



Corporate Governance 2018

Contents

| | | |
|----|--|--|
| 10 | | Introduction |
| 12 | | Group Structure and Shareholders |
| 16 | | Capital Structure |
| 21 | | Board of Directors |
| 34 | | Senior Management |
| 35 | | Compensation, Shareholdings and Loans |
| 49 | | Shareholder Participation |
| 52 | | Changes of Control and Defense Measures |
| 53 | | Auditors |
| 53 | | Information Policy |

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” or the “Board of Directors”) 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 2018

The year under review was a time in which the Company grew revenue and profitability through deepening the penetration of its platforms and services while preparing for future growth opportunities.

In addition, the Swiss Takeover Board, following the grant of two (2) extensions to make a public tender offer, issued a decision on September 1, 2018, declaring that the voting rights of the shares of the Company held by Himalaya (Cayman Islands) TMT Fund, Himalaya Asset Management Ltd, Xiang Xu, Kun Shen and Mengke Cai are suspended with immediate effect until the publication of a mandatory tender offer approved by the Swiss Takeover Board (for more information, see below). Following said decision, the SGM held in December 2018 changed the composition of the Board members as further detailed in this report.

On Shareholder level

Swiss Takeover Board Decision

On January 26, 2018, the Swiss Takeover Board (“TOB”) resolved that Himalaya (Cayman Island) TMT Fund, Himalaya Asset Management Ltd., Xiang Xu, Kun Shen, and Mengke Cai formed a group acting in concert and were subject to the obligation to make a tender offer according to art. 135 of the Swiss

Financial Market Infrastructure Act (FMIA) with respect to SHL (decision 672/01, the “TOB Decision”). According to the TOB Decision, said parties were obliged to make a public tender offer for all listed shares in SHL within two (2) months i.e. March 26, 2018, which date was extended until June 30 and August 31, 2018. The minimum price of said offer was set at CHF 8.70 per share of SHL. Mrs. Cai, Xiang Xu, Himalaya (Cayman Islands) TMT Fund, Himalaya Asset Management Ltd., and Mrs. Kun have been prohibited from acquiring further shares or acquisition or disposal rights relating to SHL. The TOB Decision is final. On September 1, 2018, the TOB rejected a further request to extend the deadline for a public tender offer, stated that no public tender offer was made by the deadline and suspended the voting rights of said parties until publication of a TOB approved tender offer (decision 672/04). Appeals of said parties against this latter decision were rejected by the Swiss Financial Market Supervisory Authority (FINMA) on November 23, 2018 and are currently pending before the Swiss Federal Administrative Court.

The Tel Aviv Lawsuit

On January 12, 2017, certain shareholders of the Company, whom are part of the Alroy Group (as defined below, in Section 1.2) (the “Plaintiffs”) filed a law suit against the Company, Mr. Ronen Harel (the then elected Independent (external) Director), and against two of the Company’s shareholders - Mrs. Cai and Himalaya Asset Management Ltd. (collectively - the “Parties”, and individually - the “Party”) requesting the Tel Aviv district court (the “Court”) to declare Mrs. Cai and Himalaya controlling shareholders of SHL acting in concert, to nullify the appointment of Mr. Harel as an Independent (external) Director at the Special General Meeting that took place on January 5, 2017 and to instruct SHL to reconvene a Special General Meeting wherein Mrs. Cai and Himalaya will be deemed controlling shareholders (the “Alroy Lawsuit”). On October 18, 2017 the Court granted a default judgment in the Alroy Lawsuit against

Mrs. Cai and Himalaya (following their failure to plead or otherwise defend), thus declaring that they were controlling shareholders of the Company at the time the Alroy Lawsuit was filed (January 12, 2017) (the “Default Judgment”). The claim against the Company was dismissed without costs. The Court further noted that no claims were raised against resolutions adopted by the Company following the date on which the Alroy Lawsuit was filed, thus there is no need to ratify past resolutions. On November 19, 2017, Mrs. Cai has submitted a request to cancel the judgment.

On May 24, 2018, the Plaintiffs and Mrs. Cai filed an agreed motion to approve a procedural arrangement, according to which the Default Judgment will remain in effect until the completion of a tender offer. Upon completion, the Default Judgment will be deemed canceled, and the case will be dismissed without costs (the “Motion to Vacate”). On December 20, 2018, the Parties notified the Court that no tender offer had been executed as of the relevant date. However, the Parties brought to the Court’s attention the procedural arrangement that they entered into, and requested the Court to grant said arrangement the binding force of a court decision. The arrangement is as follows: without either Party admitting to the arguments of the opposing Party, and without this agreement constituting an undertaking to carry out any action, the Default Judgment which was rendered on October 18, 2017 will remain in force until the date on which the tender offer for the purchase of the Company’s publicly traded shares is completed. Upon the completion of such tender, the Motion to Vacate the Default Judgment, which was rendered on an ex parte basis, will be deemed to have been granted, so that the decision from October 18, 2017 will be vacated and the claim will be dismissed with no order made for costs.

The position of the Parties is that granting the binding force of a court decision to the abovementioned arrangement will render redundant the hearing of the proceeding. On December 23, 2018, the Court granted the force of a court decision to the abovementioned arrangement, and ruled to cancel the hearing in the matter.

Board of Directors

As of December 31, 2018, the members of the Board are the following: (a) Mr. Yariv Alroy (chairman); (b) Mr. Erez Alroy; (c) Mr. Yehoshua Abramovich (Independent (external) Director); (d) Ms. Dvora Kimhi (Independent (external) Director); (e) Prof. Amir Lerman; (f) Mr. Erez Nachtomiy; and (g) Mr. Elon Shalev.

On February 9, 2018, Mr. Xuequn Qian, the Independent (external) Director who was appointed for a three (3) year term in June 2017, has resigned; leaving the Company at that time with one Independent (external) Director (Mr. Yehoshua Abramovich), which under Israeli law made it necessary to reconvene for the election of a another Independent (external) Director.

In March 2018 the Board resolved to convene, as soon as practicable, a Special General Meeting on the agenda of which should be the appointment of an external director per the requirements of Israeli law.

With regard to Board committees, from June 2017 until February 9, 2018, when Mr. Qian had submitted his resignation, the members of the Audit Committee, the Compensation Committee and the FS Committee (as defined below, in Section 3.3) were Mr. Yehoshua Abramovich, Mr. Xuequn Qian and Prof. Amir Lerman (For further information regarding the members of the Audit Committee, the Compensation Committee and the FS Committee and their respective tasks, please refer to Section 3.3 below). Following the resignation of Mr. Qian and as a result thereof, the Company did not have such committees in place which complied with the requirements under Israeli law, until the Second 2018 SGM (as defined below) in which Ms. Dvora Kimhi was elected as an Independent (external) Director. Since the Second 2018 SGM (as defined below), the members of the Audit Committee, the Compensation Committee and the FS Committee are Mr. Yehoshua Abramovich, Ms. Dvora Kimhi and Prof. Amir Lerman (said composition is in accordance with the requirements of the Israeli Companies Law 5759-1999 (the “Israeli Companies Law” or the “Companies Law”) and the regulations promulgated thereunder). It should be noted that from May 24, 2018 until the Second 2018

SGM Ms. Hava Shechter (see below) was appointed as member of the Audit Committee, the Compensation Committee and the FS Committee (although, as noted above, the composition of the said committees during that time did not fully comply with the requirements of the Israeli Companies Law and the regulations promulgated thereunder).

