Annual Report 2010

SHL Telemedicine

Corporate Profile

SHL Telemedicine Ltd., headquartered in Tel Aviv, Israel, specializes in developing and marketing advanced personal telemedicine systems as well as providing end-users with comprehensive telemedicine solutions including medical call center services, with a focus on cardiovascular and related diseases. These services improve the quality of life for our subscribers and enable cost savings for the health services community.

SHL is the market leader in Israel and active internationally in Germany, through a wholly owned subsidiary. In the US, certain of SHL's products are distributed by Philips Healthcare. The company holds a leading market position due to its extensive experience gathered over more than 20 years, with over one million end-users having had the benefit of using its services and products. SHL is listed on the SIX Swiss Exchange, symbol SHLTN.

Key Figures (December 31)

All financial units in USD 1,000 (except profit per share)	2010	2009
Revenues	50.3	47.9
EBIT	6.0	6.7
EBITDA	11.4	11.6
EBITDA margin	22.7%	24.2%
Net profit	4.9	5.4
Net profit per share	0.46	0.51
Cash, cash equivalents and marketable securities	20.2	20.1
Total outstanding debt	2.4	0.5
Total assets	95.1	89.4
Shareholder's equity	74.7	65.3
Employees	389	383

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Letter from the Chairman & President

I'm happy to conclude 2010 as another year of growth and good financial performance where we have met our financial targets set at the beginning of the year. Revenues for 2010 increased to USD 50.3 million (USD 53.4 million at constant exchange rates*), an increase of 4.7 % over 2009 at constant exchange rates, with EBITDA of USD 11.4 million and net profit of USD 4.9 million.

Germany

In Germany it has been another year of continued aggressive consolidation of health insurers together with increased cost pressures to cut down on their deficits. This trend is expected to continue in full force, with cost and deficit pressures expected to be felt by health insurers even more in the coming years. As a result, cost savings, the main value proposition of our telemedicine services to health insurers, is more valid than ever.

This is already being evidenced in that we are in advanced negotiations with large German health insurers for significant high value contracts of more than USD 50 million each, for the introduction of various telemedicine services to a large number of their insured who will join our services in the coming years.

The aggressive consolidation, with sometimes three to four mergers by one health insurer in a year, has resulted in the diminution of patients during the year as merging bodies canceled the agreements in place and started re-negotiations once the mergers have been implemented. One of these consecutive mergers by a health insurer is likely to lead to an immediate and short term diminution of a large number of patients during 2011. We are in discussions with this health insurer to coordinate the process, including timing of cessation of service.

In spite of the complex business environment our German operations concluded the year with a 5th consecutive year of growth with revenues of USD 21.6 million, representing growth of 7.2% year over year at constant currency exchange rates *.

This reflects the continuing success, despite this complex environment, in gaining acceptance by the German health industry of our cost savings proposition.

It is expected that this will be a year in which SHL will be investing great efforts in securing the major high value contracts that will enable its return to growth in the German market.

Israel

2010 was another good year for our Israeli business, with revenues increasing to USD 22.3 million, representing growth of 0.9% year over year at constant exchange rates *.

During the course of the year, further agreements were signed with Israeli health insurers for the provision of telemedicine services to their insured. We expect the provision of these services to lead to a faster growth rate in the coming years and to continue to contribute to the sound profitability of the Israeli operations.

USA

We continue to receive the minimum revenues due under the agreement with Philips arising from the sale of Raytel to Philips in 2007 and will continue to do so for the coming year. Future revenues from this source after that date will be dependent on the achievement by Philips of sales of our devices and services in this market. In addition the first payment related to the minimum revenues due is to be received by the end of the first quarter 2011.

Consumer markets in Germany and the UK

During the year we expended USD 3.8 million in introducing our personal cardiac service to the German and UK marketplace. This was carried out mainly through web based marketing campaigns inviting relevant audiences surfing the web to join our service. This initiative has shown good results and we are currently exploring various co-operations for distribution of our products to consumers. We expect these investments in 2011 to be significantly lower than in 2010.

Technology

During the year we have launched the "Central Communication Module" (CCM), an innovative device for transmitting telemedical data to the monitoring centers. The CCM is a "plug and play" device with automatic transmission of medical data that can now be performed flexibly either through an internet connection, cellular platform or a regular landline, and can be adapted to the personal needs of the users and their various telemedical devices.

The CCM transmits the measured medical data automatically and encrypted to the monitoring center. The data is then stored in the patient's electronic medical record. An algorithm triggers an alarm in the monitoring center if values deviate from the patient's individual thresholds. The professional medical staff at the monitoring center then contact the patient and discuss with him or her the reasons for the deviation and steps needed to be taken in order to bring the individual back to acceptable values.
The CCM was presented during this year's MEDICA, Germany's biggest healthcare fair.

Financials

Revenues for the year increased over 2009, with operating and net profit remaining on par with 2009 results due to the effect of the significant expenditure of USD 3.8 million on introducing the personal cardiac services mainly to the German consumer market.

Revenues for the year amounted to USD 50.3 million compared to revenues of USD 47.9 million in 2009. At constant exchange rates* revenues amounted to USD 53.4 million, representing a growth of 4.7% year over year.

Gross profit for the year amounted to USD 33.3 million (66.2% of revenues) compared to USD 32.1 (67% of revenues) in 2009.

EBITDA for the year amounted to USD 11.4 million (22.7% of revenues) compared to an EBITDA of USD 11.6 million (24.2 % of revenues) in 2009 with operating profit amounting to USD 6.0 million (11.9% of revenues) compared to USD 6.7 million (14.0% of revenues) in 2009.

Net income for the year amounted to USD 4.9 million (USD 0.46 per share) compared to USD USD 5.4 million (USD 0.51 per share) in 2009.

Cash flow generated from operations amounted to USD 3.0 million compared to USD 5.3 million in 2009. Cash, cash equivalents and marketable securities amounted at December 31, 2010 to USD 20.2 million compared to USD 20.1 million at the end of 2009.

SHL's balance sheet continues to be strong with assets amounting to USD 95.1 million, of which current assets amounted to USD 31.1 million, while total liabilities amounted to USD 20.4 million.

Equity at December 31, 2010 stood at USD 74.7 million (78.5% of balance sheet).

Change in Ownership structure

In spring 2010, Philips decided as result of its strategic policy to divest its non-core shareholdings

in SHL. The Alroy Group, together with European and Israeli private investors, responded to Philips' request and acquired Philips' 18.4% holding in SHL.

Outlook

The business outlook for Israel continues to be positive. However, as outlined above, with regard to the German market, it will be prudent to assume that the recruitment of new patients during 2011 based on new contracts will take time before they can be absorbed into our network. This is unlikely to cover the expected immediate short term diminution of patients. As a result, SHL is likely to face a decline in revenues and profitability in 2011 over that of 2010, with growth expected to return by the second half of 2011 as major contracts in Germany are secured.

On behalf of the Board of Directors and the Management, let me thank first all our dedicated employees in Israel and Germany for their achievements and strong commitment in helping us make SHL a leading force in the world of telemedicine and to our business partners, customers and suppliers for their excellent collaboration. Last but not least, I express our thanks to our Shareholders for their continued confidence in supporting our Company.

Sincerely

Y. Alroy

Yoram Alroy,

Chairman and President

* In order to enable meaningful comparison between the 2010 and 2009 results, 2010 and 2009 results are also presented at constant currency exchange rates. These are calculated by translating the 2010 results using the average exchange rates used for calculating the 2009 constant currency results (2008) instead of the current period exchange rates. Management believes that this presentation enables a more meaningful comparison between the periods due to the significant fluctuations in NIS/USD/EUR exchange rates.

