24 hours prior to the General Meeting. Any such shareholder submitting a Cancellation Notice may only vote by attending the General Meeting in person or by Proxy. One or more shareholders holding, at the Record Date, shares representing five (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 Israeli Companies Law, may, following the 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.

Pursuant to the Israeli Companies Law, any one or more shareholders holding at least one (1) percent of the voting rights in the Company may request the directors to include a certain topic in the agenda of the general meeting, provided that such topic is suitable to be discussed at a general meeting. Pursuant to regulations promulgated under the Israeli Companies Law, (i) with respect to general meetings which include topics which may be voted on by Ballot (see above), such shareholder request needs to be submitted not later than seven (7) days from convening of the shareholder meeting; and (ii) with respect to other general meetings, such request needs to be submitted not later than three (3) days from convening of the shareholder meeting. In the event that the Board deems a suggested topic fit for inclusion in the agenda of the general meeting, the Company shall prepare an updated agenda and shall publish such agenda (both by newspaper notice and by notice to shareholders) not later than seven (7) days after the last date on which requests for amendments to the meeting agenda could have been submitted. The foregoing does not apply in the event the Company publishes a preliminary notice of its intention to convene a general meeting, such preliminary notice to be published by shareholder notice at least twenty-one (21) days prior to the publication of the actual notice of the general meeting. In such preliminary notice, the Company shall describe the expected agenda topics and shall notify shareholders that Company shall be entitled not to examine any requests of shareholders to include additional topics on the agenda in the event such were received later than fourteen (14) days from the publication of the preliminary notice of the general meeting.

At a General Meeting, resolutions 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 four (4) days prior to the date of such General Meeting (provided that with respect to General Meetings the agenda of which includes topics which may be voted on by Ballot (see above), such date shall be not later than twenty-eight (28) days prior to the 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. The record date with respect to determination of the owners of ADS entitled to give instructions for the exercise of voting rights shall be the date so fixed by the Company, or if a different date, then as close as practicable to the date fixed by the Company.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

Under Swiss law a person acquiring shares, participation or bonus certificates or any other participation rights in a company either directly, indirectly or in concert with third parties and in so doing reaches, in combination with his previously acquired equity securities in that company, a threshold of 33⅓ % of the voting rights - regardless of whether this person can actually exercise those voting rights - is obliged to make a public takeover offer (the "Public Takeover Offer") for all of the listed securities of such company. The acquirer must therefore make an offer to purchase or exchange securities in the company.

To the understanding of the Company, it is exempt from Israeli law provisions relating to special tender offers, but certain tender offer rules with respect to full tender offers under the Israeli Companies law apply to it. These include that, if as result of an acquisition of shares an 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. Further pursuant to the Israeli Companies Law, all of the shares of the minority shareholders will be transferred to the offeror in the event that either (a) such number of shares are tendered to the offeror so that more than ninety-eight (98) percent of the outstanding shares are held by it; or (b) such number of shares are tendered to the offeror so that more than ninety-five (95) percent of the outstanding shares are held by it and more than half of the shareholders that do not have a personal interest in the acceptance of the purchase offer tendered their shares.

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

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, except under the 2017 Compensation Policy with respect to possible acceleration of options and retirement grant to the CEO in case of termination of employment by either party within six (6) months as of such event. (For further details see Section 5.1 above.

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 shareholder resolution. SHL's auditors were last re-appointed at the 2017 Annual General Meeting.
Mr. Itay Bar-Haim (CPA) is the head auditor within Kost, Forer, Gabbay & Kasierer, as of the 2015 audit.

8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2016 approximately USD 430 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group.

8.3 Additional Honorariums

In addition, Ernst & Young charged approximately USD 64 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

Pursuant to the Israeli Companies Law, the external auditors of the Company shall be independent, both directly and indirectly, from the Company. In the event that the Board of Directors becomes aware of any connection between the external auditors and the Company which constitutes a dependency, the Board shall instruct the auditors to immediately cease such connection. If the auditors do not adhere to this instruction, the Board shall call for a special general meeting of shareholders, within a reasonable time, in order to remove the auditors.
The Company may not condition the compensation of the external auditor that may limit the performance of the audit or that links between the compensation and the outcome of the audit.
The external auditor may at any time review Company documents which it requires to perform is tasks, and to receive explanations with respect thereto. The auditor is entitled to participate in all annual meetings at which the financial statements audited by auditor are presented, and at all board meetings and FS committee meetings with respect to discussion and approval of such financial statements.
If the auditor becomes aware of a material flaw in the financial controls of the Company, it must report such flaw to the Chairman of the Board.
In 2016 the Board has held two (2) meetings with the Company's External Auditor as part of the authorization of the Annual Financial Statements. The FS Committee has held two (2) meetings at which the Company's External Auditor was present as part of the discussion of the Annual and Interim Financial Statements.

9. Information Policy

SHL is committed to a policy of open and effective communications with customers, partners, shareholders and staff alike (within constraints imposed by confidentiality obligations and applicable law). SHL's investor relations program features regular publication of relevant information for the benefit of the public and the capital markets. **SHL publishes price-sensitive information in accordance with the obligation to disclose price-sensitive facts (ad-hoc publicity) as required by the SIX Swiss Exchange, and conducts regular communication briefings with media representatives and financial analysts in addition to its Annual General Meeting.**
Pursuant to the relevant U.S. regulations applicable to SHL's ADR Program, SHL shall publish in English, on its web site or through an electronic information delivery system generally available to the public in Switzerland, information that, since the first day of its most recently completed fiscal year, it: (A) has made public or been required to make public pursuant to the laws of Israel (currently there is no information which so needs to be published); (B) has filed or been required to file with the SIX Swiss Exchange and which has been made public by the SIX Swiss Exchange; and (C) has distributed or been required to distribute to its security holders.
SHL maintains an insider trading and management transactions disclosure policy (the "Insider Trading Policy", last approved in April 2016. The Insider Trading Policy provisions are

applicable to members of the Board, officers, employees, representatives and consultants of the company, as well as the immediate family members and household members of such persons, in addition to any other person which may receive inside information with respect to the Company. Amongst others, the Insider Trading Policy forbids trading in SHL's securities by the aforementioned persons while in possession of inside information, and additionally provides that board members and certain senior management members may only trade in SHL's securities during specifically stipulated "open periods" as defined under the Insider Trading Policy. The provisions regarding disclosure and reporting of management transactions apply to members of the Board and members of Senior Management ("Management Members"). According to the Insider Trading Policy, Management Members are obliged to report a transaction in the Company's securities (as further described hereafter) if it has a direct or indirect effect on their assets. Transactions executed by related parties (including spouses, individuals living in the same household, and legal entities, partnerships and fiduciary institutions if the Management Member holds a management position in such entity or institution, controls it or is its beneficiary) must also be reported, if such transactions were carried out under the significant influence of the Management Member. Transactions required to be reported are all transactions (purchase and sale and grant of rights) in (a) equities or similar shares of SHL, (b) any conversion, purchase or sale rights that provide for or permit actual delivery of shares of SHL or conversion or sale rights of SHL, or (c) financial instruments on shares of SHL (options, forward contracts or contracts for difference) which provide for or permit cash settlement, and other contracts for difference whose performance on rights under (a) or (b). Shares or options acquired under an employee share option plan do not have to be reported, except if there was an election right whether to receive cash or shares/options, however, any sale of shares or exercise of options acquired under an employee share option plan must be reported. Management Members must report their transactions no later than on the second trading day following the conclusion of the contract by using the Disclosure Report template and sending the report to the CFO. The CFO has to file such Disclosure Report with the SIX Swiss Exchange within 3 (three) trading days upon receiving the Disclosure Report.

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.

The Company's ad-hoc reports and press releases may be retrieved at http://www.shl-telemedicine.com/newsroom/press-release-2017/.

Persons that wish to be included in the Company's distribution list with respect to ad-hoc notices may do so at http://www.shl-telemedicine.com/about-us/investorrelations/ir-contact/.

Investor's calendar	
Annual General Meeting	No later than 11 August 2018

Contact person for Investor Relations

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Amendments in the Corporate Governance

In this final document some minor editing has been done in comparison with the published document dated July 31, 2017:

- Page no. 11 right column second sentence the name “Mr. Xuequan Qian” was corrected to “Mr. Xuequn Qian”.
- Page no. 12 under “Shareholders level” second sentence the word “it” was omitted as follows: “As of the date hereof Himalaya, pursuant to Himalaya’s notifications, it holds 20.05% of the voting shares of the Company.”.
- Page no. 16 right column middle sentence the word “see” was added as follows: “(for further information about the claim made by the Alroy group with respect to an alleged action in concert between Mrs. Cai and Himalaya and the Alroy Lawsuit see under “Change in the Financial Year 2016” above.).
- Page no. 28 in Mr. Yehoshua Abramovich the phrase “/Independent (external) Director” was added as follows: “Mr. Abramovich joined the Board of Directors of SHL as a non-executive Director/ Independent (external) Director in 2017.”.
- Page no. 29 in Mr. Xuequn Qian the phrase “/Independent (external) Director” was added as follows: “Mr. Xuequn Qian joined the Board of Directors of SHL as a non-executive Director / Independent (external) Director in June 2017.”.
- Page no. 37 right column first sentence the space in brackets has been deleted as follows: “His former roles include CFO & VP Finance of Orad Hi-Tec Systems (_2005-2011),”.
- Page no. 39 under “Management Contracts ”a space has been added after the first sentence ending with “below.”.
- Page no. 47 left column in the middle the word “inter alia” should be in italic.
- Page no. 47 line twelve, additions to the sentence beginning with “no option grants were approved to said directors, except as set forth in the table under "Compensation for Acting Members of Governing Bodies in Year of 2016 under Review” on page 51, during the year under review....”.
- Page no. 48 right column second paragraph ”a space has been added after the first sentence ending with “Law.”.

Consolidated Financial Statements 2016

Contents

Financial Overview

The year 2016 can be marked as a year of major changes and extraordinary events. In the first half of 2016 the company underwent significant management and board changes, and in the second half of 2016, a change in the shareholder level with Mrs. Cai Mengke, the co-founder and Non-Executive Vice Chairman of Zhuhai Hokai Medical Instruments Co. Ltd ("Hokai"), acquiring 29.85% ownership of SHL's share capital from a group of investors under a common voting agreement consisting of Copper Valley Finance Ltd., Prime Finance Corporation, Eli Alroy and Barak Capital Ltd.

Following a review of the business and market opportunities, SHL's management decided to focus on expanding existing platforms in Germany and Israel, where the management sees opportunity for leveraging SHL's unique assets and market knowhow. In parallel, driving the growth of the smartheart™ platform, as it offers a lot of potential in various countries and market segments including the US and China and other global opportunities.

In Germany, 2016 revenues reached USD 20.7 million up 30.2% on revenues of 2015 due to an income of USD 5.8 million from cost savings delivered under a Chronic Disease Management Services contract relating to the year 2015. On the other hand the company had to further adjust it estimates regarding two performance-based contracts with an economic benefit lower than previously estimated associated with service year 2015 and reduce its related income receivable by USD 0.9 million. In Israel, revenues were USD 19.6 million, down 7.1% compared to 2015. The decline is mainly related to ending of service contracts with institutions and decline in income from private subscribers.