In the Annual General Meeting held on April 12, 2018 (the “2018 AGM”), the following members of the Board were elected (by alphabetical order): Mr. Yi He, Prof. Amir Lerman, Dr. Yuan-Hsun Lo, Ms. Yirong Qian, Mr. Cailong Su and Mr. Xuewen Wu. Following the 2018 AGM, on April 25, 2018, Mr. Xuewen Wu was unanimously re-elected by the Board to serve as the chairman of the Board.

In the Special General Meeting held on May 3, 2018 (“First 2018 SGM”), none of the candidates for the position of Independent (external) Director was deemed to be elected. On May 24, 2018, the Board has resolved to appoint Ms. Hava Shechter as a new Board member, effective as of that date.

The Company convened another Special General Meeting held on December 10, 2018 (“Second 2018 SGM”). The Second 2018 SGM approved the request of Nehama & Yoram Alroy Investment Ltd. to terminate the office of the following Board members: Mr. Xuewen Wu, Mr. Cailong Su, Mr. Yi He, Ms. Yirong Qian, Dr. Yuan-Hsun Lo, and Ms. Hava Shechter; and to appoint Mr. Elon Shalev, Mr. Erez Alroy, Mr. Yariv Alroy and Mr. Erez Nachtomy as the new Board members until the next annual general meeting. In the Second 2018 SGM, it was further resolved to elect Ms. Dvora Kimhi as an Independent (external) Director for three (3) year term.

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.

Management

Mr. Yoav Rubinstein, then Senior Vice President, Head of Global Business Development, was appointed as interim acting CEO in April 2017, following the resignation of Mr. Yuval Shaked. On June 1, 2017 Mr. Rubinstein was appointed CEO, and has been serving since.

Mr. Yossi Vadnagra was appointed as interim CFO in April 2017, following the resignation of Mr. Ben Yair on March 22, 2017, and was appointed as CFO on June 14, 2017 and has been serving since. In January 2017, Ms. Iki Alroy stepped down from her position as CTO and Mr. Yoni Dagan was appointed in her stead.

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 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).

The information presented here is updated as of December 31, 2018, 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 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 2018 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 Gesundheitservices 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 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, 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 2016 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:

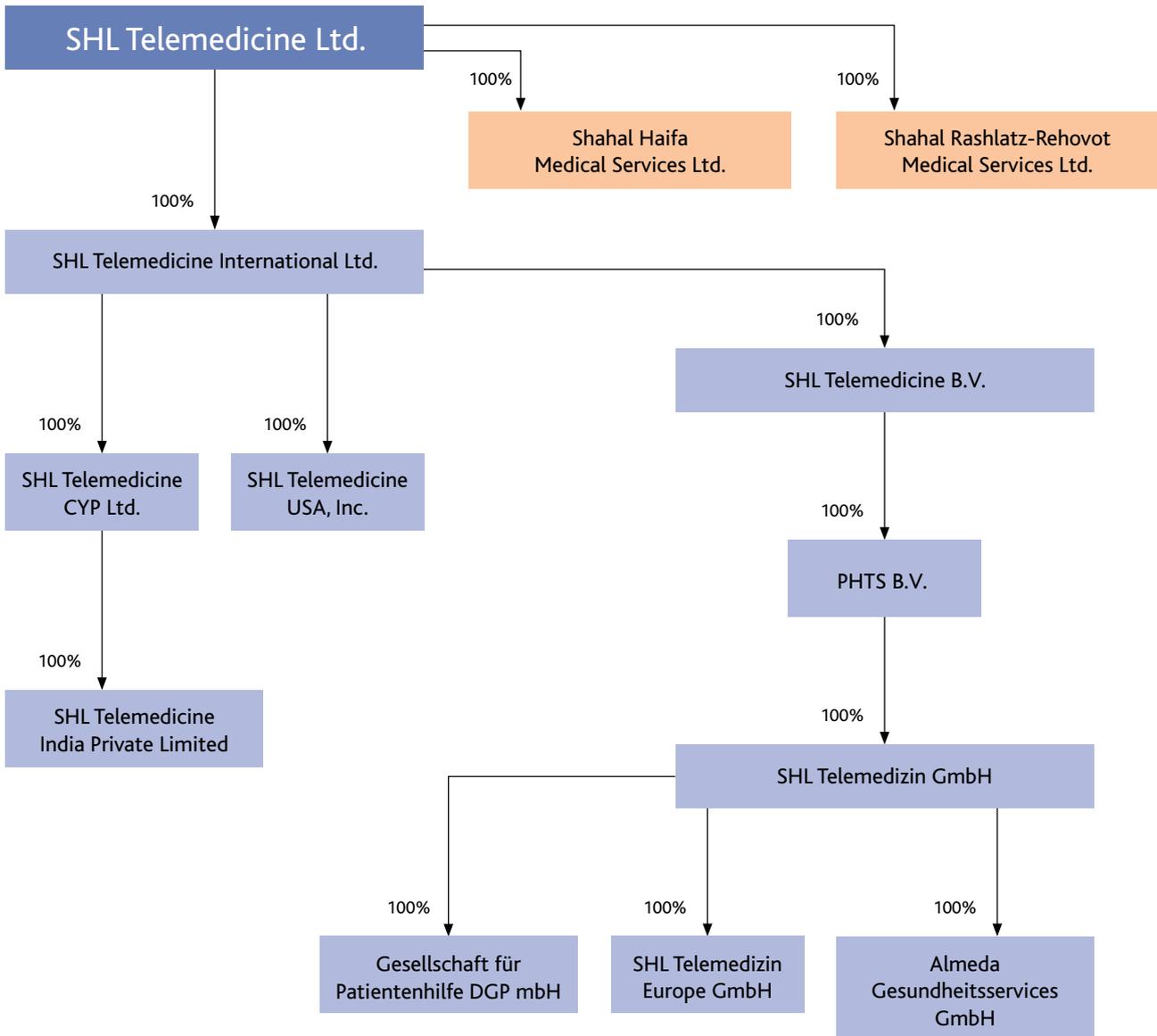
SHL's authorized share capital is comprised of New Israel Shekels ("NIS") 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each. As of December 31, 2018, SHL's issued and outstanding share capital was NIS 105,031.52 divided into 10,503,152 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 375,339 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, 2018, SHL's market capitalization was CHF 64.1 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 | <i>Authorized Share Capital:</i> NIS 13,000, divided into 13,000 Ordinary Shares par value NIS1.00 each <i>Issued Share Capital:</i> 200 Ordinary Shares 100% (held by SHL) |
| Shahal Rashlatz-Rehovot Medical Services Ltd. ("SHL Rashlatz") | Tel-Aviv, Israel | <i>Authorized Share Capital:</i> NIS 16,600 divided into 16,600 Ordinary Shares par value NIS1.00 each <i>Issued Share Capital:</i> 100 Ordinary Shares 100% (held by SHL) |
| SHL Telemedicine International Ltd. ("SHL INT") | Tel-Aviv, Israel | <i>Authorized Share Capital:</i> NIS 101,000 divided into 101,000 Ordinary Shares par value NIS1.00 each <i>Issued Share Capital:</i> 10,000 Ordinary Shares 100% (held by SHL) |
| SHL Telemedicine B.V. ("SHL BV") | Amsterdam, Netherlands | <i>Authorized Share Capital:</i> EUR 75,000 divided into 300,000 Ordinary Shares par value EUR 0.25 each <i>Issued Share Capital:</i> 74,043 ordinary shares. 100% (held by SHL INT) |
| Personal Healthcare Telemedicine Services Europe B.V. ("PHTS") | Amsterdam, Netherlands | <i>Authorized Share Capital:</i> EUR 4,000,000 divided into 400,000 Ordinary Shares par value EUR 10.00 each <i>Issued Share Capital:</i> 811,500 ordinary shares 100% (held by SHL BV) |
| SHL Telemedizin GmbH | Dusseldorf, Germany | <i>Authorized Share Capital:</i> EUR 300,000 divided into 2 Ordinary Shares par value EUR 25,000 and EUR 275,000 <i>Issued Share Capital:</i> 2 Ordinary Shares 100% (held by PHTS) |
| SHL Telemedicine Europe GmbH | Dusseldorf, Germany | <i>Authorized Share Capital:</i> EUR 25,000 divided into 1 Ordinary Share par value EUR 25,000 <i>Issued Share Capital:</i> 1 Ordinary Share 100% (held by SHL Telemedizin GmbH) This company was merged into SHL Telemedizin GmbH on January 1 st , 2018 |
| Almeda Gesundheitservices GmbH | Munich, Germany | <i>Authorized Share Capital:</i> EUR 25,000 <i>Issued Share Capital:</i> 25,000 shares with par value EUR1.00 100% (held by SHL Telemedizin GmbH) |
| Gesellschaft für Patientenhilfe DGP mbH | Grunwald, Germany | <i>Authorized Share Capital:</i> EUR 25,000 divided into 2 Ordinary Shares par value EUR 24,750 and EUR 250 <i>Issued Share Capital:</i> 2 Ordinary shares 100% (held by SHL Telemedizin GmbH) |
| SHL Telemedicine USA, Inc. | Delaware, USA | <i>Authorized Share Capital:</i> USD 1.00 divided into 100 Ordinary Shares par value USD 0.01 each <i>Issued Share Capital:</i> 100 Ordinary Shares 100% (held by SHL INT) |
| SHL Telemedicine CYP Ltd. | Nicosia, Cyprus | <i>Authorized Share Capital:</i> EUR 100 divided into 100 Ordinary Shares par value EUR 1.00 each <i>Issued Share Capital:</i> 100 Ordinary Shares 100% (held by SHL INT) |
| SHL Telemedicine India Private Limited | Haryana, India | <i>Authorized Share Capital:</i> Rs 7,000,000 divided into 700,000 Equity Shares of Rs 10, each <i>Issued Share Capital:</i> 625,126 Equity Shares 99.9% (held by SHL Cyprus) 0.01% (held by SHL BV) |