Information for Investors

Capital structure

The issued share capital is divided into 10,527,165 registered shares with a par value of NIS 0.01 each (excluding 253,736 ordinary shares of NIS 0.01 par value each held by SHL)

Significant shareholders'

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

Alroy Group	27.3%
Tower Holdings B.V.	14.36%
G.Z. Assets and Management Ltd.	8.75%
Eli Alroy	5.62%
Public	43.97%

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2010, after deducting from the total number of shares outstanding 253,736 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

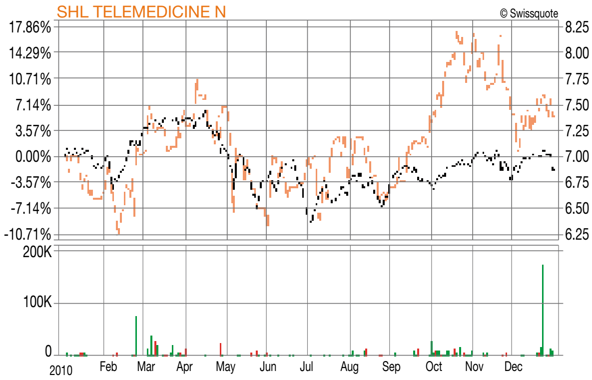
Statistics on SHL Telemedicine as at December 31, 2010

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,527,165
Market price high/low (CHF)	8.30/6.01
Market capitalization high/low (CHF million)	89.5/64.8
Market capitalization 31/12/10 (CHF million)	79.8
Share capital – nominal value (NIS)	105,272
Majority interests	56.03%

Key figures per share at December 31, 2010	
Net income per share (USD)	0.46

Share price development



Listing

All SHL shares are listed on SWX Swiss Exchange

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

Investor relations

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Annual General Meeting

May 31, 2011

Next Publications

Q1 Results: May 25, 2011
Q2 Results: August 10, 2011
Q3 Results: November 16, 2011

Corporate Governance 2010

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SHL TeleMedicine Ltd. Corporate Governance Report

Introduction

The corporate governance framework of SHL Telemedicine Ltd. ("SHL") reflects a system of checks and balances between the powers of the shareholders, 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.

All the relevant documents 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 2010

At the Annual General Shareholders' Meeting on July 29, 2010, Mr. Yoram Alroy, Mr. Yariv Alroy, Mr. Erez Alroy, Mr. Elon Shalev, Mr. Hagai Shilo, Mr. Ziv Carthy, and Ms Dvora Kimhi were elected to the Board of Directors until the next annual meeting. Ms. Nehama Ronen was re-elected as an independent (external) director of the Company, for one more three (3) year term in accordance with the Israeli Companies Law, 1999 (the "Israeli Companies Law"). Mr. Nissim Zvili continued to serve his first three (3) year term as an independent director of the Company.

On June 28, 2010, the Alroy Group (for information on the members of the Alroy Group, please refer to Section 1.3 below) acquired Royal Philips Electronics' stake in SHL, together with private investors, and thus increased its holdings in SHL (for further information on significant shareholders, please see Section 1.3 below).

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 SWX. The information presented here is updated as of December 31, 2010, 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 Management Principles:

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

During 2010 the Company and its subsidiaries in Israel, Germany and the U.S. operated in one business segment - telemedicine services. Telemedicine services comprise the provision of telemedicine services and devices to subscribers utilizing telephonic and internet communication technology. SHL's telemedicine solution offers centralized remote diagnostic and monitoring services to end-users, making use of computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.

SHL Telemedizin GmbH 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 group.

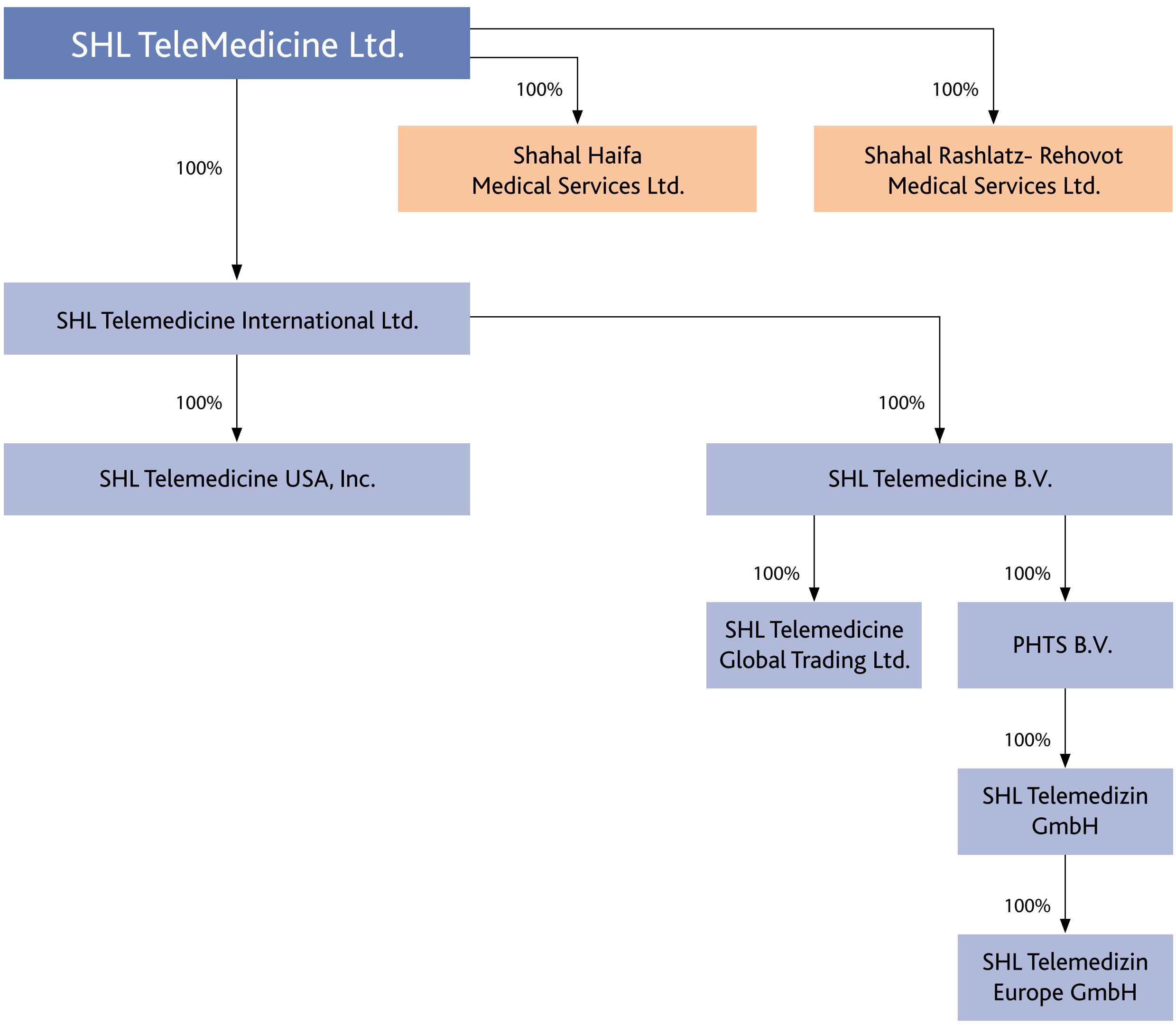
SHL Telemedicine Ltd., Shahal Haifa - Medical Services Ltd. and Shahal Rashlatz-Rehovot Medical Services Ltd. (together "SHL Israel") operate in the Israeli market and provide telemedicine services mainly to private paying subscribers. SHL Israel is run as a stand-alone business and enjoys a high degree of autonomy, with its own management group.

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 and SHL Israel. 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 provides services to SHL Germany, SHL Israel and SHL INT on an ongoing basis.

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

SHL TeleMedicine Ltd. ("SHL") - SHL's authorized share capital is comprised of New Israel Shekels ("NIS") 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each. SHL's issued and outstanding share capital is NIS 105,271.65 divided into 10,527,165 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 253,736 ordinary shares of NIS 0.01 par value each held by SHL). For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 15. The registered shares of SHL are traded on the main board of the SIX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As at December 31, 2010, SHL's market capitalization was CHF 79.8 million. SHL's registered office is located at 90 Igal Alon Street (Ashdar Building), Tel-Aviv, Israel. None of the issued and outstanding share capital of SHL is held by SHL's subsidiaries.