In addition, the company conducted a thorough review of the financial accounts as well as of plans and projections with respect to SHL's future operation. In the course of this review a number of extraordinary non-recurring items have been identified and certain assets including inventories, deferred taxes, fixed assets and intangible assets were impaired. Also, extraordinary financial and tax expenses were incurred due to a final tax judgement regarding previous years' income tax assessment resulting in additional finance and tax provisions to be recognized in 2016. In addition, SHL elected to change its accounting policy with regards to sales wages and commissions such that only the portion of sales compensation expenses that is incremental in obtaining subscription sales contracts is deferred. Management believes that this change in policy better reflects recent development in accounting guidance, resulting in a retroactive adjustment of USD 3.8 million, comprised of a write-off of USD 3.4 million in the 2015 equity opening balance, plus additional expenses of USD 0.4 million in 2015. The impact due to the change in accounting policy in 2016 is marginal. These extraordinary items negatively impact SHL's equity to the amount of USD 16.8 million. As a result of change in revenue estimate, extraordinary non-recurring items, the Company recorded a Net loss of USD 11.1 million in fiscal year 2016.

Adjusted Financial Results

The following tables reconciles our financial results reported in accordance with generally accepted accounting principles ("GAAP") to non-GAAP financial results. SHL has provided this non-GAAP financial information to aid investors in better understanding the company's performance.

in USD million (except per share amounts)	2016	2015	% change
Revenue for the year	35.6	39.4	(9.6)
Change in revenue estimate	4.9	(2.3)	n.a.
Total revenue as reported	40.5	37.1	9.2%
Adjusted EBIT/LBIT	0.8	(4.7)	n.a.
%	2.0%	n.a.	
Adjusted EBITDA/LBITDA	5.3	(0.4)	n.a.
%	13.1%	n.a.	
Adjusted net loss	(6.8)	(7.1)	n.a.
Basic adjusted LPS	(0.65)	(0.67)	

1 Change in revenue estimate

In May 2017, the Company received the results of the evaluation of cost savings delivered under a Chronic Disease Management Services contract in Germany relating to the year 2015 according to which the company is entitled for an additional income. Based on these results, and receiving the payment from the German customer in May 2017, the Company adjusted its estimate for revenues in 2016 by USD 5.8 million. In addition, the Company adjusted certain revenues which relate to revenues recognized in prior periods in the amount of USD 0.9 million, resulting in a net adjustment of USD 4.9 million.

2 Reconciliation to Adjusted Financial Information:

	2016	2015
LBIT	(4.8)	(14.5)
Amortization of acquisition intangibles	1.3	1.2
Restructuring charges and extraordinary expenses	-	5.2
Impairment of fixed and intangible assets	4.3	3.4
Adjusted EBIT/LBIT	0.8	(4.7)
Depreciation	4.5	4.3
Adjusted EBITDA/LBITDA	5.3	(0.4)
Net loss	(11.1)	(15.7)
Restructuring charges and extraordinary expenses	-	5.2
Impairment of fixed and intangible assets	4.3	3.4
Adjusted Net loss	(6.8)	(7.1)

3 Extraordinary expenses

	2016	2015
Restructuring charges	-	0.7
Write down of other receivables	-	2.5
Transaction expenses	-	2.0
Restructuring charges and extraordinary expenses	-	5.2

Revenue by geographic distribution, (including change in revenue estimate)

	2016	% of total	2015	% of total
Israel	19.6	48.3%	21.1	56.9%
Germany	20.7	51.2%	15.9	42.9%
ROW	0.2	0.5%	0.1	0.2%
Total revenues	40.5		37.1	

Constant Currency - due to the insignificant fluctuations in NIS/USD/EUR exchange rates between 2015 and 2016, presenting of financial results in constant currency does not add any meaningful comparison between periods and therefore management has refrained from presenting figures in constant currencies.

Results of Operations

Revenues

In fiscal year 2016, SHL recorded revenues of USD 35.6 million, a decrease of 9.6% from 2015 revenues. The Company recorded additional income of USD 5.8 million from cost savings delivered under a Chronic Disease Management Services contract in Germany relating to the year 2015. Additionally, the Company had to further adjust its revenue estimate regarding two performance-based contracts with an economic benefit lower than previously estimated associated with service year 2015 and reduce its related income receivable by USD 0.9 million. As such, GAAP revenues for fiscal year 2016 amounted to USD 40.5 million, up 9.2% compared with GAAP revenues of USD 37.1 million for fiscal year 2015. On an ongoing basis, revenues from the Company's German operation amounted to USD 20.7 million compared to USD 15.9 million in 2015, an increase of 30.2% year over year. This increase is attributable to the additional income from the cost savings delivered under a Chronic Disease Management Services contract relating to the year 2015. Revenues from the Israeli operation amounted to USD 19.6 million in 2016 compared to USD 21.1 million in 2015. In terms of geographic breakdown, the German business accounted for 51.2% of total revenues, with the Israeli business accounting for 48.3% of total revenues. This compared with 42.9% and 56.9% of total revenues, respectively, in 2015.

Gross profit

In fiscal year 2016, gross profit, including the change in revenue estimate, was 52.1% compared to 45.5% in 2015. The increase in gross profit is mainly attributable to the additional income from the cost savings delivered under a Chronic Disease Management Services contract.

Research and Development costs, net

Research and development costs amounted to USD 3.6 million in 2016 compared with USD 2.7 million in 2015. R&D expenses in 2016 amounted to USD 2.4 million compared to USD 2.0 million in 2015, of which USD 1.2 million was capitalized (USD 1.2 million in 2015). Amortization of development costs in 2016 amounted to USD 2.4 million (USD 2.0 million in 2015).

Selling and Marketing Expenses

Selling and marketing expenses for fiscal 2016 amounted to USD 8.3 million, compared with USD 12.0 million in fiscal year 2015. Fiscal 2015 restated figures include an additional expense of USD 0.4 million in salaries and related benefits attributed to the change in accounting policy with regards to sales wages and commissions such that only the portion of sales compensation expenses that is incremental in obtaining subscription sales contracts is deferred. Management believes that this change in policy better reflects recent development in accounting guidance. An additional expense of USD 0.8 million in marketing and related expenses is attributed to the extension of a customer contract in Germany. The decrease in sales and marketing expenses, mainly in salaries and related benefits, is a result of the merger of GPH with SHL German operations, efficiency improvements, including additional cost savings in Israel and other territories. In fiscal 2016, selling and marketing expenses accounted for 20.5% of revenues compared to 32.3% of revenues in fiscal 2015.

General and Administrative Expenses

General and administrative expenses for fiscal year 2016 amounted to USD 10.2 million compared to USD 8.1 million in fiscal 2015. Excluding one-time items (in 2016 an impairment of fixed assets in Germany of USD 0.5 million and in 2015 a reversal of doubtful debt in the amount of USD 1.1 million), general and administrative expenses were USD 9.7 million compared with USD 9.2 million in 2015. The increase attributable to salary and related benefits in Israel due to changes in Israeli and corporate management, partially offset by cost savings in salary and related benefits in Germany mainly due to management consolidations following the GPH acquisition.

Other expenses

In 2016 SHL incurred certain extraordinary costs which are an outcome of the Company's thorough asset review. A number of extraordinary non-recurring items have been identified and certain assets including fixed assets and intangible assets were impaired and presented as other expenses. These include USD 2 million impairment of intangible assets related to customer relations and contracts; USD 1.5 million impairment of intangible assets related to development costs and USD 0.3 million related to impairment of fixed assets, mainly old telemedicine devices. In 2015 the Company incurred certain extraordinary costs which are presented as other expenses. These mainly include USD 2.0 million in costs related to an acquisition process; USD 2.0 million mainly related to a reduction in a VAT receivable due to updated estimates received from our professional advisors as to the likelihood of the refunds; USD 0.7 million of restructuring charges related to the unification of SHL's German business in Munich; and impairment of certain fixed and intangible assets, mainly old telemedicine devices on loan and certain R&D projects discontinued of USD 3.4 million.

Earnings/Loss before Income Tax, Depreciation and Amortization (EBITDA/LBITDA) and Earnings/Loss before Income Taxes (EBIT/LBIT)

Adjusted EBITDA for fiscal year 2016 amounted to USD 5.3 million (13.1% of revenue) with an adjusted EBIT of USD 0.8 million (2.0% of revenue) compared to an adjusted LBITDA of USD 0.4 million and an LBIT of USD 4.7 million in fiscal year 2015. On a GAAP basis including the change in revenue estimate and extraordinary items, EBITDA for the year amounted to USD 1.0 million (2.5% of revenue) with an LBIT of USD 4.8 million, this compared to LBITDA of USD 9.0 million and an LBIT of USD 14.5 million in 2015.

Financial Income/Expenses

Financial expenses, net for fiscal year 2016 amounted to USD 2.4 million compared to financial expenses, net of USD 0.4 million in fiscal year 2015. The change is mainly attributable to (i) the interest paid on a new long term bank loan that the German subsidiary received In January 2016 in the amount of EUR 7 million (USD 7.7 million) with an annual interest of 3.45%, (ii) the interest component of the final tax judgement regarding previous years' income tax assessment resulting in an additional financial expense including linkage to changes in the Israeli CPI of USD 1.7 million recognized in 2016.

Taxes on Income

For fiscal year 2016, taxes on income amounted to USD 3.9 million compared to USD 0.9 million in fiscal year 2015. The change is mainly attributed to the additional tax expense of USD 3.1 million due to the final tax judgement regarding previous years' income tax assessment. Taxes on income also include deferred tax expenses of USD 0.6 million, which is related to the Company's Israeli business and current tax expenses in the amount of USD 0.2 million related to the Israeli and German businesses.

Net Income (Loss)

Adjusted net loss for fiscal year 2016 amounted to USD 6.8 million ((0.65) per share) compared to an adjusted net loss of USD 7.1 million ((0.67) per share) in fiscal 2015. On a GAAP basis including the change in revenue estimate and extraordinary items, net loss for the year amounted to USD 11.1 million ((1.06) per share) compared with a net loss of USD 15.7 million ((1.50) per share) in fiscal 2015.

Major Changes in Assets, Liabilities and Equity

Although SHL's balance sheet decreased due to the extensive extraordinary non-recurring items which required impairments and write-off in deferred taxes, fixed assets and intangible assets, including extraordinary expenses such as additional finance and tax provisions due to the final tax judgement regarding previous years' income tax assessment, the change in the accounting policy with regards to sales wages and commissions, SHL's balance sheet remains strong enabling the Company to fulfill its goals.

Current assets as of December 31, 2016 were USD 24.9 million (39.8% of total assets) of which USD 10.5 million in cash, cash equivalents and short term investments and USD 9.8 in trade receivables, compared to current assets as of December 31, 2015 of USD 20.4 million (30.5% of total assets) of which USD 8.6 million in cash, cash equivalents and short term investments and USD 7.1 million in trade receivables.