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, 2018, SHL was aware of the following shareholders with more than 3% of all voting rights in the Company¹:

| | 2018 Number of ordinary shares held | 2018 % including treasury shares | 2018 % excluding treasury shares | 2017 % excluding treasury shares |
|--|---|--|--|--|
| Mrs. Mengke Cai and Kun Shen | 5,969,413 | 54.87% | 56.83% | 56.90% |
| Alroy Group ² | 2,507,608 | 23.06% | 23.88% | 23.9% |
| G.Z. Assets and Management Ltd. ³ | 921,533 | 8.47% | 8.77% | 8.78% |
| SHL Treasury shares | 375,339 | 3.45% | - | - |

1 The information below is exclusively based on 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>.

2 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).

3 The beneficial owner of G.Z. Assets and Management Ltd. is Mr. Ziv Carthy.

The above table of Significant Shareholders reflects both actual holdings as of December 31, 2018, after deducting from the total number of shares outstanding 375,339 Ordinary Shares held by SHL, (as described in Section 1.1.2 above), and actual holdings as of December 31, 2018 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. 120 of the Swiss Financial Market Infrastructure Act of 19 June 2015 (FMIA) and the provisions of the Financial Market Infrastructure Ordinance of the Swiss Financial Market Supervisory Authority (FMIO- FINMA) and published on SIX Swiss Exchange AG's electronic publication platform can be viewed at <https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html>.

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

Mrs. Cai and Mrs. Kun notified the Company they had entered into a shareholders' agreement on July 29, 2018, pursuant to which they formed a group, and further notified the Company that according to the said

agreement, the sole purpose of their group is to fulfill their obligation to submit a tender offer, in accordance with the TOB Decision and the subsequent decisions thereof.

For the TOB Decision with respect to Mrs. Cai, Mrs. Kun and Himalaya group forming a group and acting in concert, see Section "Swiss takeover Board Decision" above.

SHL is not aware of any other agreements or arrangements among its shareholders.

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, 2018

| | |
|---------------------------|---------------|
| 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, 2017

| | |
|---------------------------|----------------|
| Number of Ordinary Shares | 10,503,152 |
| par value | NIS 0.01 each |
| Share capital | NIS 105,031.52 |

* Excluding 375,339 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, 2018, was NIS 105,031.52, divided into 10,503,152 fully paid registered Ordinary Shares (excluding 375,339 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.

The maximum number of options in SHL's option is 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 Plan. As of the date hereof, the pool is 2,077,346, out of which 525,267 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 18, 2019. 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, 2018 the number of options actually available for issuing was 525,267; as of the date hereof the number is 523,932. 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"), which is in effect till May 11, 2020. 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, unless determined otherwise by the Board, 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, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the 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 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 2017 Compensation Policy provides a certain minimum vesting period, as follows: (i) first cliff after one (1) year from the date of grant; and (ii), full vesting shall occur no earlier than 36 months from the date of such grant.

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

| | 2018 | Weighted average exercise price in CHF | 2017 | Weighted average exercise price in CHF |
|---|----------------|--|----------------|--|
| As of January 1 | 614,838 | 7.11 | 1,000,240 | 7.11 |
| Granted during the year | 409,136 | 7.20 | 194,841 | 7.03 |
| Forfeited during the year | (103,000) | 6.97 | (580,243) | 7.08 |
| Exercised during the year | (100,000) | 6.97 | - | - |
| Outstanding at the end of the year | 820,974 | 7.19 | 614,838 | 7.11 |
| Fair value* at end of year | 1,374,009 | 1,411,068 | | |
| Vested on December 31 | 426,696 | 7.25 | 315,498 | 7.25 |

* The fair value was estimated by an external expert, based on a binomial model

2.3 Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2016, 2017 and 2018, SHL's issued share capital was comprised of 10,491,213, 10,491,213 and 10,503,152 Ordinary Shares, respectively (excluding the Ordinary Shares held by SHL). The foregoing changes in the Company's share capital result from the exercise of share options backed by the sale of shares previously repurchased by SHL under its share repurchase plan, first approved by the Board on March 25, 2008, as increased and extended over time until March 13, 2013. The Board did not further extend the repurchase period beyond the aforementioned date.

2.4 The Ordinary Shares

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 SegInterSettle 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, Section 6.1 "Voting Rights Restrictions and Representations" below.

See also information regarding the suspension of voting rights of the shares held by Himalaya (Cayman Island) TMT Fund, Himalaya Asset Management Ltd., Xiang Xu, Kun Shen, and Mengke Cai in the Section “Swiss Takeover Board Decision”.

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, 2018, the Company held 375,339 of its own Ordinary Shares.

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

2.4.2 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 his/her/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.