Name	Registered address	% of holding	Issued and outstanding share capital
Shahal Haifa - Medical Services Ltd.	Tel Aviv, Israel	100% (held by SHL)	100 shares of 1 NIS each
Shahal Rashlatz-Rehovot Medical Services Ltd.	Tel Aviv, Israel	100% (held by SHL)	100 shares of 1 NIS each
SHL Telemedicine International Ltd. ("SHL INT")	Tel Aviv, Israel	100% (held by SHL)	10,000 shares of 1 NIS each
SHL Telemedicine B.V. ("SHL BV")	Amsterdam, Netherlands	100% (held by SHL INT)	74,043 shares of 100 Euro each
Personal Healthcare Telemedicine Services Europe B.V. ("PHTS")	Amsterdam, Netherlands	100% (held by SHL BV)	81,500 shares of 10 Euro each
SHL Telemedizin GmbH	Düsseldorf, Germany	100% (held by PHTS)	300,000 shares of 0.001 Euro each
SHL Telemedicine Europe GmbH	Düsseldorf, Germany	100% (held by SHL Telemedizin GmbH)	-
SHL Telemedicine Global Trading Ltd.	Shannon, Ireland	100% (held by SHL BV)	1,000 shares of 1 Euro each
SHL Telemedicine USA, Inc.	Delaware, USA	100% (held by SHL INT)	100 shares of 0.01 USD each
SHL Telemedicine North America, LLC	Delaware, USA	100% (held by SHL Telemedicine USA, Inc.)	100 membership units
Raytel Medical Corporation, LLC	Delaware, USA	100% (held by SHL Telemedicine North America, LLC)	100 membership units

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

1.3 Significant Shareholders

The following overview shows the shareholdings of significant shareholders as of December 31, 2010, compared to December 31, 2009:

	2010 Number	2010 %	2009 %
Alroy Group *	2,873,780	27.30%	19.14%
Royal Philips Electronics	-	-	18.85%
Tower Holdings B.V.	1,511,323	14.36%	14.39%
G.Z. Assets and Management Ltd.	921,533	8.75%	8.78%
Eli Alroy **	591,931	5.62%	-
Public	4,628,598	43.97%	38.84%

* Alroy Group is comprised of (i) Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.86% of the issued and outstanding share capital of SHL, (ii) Mr. Erez Alroy, Co-CEO of SHL that holds individually and through a company wholly owned by him 0.28% of the issued and outstanding share capital of SHL, (iii) Mr. Elon Shalev, brother-in-law of Mr. Yoram Alroy, that holds, individually and through Elon Shalev Investments Ltd., a private company wholly owned by Mr. Elon Shalev, approximately 6.88% of the issued and outstanding share capital of SHL, (iv) Y. Alroy Family Ltd., a private company wholly owned by Mr. Yoram Alroy, Mr. Elon Shalev and members of their family, that holds approximately 5.07 % of the issued and outstanding share capital of SHL, and (v) Southland Holding Ltd., a private company owned by Mr. Erez Alroy, Mr. Yariv Alroy and Mr. Elon Shalev, holding approximately 8.20% of the issued and outstanding share capital of SHL.

** Eli Alroy is not a member of the Alroy Group

The above table of Significant Shareholders reflects actual holdings as of December 31, 2010, after deducting from the total number of shares outstanding 253,736 Ordinary Shares held by SHL (as described in Section 1.1.2 above), and does not reflect holdings on a fully diluted basis.

The Shareholders Agreement (the "Shareholders Agreement") originally entered into by and among SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd. remains in effect to the extent and on the conditions described below following Royal Philips Electronics' sale of all its shares in SHL to certain members of the Alroy Group, and private investors on June 28, 2010. In connection with such sale, Philips' rights under the Shareholders Agreement were transferred together with the shares to the Alroy Group and Southland Holding Ltd. (a member of the Alroy Group) joined the Shareholders Agreement and became a party thereto as of the closing date.

The Shareholders Agreement is effective for a period of two (2) years commencing as of November 2009, and its term shall be automatically renewed for additional two (2) year periods unless either party provides a three

(3) months written notice to terminate the Shareholders Agreement). Pursuant to the Shareholders Agreement as currently in effect, the Alroy Group, Tower Holdings B.V. and G.Z. Assets and Management Ltd., agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include five (5) nominees determined by the Alroy Group (following the transfer of Royal Philips Electronics' right to nominate two (2) directors to the Alroy Group, as a consequence of the purchase by the Alroy Group of shares previously held by Royal Philips Electronics), one (1) nominee determined by Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and Management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL.

In the year under review, the Alroy Group has only exercised its right to appoint directors with respect to four (4) directors: Yoram Alroy, Yariv Alroy, Erez Alroy and Elon Shalev. Additionally, the Shareholders Agreement as currently in effect provides that any committee of the Board of Directors shall include two (2) of the members of the Board of Directors nominated by the Alroy Group (following the transfer of Royal Philips Electronics' right to nominate one (1) director to each board committee to the Alroy Group, as a consequence of the purchase by the Alroy Group of shares previously held by Royal Philips Electronics) and one (1) of the members of the Board of Directors nominated by either Tower Holdings B.V. or G.Z. Assets and Management Ltd.

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

1.5 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, 2010

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

Issued and outstanding share capital as of December 31, 2010

Number of Ordinary Shares	10,527,165 *
par value	NIS 0.01 each
Share capital	NIS 105,271.65

* Excluding 253,736 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 15.

2.2 Authorized and Conditional Capital

General

Under Israeli law, a company's authorized share capital represents the maximum amount of shares which is authorized for issuance by the company. SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"). The issued and outstanding share capital of SHL is NIS 105,271.65, divided into 10,527,165 fully paid registered Ordinary Shares (excluding 253,736 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.

SHL approved a maximum number of up to 1,056,627 Ordinary Shares (subject to adjustments as set forth in the 2005 Key Employee Share Option Plan, as such term is hereinafter defined) reserved for issuance upon exercise of options that may be granted pursuant to the Option Plans. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 14.

Share Options

The only share options currently outstanding are share options which were granted pursuant to SHL's Option Plans, which are described below.

In September 2000, SHL adopted an option plan for the issuance of options to purchase Ordinary Shares ("Options") to its employees, directors, consultants and contractors that was amended in November 2000 (the "2000 Share Option Plan"). In September 2000, SHL approved a maximum pool of up to 856,627 Ordinary Shares reserved for issuance upon exercise of Options that may be granted pursuant to the 2000 Share Option Plan (the "Option Pool").

In October 2003, due to a tax reform in Israel that changed the tax regime with respect to Options granted to employees and directors, SHL adopted the 2003 Share Option Plan (the "2003 Share Option Plan") for the issuance of Options to employees, directors, consultants and contractors of SHL and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2000 Share Option Plan shall further serve for purposes of the 2003 Share Option Plan. The options are valid for a term of ten (10) years from the date of their grant, subject to early termination due to cessation of employment or service of the option holder. Options issued pursuant to the 2003 Share Option Plan are exercised by either a cash or a net exercise method, at the discretion of the relevant option holder pursuant to a resolution of the Board of Directors of SHL as of November 7, 2010.

In May 2005, SHL adopted the 2005 Key Employee Share Option Plan (the "2005 Share Option Plan"). The maximum number of Ordinary Shares which may be issued under the 2005 Share Option Plan and under any other existing or future share incentive Option Plans of the Company was set at 856,627 Ordinary Shares at the time of adoption of the plan, subject to adjustments as provided in the 2005 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 and, pursuant to a resolution of the Board of Directors of SHL as of November 7, 2010, all options issued under the 2005 Share Option Plan are exercised by way of the net exercise method. Options granted under the 2005 Share Option Plan shall vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board of Directors, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

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

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

	2010	Weighted average exercise price in CHF	2009	Weighted average exercise price in CHF
As at January 1	600,133	6.75	577,912	6.61
Granted during the year	351,000	6.91	68,500	7.10
Forfeited during the year	(28,947)	6.92	(26,364)	5.78
Exercised during the year	(26,891)	5.33	(19,915)	5.21
Outstanding at the end of the year	**895,295**	**6.85**	**600,133**	**6.75**
Vested at December 31	**474,446**	**6.67**	**413,463**	**6.55**

	2010	Weighted average exercise price in CHF	Vested
Under the 2003 share option plan	282,483	6.02	282,483
Under the 2005 share option plan	612,812	7.23	191,966
	895,295	**6.85**	**474,449**

2.3 Changes in Capital Structure within the Last Three Financial Years

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

As of December 31, 2008, 2009 and 2010, SHL's issued share capital was comprised of 10,511,610, 10,501,174 and 10,527,165 Ordinary Shares, respectively. The foregoing changes in the Company's share capital result from the exercise of share options previously granted under SHL's Option Plans and the repurchase of shares by SHL under its share repurchase plan first approved by the Board of Directors of the Company on March 25, 2008. As part of its approval, the Board of Directors determined, in accordance with the requirements of the Israeli Companies Law, that the Company had sufficient profits and other surplus (as calculated under the Israeli Companies Law) in order to repurchase its Ordinary Shares traded on the SIX Swiss Exchange and that there was no reasonable concern that the repurchase would prevent SHL from satisfying its existing and foreseeable obligations as they become due. Under the approved repurchase plan, SHL is authorized to repurchase its own Ordinary Shares traded on the SIX Swiss Exchange, from time to time, in an amount of up to an equivalent of US$2,000,000. The March 25, 2008 approval covered share repurchases for an initial period lasting up until June 30, 2008, whereby any further repurchases are subject to reaffirmation by the Board that such repurchase by the Company of Ordinary Shares satisfies the aforementioned conditions of the Israeli Companies Law. In accordance with the foregoing, the repurchase period has currently been extended until March 31, 2011.