Non-current assets were down to USD 6.6 million as of December 31, 2016 compared to USD 7.9 million as of December 31, 2015 mainly due to an impairment in deferred taxes and reduction in long term deposits.

Total liabilities, current and non-current, were USD 38.8 million as of December 31, 2016, of which short and long term loans amounted to USD 23.5 million (60.6% of total liabilities). This is compared with total liabilities, current and noncurrent, of USD 32.6 million as of December 31, 2015, of which short and long term loans amounted to USD 19.8 million (60.7% of total liabilities).

Property and equipment, net amounted to USD 5.5 million as of December 31, 2016 compared with USD 7.5 million as of December 31, 2015. Property and equipment, net was mainly comprised of telemedicine devices on loan to the company's subscribers amounting to USD 2.4 million (43.6% of total) compared with USD 3.9 million (52.0% of total) as of December 31, 2015.

Goodwill and intangible assets as of December 31, 2016 amounted to USD 25.7 million compared with USD 31.0 million as of December 31, 2015. The decrease is due to the impairment in customer contracts and development costs along with the amortization for the current period.

Total equity as of December 31, 2016 amounted to USD 23.8 million (38.0% of balance sheet) compared with total equity at December 31, 2015 of USD 34.2 million (51.2% of balance sheet).

Cash Flow

Operating cash flow for the year amounted to a deficit of USD 0.4 million mainly due to negative working capital which was affected by an increase in accounts receivables from additional income derived from cost savings delivered under a Chronic Disease Management Services contract recognized in 2016. This compared to cash provided by operations of USD 4.0 million in 2015.

Net cash used in investing activities amounted to USD 1.3 million of which investment in fixed and intangible assets amounted to USD 1.8 million, offset by cash used in long term deposits in the amount of USD 0.5 million. This compared to cash provided by investing activities of USD 0.5 million in 2015. During 2015 the Company acquired GPH for USD 6.2 million and invested in fixed and intangible assets USD 2.7 million. This was financed by the sale of short-term investments, net in an amount of USD 10.0 million.

Cash provided by financing activities for fiscal 2016 amounted to USD 3.8 million of which proceeds from long term loans in the amount of USD 7.7 million were offset by payments of long term loans in the amount of USD 3.9 million. This compared with cash used in financing activities for USD 3.2 million in 2015 of which payment of long term loans in the amount of USD 3.3 million was offset by proceeds of long term loans in the amount of USD 0.1 million.

As of 31 December 2016 the company's cash, cash equivalents and marketable securities balances amounted to USD 10.5 million up USD 1.9 million from 31 December 2015.

Yossi Vadnagra
Chief Financial Officer

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

Opinion

We have audited the consolidated financial statements of SHL Telemedicine Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets statements of financial position as of December 31, 2016, and 2015 and as of January 1, 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and 2015 and as of January 1, 2015, and its financial performance and its cash flows for each of the years ended December 31, 2016 and 2015, in accordance with International Financial Reporting Standards (IFRSs) as issued by the international accounting standards board. ("IASB")

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2x of the consolidated financial statements which describes the effects of the restatement of the consolidated financial statements as of January 1, 2015, and December 31, 2015, and for the year then ended. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

The Key Audit Matters we identified are:

	Description of Key Audit Matter and why a matter of most significance in the audit	Description of Auditor's Response
Existence and measurement of medical devices	As of December 31, 2016, the total carrying amounts of telemedicine devices in property and equipment and inventory are approximately $5.5 million and $2.4 million, respectively. These amounts are comprised of thousands of devices that are on loan to customers (property and equipment) and held by the Group (inventory). The Group's monitoring of the existence and measurement of these devices involves a complex interface among automated and non-automated accounting records distributed among various entities within the Group. As described in Note 2x to the consolidated financial statements, in 2016 certain errors were discovered in respect of the recording and valuation of these devices. The aforementioned factors led us to conclude that the existence and measurement of telemedicine devices are a key audit matter.	Our audit procedures included testing of physical counts of the devices and extensive detailed testing of the accounting records, including checking mathematical accuracy, to support the carrying amounts of the devices. We also performed substantive testing and examination of underlying documentation to support the costs comprising the carrying amounts, including the appropriate elimination of intercompany profit for transfers of devices between entities in the Group. We evaluated management's assessment of the valuation of the devices, including testing inventory movements and subsequent sales, and indications of technological obsolescence.
Capitalization and impairment of intangible assets	As of December 31, 2016, the carrying amounts of goodwill and other intangible assets are approximately $15.2 million and $10.4 million, respectively. The Group recognizes eligible development costs as an intangible asset upon meeting certain criteria as described in Note 2k to the consolidated financial statements. These criteria involve significant management judgment and measurement uncertainty. In addition, management performs a review of intangible assets for impairment pursuant to IAS 36. These impairment reviews involve significant judgmental assumptions and estimates. Due to the significance of these amounts and the judgmental nature of management assumptions, we concluded that this is a key audit matter.	Our audit procedures included an assessment of the eligibility of the development costs for capitalization as an intangible asset in accordance with the criteria in IAS 38, including an evaluation of management's justification for meeting the criteria. We performed substantive testing of underlying evidence to support the costs capitalized. We used our internal specialists to assist us in evaluating the assumptions and methodology used by the Group and its external experts to test impairment of goodwill and other intangible assets. In particular, we assessed the recoverability of goodwill by reviewing management's forecasts of revenues and profitability. We also assessed the adequacy of the relevant disclosures in Note 12 to the consolidated financial statements.

Other information included in the Group's 2016 Annual Report

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the board of directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Mr. Itay Bar-Haim.

Tel-Aviv, Israel

July 30, 2017

Kost Forer Gabbay and Kasierer

KOST FORER GABBAY & KASIERER

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CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2016	December 31, *2015	January 1, *2015
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	6	5,889	4,005	2,767
Short-term investments	7	4,672	4,551	14,316
Trade receivables	8	9,759	7,075	12,491
Prepaid expenses	9	797	728	776
Inventory	2e	2,388	2,766	2,483
Other accounts receivable	10	1,404	1,239	3,458
		24,909	**20,364**	**36,291**
NON-CURRENT ASSETS:				
Prepaid expenses	9	2,530	2,499	2,689
Long-term deposits		806	1,357	876
Deferred taxes	19	3,214	4,011	4,768
		6,550	**7,867**	**8,333**
PROPERTY AND EQUIPMENT:	11	5,524	7,537	9,363
GOODWILL	12	15,256	14,648	12,487
INTANGIBLE ASSETS, NET	12	10,390	16,433	16,147
Total assets		**62,629**	**66,849**	**82,621**

* Restated – see Note 2x.

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2016	December 31, *2015	January 1, *2015
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Credit from banks and current maturities	13	13,925	10,351	10,244
Deferred revenues	15	1,476	1,828	66
Income tax payable	19	2,176	-	-
Trade payables		1,135	1,015	983
Other accounts payable	16	6,980	7,629	5,076
		25,692	**20,823**	**16,369**
NON-CURRENT LIABILITIES:				
Long-term loans	14	9,558	9,448	12,931
Deferred revenues	15	458	523	673
Income tax payable	19	1,433	-	-
Deferred taxes	19c	783	1,076	-
Employee benefit liabilities	18	890	776	758
		13,122	**11,823**	**14,362**
Total liabilities		**38,814**	**32,646**	**30,731**
EQUITY:	22			
Issued capital		31	31	31
Additional paid-in capital		95,859	95,380	95,189
Treasury shares		(2,429)	(2,440)	(2,619)
Foreign currency translation reserve		(3,441)	(3,614)	(1,276)
Capital reserve for available-for-sale investments and remeasurement gains on defined benefit plans		705	660	640
Accumulated deficit		(66,910)	(55,814)	(40,075)
Total equity		**23,815**	**34,203**	**51,890**
Total liabilities and equity		**62,629**	**66,849**	**82,621**

* Restated – see Note 2x.

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

July 30, 2017	Xuewen Wu	
Date of approval of the financial statements	Xuewen Wu Chairman of the Board	Yoav Rubinstein CEO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year ended December 31, 2016	*2015
Revenues for the year	23a	35,606	39,375
Change in revenues estimate	8a	4,942	(2,288)
Total revenues		40,548	37,087
Depreciation and amortization		1,159	1,589
Cost of revenues	23b	18,320	18,590
Gross profit		21,069	16,908
Research and development costs	23c	3,555	2,732
Selling and marketing expenses	23d	8,284	11,997
General and administrative expenses	23e	10,216	8,052
Other expenses	23g	3,806	8,620
Operating loss		(4,792)	(14,493)
Financial income	23f(1)	411	878
Financial expenses	23f(2)	(2,817)	(1,261)
Loss before taxes on income		(7,198)	(14,876)
Taxes on income	19b	3,898	863
Net loss		**(11,096)**	**(15,739)**
Other comprehensive income (loss):			
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods-			
Re-measurement gains on defined benefit plans		(1)	90
		(1)	**90**
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Transfer to profit or loss in respect of available-for-sale investments		52	(74)
Gain on available-for-sale investments		(7)	4
Foreign currency translation reserve		174	(2,338)
		219	(2,408)
Total other comprehensive income (loss)		**218**	**(2,318)**
Total comprehensive loss		**(10,878)**	**(18,057)**
Earnings per share:			
Basic and diluted loss	**24**	**(1.06)**	**(1.50)**

* Restated – see Note 2x.

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

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

	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Capital reserve for available-for-sale investments and cumulative gains on defined benefit plans**	Accumulated deficit	Total
Balance as of January 1, 2015[1]	**31**	**95,189**	**(2,619)**	**(1,276)**	**640**	**(40,075)**	**51,890**
Exercise of options	*-	(170)	179	-	-	-	9
Share-based payments	-	361	-	-	-	-	361
Net loss[1]	-	-	-	-	-	(15,739)	(15,739)
Total other comprehensive loss	-	-	-	(2,338)	20	-	(2,318)
Balance as of December 31, 2015[1]	**31**	**95,380**	**(2,440)**	**(3,614)**	**660**	**(55,814)**	**34,203**
Exercise of options	-	(11)	11	-	-	-	-
Share-based payments	-	490	-	-	-	-	490
Net loss	-	-	-	-	-	(11,096)	(11,096)
Total other comprehensive loss	-	-	-	173	45	-	218
Balance as of December 31, 2016	**31**	**95,859**	**(2,429)**	**(3,441)**	**705**	**(66,910)**	**23,815**

1 Restated – see Note 2x.

* Represents an amount lower than $ 1.

** As of December 31, 2016 the capital reserve for available for sale investments amounts to $ 234 (2015- $ 188) and the cumulative gains on defined benefit plans amounts to $ 471 (2015- $ 472).