The Special General Meeting which was convened on February 21st, 2019, approved an amendment to the articles of association of the Company, pursuant to which each shareholder holding 5% or more of the Company's shares or voting rights and each member of the Board of the Company is obliged to provide the Company with an address in Israel for the receiving of documents (including judicial documents) (the "Address"). As long as such Address has not been provided, the Company's registered office will be considered as such shareholder's and/or director's Address for the receiving of documents (including judicial documents).

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 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 (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 Share 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

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.

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. As of December 31, 2018 the Board consists of seven (7) members, of whom two (2) members are Independent (external) Directors (Mr. Abramovich and Ms. Kimhi) (for further information on Independent Directors, please refer to the following Section of this report).

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. In the year under review one of the two (2) Independent Directors was a foreign one (Mr. Qian, who submitted his resignation as of February 9, 2018).

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 (other than the Independent (external) Directors as such) 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. Three (3) of the non-executive members of the Board in the year under review were members of the management of SHL or of any of SHL’s group companies in the three (3) financial years preceding the period under review: Mr. Erez Alroy and Mr. Yariv Alroy, who were Co-CEOs of the Company between 2000 and 2015 and Mr. Erez Nachtom, who was an Executive VP of the Company between 2001-2016 were elected as directors as of the Second 2018 SGM. 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 members Mr. Yariv Alroy, Mr. Erez Alroy and Mr. Elon Shalev, see “Significant Shareholders” in Section 1.2 above and “Share Ownership” in Section 5.2.

Board Members as of December 31, 2018

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, 2018.

| Name | Nationality | Position | First Election | Remaining Term* |
|---------------------|----------------|---|----------------|-----------------|
| Yariv Alroy | Israeli | Chairman of the Board / Non-executive member | 2018** | 2019 |
| Yehoshua Abramovich | Israeli | Non-executive member/ Independent (external) Director | 2017 | 2020 |
| Erez Alroy | Israeli | Non-executive member | 2018*** | 2019 |
| Prof. Amir Lerman | Israeli and US | Non-executive member | 2016 | 2019 |
| Dvora Kimhi | Israeli | Non-executive member/ Independent (external) Director | 2018 | 2021 |
| Elon Shalev | Israeli | Non-executive member | 2018**** | 2019 |
| Erez Nachtoy | Israeli | Non-executive member | 2018 | 2019 |

* Where the remaining term is indicated as 2019, this means until the 2019 AGM. 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".

** Yariv Alroy served as a director also between the years 2001 and 2006, and between 2010 and 2014.

*** Erez Alroy served as a director also between the years 2008 and 2014 and between 2016 and 2017

**** Elon Shalev served as a director also between 1987 and April 12, 2018 and was re-elected as a member of the board at the second 2018 SGM.



Below are the resumes of the current members of the Board.

Yariv Alroy – Chairman of the Board

Mr. Yariv Alroy joined the Board of Directors of SHL as a non-executive Director in December 2018. Mr. Yariv Alroy served as the Company's Co-CEO from 2000 to January 15, 2016. He previously served as managing director of SHL Telemedicine International Ltd from 1997 to 2000 and Chief Operating Officer of the Company from 1993 to 1997. He also previously served as a Member of the Board of the Company between 2001 and 2006, and between 2010 and 2014. Before joining the Company, Mr. Yariv Alroy worked for a leading Israeli law firm from 1989 to 1993, with his last position being senior partner. Since 2016 he has been an investor and a businessman and serves as a Board Member of Duke Robotics Inc., a private reporting US corporation. He holds an LL.B. from Tel Aviv University, Israel. Mr. Yariv Alroy is part of the Alroy Group (see "Significant Shareholders"). Nationality: Israeli



Erez Alroy

Mr. Erez Alroy joined the Board of Directors of SHL as a non-executive Director in December 2018. Mr. Erez Alroy served in various executive positions in SHL since its inception, and as its Co-CEO from 2000 to January 2015 and as a director from 2008 to 2014 and from 2016 to 2017. He is currently active in various investments and is a board member in Merhavia Holdings Ltd (TASE:MRHL) and is the Chairman of Migvan Engineering and Technology Ltd. Mr. Erez Alroy holds an MBA from the Hebrew University in Jerusalem. Mr. Erez Alroy is part of the Alroy Group. Nationality: Israeli.



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, real estate and energy companies. Mr. Abramovich was the CEO of Clal Finance during several years, one of Israel's largest financial institutions 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 September 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 an MBA from Tel Aviv University. Nationality: Israeli.



Dvora Kimhi

Ms. Dvora Kimhi joined the Board of Directors of SHL as a non-executive Director / Independent (external) Director in December 2018. She also served as a non-executive Independent (external) Director in the Company from 2010 to 2014 and as a non-executive director from 2001 to 2007. Since 2002 and as of the date hereof, Ms. Kimhi serves as Vice President for regulatory and legal affairs with Channel 10, one of the two existing Israeli commercial television channels. Prior to this Ms. Kimhi served as Chief Legal Advisor to Ananey Communications Ltd., Noga Communications and the Israeli Educational Television. Ms. Kimhi also serves on the board of directors of Kol Hayyam Hadrom Ltd., an Israel radio station. Ms. Kimhi is a member of the Israeli Bar, holds an LL.B. from Tel Aviv University and has specialized in contract law and communication regulation. 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

Mr. Elon Shalev joined the Board of Directors of SHL as a non-executive Director in December 2018. Mr. Elon Shalev is co-founder of SHL, and has served as a director of SHL since its inception in 1987 until April 2018 and was its Chief Operating Officer from 1990 to 1993. 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 is a holder of shares of SHL and part of the Alroy Group. Mr. Shalev holds a B.A. degree in Political Science from the University of Tel-Aviv, Israel. Nationality: Israeli.

Erez Nachtomy



Mr. Erez Nachtomy joined the Board of Directors of SHL as a non-executive Director in December 2018. From 1989 until 2001, Mr. Nachtomy practiced law at a leading Israeli law firm- Weksler, Bregman & Co., becoming a partner in the firm in 1994 and later on promoted to a senior partner. In March 2001, he joined the executive team of SHL, as Vice President, and from January 2005 to December 2016 he served as Executive Vice President of the Company. Since 2017 he is an investor and a businessman specializing in strategic planning, M&A transactions, and capital raising and business development. He serves as a Board Member of Duke Robotics, Inc., a private reporting US corporation. Mr. Nachtomy hold an LL.B. from Tel Aviv University, Israel, and he is a member of the Israeli Bar. Nationality: Israeli.

The following persons have served as Board members for part of the year under review, until their respective resignations: Mr. Xuequn Qian has served as an Independent (external) Director from June 2017 until his resignation in February 2018. The office of Mr. Xuewen Wu, Mr. Cailong Su, Mr. Yi He, Ms. Yirong Qian, Dr. Yuan Hsun Lo and Ms. Hava Shechter was terminated following the Second 2018 SGM in December 2018. For the resumes of Messrs. Xuequn Qian, Xuewen Wu, Cailong Su, and Yi He, please refer to the Company's previous Corporate Governance Report (CGR 2017). For the resumes of Ms. Yirong Qian, Ms. Hava Shechter and Dr. Yuan Hsun Lo, please see below.