2.4 The Ordinary Shares

General

SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"), as set forth above. All the issued Ordinary Shares rank pari passu in all respects. The Ordinary Shares do not have preemptive rights. The ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to citizens of countries, which are in a state of war with Israel, is not restricted in any way by the Articles of Association of SHL or the laws of the State of Israel. The Ordinary Shares are in book entry form only. No share certificates are issued; however, shareholders of record are entitled to receive non-negotiable confirmations from SHL evidencing their ownership of Ordinary Shares. Based on an agreement between SHL and SIX SIS AG (formerly SIS SegaInterSettle AG) ("SIS"), all issued Ordinary Shares will be booked into the SIS Clearing System. 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, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher provided, however, that there is no reasonable concern that the payment of dividend will prevent the company from satisfying its existing and foreseeable obligations as they become due. Any dividends will be subject to Israeli withholding tax. SHL's Articles of Association provide that the Board of Directors may from time to time declare and cause SHL to pay such dividend as may appear to the Board of Directors to be justified by the profits of SHL. The shareholders entitled to receive dividends are the shareholders on the date upon which it was resolved to distribute the dividends or at such later date as shall be provided in the resolution in question. Accordingly, under the SNOC Agreement, each Registered Person is entitled to dividends (for a definition of such terms, please refer to Section 2.6 below).

Voting Rights

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. For additional information regarding voting rights of the Ordinary Shares, see Section "Voting Rights Restrictions and Representations" on page 33.

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

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

For information on the Shareholders Agreement between certain shareholders of SHL, please refer to the Section on “Significant Shareholders” on page 12.

Duties of Shareholders

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. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns twenty-five (25) percent or more of the voting rights if no other shareholder owns more than fifty (50) percent of the voting rights.

Subject to certain exceptions, extraordinary transactions (including a private placement which is an extraordinary transaction) with a controlling shareholder or a person in which a controlling shareholder has a personal interest, and 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), require the approval of the audit committee, the board of directors and the shareholders.
The shareholder approval must include at least one-third of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of shareholders having no personal interest in the transaction and voted against the transaction do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

A recent Amendment to the Israeli Companies Law which was passed in March 2011 and which has not yet come into effect (the "March 2011 Amendment") provides for a change in the aforementioned special majority requirements applicable to shareholder approval. Under the March 2011 Amendment the shareholder approval with respect to the transactions above will need to fulfill one of the following conditions: (a) the number of shares held by shareholders having no personal interest in the transaction which must be included in the approval shall be a majority of such shares (as opposed to previously one third), or (b) the percentage of the voting rights held by shareholders having no personal interest in the transaction which may be voted against the transaction and despite which such transaction will still be approved even without the special approval requirement described under (a) is not more than two (2) percent (as opposed to previously one (1) percent) of all voting rights in the company. Further, the March 2011 Amendment provides that transactions with controlling shareholders of the kind described above will require approval once every three (3) years, subject to a limited exception.

Pursuant to the Companies Regulations (Interested Party Relieves – 2000), certain transactions of a public company with an interested party do not require shareholder approval as stated before, provided that such transactions have been approved by the audit committee and the board of directors of the public company under confirmation that the circumstances triggering the relevant exception exist. Such transactions include without limitations (a) an extraordinary transaction with a controlling shareholder or a person in which a controlling shareholder has a personal interest, which either extends without significant change an already existing transaction or which changes an already existing transaction for the benefit of the company, and provided the existing transaction was approved under the special approval requirements set forth above; and (b) the approval of the terms of the service or engagement of a controlling shareholder (or its relative) that also serves as an office holder in the company, and with respect to a controlling shareholder that is an employee but not an office holder, with respect to the terms of its employment, provided that (i) the cost to the company is not more than NIS 20,000 (CPI linked), provided that such exception may be granted only once every two (2) years, and further provided that the remaining conditions of service or employment are not approved under these regulations due to the fact that the monthly average salary does not exceed the average salary in the market (see exception (iii) below); (ii) the compensation paid to a controlling shareholder as a director of the company does not exceed the lowest compensation paid to any other director in the company, and in any event does not exceed the maximum amount payable to Independent Directors under the applicable regulations promulgated under the Israeli Companies Law; (iii) the monthly salary paid to the controlling shareholder (or its relative) does not exceed the average monthly salary in the market and is reasonable under the circumstances under consideration of the scope of the engagement, the type of position and the qualifications of the controlling shareholder (or its relative) with respect to the performance of the position; provided that no more than two (2) persons may be so employed by the company under use of this exception at the same time; or (iv) the relevant engagement is with respect to a controlling shareholder (or its relative) which is also an office holder of the company, with respect to the conditions of insurance, and provided that the terms are less than, or identical to, the terms of insurance applicable to the remaining office holders, and further provided that such conditions are on market terms and may not substantially impact the revenues, assets or obligations of the company.

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

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

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

2.5 Dividend-right Certificates

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

2.6 Limitations on Transferability and Nominee Registrations

Transfer of Ordinary Shares

Fully paid Ordinary Shares may be transferred freely. Pursuant to SHL's Articles of Association no transfer of shares shall be registered in SHL's Register of Shareholders unless a proper instrument of transfer in form and substance satisfactory to the Board of Directors has been submitted to SHL together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered, SHL may continue to regard the transferor as the owner thereof. Any Registered Person who wishes to become registered in SHL's Register of Shareholders may request SIX SIS AG ("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 SAG evidencing the registration of such person, including the number of Ordinary Shares registered on such person's behalf, in the SAG Register, shall also be a proper instrument of transfer.
Except as specifically stated hereinabove, there are no statutory restrictions limiting the transferability of the Shares.

SNOC Agreement and Shareholder Registration

SHL has entered into an agreement with SNOC Swiss Nominee Company ("SNOC", the "SNOC Agreement"), which upon the merger of SNOC with SIX SIS AG by way of absorption was transferred by operation of law to SIS as of 2001, according to which SIS agrees to act as a nominee on behalf of any person registered in a Share Register maintained by SIX SAG AG, formerly SAG SEGA Aktienregister AG ("SAG", 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 SNOC Agreement, SIS has irrevocably agreed and instructed SHL to enable each person registered from time to time with the SAG Register (a "Registered Person") to exercise, on behalf of 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 SAG 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 SAG Register, record ownership of the number of Ordinary Shares registered in the name of such person in the SAG Register will be transferred to such person, as a consequence of which settlement of such Ordinary Shares may not be possible through SIS, Clearstream and Euroclear.

2.7 Convertible Bonds and Options

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

3. Board of Directors

The primary duties of the Board of Directors of SHL (the "Board of Directors") are defined in the Israeli Companies Law and in the Articles of Association of SHL. 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 of Directors 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. The Board of Directors of SHL currently consists of 9 members, of whom two (2) members are Independent Directors (Ms. Nehama Ronen and Mr. Nissim Zvili) (for further information on Independent Directors, please refer to the following section of this report).

Independent Directors

Israeli companies that have offered securities to the public in or outside of Israel under the provisions of the Israeli Companies Law are required to appoint two (2) Independent ("external") Directors. 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 which must be comprised of at least three (3) directors, including all of the Independent Directors. For the tasks of the audit committee and further requirements regarding the composition of the Audit Committee following the March 2011 Amendment, please refer to page 24.