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,	
	2016	*2015
Cash flows from operating activities:		
Net loss	(11,096)	(15,739)
Adjustments required to reconcile net loss to net cash provided by (used in) operating activities :		
Income and expenses not involving operating cash flows:		
Depreciation and amortization	5,792	5,456
Capital loss (gain) from sale of property and equipment	27	(26)
Impairment of property, plant and equipment	907	1,621
Impairment of intangible assets	3,462	1,800
Change in employee benefit liabilities, net	113	20
Financial expenses, net	2,406	383
Cost of share-based payments	490	361
Taxes on income	3,898	863
	17,095	10,478
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables, net	(3,208)	6,589
Decrease in inventory	270	118
Decrease (increase) in prepaid expenses	(51)	178
Decrease (increase) in other accounts receivable	(160)	2,183
Decrease in trade payables	(99)	(739)
Decrease in deferred revenues	(380)	(126)
Increase (decrease) in other accounts payable	(828)	1,638
	(4,456)	9,841
Cash paid and received:		
Interest received	72	223
Interest paid	(601)	(758)
Income taxes received	43	-
Income taxes paid	(1,486)	(65)
	(1,972)	(600)
Net cash provided by (used in) operating activities	(429)	3,980

* Restated – see Note 2x.

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,	
	2016	2015
Cash flows from investing activities:		
Purchase of property and equipment	(622)	(1,230)
Investment in intangible assets	(1,192)	(1,520)
Long term deposit	540	(516)
Acquisition of GPH (a)	-	(6,236)
Proceeds from sale of property and equipment	5	32
Purchase of short-term investments	(1,078)	(1,326)
Proceeds from sale of short-term investments	1,022	11,328
Net cash provided by (used in) investing activities	(1,325)	532
Cash flows from financing activities:		
Proceeds from exercise of options	-	8
Proceeds from long-term loans	7,746	138
Payment of long-term loans	(3,960)	(3,313)
Net cash provided by (used in) financing activities	3,786	(3,167)
Effect of exchange rate changes on cash and cash equivalents	(148)	(107)
Increase in cash and cash equivalents	1,884	1,238
Cash and cash equivalents at the beginning of the year	4,005	2,767
Cash and cash equivalents at the end of the year	**5,889**	**4,005**
(a) Acquisition of GPH:		
Working capital (excluding cash)	-	739
Property and equipment, net	-	(1,169)
Intangible assets	-	(6,988)
Deferred taxes	-	1,182
	-	**(6,236)**
(b) Non-cash transactions:		
Purchase of property and equipment	-	77

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

NOTES TO CONSOLIDATED STATEMENTS

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

NOTE 1 | GENERAL

SHL Telemedicine Ltd. ("SHL" and/or "the Company") was incorporated in Israel. Its shares are publicly-traded on the SIX Swiss Exchange under the symbol SHLTN and it has an American Depository Receipt level 1 program listed over-the counter in the US under the symbol: SMDCY. After Balance-Sheet date the Company has terminated the program, effective from August 7, 2017. SHL and its subsidiaries ("the Group") develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine systems are designed to improve quality of care and life for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health.

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

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

The Group's financial statements have been prepared on a cost basis, except for marketable securities (available for sale investments and financial assets presented at fair value through profit or loss) which are measured at fair value.

The Group has elected to present the statement of comprehensive income using the function of expense method.

2. Consistent accounting policies:

The accounting policies adopted in the financial statements have been applied consistently for all periods presented.

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

c. Functional currency and presentation currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the U.S. dollar.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group entity and is used to measure its financial position and operating results. The functional currency of the Company is the NIS.

When a Group entity's functional currency differs from the presentation currency, that entity's financial statements are translated so that they can be included in the consolidated financial statements as follows:

a) Assets and liabilities of foreign operations, including goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of said foreign operation, are translated at the closing rate at the end of the reporting period.

b) Income and expenses for each period presented in the statement of income are translated at average exchange rates for the presented periods.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.

d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions (such as dividend) during the period are translated as described in b) and c) above.

e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "foreign currency translation reserve".

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences are recognized in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the exchange rate at the date of the transaction.

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalized to qualifying assets or carried to equity in hedge transactions, are recognized in profit or loss.

d. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

e. Inventory:

Inventory of telemedicine devices for sale 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.

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible.

g. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

a) Short-term receivables:

Short-term receivables are investments with fixed or determinable payments that are not quoted in an active market. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

b) Available-for-sale investments:

Available-for-sale financial assets are (non-derivative) financial assets that are designated as available for sale or are not classified in any of the three following categories: Financial assets at fair value through profit or loss, Held-to-maturity investments and Loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for interest, exchange rate differences that relate to debt instruments and dividends from an equity instrument, are recognized in other comprehensive income. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is transferred to profit or loss.

c) Financial assets at fair value through profit or loss:

This category includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Gains and losses of financial assets at fair value through profit or loss are recognized in profit and loss when incurred.

2. Financial liabilities:

Financial liabilities are initially recognized at fair value. After initial recognition, loans and other liabilities are measured at amortized cost based on their terms net of directly attributable transaction costs using the effective interest method.

h. Leases:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles set out in IAS 17. Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Lease agreements are classified as a finance lease when substantially all the risks and rewards incidental to ownership of the leased assets are transferred to the Group. At the commencement of the lease term, the leased asset is measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The leased asset is depreciated over the shorter of its useful life and the lease term.

i. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the date of acquisition with the addition of non-controlling interests in the acquiree.

Direct acquisition costs are carried to the income statement as incurred.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

j. Property and equipment:

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the property and equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	
Medical equipment	10 - 15	(mainly 15)
Motor vehicles and ambulances	15 - 20	(mainly 20)
Office furniture and equipment	6 - 7	(mainly 6)
Computers and peripheral equipment	15 - 33	(mainly 20)
Leasehold improvements	see below	
Telemedicine devices on loan to customers	10	

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including any extension option held by the Group and intended to be exercised) and the expected life of the improvement.

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

k. Intangible assets:

Intangible assets acquired in a business combination are included at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in profit or loss.

Gains or losses arising from the derecognition of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

The useful life of intangible assets is as follows:

	Years
Developments costs	5 - 10
Computer software	5
Contracts and customer relations	1.75-10

Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from development or from the development phase of an internal project is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. As for the testing of impairment, see l below.

l. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

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

1. Goodwill related to subsidiaries:

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

The Company reviews goodwill for impairment once a year or more frequently if events or changes in circumstances indicate that there is impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating

unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.
In 2016 and 2015, no impairment loss was recorded.

2. Development costs capitalized during the development period:
The impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is impairment.
In 2016, the Group recognized an impairment loss of $ 1,470 (2015-$ 1,018). See also Notes 12 and 23g.

m. Taxes on income:

Taxes on income in the statement of comprehensive income comprise current and deferred taxes. Current or deferred taxes are recognized in the statement of income except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity. In such cases, the tax effect is also recognized in the relevant item.

1. Current taxes:
The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:
Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.
Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized outside of profit or loss.
Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, “taxes on income”.
Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Group’s policy not to initiate distribution of dividends that triggers an additional tax liability.
All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

n. Share-based payment transactions:

The Company’s employees are entitled to remuneration in the form of equity-settled share-based payment transactions (see details in Note 20).

Equity-settled transactions:
The cost of equity-settled transactions with employees is measured at the fair value of

the equity instruments granted at grant date. The fair value is determined using a standard option pricing model, additional details are given in Note 22d. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account. The only conditions taken into account in estimating fair value are market conditions and non-vesting conditions. As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period 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 expense or income recognized in profit or loss represents the movement in the cumulative expense recognized at the end of the reporting 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 the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Group modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

o. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law in Israel. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relation is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with term of the benefit obligation.

In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise

assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.
The liability for employee benefits presented in the balance sheet reflects the present value of the defined benefit obligation less the fair value of the plan assets (see details in Note 18).
Remeasurements of the net liability are recognized as other comprehensive income (loss) in the period in which they occur.

p. Treasury shares:

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

q. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from the rendering of services:

Revenues from services are recognized as the services are performed. Revenues from the installation fees are recognized ratably over the estimated average service period of subscriber contracts, adjusted for cancellations.
Certain service contracts include remuneration, in part or in whole, based on the level of health cost savings to the customer ("performance-based" contracts). Until the end of 2015 the performance-based revenues from such contracts were recognized as the services are provided based on the Group's past experience with similar types of services. Changes in the estimated amounts to be received were recognized as an adjustment of revenues in the period in which additional evidence as to expected cost savings was obtained. Such changes were recorded until the cost savings were finalized with the customer.
Commencing in 2016, due to the significant variability of the various factors that can affect the level of cost savings and the resulting difficulty in measuring such cost savings reliably, the Company recognizes revenues from performance-based contracts only after receiving final data as to the actual cost savings.

Incremental expenses incurred in obtaining subscription contracts are deferred and recognized ratably over the estimated average service period of subscriber contracts, adjusted for cancellations. See x below for description of change in accounting policy.

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 sale of telemedicine devices:

Revenues from sale of telemedicine devices are recognized when all significant risks and rewards of ownership of the devices have passed to the buyer. The delivery date is usually the date on which ownership passes.

Interest income:

Interest income on financial assets is recognized as it accrues using the effective interest method.

r. Finance income and expenses:

Finance income comprises interest income on amounts invested (including available-for-sale financial assets), gains from sale of financial assets classified as available-for-sale, changes in fair value of financial assets and exchange rate gains recognized in profit or loss.
Finance expenses comprise interest expense on borrowings, changes in the fair value and exchange rate differences.

s. Earnings per share:

Basic earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.
For diluted earnings per share, the weighted average of shares outstanding is adjusted, assuming conversion of potential dilutive shares (employee options), except when such conversion has an anti-dilutive effect.

t. Provisions:

A provision in accordance with IAS 37 is 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 is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

Onerous contracts:

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group from the contract. The provision is measured at the lower of the present value of the anticipated cost of exiting from the contract and the present value of the net anticipated cost of fulfilling it.

u. Advertising expenses:

Expenditures incurred on advertising, marketing or promotional activities, such as production of catalogues and promotional pamphlets, are recognized as an expense when the Group has the right of access to the advertising goods or when the Group receives those services.

v. Presentation of statement of comprehensive income:

The Group has elected to present a single statement of comprehensive income which includes both the items of the statement of income and the items of other comprehensive income.

w. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 -	quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 -	inputs other than quoted prices included within Level 1 that are observable directly or indirectly.
Level 3 -	inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

x. Restatement:

1. Correction of errors:

a) In 2015 the Company received information regarding the results of certain annual performance-based contracts, according to which the level of cost savings was lower than previously estimated. Based on that information, the Company recorded in the consolidated statement of comprehensive income for 2015 a reduction of revenues in respect of the years 2013, 2014 and 2015. After further analysis, the Company has determined that there was preliminary data available in 2014 that indicated that the level of cost savings for the years 2013 and 2014 was lower than initially estimated. As a consequence, the reduction of revenues in respect of the years 2013 and 2014 in the amount of $ 2,506 was incorrectly recorded in 2015 and should have been recorded in 2014.

b) In connection with the renewal of a contract with a customer, which renewal was effective from mid-2015, the Company committed to participate in certain costs of the customer in the amount of $ 789. This expense was not included in the annual 2015 financial statements. After further analysis, the Company has determined that this amount should have been accrued and recorded as an expense in 2015.

c) In 2016 the Company discovered a technical error in the recording of telemedicine devices in its detailed schedule of property and equipment resulting in a reduction of property and equipment of $ 3,290 and $ 3,167 as of January 1, 2015, and December 31, 2015, respectively.

d) The Company discovered an error in the calculation in 2015 of the cost of a certain component of inventory resulting in a reduction of $ 502 in the carrying amount of inventory as of December 31, 2015.

