

Second Quarterly Report 2001

SHL Telemedicine Ltd.

1 April – 30 June



Dear Shareholders,

The current year continues well for SHL Telemedicine Ltd. The company has met expectations and I am pleased to present second quarter results reflecting continued growth in international sales as well as a healthy increase in sales in our home market. SHL's international roll out remains on track, with Philips HeartCare Telemedicine Services Europe B.V., the company's joint venture with Philips Medical Systems International B.V., announcing the establishment of its first medical monitoring center.

Rising revenues and profit

For the three-month period ended 30 June 2001, revenues totaled USD 7.20m compared with USD 4.67m for the three months ended 30 June 2000. This 54.2% increase was largely due to the expansion in our international activities. Gross profit and operating profit totaled USD 4.79m and USD 2.20m respectively, compared to USD 2.79m and USD 1.24m for the three months ended 30 June 2000.

In this second quarter, SHL recorded net income of USD 1.24m compared with a net income of USD 0.25m for the same quarter of 2000. EPS amounted to USD 0.12 compared with EPS of USD 0.04 in the second quarter of 2000.

Revenues for the half-year totaled USD 12.73m compared to USD 9.34m for the comparable period of 2000. Net income amounted to USD 4.58m compared to USD 0.54m for the first half of 2000 and EPS for the six months totaled USD 0.43 as against USD 0.10 for the comparable period of 2000.

The increase in net income for the quarter and half year over that of the previous year reflects the increase in revenues and operating margins which occurred both in the international and home markets and also from the financial gains recorded in the first quarter of the year.

SHL's balance sheet remains strong, with almost USD 60m cash-in-hand. Shareholders' equity amounted to USD 93.2m compared to USD 91.8m on 31 December 2000.

Second Quarter Highlights

As the year progressed, Philips HeartCare Telemedicine Services Europe B.V. gained momentum with the announcement that its first European monitoring center is to be set up in Switzerland. Due to start operations during September 2001, the center will offer a fully-integrated selection of services and products, including remote cardiac monitoring services based on SHL's established business model. As currently in Israel and the UK, patients will be able to use any telephone to transmit information about their heart functions (including a 12-lead ECG) to trained medical

personnel for analysis, consultation, and advice.

The announcement of this new operation places SHL well on target to achieve its ambitious international expansion schedule – additional HeartCare monitoring centers are planned for Germany and Italy during the second half of 2001, confirming SHL's leading position in the European telemedicine market as among the first commercial suppliers of telemedicine products and services. Further near-term joint venture roll-out is anticipated across Europe, including European Union countries, Eastern Europe, and former members of the Soviet Union.

Spotlight on Sales

As in the first quarter, international sales continued to make a significant contribution to overall income. By the end of the quarter, international sales comprised 19% of total revenues, in contrast to 7% in previous year, leaving SHL on course to meet its target of boosting revenues from international activities to between 22% and 27% of total income. Most of this increase was generated by increased revenues from services related to the European operations.

SHL also performed well at home during the second quarter, achieving an increase of 34% in revenues compared to the second quarter of 2000. This success reflects the company's determination to continue to strengthen its established lead in the Israeli market based on its solid medical call center experience while actively pursuing international expansion.

Continuing the upward trend of device sales as a proportion of overall revenue, product sales comprised 46% of SHL's total revenue during this second quarter 2001, with services accounting for 54% in comparison with 39% and 61% respectively during the same period last year.

Looking Ahead

SHL is confident of continued good performance and growth throughout the second half of the year, strengthening the company's position at home while expanding internationally.

Moving into the second half of 2001, SHL is reaffirming its commitment to a clear and focused strategy of international expansion already firmly underway in Europe, and the company will continue to examine opportunities for partners and selective acquisitions beyond Europe. SHL Telemedicine is determined to remain at the forefront of technical innovation, constantly refining and improving devices to enhance its extensive range of quality products and services – making a real difference to the lives of those who use them.

Yours sincerely,



Yoram Alroy,
Chairman and CEO

Consolidated Balance Sheets U.S. dollars in thousands

December 31,
2000
Audited

2000

June 30,
2001
Unaudited

assets

current assets:

Cash and cash equivalents	50,379	141	59,343
Short-term deposits	13,024	—	581
Trade receivables	976	1,473	876
Trade receivables - affiliated company	—	—	1,924
Post-dated notes	4,827	6,870	5,692
Prepaid expenses	1,465	1,378	1,694
Other accounts receivable	537	630	325
Inventory	2,179	1,654	3,400
Deferred taxes	143	145	171
	73,530	12,291	74,006

long-term assets:

Post-dated notes	12,877	7,782	15,916
Prepaid expenses	8,446	7,163	9,188
Investment in an affiliated company	—	—	2,043
	21,323	14,945	27,147

fixed assets:

Cost	5,819	5,566	5,123
Less – accumulated depreciation	3,562	3,546	3,417
	2,257	2,020	1,706

other assets:

Research and development, net	2,155	1,869	2,381
Deferred taxes	548	819	270
Goodwill, net	14,903	4,020	13,952
	17,606	6,708	16,603

114,716 **35,964** **119,462**

liabilities and shareholders' equity

current liabilities:

Credit from banks and others	3,066	6,325	7,470
Trade payables	1,626	1,699	2,122
Other accounts payable	2,243	1,702	2,512
Deferred revenues, net of notes	—	258	—
	6,935	9,984	12,104

long-term liabilities:

Long-term loans from banks and others	15,384	24,721	13,659
Long-term loans from related parties	162	355	—
Customers' deposits	—	9	—
Accrued severance pay	462	320	510
	16,008	25,405	14,169

minority interest:

— 267 —

shareholders' equity:

Share capital	31	1	31
Additional paid-in capital	92,012	1,657	91,594
Cumulative reporting currency translation adjustments	2,619	2,181	(127)
Retained earnings (accumulated deficit)	(2,889)	(3,531)	1,691
	91,773	308	93,189

114,716 **35,964** **119,462**

Consolidated Statements of Operations U.S. dollars in thousands

(except share amounts)

	Year ended December 31, 2000 Audited	Three months ended 2000 June 30, Unaudited	2001	Six months ended 2000 June 30, Unaudited	2001
Revenues from sales of devices and services	19,537	4,668	7,197	9,340	12,728
Cost of sales of devices and services	7,632	1,875	2,403	3,616	4,766
Gross profit	11,905	2,793	4,794	5,724	7,962
Research and development costs, net	243	37	74	99	166
Selling and marketing expenses	2,289	618	995	1,210	1,662
General and administrative expenses	4,999	903	1,524	1,923	2,948
Operating income	4,374	1,235	2,201	2,492	3,186
Financial income (expenses), net	(2,234)	(731)	(506)	(1,434)	2,280
	2,140	504	1,695	1,058	5,466
Other income (expenses), net	66	26	(107)	26	(124)
Income before taxes on income	2,206	530	1,588	1,084	5,342
Taxes on income	1,119	314	344	605	618
	1,087	216	1,244	479	4,724
Equity in losses of an affiliated company	–	–	–	–	(144)
Minority interest in losses of a subsidiary	93	31	–	59	–
Net income for the period	1,180	247	1,244	538	4,580
Net basic earnings per share	0,18	0,04	0,12	0,1	0,43
Net diluted earnings per share	0,18	–	0,12	–	0,43

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Year ended December 31, 2000 Audited	Three months ended June 30, 2000 Unaudited	Three months ended June 30, 2001 Unaudited	Six months ended June 30, 2000 Unaudited	Six months ended June 30, 2001 Unaudited
cash flows from operating activities:					
Net income for the period	1,180	247	1,244	538	4,580
Adjustments required to reconcile net income to net cash used in operating activities	(5,200)	(1,327)	(4,240)	(2,116)	(6,919)
Net cash used in operating activities	(4,020)	(1,080)	(2,996)	(1,578)	(2,339)
cash flows from investing activities:					
Investment in an affiliated company	–	–	(144)	–	(144)
Loan to an affiliated company	–	–	(2,051)	–	(2,051)
Purchase of fixed assets	(1,175)	(519)	(220)	(631)	(561)
Loans to related party, net	13	–	–	(17)	–
Payment for acquisition of a consolidated subsidiary, net of cash acquired	11	–	–	11	–
Investment in other assets	(801)	(258)	(249)	(423)	(458)
Proceeds from sale of fixed assets	166	49	653	75	653
Investment in short-term deposits	(13,133)	–	–	–	(29,992)
Proceeds from investment in short-term deposits	–	–	12,974	–	12,974
Net cash provided by (used in) investing activities	(14,919)	(728)	10,963	(985)	(19,579)
cash flows from financing activities:					
Proceeds from issuance of Ordinary shares, net	79,316	(115)	(317)	(115)	(633)
Customers' deposits, net	(2)	–	–	–	–
Proceeds from long-term loans from banks and others	47,567	6,829	–	21,009	121
Repayment of long-term loans from related parties	(366)	(89)	(98)	(166)	(193)
Repayment of long-term loans from banks and others	(55,189)	(4,678)	(1,470)	(18,250)	(2,228)
Short-term bank credit, net	(2,299)	(44)	5,368	139	35,360
Net cash provided by financing activities	69,027	1,903	3,483	2,617	32,427
Effect of exchange rate changes on cash and cash equivalents	205	(1)	257	1	(1,545)
Increase in cash and cash equivalents	50,293	94	11,707	55	8,964
Cash and cash equivalents at the beginning of the period	86	47	47,636	86	50,379
Cash and cash equivalents at the end of the period	50,379	141	59,343	141	59,343