Yirong Qian

Ms. Yirong Qian served as a non-executive member of the Board of Directors of SHL from April 2018 until the Second 2018 SGM in

December 2018. Ms. Qian is a licensed practicing attorney in China and has been practicing with Fujian Far-Wide Law Firm. She specializes in financial and corporate law and has gained extensive deal experience and deep knowledge of the financial industry. Ms. Qian frequently advises a broad range of financial institutions and corporations on transactional matters. Her clients include Postal Savings Bank of China, Ganzhou Bank of China, Allied Commercial Bank and Xiamen Faratronic. Nationality: Chinese.

Yuan-Hsun Lo

Dr. Yuan-Hsun Lo Qian served as a non-executive member of the Board of Directors of SHL from April 2018 until the Second 2018 SGM in December 2018. Yuan-Hsun Lo received his B.S., M.S. and Ph.D. degrees in applied mathematics from National Chiao Tung University, Taiwan, in 2004, 2006 and 2010, respectively. He is an Associate Professor at School of Mathematical Sciences, Xiamen University, China. His research interests include combinatorics, graph theory and their applications. Nationality: Chinese.

Hava Shechter

Ms. Hava Shechter served as a non-executive member of the Board of Directors of SHL as well as a substitute Independent (external) Director following the resignation of Mr. Xuequn Qian from May 2018 until the Second 2018 SGM in December 2018. Ms. Shechter has more than 35 years' experience in corporate finance, capital markets, and financial statements' analysis. She has been serving as a board member in publicly traded companies for the past 18 years continually. She currently serves as a board member of ILEX Medical Ltd., a medical device company, and of Neta Metropolitan Mass Transit Systems Ltd, the Tel Aviv metropolis transportation company. Prior to that she had served, inter alia, as a Board member of the Israeli Aerospace Industries Ltd, of Bezeq Ltd., the Israeli telecommunications company, and of Capital Point Ltd. In addition, she has been engaged in businesses and transactions assuming the role of an investment banker. Ms. Shechter holds a B.A in economics and an MBA, with an expertise in accounting from Tel Aviv University, Tel Aviv, and had a license to market securities. Nationality: Israeli.

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 half-year 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. 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 subsections 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

nineteen (19) 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, dependent 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 of directors' 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 resignation of Mr. Qian in February 2018 until the appointment of Ms. Dvora Kimhi in December 10, 2018.

As mentioned above, 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”). On February 21, 2019 the Board has voluntarily appointed a new committee - an Investment Committee.

For further details regarding the composition of said committee in the year under review and as of the date hereof, please see below.

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); (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 five (5) meetings, the duration of which was approximately one (1) hour.

In the year under review, from January 2018 until the resignation of Mr. Qian in February 2018, the Audit Committee was composed of the following members: Mr. Qian, Mr. Abramovich and Prof. Lerman. Following the resignation of Mr. Qian in February 2018, the Company did not have an Audit Committee in place. On May 2018, Ms. Hava Shechter was appointed as a member of the Audit Committee (however, the composition of the Audit Committee during that time did not fully comply with the requirements of the Israeli Companies Law). Following the Second 2018 SGM and as of the date hereof, the members of the Audit Committee are Mr. Abramovich, Ms. Kimhi and Prof. Lerman (this composition is in compliance with the requirements of the Israeli Companies Law) (for details of changes please refer to section 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 two (2) 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, from January 2018 until the resignation of Mr. Qian in February

2018, the Compensation Committee was composed of the following members: Mr. Qian, Mr. Abramovich and Prof. Lerman. Following the resignation of Mr. Qian in February 2018, the Company did not have a Compensation Committee in place. On May 2018, Ms. Hava Shechter was appointed as a member of the Compensation Committee (however, the composition of the Compensation Committee during that time did not fully comply with the requirements of the Israeli Companies Law). Following the Second 2018 SGM and as of the date hereof, the members of the Compensation Committee are Mr. Abramovich, Ms. Kimhi and Prof. Lerman (this composition is in compliance with the requirements of the Israeli Companies Law) (for details of changes please refer to Section 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 one (1) meeting. 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 were, until the resignation of Mr. Qian, Mr. Yehoshua Abramovich, Mr. Xuequan Qian, and Prof. Amir Lerman. Following the resignation of Mr. Qian on February 2018, the Company did not have a FS Committee in place. On May 2018, Ms. Hava Shechter was appointed as a member of the FS Committee (however, the composition of the FS Committee during that time did not fully comply with the requirements of the Israeli Companies Law). Following the Second 2018 SGM and as of the date hereof, the members of the FS Committee are Mr. Abramovich, Ms. Kimhi and Prof. Lerman (this composition is in compliance with the

requirements of the Israeli Companies Law) (for details of changes please refer to Section 3.1 “Board of Directors” above).

Investment Committee - Although not mandatory under the provisions of the Israeli Companies Law, the Board of Directors has voluntarily appointed an investment committee as of February 21, 2019 (the “**Investment Committee**”). The task of the Investment Committee is to determine the investment policy of the Company’s cash proceeds that are not required for its ongoing operations as will be from time to time. The members of the Investment Committee as of the date hereof, are Mr. Abramovich (chairman), Mr. Erez Alroy and Mr. Erez Nachtomly.

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. Avner Eliav was appointed as SHL’s Internal Auditor 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.

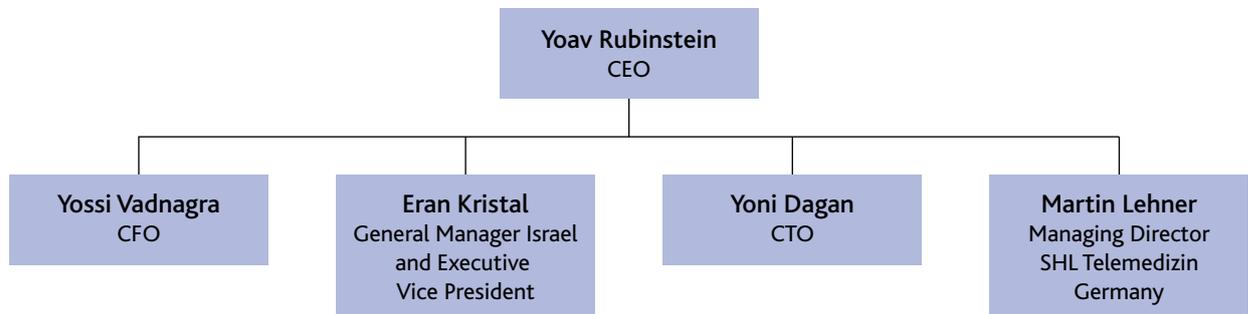
The Board controls the actions of Senior Management through a variety of control mechanisms:

- 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 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 conveys 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, 2018



4.1.2

The following members of management were in office as of December 31, 2018:



**Yoav Rubinstein, –
Chief Executive Officer**

Mr. Yoav Rubinstein was appointed as CEO as of June 1, 2017. Prior to that, from March 2012 he has 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 as aforementioned.

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.



**Yossi Vadnagra -
Chief Financial Officer**

Mr. 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, Mr. Vadnagra 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, Mr. Vadnagra worked for five years as Chief Financial Officer and Strategic Planning for Elbit India Healthcare, a subsidiary of Elbit Imaging Ltd. (NASDAQ: EMITF). Mr. Vadnagra is a CPA (Israel) with an MBA in Finance, both degrees achieved with honors from the College of Management in Israel. Nationality: Israeli.