   The Company also discovered an error in the calculation of the amortization of certain tangible assets resulting in a reduction of intangible assets of $ 83 and $ 125 as of January 1, 2015, and December 31, 2015, respectively.

2. Reclassification:

As described above, a portion of the reduction of revenues recorded in the year ended 2015 also related to revenues that were initially recorded during 2015. This reduction in revenues amounting to $ 1,298 was included in the consolidated statement of comprehensive income in a separate line item, "Change in revenues estimate". After further analysis, the Company has determined that this reduction should have been recorded directly as an offset against "Revenues for the year". The correction of this error is a reclassification and has no effect on the total revenues reported for 2015.

3. Change in accounting policy:

The Group has re-assessed its accounting policy for prepaid expenses with respect to the nature of the expenses that should be deferred and recognized as an asset. The Group had previously deferred all compensation to sales employees directly involved in obtaining subscription sales contracts if the Group expected to recover those expenses from the subscription revenues. In 2016, the new management elected to change its accounting policy such that only the portion of sales compensation expenses that is incremental in obtaining subscription sales contracts is deferred. Management believes that this change in policy better reflects recent development in accounting guidance.

The Group applied the change in accounting policy retrospectively to the comparative data in these financial statements. The effect of the change in accounting policy on profit and loss for 2016 was immaterial.

The above items have been corrected by restating each of the affected financial statement line items for the prior year, as follows:

Consolidated statements of financial position:

	As previously reported	Correction of errors	Change in accounting policy	As presented in these financial statements
	U.S. dollars in thousands			
As of December 31, 2015:				
Other account payables	6,840	789	-	7,629
Prepaid expenses – short-term	1,304	-	(576)	728
Inventory	3,268	(502)	-	2,766
Prepaid expenses – long-term	5,735	-	(3,236)	2,499
Property and equipment	10,704	(3,167)	-	7,537
Intangible assets	16,558	(125)	-	16,433
Foreign currency translation reserve	(4,086)	510	(38)	(3,614)
Accumulated deficit	(46,948)	(5,092)	(3,774)	(55,814)
Total equity	**42,597**	**(4,582)**	**(3,812)**	**34,203**
As of January 1, 2015:				
Trade receivables	15,263	(2,772)	-	12,491
Prepaid expenses – short-term	1,268	-	(492)	776
Prepaid expenses – long-term	5,558	-	(2,869)	2,689
Property and equipment	12,653	(3,290)	-	9,363
Intangible assets	16,230	(83)	-	16,147
Foreign currency translation reserve	(1,532)	256	-	(1,276)
Accumulated deficit	(30,313)	(6,401)	(3,361)	(40,075)
Total equity	**61,396**	**(6,145)**	**(3,361)**	**51,890**

Consolidated statements of comprehensive income:

	As previously reported	Correction of errors and reclassification	Change in accounting policy	As presented in these financial statements
	U.S. dollars in thousands			
Year ended December 31, 2015:				
Revenues for the year	40,673	(1,298)	-	39,375
Change in revenues estimate	(6,092)	3,804	-	(2,288)
Total revenues	34,581	2,506	-	37,087
Depreciation and amortization	2,470	(881)	-	1,589
Cost of revenues	18,088	502	-	18,590
Gross profit	14,023	2,885	-	16,908
Research and development costs	2,690	42	-	2,732
Selling and marketing expenses	10,794	789	414	11,997
Other expenses	7,876	744	-	8,620
Operating loss	(15,389)	1,310	(414)	(14,493)
Loss before taxes on income	(15,772)	1,310	(414)	(14,876)
Net loss	(16,635)	1,310	(414)	(15,739)
Foreign currency translation reserve	(2,554)	254	(38)	(2,318)
Total other comprehensive loss	(2,534)	254	(38)	(2,318)
Total comprehensive loss	(19,169)	1,564	(452)	(18,057)
Earnings per share:				
Basic and diluted loss	(1.59)	0.13	(0.04)	(1.50)

y. 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, 2016.

2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

Data regarding Israeli CPI and exchange rates of the U.S. dollar, the Euro and the Swiss Franc in relation to the NIS is as follows:

	Israeli	Exchange rate of		
	CPI	€	U.S. $	CHF
For the year ended	Points *)	NIS		
December 31, 2016	220.7	4.04	3.85	3.77
December 31, 2015	221.1	4.25	3.9	3.92
December 31, 2014	223.4	4.72	3.89	3.93
Change during the year	%			
2016	(0.2)	(4.9)	(1.3)	(4)
2015	(1)	(9.9)	0.25	(0.25)

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

NOTE 3 | SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN PREPARATION OF THE FINANCIAL STATEMENTS

Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

1. Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

- **Capitalization of development costs**
  Development costs are capitalized in accordance with the accounting policy described in Note 2k, which is based on the criteria set forth in IAS 38. The assessment of whether development costs meet the criteria for recognition as an intangible asset requires significant management judgment, in particular with respect to technical feasibility, generation of future economic benefits, and ability to measure reliably the costs attributable to the intangible asset.
- **Determining the fair value of share-based payment transactions:**
  The fair value of share-based payment transactions is determined upon initial recognition using an acceptable option-pricing model. The inputs to the model include the share price, exercise price and risk-free interest rate, and assumptions regarding expected volatility, expected life of share options and, expected dividend.

2. Estimates and assumptions:

The preparation of these financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Impairment of goodwill:**
  The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows. Further details are given in 2i and 12.
- **Deferred tax assets:**
  Deferred tax assets are recognized for unused carry forward tax losses and temporary differences 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 given in Notes 2m and 19c.

- **Intangible assets:**
  Intangible assets (mainly customer contracts and customer relations) acquired in a business combination are included at fair value at the acquisition date. In testing for impairment of these assets, management makes assumptions regarding the expected cash flows from the customer, the discount rate and the expected period of benefits. See also Notes 12 and 23g.
- **Performance based contracts:**
  The Group is engaged in certain contracts in which the remuneration for the services provided is determined based on the level of health cost savings to the customer using annual performance data.
  As described in Note 2q, due to the difficulty in measuring such cost savings reliably, the Company recognizes revenues from performance-based contracts only after receiving final data as to the actual cost savings, and these actual cost savings may be material when received. See also Note 8a.

NOTE 4 | DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. IFRS 15, "Revenue from Contracts with Customers":

IFRS 15 ("the Standard") was issued by the IASB in May 2014.

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and the related Interpretations: IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The Standard introduces a five-step model that applies to revenue from contracts with customers:

IFRS 15 also establishes the accounting treatment of incremental costs involving obtaining a contract and the costs directly related to fulfilling a contract.

The Standard will apply retrospectively to annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Standard may be applied to existing contracts beginning with the current period and thereafter. No restatement of the comparative periods will be required.

The Company is evaluating the possible impact of the adoption of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements..

b. IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company is evaluating the possible impact of the adoption of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

c. Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

The amendments are effective for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

d. IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".
- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.
- The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

The Company is evaluating the possible impact of the new Standard of IFRS 16 but is presently unable to assess its effect, if any, on the financial statements.

NOTE 5 | ACQUISITION OF GPH (Gesellschaft für Patientenhilfe)

a. On March 20, 2015, the Company, through its wholly owned German subsidiary (SHL Telemedizin GmbH), signed a definitive agreement to acquire 100% of GPH (Gesellschaft für Patientenhilfe) shares, a Company based in Munich, providing telemedicine services to German health insurers. The cash consideration for GPH was Euro 7,690 ($ 8,256). Closing occurred on March 31, 2015 and GPH's assets and liabilities are consolidated from that date.

The fair values of the assets and liabilities acquired as of the date of acquisition (March 31, 2015) are as follows (after adjustments - see b below):

	Fair value
Cash and cash equivalents	2,020
Trade and other receivables	1,806
Property and equipment	1,169
Intangible assets	784
Customers contracts	3,598
Accounts and other payables	(803)
Deferred revenues	(1,742)
Deferred tax liability, net	(1,182)
Total identifiable assets at fair value	5,650
Goodwill arising on acquisition	2,606
Total purchase price	8,256

The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a valuation conducted by an independent valuation specialist.

The intangible assets (customer contract) are amortized over their estimated useful life (1.75-6.75 years) using the straight-line method.

The excess of the purchase price over the net

tangible and identifiable intangible assets paid was recorded as goodwill, which comprises the expected synergies arising from the acquisition.
A deferred tax liability of $ 1,182 was recorded for the difference between the fair value and the tax base of the net intangible assets acquired.
Acquisition costs that are directly attributable to the transaction of approximately $ 75 were carried as an expense to general and administrative expenses.
If the business combination had taken place at the beginning of the year, the consolidated net loss would have been $ 15,464 and the consolidated revenues would have been $ 39,718 for the year ended December 31, 2015.

b. In 2016, during the measurement period (period limited to 12 months after the acquisition date during which the initial fair value amounts of the assets and liabilities recognized for a business combination may be adjusted), the Company received information regarding the fair value of the trade receivables of GPH as of the acquisition date according to which the level of cost savings is lower than previously estimated. Based, among others, on the revised information obtained during 2016, the Company received an updated final allocation of the fair value of the assets and liabilities from an independent valuation specialist. Based on the updated allocation, the fair value of the trade receivables was reduced by $ 560, the deferred tax liability was reduced by $ 134 and the goodwill arising on acquisition was increased by $ 426. Due to the immateriality of the effects of the changes on the balance sheet, the comparative data for 2015 were not adjusted.

NOTE 6 | CASH AND CASH EQUIVALENTS

	December 31,	
	2016	2015
Cash in banks (mainly in EUR)	4,889	3,920
Short-term deposits (in USD)	1,000	85
	5,889	**4,005**

NOTE 7 | SHORT-TERM INVESTMENTS

	December 31,	
	2016	2015
Marketable securities:		
Available for sale investments (Mainly in USD)	1,634	1,663
Financial assets at fair value through profit or loss (Mainly in NIS)	3,038	2,888
	4,672	**4,551**

NOTE 8 | TRADE RECEIVABLES

a. Composition:

	December 31,		January 1,
	2016	2015	*2015
Accounts receivable[1]	2,718	4,714	8,911
Income receivable - unbilled:			
Performance- based contracts[2]	5,590	1,443	3,500
Other	1,827	1,289	1,631
	10,135	**7,446**	**14,042**
Less – allowance for doubtful accounts	376	371	1,551
	9,759	**7,075**	**12,491**

* Restated – see Note 2x.