Statements of Changes in Shareholders' Equity (deficiency)

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Cumulative reporting currency translation adjustments	Retained earnings (accumulated deficit)	Total
Six months ended June 30, 2001 (unaudited)					
Balance at the beginning of the period	31	92,012	2,619	(2,889)	91,773
Issuance expenses	–	(418)	–	–	(418)
Reporting currency translation adjustments	–	–	(2,746)	–	(2,746)
Net income for the period	–	–	–	4,580	4,580
Balance at the end of the period	31	91,594	(127)	1,691	93,189
Three months ended June 30, 2001 (unaudited)					
Balance at the beginning of the period	31	91,798	(728)	447	91,548
Issuance expenses	–	(204)	–	–	(204)
Reporting currency translation adjustments	–	–	601	–	601
Net income for the period	–	–	–	1,244	1,244
Balance at the end of the period	31	91,594	(127)	1,691	93,189

Profile SHL Telemedicine

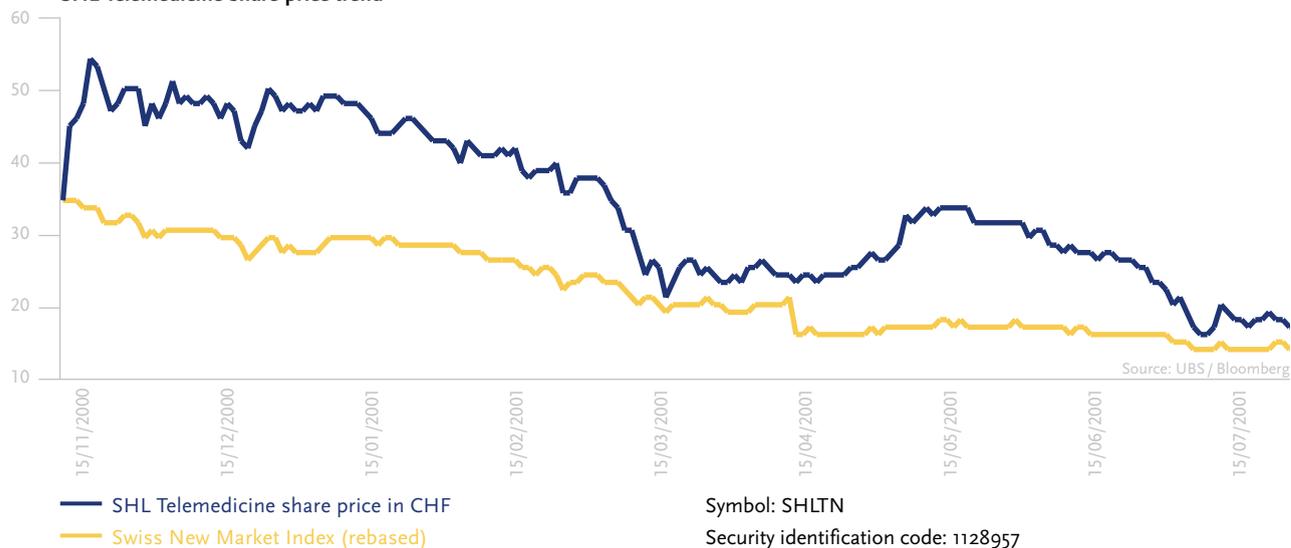
SHL Telemedicine Ltd. develops and markets advanced personal telemedicine systems as well as medical call center services to subscribers. It provides remote monitoring services in cardiology and pulmonology. Individuals can transmit indications of cardiac or pulmonary functions (e.g. 12-lead EKG, blood pressure and spirometry readings) via phone to a medical call center staffed with trained medical personnel for monitoring, analysis, and instruction.

SHL Telemedicine counted 346 employees as of June 30, 2001 (June 30, 2000: 346).

Shareholder structure as of June 30, 2001

Royal Philips Electronics	18,57%
Alroy family	18,55%
Tower Holding	14,88%
G.Z. Asset	8,64%
I.F. International Fund	4,19%
Public	35,17%
Total number of outstanding shares: 10,663,373	

SHL Telemedicine share-price trend



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