Pursuant to the Israeli Companies Law, an Independent Director must possess financial and accounting expertise or professional skills as such terms are defined in rules promulgated under said law, provided that at least one (1) of the Independent Directors possesses financial and accounting expertise. To qualify as an Independent Director, an individual (and his relatives, partners, employer, entities controlled by him, or someone that such individual is directly or indirectly subordinated to) may not have, and may not have had at any time during the two (2) years prior to such individual's appointment as an Independent Director, any affiliations with the company or its affiliates, or with its controlling shareholder(s) or with any entity whose controlling shareholder(s), at the time of appointment or during the two (2) years prior to his appointment as an Independent Director is a company or its controlling shareholder, as such terms are defined in the Israeli Companies Law. In addition, no individual may serve as an Independent Director if the individual's position or other activities create or may create a conflict of interest with his or her role as an Independent Director or may adversely affect such role, or if such individual is an employee of the Israeli securities authority or an Israeli stock exchange. Furthermore, a director of a company is prevented from serving as an Independent Director in another company, if a director of such second company serves as an Independent Director in the first company. Pursuant to the March 2011 Amendment, the circle of persons prevented from being appointed Independent Directors will be extended.

For a period of two (2) years from termination of office, a former Independent Director may not serve as a director or employee of the company in which he served as an Independent Director or provide professional services to such company for consideration. Following the effective date of the March 2011 Amendment, both the restrictions applicable to Independent Directors will be extended in scope, and such heightened restrictions will also apply to family members for certain time periods.

The Independent Directors generally must be elected by a majority vote of the shareholders, provided that such majority includes at least one-third (1/3) of the shares of non-controlling shareholders voted on the matter. However, the Independent Directors can be elected by shareholders without this special one-third approval requirement if the total shares of non-controlling shareholders voted against the election do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). Pursuant to the March 2011 Amendment, the aforementioned special majority requirements applicable to shareholder approval will be modified so that the appointment of an Independent Director will be approved, provided (a) such approval 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), 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 term of an Independent Director is three (3) years and may be extended for one (1) additional three (3) year period. Pursuant to the March 2011 Amendment, the term of service of an Independent Director may be extended by two (2) additional terms of three (3) years each, and a new mechanism is introduced pursuant to which shareholders holding one (1) percent or more of the voting rights of the company may propose an extension term with respect to an Independent Director, subject to special approval requirements on shareholders level.

Ms. Nehama Ronen serves her second consecutive term as an Independent Director of SHL until 2013, and may be re-elected for one (1) additional three year term, subject to the provisions of the March 2011 Amendment. Mr. Nissim Zvili serves his first term as an Independent Director of SHL until the Annual General Meeting of 2011, and may be re-elected for two (2) additional three (3) year terms, subject to the provisions of the March 2011 Amendment.

Executive and Non-Executive Members of the Board

The only executive members of the Board of Directors are Mr. Yoram Alroy, Mr. Erez Alroy and Mr. Yariv Alroy. None of the current non-executive members of the Board of Directors was a member of the management of SHL or of any of SHL's group companies in the three (3) financial years preceding the period under review. The non-executive members of the Board of Directors have no important business connections with SHL or SHL's group companies. For a description of the family relationship between Mr. Elon Shalev and other members of the Alroy Group, see "Significant Shareholders" on page 12 and "Share Ownership" on page 31.

Current Board Members

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

Name	Nationality	Position	First Election	Remaining Term*
Yoram Alroy	Israeli	Chairman of the Board of Directors and President	1987	2011
Erez Alroy	Israeli	Co-CEO	2008	2011
Yariv Alroy	Israeli	Co-CEO	2010**	2011
Elon Shalev	Israeli	Non-executive member	1987	2011
Ziv Carthy	Israeli	Non-executive member	1997	2011
Nehama Ronen	Israeli	Non-executive member/ Independent Director	2007	2013
Nissim Zvili	Israeli	Non-executive member/ Independent Director	2008	2011
Hagai Shilo	British and Israeli	Non-executive member	2010	2011
Dvora Kimhi	Israeli	Non-executive member	2010***	2011

* For additional information regarding the election and term of office of SHL's directors please refer to section "Election of Directors and Term of Office" on page 21.

** Mr. Yariv Alroy has previously served on the Board of Directors of the company from 2001 to 2006.

*** Ms. Dvora Kimhi has previously served on the Board of Directors as an Independent (external) Director from 2001 to 2007.

Yoram Alroy, Chairman and President

Yoram Alroy founded SHL in 1987. Commencing in 1987 and until September 2003 he has served as CEO and Chairman of SHL's Board of Directors. As of September 2003, Mr. Alroy serves as the President of SHL and is the Chairman of SHL's Board of Directors. Prior to founding SHL, Mr. Alroy served for eighteen (18) years as an employee of IBM Israel. After assignment at IBM Europe he was nominated to be a member of IBM Israel's Executive Committee. Mr. Alroy is also a member of the Board of Trustees of the Ofek College for Engineering. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and SHL INT. Nationality: Israeli

Erez Alroy, Co-CEO

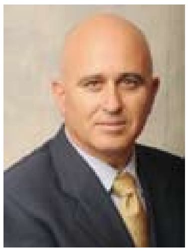
Erez Alroy has been an executive manager of SHL since its inception. Prior to holding his current position of Co-CEO, he served as the General Manager of SHL's operation in Israel. Before that he served as SHL's Sales Manager and Vice President of Marketing in Israel. Mr. Alroy holds an MBA from the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

Yariv Alroy, Co-CEO

Yariv Alroy, has previously served as managing director of SHL Telemedicine International chief operating officer of SHL Telemedicine. Before joining SHL Telemedicine, Yariv Alroy served as a senior partner in a large Israeli law firm. Yariv Alroy holds a degree in law from the University of Tel Aviv. Nationality: Israeli. Mr. Yariv Alroy has previously served on the Board of Directors of the company between 2001 and 2006.

Elon Shalev

Elon Shalev has served as a director of SHL since 1987. From 1990 to 1993, he was SHL's Chief Operating Officer after which (1993-1995) he served as founder and Chief Executive Officer of CH 2 news in Israel. From 1996 to 1999, he was Editor in Chief of "Yediot Aharonot", the largest daily newspaper in Israel and in 2000-2001 was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group, one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur in the telecom market and is the Chairman and co-founder of Logia Ltd., a global provider of innovative mobile content solutions. In addition, Mr. Shalev serves as a senior advisor to the Saban Capital Group. During recent years Mr. Shalev served as a Board member in several large and well known Israeli firms which are Bezeq (BEZQ:TLV - the Israeli national telecommunications provider), Yes (a multi channel satellite broadcast company) and Bezeq International (a long distance telecommunications provider). Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and SHL INT. Nationality: Israeli.



Ziv Carthy

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

Nehama Ronen – Independent Director

Nehama Ronen joined the Board of Directors of SHL as an Independent Director on June 13, 2007. Ms. Ronen is currently the chairman of Maman Cargo Terminals & Handling Ltd. and of the Recycling Corp., both in Israel. In addition, Ms. Ronen currently serves as a director in Bank Hapoalim, Israel's largest bank, as an independent director of Kamur Ltd., and as the chairman of the board of directors of Logisticare Ltd., a large logistics planning and storage company. Ms. Ronen is also a member of the presidency of the Israeli Chamber of Commerce. From 2001 to 2003 Ms. Ronen was a member of the Israeli parliament and from 1996 to 1999 she was the Director General of the Israeli Ministry of the Environment. Ms.

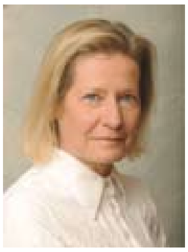
Ronen holds a BA in Education and History and an MA in Public Administration, both from Haifa University. Nationality: Israeli.

Nissim Zvili – Independent Director

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

Hagai Shilo

Mr. Shilo is currently the Managing Director of Oceana Capital Partners LLP and a member of the Investment Committee of TriAlpha Oceana Concentrated Opportunities Fund. Mr. Shilo was formerly Director of Corporate Finance and Investment banking at Benny Steinmetz Group and VP Investment Banking BNP Paribas and JP Morgan UK. Mr. Shilo has an MBA from the Rotterdam School of Management Erasmus University, Holland and a BA in Accounting and Economics from the Tel Aviv University. Nationality: Israeli and British.