1 The terms of billed accounts receivable are generally 30-60 days. As of December 31, 2016 and 2015, there were no billed receivables that were past due but not impaired. As of January 1, 2015 a receivable from one costumer in amount of USD 3.2 million was more than a year past due but not impaired. This receivable was fully collected during 2015 – see b below.

2 After the balance sheet date, in 2017, the Company received updated results of the evaluation of annual performance-based contracts, according to which the level of cost savings is higher than previously estimated. Based on these results, the Company adjusted its estimate of performance-based revenues and increased income receivable by $ 5,590 which adjustment is reflected in the above balance as of December 31, 2016. The adjustment relates to revenues relating to 2015.
In 2016, the Company adjusted its estimated performance revenues in respect of prior years and reduced income receivable by $ 940 which adjustment is reflected in the above balance as of December 31, 2016.
In 2015 the Company adjusted its estimated performance revenues in respect of prior years and reduced income receivable by $ 2,288 which adjustment is reflected in the above balance as of December 31, 2015.

b. The movement in the allowance for doubtful accounts is as follows:

	USD in thousands
Balance at January 1, 2015	1,551
Reversal of doubtful accounts (1)	(1,110)
Currency translation differences	(70)
Balance at December 31, 2015	371
Currency translation differences	5
Balance at December 31, 2016	**376**

1 During 2015 the Company collected Euro 4,200 from a former customer in Germany in respect of a debt for services rendered in the past that was not paid. The Company reversed an accrual for doubtful accounts in the amount of Euro 1,000 ($ 1,110) and recognized additional revenues in the amount of Euro 600 ($ 664).

NOTE 9 | PREPAID EXPENSES

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

	December 31,	
	2016	2015
First year prepaid expenses - short-term	797	728
Second year	551	558
Third year	459	457
Fourth year	404	406
Fifth year	340	347
Thereafter	776	731
Prepaid expenses - long-term	2,530	2,499
Total prepaid expenses	**3,327**	**3,227**

NOTE 10 | OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2016	2015
Employees	24	32
Interest receivable	29	37
Institutions[1]	911	641
Others	440	529
	1,404	**1,239**

1 Balance relates to receivable in respect of VAT refunds from prior years pending approval from the VAT authorities. In 2017 the Company reached a settlement with the VAT authorities in the amount of $ 911 which was received in 2017.

NOTE 11 | PROPERTY AND EQUIPMENT

	Computers and peripheral equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance as of January 1, 2015*	13,645	4,762	1,192	1,897	2,474	37,270	61,240
Additions during the year	508	16	14	255	8	506	1,307
Acquisition of a subsidiary (see Note 5)	281	-	-	-	-	888	1,169
Disposals during the year	-	-	-	(290)	-	(104)	(394)
Currency translation differences	(173)	(17)	(4)	(6)	(8)	(495)	(703)
Balance as of December 31, 2015	14,261	4,761	1,202	1,856	2,474	38,065	62,619
Additions during the year	685	4	6	12	28	157	892
Disposals during the year	(81)	-	-	(92)	(128)	(1,285)	(1,586)
Currency translation differences	46	27	2	4	10	47	136
Balance as of December 31, 2016	**14,911**	**4,792**	**1,210**	**1,780**	**2,384**	**36,984**	**62,061**
Accumulated depreciation:							
Balance as of January 1, 2015*	12,234	4,386	768	1,314	1,656	31,519	51,877
Additions during the year*	732	120	58	173	131	1,091	2,305
Disposals during the year	-	-	-	(284)	-	(52)	(336)
Impairment (see Note 23g)*	-	-	-	-	-	1,621	1,621
Currency translation differences*	(154)	(15)	(3)	(3)	(6)	(204)	(385)
Balance as of December 31, 2015*	12,812	4,491	823	1,200	1,781	33,975	55,082
Additions during the year	636	79	57	193	168	883	2,016
Disposals during the year	(133)	-	-	(89)	(99)	(1,243)	(1,564)
Impairment (see Note 23g)	-	-	-	-	-	907	907
Currency translation differences	36	21	2	2	5	30	96
Balance as of December 31, 2016	**13,351**	**4,591**	**882**	**1,306**	**1,855**	**34,552**	**56,537**
Depreciated cost as of December 31, 2016	**1,560**	**201**	**328**	**474**	**529**	**2,432**	**5,524**
Depreciated cost as of December 31, 2015*	**1,449**	**270**	**379**	**656**	**693**	**4,090**	**7,537**

* Restated – see Note 2x.

NOTE 12 | GOODWILL AND INTANGIBLE ASSETS, NET

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill[1]
As of January 1, 2016, net of accumulated amortization	7,615	6,414	2,404	16,433	14,648
Additions during the year	1,192	-	-	1,192	426
Amortization during the year	(2,393)	(1,038)	(305)	(3,736)	-
Impairment (see Note 23g)	(1,470)	(664)	(1,328)	(3,462)	-
Currency translation differences	98	(134)	(1)	(37)	182
As of December 31, 2016, net of accumulated amortization	**5,042**	**4,578**	**770**	**10,390**	**15,256**
As of December 31, 2016:					
Cost	32,702	7,385	2,903	42,990	15,256
Accumulated amortization	(27,660)	(2,807)	(2,133)	(32,600)	-
Net carrying amount	**5,042**	**4,578**	**770**	**10,390**	**15,256**

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill[1]
As of January 1, 2015, net of accumulated amortization*	8,632	4,498	3,018	16,148	12,487
Additions during the year	1,247	273	-	1,520	-
Acquisition of GPH (see Note 5)	784	3,598	-	4,382	2,180
Amortization during the year	(1,972)	(881)	(306)	(3,159)	-
Impairment (see Note 23g)	(1,018)	(782)	-	(1,800)	-
Currency translation differences	(58)	(292)	(308)	(658)	(19)
As of December 31, 2015, net of accumulated amortization	**7,615**	**6,414**	**2,404**	**16,433**	**14,648**
As of December 31, 2015:					
Cost	31,373	7,644	3,005	42,022	14,648
Accumulated amortization	(23,758)	(1,230)	(601)	(25,589)	-
Net carrying amount	**7,615**	**6,414**	**2,404**	**16,433**	**14,648**

* Restated – see Note 2x.

1 The recoverable amount of the cash generating units to which the goodwill mainly 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 14.3%-17% (2015 - 15.8%) and cash flows beyond the 5-year period are extrapolated using a 2% growth rate (2015 - 2%).
The value in use of the cash generating units exceeds their recoverable amount. A reasonably possible change in forecasted revenues could result in an impairment.

NOTE 13 | CREDIT FROM BANKS AND CURRENT MATURITIES

	Interest rate	December 31,	
	%	2016	2015
Credit from banks:			
NIS - unlinked	Prime[1] + 0.5 - 0.8	7,068	6,962
Long-term portion of loan presented in current liabilities due to breach of covenants - see note 14a		2,373	-
Current maturities of long-term loans (see Note 14)- linked mainly to the Israeli CPI	3.8 - 3.9	4,484	3,389
		13,925	**10,351**

1 The Prime rate as of December 31, 2016 – 1.6% (December 31, 2015 - 1.6%).

NOTE 14 | LONG-TERM LOANS

a. In July 2011, the Company received long-term loans from financing institutions in the aggregate amount of $ 29,300 (NIS 100,000 thousand) to be repaid in 96 equal monthly installments. The loans are denominated in NIS, bear an annual interest of 3.8%-3.9% and are linked to the Israeli CPI.

The loans contain certain financial covenants related to the Company's Israeli operations: (i) tangible equity to total assets of at least 20%; (ii) net debt to EBITDA of 1:5 at the maximum; and (iii) a limit on the amount of customers' future standing orders/credit card debits that can be pledged to third parties. As of December 31, 2016 the Company is in compliance with these covenants.

As of December 31, 2016, the Company was in breach of a "change in control" covenant in respect of one of the above loans, which allows the lender to demand immediate repayment of the loan. Accordingly, the contractual long-term portion of that loan in the amount of $ 2,373 as of December 31, 2016, is presented in current liabilities - see Note 13. However, for the reasons described in Note 17f, management of the Group believes that the lender will not demand early repayment of the loan.

b. In January 2016, the Company's German subsidiary received a long-term loan from a bank in Germany in the amount of Euro 7 million ($ 7,700) to be repaid in 32 equal quarterly installments. The loan bears an annual interest of 3.45%.

The loan contains certain general default and financial covenants related to the Company's German operations: (i) tangible equity to total assets of at least 18% until December 30, 2016, and 20% from December 31, 2016; (ii) net debt to EBITDA at the maximum of 1:3 until December 30, 2016, 1:2.75 from December 31, 2016 until June 29, 2017 and 1:2.5 from June 30, 2017. As of December 31, 2016 the Company is in compliance with these covenants

NOTE 15 | DEFERRED REVENUES

	December 31,	
	2016	2015
Total	1,934	2,351
Less - long-term deferred revenues	458	523
	1,476	**1,828**

NOTE 16 | OTHER ACCOUNTS PAYABLE

	December 31,	
	2016	2015
Employees and payroll accruals	2,558	2,718
Accrued expenses	3,757	3,758
Government authorities	126	628
Other	539	525
	6,980	**7,629**

NOTE 17 | FINANCIAL INSTRUMENTS

The Group's principal financial liabilities are comprised of short-term credit and long-term loans from banks and trade payables. The main purpose of these financial liabilities is for financing of the Group's operations. The Group has various financial assets such as trade receivables, short-term investments, cash and deposits.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk, market 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 Group to concentrations of credit risk consist principally of cash, cash equivalents, short-term investments and trade receivables. Cash, cash equivalents and short-term investments are deposited with major banks. Management believes that the financial institutions that hold the Group's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

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

d. Market risk:

The Group has investments in marketable financial instruments that are classified as available-for-sale financial assets and financial assets at fair value through profit and loss in respect of which the Group is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price (level 1 of the fair value hierarchy). As of December 31, 2016, the balance of these investments is $ 4,672 (2015 - $ 4,551).

The following table demonstrates the sensitivity to a reasonably possible change in the market price with all other variables held constant, of the Group's profit before tax (due to changes in the carrying amount of marketable securities).

	Increase/ decrease in price	Effect on profit before tax
2016	+5%	234
	-5%	(234)
2015	+5%	228
	-5%	(228)

e. Fair value of financial instruments:

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

Management believes that the carrying amount of long term loans and deposits approximate their fair value.

f. Liquidity risk:

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

As of December 31, 2016, the Group has a deficiency in working capital of $ 783 resulting from the classification in current liabilities of the long-term portion of a loan due to a breach of a loan covenant – see Note 14a. Management of the Group believes, based among others, on ongoing discussions with the lender including the 3 consecutive extension for its revolving credit line with the same lender with the latest extension signed on July 23, 2017 till October 31, 2017, that the lender will not demand early repayment of the loan, and if necessary, the Group can raise additional long-term financing.

The Group has long-term loans repayable in monthly equal installments until July, 2019.