Yoni Dagan, CTO

Mr. Yoni Dagan joined SHL in February 2017 from US-based medCPU, a company of enterprise decision support software and services capturing and analyzing the clinical picture from clinicians' freetext notes, dictations, and structured documentation entered into any Electronic Medical Record. At medCPU, Mr. Dagan was leading the R&D group based in Tel Aviv of over 30 engineers including R&D, integration, QA and algorithms teams. Mr. Dagan 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, Mr. Dagan 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. Mr. 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.



**Eran Kristal, General Manager –
Israel and Executive Vice President**

Mr. Eran Kristal joined SHL in May 2016. Prior to his engagement with SHL, since 2010, Mr. Kristal served as the CEO of BezeqOnline Ltd., a known leader in the establishment and operation of call center services. Prior to that, Mr. Kristal 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). Mr. Kristal holds a bachelor's degree in business (with distinction) from the College of Management in Israel, as well as an MBA from Ono Academic College, Israel. Nationality: Israeli.



**Martin Lehner, Managing Director -
SHL Telemmedizin, Germany**

Mr. Martin Lehner joined SHL as a Managing Director, SHL 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. On January 2019, after nearly 5 years as Managing Director of SHL Germany, Mr. Lehner has decided to step down to pursue other interests. Mr. Lehner will transition to the SHL Germany Advisory Board where he will continue to support SHL.

4.2 Management Contracts

SHL has not entered into management contracts with third parties. SHL's office holder who are management are employees of the Company and their engagement terms and conditions are determined under their respective employment agreements.

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.

SHLs 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 2017 Compensation Policy stipulates that its main principles and objectives are 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 2017 Compensation Policy further provides that in general, the compensation terms of

officers are 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 2017 Compensation Policy, SHL is entitled to grant to some or all of its officers (who are not directors) a compensation package including any or all of the following: base salary, commissions, annual cash bonus, retirement grant, and share-based compensation. The compensation for each officer can 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. The 2017 Compensation Policy further provides that SHL's officers are 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. It also stipulates that the Compensation Committee and the Board are 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 10% 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 share based compensation, the 2017 Compensation Policy provides that the Company is 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, is not to exceed individually for each officer (other than the CEO) a fair value which is one and a half (1.5) the annual base salary (and for the CEO two and a half (2.5)). Any share based compensation, if granted, is 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 not earlier than 36 months from the date of the grant. Pursuant to the 2017 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, 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. Option grant is done pursuant to the Board's full discretion pursuant to the general rules set forth under the policy, as described herein. Options to VP's are usually based on CEO's recommendations, and to the CEO based on the board's recommendations, and are sometimes the outcome of negotiations with the relevant employee.

The 2017 Compensation Policy also stipulates 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. Both Independent (external) Directors of the Company, Mr. Abramovich and Ms. Kimhi, are expert directors and therefore are entitled to a higher compensation. Further, SHL is 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.

In addition, under the 2017 Compensation Policy:

- 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 (Please find the description of the benchmarks below).
- 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 (Please find the description of the benchmarks below).
- c. **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%.
- d. **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.
- e. **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, gaining new businesses, sales targets, including geographical areas and/or from new products, and more, with goals for the CEO on group/company level only, and for VPs - both; (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).
- f. **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.

- g. **Share-based compensation:** (i) the fair value of the share based compensation of an executive officer other than the CEO shall not exceed one and half (1.5) times such executive officer's yearly base salary, and for the CEO - shall not exceed two and a half (2.5) times the CEO's base salary; (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.
- h. **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 and three (3) months periods for other executive officers.
- i. **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" (the "General Approval"). Under the General Approval, payments are in lieu of, and not on account of, severance payments (meaning unless under special circumstances such as dismissal for fraud, employee will receive the funds accumulated even if he resigns, not only if dismissed, but employer will not have to supplement payments for severance pursuant to law, provided that the following payments are made: Employer's Payments: (A) Payments made to the pension fund of not less than 14⅓% of the employee's wages as define under the General Approval (for convenience purposes only, in this section - the "Wages"), or 12% if the employer also makes payment, in addition to this payment, to complete the severance payments to the provident fund for severance pay or to an insurance fund in the name of the employee at the rate of 2⅓% of the Wages. If the employer does not pay the additional 2⅓% over and above the 12% as noted above, his payment will be considered in lieu of only 72% of the severance payment of the employee; or (B) Payment to an insurance fund that is not less than one for the following: 13⅓% of the Wages, if the employer is paying for his employee additional payments for disability insurance, in a plan that was authorized by the appointee of the Capital Market, Insurance and Savings of the Ministry of the Treasury, at the rate required to insure at least 75% of the Wages or at the rate of 2½% of the Wages, whichever is lower; 11% of the Wages, if the employer also paid for Disability Insurance, in such case the employer's payments shall be considered in lieu of only 72% of the severance payments of the employee; the employer also paid, in addition to the above, payments to complete severance pay to provident funds for severance or to insurance funds in the name of the employee at the rate of 2⅓% of the Wages, the employer's payment will be in lieu of 100% of the severance pay of the

employee. Both parties need to agree and sign this arrangement. As aforementioned, by signing this arrangement, the employer waives any possible right that he might have to return of monies from his payments unless the right of the employee to severance pay was denied in a court judgment by under specific provisions of the law, or if the employee makes withdrawal of monies from the Pension Fund or Insurance Fund that was not a justified event; in this matter, a "justified event" is - death, handicapped condition or retirement at the age of 60 years or older.

- j. **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.

In the year under review the Company has not awarded any retirement grants.

- k. **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.

During the process of approval of the 2017 Compensation Policy the Compensation Committee and the Board have been presented and have taken into account a benchmark paper prepared by an external consultant.

The companies included in the benchmark were twelve (12) public companies traded on the Tel Aviv Stock Exchange in the fields of commerce and services or technology, with revenues of up to three (3) times that of the Company.

Among the Companies used as a benchmark for the policy were:

Somoto - Traded on TASE - Technology (Software and Internet), Equity (31.12.15) NIS 101,409,000, Revenues - NIS 115,620,000, Net Profit NIS 13,719,000;

Telsys - Traded on TASE - Real estate - commerce and services, Equity (31.12.15) NIS 99,190,000, Revenues NIS 190,039,000, Net Profit - NIS 12,028,000;

Allot Communications - Traded on NASDAQ - Technology (Software and Internet), Equity (31.12.15) NIS 605,723,000, Revenues - NIS 358,919,000, Loss - NIS -93,444,000; and more.

The benchmark was based on the information published in the annual reports for the year 2015 of said companies. For comparison purposes, SHL figures for 31.12.15 in NIS were: Equity - NIS 133,460,000, Revenues - NIS 144,120,000, Loss NIS -61,161,000. In determining the terms and conditions of employment of the CEO, a benchmark using twenty nine (29) public companies was used, the ones used in the previous benchmark as well as other public companies, including life science companies and such traded on TASE and/or NASDAQ, and based on such companies' annual reports for 2016. This benchmark compared the breakdown between base salary, options and annual and special bonuses for CEOs.