Dvora Kimhi

Ms. Kimhi served in the past as an Independent (external) director of the Company for two (2) consecutive three (3) year terms ending in 2007. Ms. Kimhi is currently VP for legal and regulations affairs for Israel's Channel 10 TV station and serves as a Board member at Ananey Communications Ltd. Ms. Kimhi holds an LL.B from Tel-Aviv University. Ms. Kimhi specializes in contract law, communication regulation and legislative representation for television, satellite and communication companies. Nationality: Israeli.

3.2 Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, all members of the Board of Directors, except the two (2) Independent Directors (who are to be elected as described 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 Directors - who may only serve three (3) three-year terms following the effective date of the March 2011 Amendment (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 required 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 Companies Law apply preventing such director from being eligible for service as a director. With respect to Independent Directors, the proposed candidates have to further submit a declaration that they fulfill the special professional qualification requirements stipulated under the 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, pursuant to a recent amendment to the Israeli Companies Law, a person which 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 it 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 regarding such enforcement measures by the relevant director.

Pursuant to the Shareholders Agreement (for a complete description of the Shareholders Agreement, please refer to the Section on "Significant Shareholders", on page 12) as currently in effect among SHL, the Alroy Group, Tower Holdings B.V. and G.Z. Assets and Management Ltd., (following sale of the shares of Royal Philips Electronics to the Alroy Group and the corresponding transfer of rights under the Shareholders Agreement), the aforesaid shareholders of SHL agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include five (5) nominees determined by the Alroy Group, one (1) nominee determined by Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and Management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL.

3.3 Internal Organizational Structure

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

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

The Board of Directors has all powers vested in it according to the Israeli Companies Law and the Articles of Association, is authorized to determine the policy of SHL and to supervise the performance and actions of the General Manager (i.e. the Co-CEOs 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;
- may resolve to issue series of debentures;
- prepare and approve the financial statements of SHL;
- report to the Annual General Meeting of the status of SHL's affairs and of their financial outcomes;
- appoint the General Manager and terminate such appointment, in accordance with the Israeli Companies Law;
- resolve in the matters on actions and transactions that require its approval according to the Israeli Companies Law and the Articles of Association;
- issue shares and convertible securities up to the total amount of the authorized share capital of SHL, in accordance with the Israeli Companies Law;
- decide on a "distribution" as set forth in Sections 307 – 308 of the Israeli Companies Law;
- express its opinion on a special tender offer, as set forth in Section 329 of the Israeli Companies Law.

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

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

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

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

Pursuant to the March 2011 Amendment, the foregoing restriction will be extended to prohibit not only the Chief Executive Officer itself, but also any relative (as such term is defined under the Israeli Companies Law) of the Chief Executive Officer, to act as the Chairman of the Board of Directors of a public company. In addition, the special majority requirement with respect to shareholder approval of any concurrent service as Chairman and Chief Executive Officer, as described under (ii) above, has been amended to allow that not more than two (2) percent of the voting rights held by shareholders who have no personal interest in approving the resolution may be voted against the resolution for such resolution to be passed. The March 2011 Amendment contains further restrictions with respect to the identity of the Chairman of the Board, as well as with respect to further powers and positions the Chairman of the Board may take on.

The March 2011 Amendment introduces certain provisions clarifying that directors are exercising their discretion in their capacity as board members independently.

Committees of the Board and Internal Auditor

The Articles of Association of SHL provide that the Board of Directors may delegate any or all of its powers to committees of the Board of Directors as it deems appropriate, subject to the provisions of the Israeli Companies Law. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors.

Any such committee authorized to execute the powers of the Board of Directors shall include at least one (1) Independent Director. A committee authorized to execute the powers of the Board may only be comprised of members of the Board of Directors. A committee whose powers are limited to providing recommendations to the Board of Directors may be comprised of non members.

The Shareholders Agreement, as currently in effect following the sale of the shares by Royal Philips Electronics to the Alroy Group and the corresponding transfer of rights under the Shareholders Agreement, provides that any committee of the Board of Directors shall include two (2) of the members of the Board of Directors nominated by the Alroy Group, and, one (1) of the members of the Board of Directors nominated by either Tower Holding B.V. or G.Z. Assets and Management Ltd (for a complete description of the Shareholders Agreement, please refer to Section 1.3 above).

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

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

Audit Committee – Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent Directors. The March 2011 Amendment will further require that a majority of the members of the Audit Committee be Independent (autonomous) Directors (i.e. either Independent (external) Directors, or such persons which fulfill certain of the requirements applicable to Independent (external) Directors as set forth under the March 2011 Amendment and which have not served as a director of the company for more than nine (9) years in a row). The Audit Committee may not include the chairman of the Board of Directors, a controlling shareholder, its relative, or any director who is employed by the company or provides services to the company on a regular basis. The list of persons excluded from serving on the Audit Committee will be further extended by the March 2011 Amendment, and such amendment further requires that the Chairman of the Audit Committee shall be an Independent (external) Director not serving for more than nine (9) years. Further, pursuant to the March 2011 Amendment, 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 (autonomous) Directors (see description above), and further provided that at least one (1) Independent (external) Director shall be present.

Currently, the Audit Committee is composed of the following members: Ms. Dvora Kimhi, Ms. Nehama Ronen and Mr. Nissim Zvili. The role of the audit committee is to examine flaws in the business management of the company, in consultation with the internal auditor and the independent accountants, and to propose remedial measures to the Board of Directors. The Audit Committee also reviews for approval transactions between the company and office holders or interested parties. Under the March 2011 Amendment, the authorities granted to the Audit Committee are further detailed and extended. The Audit Committee meets from time to time when deemed necessary. During the year under review it held one meeting.

Compensation Committee - the Board of Directors has appointed a Compensation Committee composed of the following members: Ms. Dvora Kimhi, Ms. Nehama Ronen and Mr. Nissim Zvili.

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

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

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

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

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

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

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

- The CEOs and CFO inform the Board of Directors regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board of Directors and CEOs and CFO as deemed necessary.
- Control over financial management is exercised by the Board together with SHL's external auditors (for further information on the Company's external auditors, please refer to the Section tilted "Auditors" on p.35) through quarterly discussions of SHL's results, which are part of the external auditors' authorization of the Company's financial statements. The Board discusses with the auditors not only the financial statements themselves but also their assessment of the internal controls and whether any material weaknesses have come to the auditors' attention during their audit or review. Additionally, the Company's accountant and CFO are invited to board meetings where financial statements are discussed and approved.
- SHL has an internal auditor (for further information, please refer to p.24 above) who is appointed by the Board of Directors, upon recommendation by the Audit Committee. The Internal Auditor examines the processes and controls of the Company - not only with regard to financial operations, but also with regard to compliance of management with internal and external policies - and coveys his findings to the Audit Committee and the external auditors.

4. Senior Management

4.1 Members of Senior Management

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

Name	Nationality	Position
Yoram Alroy	Israeli	Chairman of the Board of Directors and President
Yariv Alroy	Israeli	Co-CEO
Erez Alroy	Israeli	Co-CEO
Eran Antebi	Israeli	CFO
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Eyal Lewin	Israeli	Managing Director – SHL Telemedizin Germany
Arie Roth	Israeli	Chief Medical Manager

Yoram Alroy, Chairman of the Board of Directors and President

For additional information see Section "Current Board Members" on page 19.

Yariv Alroy, Co-CEO

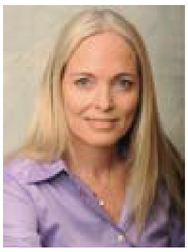
For additional information see Section "Current Board Members" on page 19.

Erez Alroy, Co-CEO

For additional information see Section "Current Board Members" on page 19.

Eran Antebi, Chief Financial Officer

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



Irit Alroy, Executive Vice-President and CTO

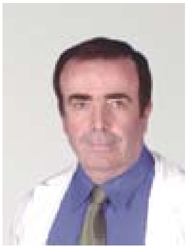
Irit Alroy has served as SHL's Executive Vice-President and Chief Technology Officer since SHL's inception. Prior to that Mrs. Alroy held different positions in the filed of IT development in Israel. Mrs. Alroy holds a B.Sc. from the Hebrew University of Jerusalem, Israel. Nationality: Israeli.

Erez Nachtomy, Executive Vice-President

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

Eyal Lewin, Managing Director SHL Telemedizin, Germany.