Total annual contractual undiscounted payments including interest amounts to approximately $ 3,728. In addition, the Company has a non-current liability for income taxes in the amount of $ 1,433 that will be paid during 2018.

g. Israeli CPI risk:

The Group has long-term loans and revenues from customers that are linked to the changes in the Israeli CPI. The net amount of the financial instruments that are linked to the Israeli CPI and for which the Group is exposed to changes in the Israeli CPI amounts to a liability of approximately $ 5,017 (December 31, 2015 - a liability of $ 9,227). With all other variables held constant, the effect of an increase or decrease of 1% in the CPI on the Company's profit before tax will be a decrease or increase of $ 50 (2015 - $ 92).

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

	In or linked to					
	U.S.$	CHF	Euro	Israeli CPI	NIS	Total
December 31, 2016						
Assets:						
Cash and cash equivalents	1,125	64	3,728	-	972	5,889
Short-term investments	1,029	-	-	2,302	1,341	4,672
Trade receivables	-	-	7,871	-	1,888	9,759
Other accounts receivable	244	-	28	2,174	221	2,667
Long-term deposits	-	-	216	-	590	806
	2,398	**64**	**11,843**	**4,476**	**5,012**	**23,793**
Liabilities:						
Credit from banks and current maturities	-	-	920	5,936	7,069	13,925
Trade payables	33	-	463	-	639	1,135
Long-term loans	-	-	5,982	3,557	19	9,558
Other short and long-term liabilities	636	-	4,138	-	5,815	10,589
	669	**-**	**11,503**	**9,493**	**13,542**	**35,207**
December 31, 2015						
Assets:						
Cash and cash equivalents	133	69	3,279	-	524	4,005
Short-term investments	1,030	-	-	2,333	1,188	4,551
Trade receivables	-	-	4,071	-	3,004	7,075
Other accounts receivable	230	-	4	1,212	1,004	2,450
Long-term deposits	-	-	775	-	582	1,357
	1,393	69	8,129	3,545	6,302	19,438
Liabilities:						
Credit from banks and current maturities	-	-	-	3,389	6,962	10,351
Trade payables	22	-	276	-	717	1,015
Long-term loans	-	-	-	9,383	65	9,448
Other short and long-term liabilities	620	-	4,346	-	2,663	7,629
	642	**-**	**4,622**	**12,772**	**10,407**	**28,434**

NOTE 18 | EMPLOYEE BENEFIT LIABILITIES

a. Changes in the defined benefit obligation and fair value of plan assets:

2016:

	Balance at January 1, 2016	Expenses recognized in profit or loss: Current service cost	Net interest expense	Total expense recognized in profit or loss for the period	Payments from the plan	Gain (loss) from remeasurement in other comprehensive income: Actuarial gain (loss) arising from changes in financial assumptions	Actuarial gain (loss) arising from experience adjustments	Total effect on other comprehensive income for the period	Effect of changes in foreign exchange rates	Contributions: by employer	Balance at December 31, 2016
	USD in thousands										
Defined benefit obligation	(6,029)	(420)	(213)	(633)	983	(53)	(22)	(75)	(78)	-	(5,832)
Fair value of plan assets	5,253	-	197	197	(946)	-	74	74	58	306	4,942
Net defined benefit liability (asset)	(776)	(420)	(16)	(436)	37	(53)	(52	(1)	(20)	306	(890)

	Balance at January 1, 2015	Expenses recognized in profit or loss: Current service cost	Net interest expense	Total expense recognized in profit or loss for the period	Payments from the plan	Gain (loss) from remeasurement in other comprehensive income: Actuarial gain (loss) arising from changes in financial assumptions	Actuarial gain (loss) arising from experience adjustments	Total effect on other comprehensive income for the period	Effect of changes in foreign exchange rates	Contributions: by employer	Balance at December 31, 2015
	USD in thousands										
Defined benefit obligation	(5,891)	(477)	(219)	(696)	415	83	132	215	(72)	-	(6,029)
Fair value of plan assets	5,133	-	205	205	(391)	-	(125)	(125)	94	337	5,253
Net defined benefit liability (asset)	(758)	(477)	(14)	(491)	24	83	7	90	22	337	(776)

b. Disaggregation of the fair value of the plan assets:

	Year ended December 31, 2016	2015
Insurance contracts	4,942	5,253

c. The principal assumptions underlying the defined benefit plan:

	2016	2015
	%	
Discount rate	3.85	4.04
Expected rate of salary increase	4.55	4.54

d. Amount, timing and uncertainty of future cash flows:
Below are reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions are constant:

	Change in defined benefit obligation USD in thousands
December 31, 2016:	
Sensitivity test for changes in the expected rate of salary increase:	
The change as a result of:	
Salary increase of 10 % (instead of 4.54%)	81
Sensitivity test for changes in the discount rate of the plan assets and liability:	
The change as a result of:	
Increase of 1 % in discount rate	(30)
Decrease of 1 % in discount rate	40

NOTE 19 | TAXES ON INCOME

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

1. Companies in Israel:

The Israeli corporate income tax rate was 25% in 2016 and 26.5% in 2015 and 2014.
The deferred taxes are computed at the average tax rate of 23% (2015 - 26.5%), based on the tax rates that are expected to apply upon realization.
In January 2016, the corporate tax rate in Israel was reduced from 26.5% to 25% commencing from 2016.
In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018. The effects of the changes in tax rates is immaterial

2. Foreign subsidiaries:

The principal tax rates applicable to the major subsidiaries whose place of incorporation is outside Israel are:
The U.S. - tax at the rate of 34%.
Germany - tax at the rate of 31.4%.

b. Taxes on income included in the statements of comprehensive income:

	Year ended December 31,	
	2016	2015
Current taxes	244	378
Deferred taxes	582	485
Taxes in respect of prior years' *	3,072	-
	3,898	863

* See g below

c. Deferred tax assets (liabilities):

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

	Balance sheet items					
	Fixed and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Short-term Investments	Others	Total
Balance at January 1, 2015	(3,588)	301	8,183	(223)	95	4,768
Changes due to newly consolidated Company	(1,397)	-	80	-	-	(1,317)
Amount included in statement of comprehensive income	247	(24)	(626)	(27)	(55)	(485)
Currency translation differences	221	-	(253)	1	-	(31)
Balance at December 31, 2015	(4,517)	277	7,384	(249)	40	2,935
Amount included in statement of comprehensive income	1,388	(25)	(2,102)	198	(41)	(582)
Provisional PPA adjustment	-	-	134	-	-	134
Currency translation differences	10	3	(66)	(4)	1	(56)
Balance at December 31, 2016	**(3,119)**	**255**	**5,350**	**55**	**-**	**2,431**

d. The deferred taxes are reflected in the balance sheet as follows:

	Year ended December 31,	
	2016	2015
Non-current assets	3,214	4,011
Non-current liabilities	(783)	(1,076)
	2,431	2,935

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,	
	2016	2015
Income (loss) before taxes on income	(7,198)	(14,876)
Statutory tax rate in Israel	25%	26.5%
Tax computed at the statutory tax rate	(1,800)	(3,942)
Increase (decrease) in taxes resulting from:		
Taxes in respect of previous years	3,072	-
Increase in unrecognized tax losses of previous years	-	461
Tax adjustment in respect of inflation in Israel	(6)	(6)
Non-deductible expenses	211	767
Different tax rates	(3)	(119)
Loss for which deferred taxes were not recognized	2,460	3,852
Utilization of previously unrecognized capital losses	(11)	-
Adjustment of deferred tax balances following a change in tax rates	161	-
Other	(186)	(150)
Total tax expense reported in the consolidated statements of comprehensive income	**3,898**	**863**

f. Carry forward tax losses:

The carry forward losses for tax purposes as of December 31, 2016 amount to $ 64,896 (2015 -$ 42,260) in Israel (which may be carried forward indefinitely) and $ 30,193 (2015 - $ 26,392) in Europe. In the U.S., SHL USA has federal and state net operating losses and credits of $ 7,227 (2015 - $ 6,568), which expire at various times.

Deferred tax assets relating to carry forward tax losses in Israel as described above, and deductible temporary differences, in the aggregate amount of $ 49,484 (2015 - $ 15,959) and all other carry forward losses 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

On December 31, 2012, the Company was issued tax assessments in Israel for the years 2006-2008 in the aggregate amount of approximately $ 9,300. The Company had contested the assessments and, on February 28, 2013, filed an appeal against them.

On February 27, 2014 the Company was issued an updated tax assessment related to these years in the amount of $ 6,400 ($ 9,800 – including linkage differences and interest). On March 13, 2014 the Company filed an appeal. Further court deliberations were conducted with both parties providing additional documentation and information to the court.

In November 2016, the Company received a final court judgement in the amount of $ 3,068 ($ 4,789 including linkage differences and interest). The Company paid $ 1,199 in 2016 and the balance is to be paid in 18 monthly installments ending in July 2018. The consolidated financial statement as of December 31, 2016 include a provision for this tax assessment

NOTE 20 | COMPENSATION OF KEY MANAGEMENT PERSONNEL (INCLUDING DIRECTORS)

Year ended December 31:

	key management personnel (including directors)	
	2016	2015
Short-term employee benefits	2,526	2,486
Termination benefits	120	-
Share-based payment benefits	496	328
Total	**3,142**	**2,814**

NOTE 21 | COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

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

b. Lease commitments:

Certain of the Group's facilities are rented under operating leases for various periods ending through 2019.

Future minimum lease commitments in the years subsequent to December 31, 2016, under non-cancelable operating lease are as follows:

	2016	2015
First year	1,546	1,768
Second to third years	1,788	5,763
	3,334	7,531

c. Contingent liabilities:

The Group, from time to time, is party to various claims and disputes associated with its ongoing business operations. In management's opinion, based on the opinion of its legal counsels, none of these claims or disputes is expected, either individually or in the aggregate, to have a material adverse effect on the Group's financial position, results of operations or cash flows.

NOTE 22 | EQUITY

a. Composition of share capital:

	December 31, 2016		December 31, 2015	
	Authorized	Issued and outstanding*	Authorized	Issued and outstanding*
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,491,213	14,000,000	10,489,333

* Net of treasury shares.

b. Movement in share capital:

Issued and outstanding share capital (net of treasury shares):

	Number of shares
Balance at January 1, 2015	10,460,909
Treasury shares sold against exercise of options	28,424
Balance at December 31, 2015	10,489,333
Treasury shares sold against exercise of options	1,880
Balance at December 31, 2016	**10,491,213**

c. Treasury shares:

The Company holds 387,278 shares (389,158 shares as of December 31, 2015) at a total cost of $ 2,429 as of December 31, 2016 ($ 2,440 as of December 31, 2015).

d. Share option plans:

On January 14, 2016, the Board of Directors approved the grant of 18,000 options to a director, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest until December 4, 2016 (67% immediately and 33% at December 4, 2016). The weighted average fair value of options granted is CHF 1.665 ($ 1.662). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.85; exercise price – CHF 7.41; expected volatility - 46.61%; risk free interest rate - 0%; expected dividend -0%; and expected average life of options - 2.13 years.