Among the companies the major ones were used as a benchmark for the CEO compensation were:

Somoto - Traded on TASE - Technology (Software and Internet) - Market Cap (29.12.16): NIS 169,078,000 - Equity (31.12.16): NIS 125,355,000 - Profit (31.12.16): NIS 29,772,000;

Maytronics - Traded on TASE - Technology (Electronics and optics) - Market Cap (29.12.16): NIS 1,517,375,000 - Equity (31.12.16): NIS 285,577,000 - Profit (31.12.16): NIS 70,731,000;

Orbit - Traded on TASE - Technology (security) - Market Cap (29.12.16): NIS 74,718,000 - Equity (31.12.16): NIS 54,234,000 - Loss (31.12.16): NIS -18,890,000;

Itamar Medical - Traded on TASE - Biomed (medical equipment) - Market Cap (29.12.16): NIS 390,959,000 - Equity (31.12.16): NIS 20,152,000 - Loss (31.12.16): NIS -55,380,000;

EvoGene - Traded on TASE and NASDAQ - Biomed (Biotechnology) - Market Cap (29.12.16): NIS 499,424,000 - Equity (31.12.16): NIS 335,626,000 - Loss (31.12.16): NIS -75,331,000;

Mazor Robotics - Traded on TASE and NASDAQ - Biomed (medical equipment) - Market Cap (29.12.16): NIS 2,054,786,000 - Equity (31.12.16): NIS 249,498,000 - Loss (31.12.16): NIS -71,778,000;

Compugen - Traded on TASE and NASDAQ - Biomed (Biotechnology) - Market Cap (29.12.16): NIS 1,003,406,000 - Equity (31.12.16): NIS 244,231,000 - Loss (31.12.16): NIS -121,141,000;

Pluristem - Traded on TASE and NASDAQ - Biomed (Biotechnology) - Market Cap (29.12.16): NIS 446,960,000 - Equity (31.12.16): NIS 96,563,000 - Loss (31.12.16): NIS -139,112,000;

Brainsway - Traded on TASE - Biomed (medical equipment) - Market Cap (29.12.16): NIS 238,837,000 - Equity (31.12.16): NIS 39,554,000 - Loss (31.12.16): NIS -9,216,000;

Telsys - Traded on TASE - Real estate - commerce and services - Market Cap (29.12.16): NIS 174,686,000 - Equity (31.12.16): NIS 99,190,000 - Profit (31.12.16): NIS 12,305,000;

Nisko Electricity - Traded on TASE - Real estate - commerce - Market Cap (29.12.16): NIS 84,705,000 - Equity (31.12.16): NIS 101,379,000 - Profit (31.12.16): NIS 1,087,000;

Allot Communications - Traded on NASDAQ - Technology (Software and Internet) - Market Cap (29.12.16): NIS 627,486,000 - Equity (31.12.16): NIS 604,334,000 - Loss (31.12.16): NIS -30,737,000; and more.

For comparison purposes, SHL figures for 31.12.16 in NIS were: Market cap NIS 271,063,000, Equity NIS 91,687,000, Loss NIS 42,613,000

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.

It is hereby noted that pursuant to the relevant regulations promulgated under the Israeli Companies Law, if the compensation of directors (including directors who are controlling shareholders) does not exceed the annual compensation and the participation compensation per meeting set forth in the Director Compensation Regulations, then under certain circumstances and given the approval of the company's compensation committee and the board of directors of that company, the approval of the shareholders is not required.

All Board members of the Company receive the same compensation per meeting as well as annual compensation in accordance with the amounts set forth in the Director Compensation Regulations, except the Independent (external) Directors that receive a higher annual compensation solely for their consideration as "expert" directors, all in accordance with the limits thereon, as prescribed in Director Compensation Regulations (see below). The compensation payable to Independent (external) Directors, is approved at the time of his/ her election (Independent (external) Directors are elected for a term of three (3) years). Pursuant to the Director Compensation Regulations, 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. The

compensation to the current Board members that are not Independent (external) Directors was approved by the Compensation Committee and the Board on January 2019 and is not limited in time. No shareholders' approval was required due to relevant exemption under Israeli law.

No option grants were approved with respect to said directors during the year under review, except as set forth in the table under "Compensation for Acting Members of Governing Bodies" in Section 5.2 below.

It is noted, that in the First 2017 SGM it was approved to issue to each "Other" director as such term defined under Israeli Law (i.e. inter alia, not including a controlling shareholder) the grant of 18,000 option to purchase 18,000 Ordinary Shares of SHL under SHL's Share Option Plan.

The following current members of the Board were granted 18,000 options (each) by the Company, in accordance with the SHL's 2015 Share Option Plan: Prof. Lerman, Mr. Abramovich, Ms. Kimhi, and Mr. Nachtomy. The issuance of all the aforesaid options was approved by the Board, the Compensation Committee and the shareholders of the Company. 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 Director Compensation Regulations and 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. All directors of the Company receive 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 (however, as noted herein, the annual payment to Independent (external) Directors is higher than the other directors since they are considered as "expert" external directors pursuant to the relevant regulations promulgated under the Israeli Companies Law). 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 2017 Compensation Policy, taking into account with respect to each executive, the parameters set forth in the 2017 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 2017 Compensation Policy and described in Section 5.1 above. The Company's Compensation Committee and Board have approved on July 11, 2018 and July 16, 2018, respectively certain KPI's for the year under review, based on the 2018 budget and individually with respect to each position:

- A. For the general manager of Israel: (a) Israel revenues - 28%; (b) Israel EBITDA - 28%; (c) gross new subscribers - Israel - 14%; (d) churn - Israel - 14%; (e) revenues from medical projects - 5%; (f) CEO appraisal - 10%. Targets include monetary goals with a range of achievement between 80-130 percent, depending on the specific target.
- B. For the CFO: (a) revenues - 20%; (b) revenues from extraordinary items - 5%; (c) EBITDA - 20%; (d) operating free cash flow - 10%; (e) operational - total 12% (with a certain breakdown); (f) financial management & reporting - total 20% (with a certain breakdown); (g) recommendation on optimization of holding structure for tax - 3%; (h) CEO appraisal - 10%. Some of the targets include monetary goals and others a deadline, with all targets referring to a range of achievement between 80-130 percent, depending on the specific target.
- C. For the CTO: (a) revenues - 21%; (b) revenues from extraordinary items - 5%; (c) EBITDA - 21%; (d) R&D and IT cost budget - 6%; (e) Development projects - total of 20% (with a certain breakdown); (f) IT consolidation - 8% (with a breakdown); (g) CEO appraisal - 10%. Some of the targets include monetary goals and others a deadline, with all targets referring to a range of achievement between 80-130 percent,

depending on the specific target. 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 2017 Compensation Policy, any increase of the base salary (with respect to office holders that are not directors or controlling shareholders) of up to 10% requires only approval of the Company's Compensation Committee. 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 CEO was comprised of a base salary component, and options. In the year under review the Company has paid an annual bonuses in the amount of \$ 225,151. 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 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 6.5% for the pension component, 8.33% to the severance pay component, 7.5% to the Study Fund, and 0.7%-1% 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 2017 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 2017 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 78% of a cash base salary and 22% of cash bonuses and share options granted.

CEO

The targets and the weight for each target were: (a) revenues - with a weight of 32.5%; (b) revenues from extraordinary items - 5%; (c) revenues from new markets - 10%; (d) EBITDA - 32.5%; (e) operating free cash flow - 10%. Targets include monetary goals with a range of achievement between 80-130 percent, depending on the specific target. In addition, the CEO has a KPI where an initiative which had a major strategic impact on the company, such a new material contract, major international distribution agreement or partnership, M&A, will entitle a bonus within the overall bonus range for the CEO detailed in the 2017 Compensation Policy (described in section 5.1 above). The target will have a range which will be determined based on progress, implementation and financial impact on the company.