Eyal Lewin started with SHL Telemedizin Germany in August 2004. Prior to joining SHL Telemedizin, Mr. Lewin held the position of Vice President of International Strategic Marketing & Sales for Comverse. Mr. Lewin holds a BA in Economics and Management, from Tel Aviv University.



Prof. Arie Roth, MD, Chief Medical Manager

Prof. Arie Roth has served as SHL's Chief Medical Manager since its start of operations. Prof. Roth is a senior member of the department of cardiology at the Tel-Aviv Sourasky Medical Center, University of Tel-Aviv, Israel, and received a medical degree from the Sackler School of Medicine of the University of Tel-Aviv, Israel. Nationality: Israeli.

Management Contracts

SHL has not entered into management contracts with third parties, except as set forth below:

In March 2001 SHL has entered into a management contract with Erez Nachtomy pursuant to which Mr. Nachtomy is to provide SHL with services as an Executive Vice-President. The aforesaid management contract may be terminated be either party, at any time, by providing the other party ninety (90) days prior written notice.

In January 1990 SHL has entered into a management contract with Prof. Arie Roth, pursuant to which Prof. Roth is to provide SHL with services as Chief Medical Manager. The initial term of the aforesaid management contract was for a period of two (2) years and it is thereafter renewable for additional periods of one (1) year each, unless either party thereto provides the other party with six (6) months advance written notice of its wish not to renew the management contract as aforesaid.

On September 21, 2003, Mr. Yoram Alroy's employment agreement with SHL has terminated. Following such termination, SHL entered into a management services agreement with Alroy Yoram Consulting and Management Ltd., an Israeli based company wholly owned by Mr. Yoram Alroy, (the "Service Provider"), pursuant to which the Service Provider, through Mr. Alroy exclusively, shall provide SHL with management and consulting services as the President of SHL. The terms and provisions of the management agreement with the Service Provider were approved by the Audit Committee, the Board of Directors and the General Meeting of the shareholders of SHL. The initial term of the aforesaid management agreement ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by Service Provider); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement.

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

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 30.

5. Compensation, Shareholdings and Loans

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

The goal of SHL's compensation schemes is to attract and retain qualified and motivated senior executives, employees and board members and at the same time pay for performance as a guiding strategy.

SHL aims at rewarding those who excel and achieve competitive business results together in keeping with the company's values and business culture. The compensation strategy strives to strengthen the performance-oriented culture and reinforce entrepreneurial behavior resulting in contributions that motivated and dedicated employees make to sustain superior business results.

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, except for the Independent Directors, the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, require the approval of the Audit Committee, the Board of Directors and the shareholders. 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 one-third of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) 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 one percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). For changes introduced to the foregoing under the March 2011 Amendment, please refer to Section 2.4 above.

Pursuant to the provisions of the Israeli Companies Law, as a general rule, a director may not participate or vote at a Board of Directors or Audit Committee meeting where the terms of his office are discussed. However, if the majority of the members of the Board of Directors or the Audit Committee, as applicable, have a personal interest in the terms of office of such a director, then the relevant director may be present during the deliberations and may vote on his terms of office, and in such event, shareholders approval is also required. Pursuant to the March 2011 Amendment, the foregoing rule is modified so that any person that has a personal interest in the approval of a transaction (and not only directors as previously) may not be present at the relevant Board or Audit Committee meeting, provided that office holders who have a personal interest in a transaction may be present for the purpose of presenting such transactions, if the chairman of the Audit Committee or the chairman of the Board of Directors, as the case may be, determined that such presence is required.

In May 2005, the shareholders accepted the recommendations of SHL's Audit Committee and Board of Directors and approved, pursuant to the Israeli Companies Law, payment to the then three (3) non-executive Members of the Board of Directors, in their capacity as such (and not just to the Independent Directors as was the case prior to such approval), in a sum equivalent to the compensation paid to each of the Independent Directors (see below). Such approval has since been renewed each year with respect to the compensation paid to all non-executive board members appointed at the Annual General Meetings held since then. The executive directors are currently not compensated for their service as members of the Board of Directors of SHL.

The Independent Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto, which compensation is comprised of a fixed annual fee plus a participation fee per each Board or Committee meeting attended. The regulations promulgated under the Israeli Companies Law provide, inter alia, for minimum, "set" and maximum amounts with respect to the annual fee and the participation fee to be paid to Independent Directors, dependant 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 the company.

Directors are reimbursed for travel and other expenses related to their capacity as Directors of SHL.

At the Annual General Meeting held on July 29, 2010, the shareholders of the company approved the compensation paid to the newly appointed Independent Director, Ms. Nehama Ronen (Mr. Zvili's compensation was previously approved at the Annual General Meeting held in 2008), as well as the compensation paid to the non-executive directors of SHL (both with respect to non-executive directors which are considered controlling shareholders and such that are not), all in accordance with the procedures described above, and separately with respect to each director. (For more information on director compensation, see also Section "Compensation for Acting Members of Governing Bodies" on page 30).

Senior Management

Pursuant to the Articles of Association the salaries and emoluments of the executives of SHL are determined by the Chief Executive Officers. The annual compensation of senior management, other than the President and Co-CEO's, is comprised of a base salary component, a performance based cash bonus equal to an amount up to several monthly base salaries and share option incentive awards. In addition to the foregoing, all members of senior management are entitled to additional benefits in the form of a company car and a mobile phone.

Base salary and performance based cash bonus is subject to the discretion of the Company's Co-CEOs. Share option incentive awards are subject to Board approval.

Factors taken into account related to the composition of the compensation packages of senior management members include seniority of such management members, responsibilities taken on and an analysis of comparative compensation packages based on market conditions for such position in the relevant territory. Such analysis of comparative compensation packages is done in Israel based on surveys published on the web, information disclosed on the TASE of compensation of senior management taking into account relevant parameters such as size, turnover, no. of employees, years of experience etc. and discussion with relevant professional HR firms and headhunters as to current market compensation conditions. In Germany such analysis is performed mainly by discussion with relevant professional HR firms and headhunters as to acceptable compensation packages for each relevant position.

Co-CEO's and President

Pursuant to the Israeli Companies Law, and except for limited circumstances provided for under regulations promulgated under the Israeli Companies Law, the engagement of a controlling shareholder, or any relative thereof, as an office holder or employee (including the terms of engagement of the two Co-CEOs and the President of SHL), as well as the terms of employment (including, except for the Independent Directors, the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position (see above), require the approval of the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee, requires either (i) that the majority vote in favor of the resolution shall include the consent of at least one-third of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) 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 one percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). For changes introduced by the March 2011 Amendment, please refer to page 16.

Further, all matters regarding the compensation and terms of employment of any of SHL's controlling shareholders who are employed by the Company, as well as their compensation as directors of SHL, are referred to the Compensation Committee for its recommendations to the Board of Directors.

The compensation packages of Mr. Yariv Alroy and Mr. Erez Alroy were approved by the shareholders of SHL in accordance with the foregoing in September 2003.

Overall, the compensation of senior management in the year under review was comprised, on an average of approximately 81% of a cash base salary and 19 % of cash bonuses and share options granted or exercised.

For more information on director and senior management compensation, see also Section "Compensation for Acting Members of Governing Bodies" on page 30).

Shareholding Programs

SHL's Option Plans are reviewed regularly by the Board of Directors for compliance with the Company's compensation goals (for a full description of the Option Plans, please refer to the Section titled "Share Options", on page 14). The grant of share options to employees, directors and consultants of SHL and its subsidiaries is in the sole discretion of the Board of Directors which may determine from time to time and subject to the provisions of the 2005 Share Option Plan, additional grantees of options under the plan and any matter related to the administration of the 2005 Share Option Plan. Notwithstanding the aforesaid, should such options be granted to the directors or any of the controlling shareholders as part of their compensation, such grant shall require the approval of the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, the qualified majority described above with respect to the approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee is also required for the approval by the shareholders of the grant of share options to the controlling shareholders as part of their compensation.

The vesting of options granted to a particular grantee pursuant to the 2005 Share Option Plan is, with regard to 50% of such options, subject to the achievement of performance goals with regard to the increase of the market price of SHL's shares, and, with regard to the other 50% of such options, subject to performance goals in connection with earnings per share figures. The Board of Directors of SHL may in its discretion reduce the relevant performance targets to zero, and has done so in several instances.