On March 2, 2016, the Board of Directors approved the grant of 398,804 options to the Company's CEO, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years after the grant date (33% after 1 year, and 8.33% each quarter thereafter). The weighted average fair value of options granted is CHF 2.301 ($ 2.303). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.10; exercise price – CHF 7.16; expected volatility - 46.39%; risk free interest rate - 0%; expected dividend -0%; and expected average life of options - 3.28 years.

On May 29, 2016, the Board of Directors approved the grant of 50,000 options to an employee, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years after the grant date (33% after 1 year, and 8.33% each quarter thereafter). The weighted average fair value of options granted is CHF 1.936 ($ 1.955). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.00; exercise price – CHF 6.29; expected volatility - 47.05%; risk free interest rate - 0%; expected dividend -0%; and expected average life of options - 3.3 years.

On August 17, 2016, the Board of Directors approved the grant of 130,000 options to an employee, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 4 years after the grant date (25% after 1 year, and 6.25% each quarter thereafter). The weighted average fair value of options granted is CHF 2.22 ($ 2.306). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.15; exercise price – CHF 6.62; expected volatility - 46.68%; risk free interest rate - 0%; expected dividend -0%; and expected average life of options - 3.61 years.

On November 17, 2016, the Board of Directors approved the grant of 135,000 options to certain employees, under the 2015 Executive and Key Employee Israeli Share Option Plan. The options shall vest over a period of 3 years after the grant date (33% after 1 year, and 8.33% each quarter thereafter). The weighted average fair value of options granted is CHF 2.279 ($ 2.276). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.80; exercise price – CHF 6.73; expected volatility - 46.82%; risk free interest rate - 0%; expected dividend -0%; and expected average life of options - 3.25 years.

All options are exercisable for a period of 6 years from grant date.

On May 2015, the Board of Directors approved to rename and re-adopt the share options plan as "2015 Executive and Key Employee Israeli Share Option Plan", and to extend the term of the Plan for a period of three (3) years as of April 18, 2015.

On November 17, 2016 the Company increased its option pool by 1,020,719 options so that the maximum number would be up to 2,077,346 Ordinary Shares (subject to adjustments as set forth in the 2015 Share Option Plan).

In the years ended December 31, 2016 and 2015, the Group recorded share-based compensation in the statements of comprehensive income in the amount of $ 490 and $ 361, respectively.

e. The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year.

	2016		2015	
	No. of options	WAEP (CHF)	No. of options	WAEP (CHF)
Outstanding at the beginning of the year	515,914	7.06	647,514	7.21
Granted during the year	731,804	6.98	-	-
Forfeited during the year	(219,083)	7.28	(18,934)	7.75
Exercised during the year *)	(28,395)	6.19	(112,666)	6.60
Outstanding at the end of the) year**	**1,000,240**	**7.11**	**515,914**	**7.32**
Exercisable at the end of the year	**263,772**	**7.34**	**422,021**	**7.06**

* The weighted average share price at the date of exercise of these options was CHF 6.81 (2015 - CHF 8.82).

** As of December 31, 2016 all outstanding options are under the 2015 Executive and Key Employee Israeli Share Option Plan.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2016 was 4.42 years (as of December 31, 2015 - 2.56 years).

f. On November 7, 2010, the Board of Directors of the Company determined that all exercise of options shall be effectuated by way of net exercise for all currently outstanding options and all new options to be granted under the 2005 Key Employee Share Option Plan, which was renamed later to "2015 Executive and Key Employee Israeli Share Option Plan" (see d above).

NOTE 23 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF COMPREHENSIVE INCOME

a. Revenues for the year:

	Year ended December 31, 2016	2015
Medical services	39,946	36,251
Sale of devices	602	836
	40,548	**37,087**

b. Cost of revenues:

	2016	2015
Salaries and related benefits	12,154	12,443
Rental fees and maintenance	2,089	2,103
Others	4,077	4,044
	18,320	**18,590**

c. Research and development costs:

	2016	2015
Salaries and related benefits	2,276	1,761
Amortization of development costs	2,392	1,973
Others	79	245
	4,747	**3,979**
Less - capitalization of development costs	1,192	1,247
	3,555	**2,732**

d. Selling and marketing expenses:

	2016	2015
Salaries and related benefits	4,061	6,097
Marketing and related expenses	752	1,955
Depreciation and amortization	1,702	1,521
Rental fees and maintenance	337	434
Maintenance of vehicles	520	700
Others	912	1,290
	8,284	**11,997**

e. General and administrative expenses:

	2016	2015
Salaries and related benefits	4,030	4,208
Rental fees and office expenses	1,046	1,106
Professional fees	3,704	1,833
Allowance for doubtful and bad debts[1]	-	(1,110)
Depreciation and amortization	389	381
Others	1,047	1,634
	10,216	8,052

f. Financial income (expenses):

1. Financial income:

	Year ended December 31, 2016	2015
Exchange rate differences	73	437
Gain on marketable securities, net	6	315
Interest	332	126
	411	**878**

2. Financial expenses:

	2016	2015
Exchange rate differences	(57)	(430)
Interest	(827)	(594)
Interest to the tax authorities	(1,723)	-
Others	(210)	(237)
	(2,817)	**(1,261)**

1 See Note 8b.

g. Other expenses:

	Year ended December 31, 2016	2015
Impairment of intangible assets:		
- see Note 12		
Development costs[1]	1,470	1,018
Customer relations and contracts[2]	1,992	782
Impairment of property and equipment[3]		
- see Note 11	344	1,621
Restructuring costs[4]	-	707
Adjustment to VAT receivable		
- see Note 10	-	2,033
Transaction related costs[5]	-	1,967
Other costs (income)	-	492
	3,806	**8,620**

1 Impairment of development costs in connection with projects for which management decided to discontinue development due to changes in economic and market strategies.
2 Impairment of intangible assets relating to customer relations and contracts due to managements revised estimates of future cash flows to be generated by these assets. The discount rate applied to these cash flow projections - 9.6%
3 Impairment in respect of telemedicine devices available for loan to customers for which management decided to discontinue their use due to technological obsolescence.
4 During 2015, the Company implemented an efficiency plan regarding its operations in Germany. The restructuring plan was drawn up and announced to the employees on March 2015. The restructuring was completed in October 2015. Total restructuring costs amounted to $ 707.
5 On July 27, 2015 the Company announced that Shanghai Jiuchuan Investment (Group) Co. Ltd., a Shanghai based private investment firm, will acquire the entire share capital of SHL. On December 1, 2015 the Company announced it has terminated

the agreement ("sale agreement") with Shanghai Jiuchuan Investment (Group) Co. Ltd. since the latter failed to fulfill the relevant closing conditions stipulated in the agreement. During 2015, the Company incurred transaction related costs in the amount of $ 1,967.

On December 20, 2015, the Company filed a claim in a court in Israel against Shanghai Jiuchuan Investment (Group) Co. Ltd. for breach of the sale agreement in the amount of NIS 43.87 million ($ 11,250). Due to the uncertainty of the outcome as of December 31, 2016, no income in respect of the claim has been recorded in the financial statements. See Note 26c for subsequent developments

NOTE 24 | NET EARNINGS PER SHARE

a. Details of the number of shares and net (loss) used in the computation of net earnings per share:

	Year ended December 31,			
	2016		2015	
	Weighted number of shares	Net loss	Weighted number of shares	Net loss
	In thousands		In thousands	
Number of shares and net loss for the computation of basic and diluted net earnings	10,490	(11,096)	10,481	(15,739)

c. To compute diluted net earnings per share, all options (dilutive potential Ordinary shares), have not been taken into account since their conversion (decreases) the basic (loss) per share (anti-dilutive effect).

NOTE 25 | SEGMENT INFORMATION

The Group operates in three geographical segments: Israel, Europe (principally Germany) and Rest of the world.

Management monitors the operating results of its geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit. SG&A Group expenses and some research and development expenses are mostly allocated to the separate geographic units. Some corporate expenses, some research and development expenses, finance costs and finance income and income taxes are managed on a group basis and are not allocated to the geographic segments.

Revenues are allocated based on the location of the end customer.

a. Reporting on geographic segments:

	Year ended December 31,	
	2016	2015
1. Revenues:		
Sales to external customers:		
Europe	20,747	15,920
Israel	19,609	21,069
Others	192	98
Total revenues in financial statements	**40,548**	**37,087**
2. Segment profit (loss):		
Europe	(731)	(5,048)
Israel	2,785	(109)
Others	(1,153)	(2,928)
	901	(7,867)
Corporate, R&D and other expenses	(5,693)	(6,626)
Operating loss	(4,792)	(14,493)
Financial expenses, net	(2,406)	(383)
Loss before taxes on income	**(7,198)**	**(14,876)**

b. Additional information:

	Europe	Israel	Others	Total
Year ended December 31, 2016:				
Depreciation and amortization[1]	3,180	7,005	16	10,201
Year ended December 31, 2015:				
Depreciation and amortization[1]	**2,756**	**5,199**	**812**	**8,767**

1 Includes impairment

NOTE 26 | SUBSEQUENT EVENTS

a. Long term loan:

In March 2017, the Company reached an agreement with an Israeli financial institution to obtain a long-term loan in the amount of NIS 100 million (approx. $ 27,000), NIS 21 million of which was intended to repay an existing facility with the same lender. As of the date of the approval of the Financial Statement, the closing of the loan agreement has not yet occured. Due to the improvement in the Company's cash balance resulting from revenues of $ 5,800 from the Chronic Patient Monitoring Program in Germany received in May 2017 and the receipt of $ 3,500 in June 2017 from the funds held by the escrow agent in Israel under the merger agreement with Shanghai Jiuchuan Investment (Group) Co. Ltd., as detailed in c below, the Company is re-examining its requirements and renegotiating the financing terms with the said lender and other lenders which better serve the Company's cash needs.

b. Changes in the Company's management:

In January 2017, the Company's Board of Directors approved the resignation of Yuval Shaked as the Company's Chief Executive Officer.
In March 2017, the Company's Board of Directors approved the resignation of Ehud Ben Yair as the Company's Chief Financial Officer.
In June 2017, the Company's Board of Directors approved the appointment of Yoav Rubinstein as the Company's Chief Executive Officer, and the appointment of Yossi Vadnagra as the Company's CFO.

c. In June 2017, the District Court of Tel Aviv ruled in favor of the Company with regards to its claim against Shanghai Jiuchuan Investment (Group) Co. Ltd. in connection with the merger agreement terminated on December 1, 2015 - see Note 23g(5). In its decision, the court ruled that the complete pre-agreed compensation for breach of contract in the amount of NIS 43.87 million, representing 10% of the merger consideration, shall be paid to the Company along with interest, legal fees and other expenses. The court ordered that the related funds in escrow in Israel in the amount of $ 3,500, will be paid to the Company within seven days and deducted from the total amount awarded. This amount was received by the Company in June 2017.