Overall, the compensation of the CEO (in the year under review was comprised of 37% of a base salary 63% of cash bonuses and share options granted.

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.

Option grant is done pursuant to the Board's full discretion pursuant to the general rules set forth under the policy, as described herein. Options to VP's are usually based on CEO's recommendations, and to the CEO based on the Board's recommendations, and are sometimes the outcome of negotiations with the relevant employee.

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 2017 Compensation Policy prescribes certain ceilings with respect to the value of any share-based compensation granted to (a) any individual officer; and (b) 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 2017 Compensation Policy also requires 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

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 3.6.

Board of directors

| Name | Function | Base Compensation and fringe benefits | Cash Bonus | Share options granted or exercised* | Total |
|-------------------------------------|--|---------------------------------------|------------|-------------------------------------|----------------|
| Yariv Alroy ² | Chairman/ non-executive member | 2,537 | - | - | 2,537 |
| Erez Alroy ² | Non-executive member | 2,537 | - | - | 2,537 |
| Erez Nachtomy ² | Non-executive member | 2,537 | - | - | 2,537 |
| Elon Shalev ² | Non-executive member | 3,048 | - | - | 3,048 |
| Prof. Amir Lerman | Non-executive member | 27,762 | - | - | 27,762 |
| Yehoshua Abramovich | Non-executive member/ Independent director | 34,022 | - | - | 34,022 |
| Dvora Kimhi ² | Non-executive member/ Independent director | 2,616 | - | 23,526 | 26,142 |
| Xuwen Wu ¹ | Former Chairman | 21,951 | - | - | 21,951 |
| Yi He ¹ | Non-executive member | 21,159 | - | - | 21,159 |
| Cailong Su ¹ | Non-executive member | 21,458 | - | - | 21,458 |
| Shenlu Xu ¹ | Non-executive member | 7,812 | - | - | 7,812 |
| Xuequn Qian ¹ | Non-executive member/ Independent director | 3,230 | - | - | 3,230 |
| Yuan-Hsun Lo ¹ | Non-executive member | 12,895 | - | - | 12,895 |
| Yirong Qian ¹ | Non-executive member | 14,963 | - | - | 14,963 |
| Hava Shechter ¹ | Non-executive member/ Independent director | 14,970 | - | - | 14,970 |
| Total for all Board members: | | 193,497 | - | 23,526 | 217,023 |

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.

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

Senior Management

| Name | Function | Base Compensation and fringe benefits | Cash Bonus | Share options granted or exercised* | Total |
|--|----------|---------------------------------------|----------------|-------------------------------------|------------------|
| Yoav Rubinstein | CEO | 390,704 | 97,359 | 554,902 | 1,042,965 |
| Total for all Members of Senior Management: | | 1,332,873 | 367,708 | 554,902 | 2,255,483 |

* Represents the fair value of the share options granted or exercised.

The highest total compensation payable to a member of the governing bodies in 2018 was to the CEO, Mr. Yoav Rubinstein (see above).

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, 2018

The number of Ordinary Shares held, pursuant

to the Share Register, as of December 31, 2018, by the members of the Board and the then Senior Management and parties closely linked to such persons amounted in the aggregate to 2,522,311 Ordinary Shares. For information on options allotted to the members of the Board and senior management, please refer to the table below.

Messrs. Elon Shalev, Yariv Alroy and Erez Alroy non-executive members of the Board, are all members of the Alroy Group. The Alroy Group held, as of December 31, 2018, an aggregate number of 2,507,608 Ordinary Shares. For information regarding the shareholding percentages of the Alroy Group, please refer to the Section titled "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, 2018, Ordinary Shares. Mr. Abramovich, a current non-executive member of the Board, notified the Company that he held as of December 31, 2018, 14,703 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, 2018 by the non-executive 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, 2018 | Weighted Average exercise price in CHF | Granted during the year | Exercise price of options granted | Vested | Exercised |
|---------------------|---|--|--|-------------------------|-----------------------------------|---------|-----------|
| Yariv Alroy | Chairman | - | - | - | - | - | - |
| Erez Alroy | Non-executive member | - | - | - | - | - | - |
| Erez Nachtomy | Non-executive member | - | - | - | - | - | - |
| Elon Shalev | Non-executive member | - | - | - | - | - | - |
| Prof. Amir Lerman | Non-executive member | 18,000 | CHF 6.97 | - | - | 16,500 | - |
| Yehoshua Abramovich | Non-executive member/Independent director | 18,000 | CHF 7.04 | - | - | 9,000 | - |
| Dvora Kimhi | Non-executive member/Independent director | 18,000 | CHF 7.70 | 18,000 | CHF 7.70 | - | - |
| Yoav Rubinstein | CEO | 476,136 | CHF 7.14 | 391,136 | CHF 7.18 | 227,787 | - |
| Yossi Vadnagra | CFO | 50,000 | CHF 7.04 | - | - | 17,187 | - |
| Yoni Dagan | CTO | 50,000 | CHF 7.04 | - | - | 17,187 | - |
| Eran Kristal | General Manager Israel | 55,841 | CHF 6.37 | - | - | 43,669 | - |
| Martin Lehner | Managing Director – SHL Telemedizin Germany | 100,000 | CHF 8.04 | - | - | 83,335 | - |

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 2018 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 or non-executive members of the Board of Directors, Senior Management or parties closely linked to such persons.

6. Shareholder Participation

6.1 Voting Rights Restrictions, Representation

Restrictions and Participation

There are currently no voting-rights and representation restrictions in place, except as set forth below. For voting rights of Ordinary Shares in general, please refer to Section 2.4 above. For the TOB Decision pursuant to which Mrs. Mengke Cai, Mr. Xiang Xu, Himalaya (Cayman Islands) TMT Fund, Himalaya Asset Management Ltd., and Kun Shen are obliged to make a public tender offer for all listed shares in SHL and the suspension of their voting rights until the publication of the tender offer, see Section 2.4.1, and Section “On Shareholder Level” 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 (33.1/3) percent of the voting rights. 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 to any time and place as specified in the notice of such meeting or as the chairman may designate with the consent of a majority of the voting power present and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two (2) shareholders present in person or by proxy, regardless of the number of Ordinary Shares represented.

Under SHL’s Articles of Association all resolutions submitted to the shareholders, unless provided for otherwise in the Articles of Association or under any applicable law, shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon. For resolutions that require special majority, see Section “Statutory Quorums” below. For the requirement of shareholders holding 5% or more of the Company’s shares or voting rights to provide the Company with an address in Israel to receive documents see Section 2.4.2 above.

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. Since 2016, 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 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/her/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 twenty four (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.

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. For Details about the TOB Decision obliging certain shareholders to perform a full tender offer at a price of at least 8.7 CHF please refer to Section “On Shareholder Level” above.

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 2018 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 2018 approximately USD 188 thousands 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 79 thousands 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 in a way 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 such Company documents which it requires to perform its 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.

During the year under review the Board has held two (2) meetings with the Company's external auditor as part of the authorization of the Annual and Interim Financial Statements. The FS Committee has held one (1) meeting 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.

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) shares or similar equities 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 three (3)

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-2019/>. 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 | July 11, 2019 |
| Half Year 2019 Results | September 19, 2019 |

Contact person for Investor Relations

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