Compensation for Acting Members of Governing Bodies

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which is payable to the 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, is as follows:

Board of directors

(All amounts in USD)

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or excercised[5]	Total
Yoram Alroy[1]	Executive member/ President	24,135	18,617[4]	-	42,752
Yariv Alroy[1]	Executive member/Co-CEO	See Senior management compensation table below			
Erez Alroy[1]	Executive member/Co-CEO	See Senior management compensation table below			
Elon Shalev[2]	Non-executive member	18,636	-	-	18,636
Colin Schachat[3]	Non-executive member	1,180	-	16,600	17,180
Ziv Carthy	Non-executive member	16,851	-	-	16,851
Nehama Ronen	Non-executive member/ Independent director	20,299	-	-	20,299
Hagai Shilo	Non-executive member	10,134	-	-	10,134
Nissim Zvili	Non-executive member/ Independent director	19,979	-	-	19,979
Dvora Kimhi	Non-executive member	10,454	-	51,660	62,114

Senior Management

(All amounts in USD)

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or excercised[5]	Total
Yariv Alroy	Co-CEO	564,691	83,774[4]	-	648,466
Erez Alroy	Co-CEO	564,691	83,774[4]	-	648,466
Irit Alroy	CTO	171,826	24,109	-	195,935
Other members of senior management		1,187,136	54,916	323,400	1,565,452

The highest total compensation payable to a member of the governing bodies is to the Company's Co-CEO's Mr. Yariv Alroy and Mr. Erez Alroy.

[1] Represents compensation for function as member of Senior Management.

[2] Mr. Elon Shalev is the brother-in-law of Mr. Yoram Alroy.

[3] Mr. Schachat resigned from office in the year under review, effective as of February 4, 2010. The above compensation figure represents compensation with respect to his service as a director until resignation.

[4] Mr. Yoram Alroy, Erez Alroy and Yariv Alroy are jointly entitled to an aggregate annual bonus equal to 3% of Company's profit before tax, provided however, that the bonus shall not exceed USD 1 million per year. The bonus payable for 2010 amounts to USD 186 thousand. The bonus is to be allocated between the three at their discretion. The amounts shown in the above table assume that 10% of the bonus shall be paid to Mr. Yoram Alroy and the remainder shall be split evenly between Mr. Yariv Alroy and Mr. Erez Alroy.

[5] Represents the fair value of the share options granted based on the Binominal share option valuation method or the value of options exercised in the year under review.

None of the executive members of the Board of Directors received any compensation for their service as directors during the year under review. The aforesaid compensation of Senior Management includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section "Management Contracts" on page 26.

In 2005, the shareholders adopted the recommendations of the Audit Committee and the Board of Directors and approved (i) the renewal and/or purchase of insurance policy of all directors and officers, in office from time to time, in a total coverage of up to USD 10 million; and (ii) the undertaking by SHL to indemnify all directors and officers, in office from time to time, to the extent and limitations set forth in the indemnification letters issued to such persons, in an aggregate sum of up to USD 15 million; as well as (iii) the requisite change in the Articles of Association of SHL to effect the above. The grant of insurance coverage and the indemnification undertaking as aforesaid have been approved with respect to the directors elected to office in the year under review at the Annual General Meeting of shareholders.

Compensation for Former Members of Governing Bodies

Mr. Colin Schachat, formerly a non-executive director of SHL, resigned from his position at the beginning of 2010. The total compensation paid to Colin Schachat during the year under review based on his service as a member of the Board of Directors amounted to USD 1.1 thousand. In addition, Mr. Shachat has exercised 12,000 share options leading to an additional compensation in the amount of USD 16 thousand.

Share Allotment in the Year Under Review

No Ordinary Shares of SHL were allotted to the executive or to the non-executive members of the Board of Directors, or to the Management or parties closely linked to any such person during the year under review, except for Ordinary Shares issued pursuant to the exercise of Options previously allotted.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2010 by the executive members of the Board of Directors and Senior Management and parties closely linked to such persons amounted in the aggregate to 2,873,780 For information on options allotted to the board of directors and senior management, please refer to the section of this report immediately following below.

Elon Shalev, a non-executive member of the Board of Directors is a member of the Alroy Group. The Alroy Group holds, as of December 31, 2010, an aggregate number of 2,873,780 Ordinary Shares. For information regarding the shareholdings of the Alroy Group, please refer to the Section entitled "Significant Shareholders" on page 12.

Ziv Carthy, a non-executive member of the Board of Director, is a controlling shareholder of G.Z. Assets and Management Ltd., which holds, as of December 31, 2010, an aggregate of 921,533 Ordinary Shares. No other non-executive member of the Board of Directors or parties closely linked to such person holds, pursuant to the Share Register, as of December 31, 2010, Ordinary Shares.

Share Options

Information with regard to Options held pursuant to the Option Plans as of December 31, 2010 by the non-executive and executive members of the Board of Directors and Senior Management and parties closely linked to such persons is as follows:

Name	Function	Share Options outstanding at December 31, 2010	Weighted Average exercise price in CHF	Granted during the year	Exercise price of options granted	Vested	Exercised
Yoram Alroy	Chairman of the Board of Directors and President	32,560	CHF 6.89	-	-	32,560	-
Erez Alroy	Co-CEO	60,664	CHF 7.07	-	-	60,664	-
Yariv Alroy	Co-CEO	90,904	CHF 6.68	-	-	90,904	-
Elon Shalev	Non-executive member	-	-	-	-	-	-
Colin Schachat	Former member of the Board	-	-	-	-		12,000
Ziv Carthy	Non-executive member	-	-	-	-	-	-
Nehama Ronen	Non-executive member/ Independent director	14,603	CHF 8.50	-	-	14,604	-
Nissim Zvili	Non-executive member/ Independent director	18,000	CHF 8.30	-	-	5,604	-
Dvora Kimhi	Non-executive member	18,000	-	18,000	CHF 7.65	-	-
Hagai Shilo	Non-executive member	-	-	-	-	-	-
Eran Antebi	CFO	83,500	CHF 7.13	55,000	CHF 6.70	11,283	-
Erez Nachtomi	Executive vice president	100,661	CHF 6.38	55,000	CHF 6.70	45,661	-
Irit Alroy	Executive Vice President and CTO	29,118	CHF 6.74	-	-	29,118	-
Eyal Lewin	Managing Director – SHL Telemedizin Germany	95,656	CHF 6.55	55,000	CHF 6.70	33,769	-
Arie Roth	Chief Medical Manager	15,760	CHF 6.47	10,000	CHF 7.10	5,760	-

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

As of December 31, 2010 parties closely linked to the non-executive members of the Board of Directors hold 901 Options with an exercise price of CHF 5.90 each, pursuant to the Option Plans.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2010 to SHL or to any of its subsidiaries for additional services performed during the year under review which reach or exceed half of the ordinary remuneration of the member in question.

Loan Granted to Governing Bodies

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

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

6. Shareholder Participation

6.1 Voting Rights Restrictions and Representation Restrictions

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

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

6.2 Statutory Quorums

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

6.3 Convocation of the General Meeting of Shareholders

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

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

A Proxy must be delivered to the registered office of SHL or to SAG not later than 48 hours prior to the Annual Meeting. A Ballot must be delivered to the registered office of SHL or to SAG not later than 72 hours prior to the Annual Meeting. For the Ballot to become effective: (i) any shareholder whose shares are registered with the Company's registrar of shareholders must enclose a copy of such shareholder's identity card, passport or certificate of incorporation, as the case may be; and (ii) any shareholder whose shares are registered with SAG must enclose a written confirmation from SAG as to its ownership of the voting shares.

The 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 or to SAG not later than 10 days following the Record Date as such date is determined by the Board of Directors. Shareholder Statement shall be delivered to all shareholders by SAG no later than 5 days following receipt thereof. Should a company elect to state its position with respect to such Shareholder Statement, it shall deliver such position (the "Company Statement") to the shareholders, via SAG, no later than 12 days prior to the Annual General Meeting. Any such Statement must be written in a clear and simple language, and shall include no more than 500 words per subject matter, and a total of no more than 1,500 words. A Shareholder Statement shall detail the identity of such shareholder, as well as his percentage interest in the Company; a shareholder who is a corporate entity shall detail the identity of its controlling shareholder(s), as well as additional holdings (if any) of such controlling shareholder(s) in shares of the Company, to the best knowledge of the shareholder submitting the Shareholder Statement.

A shareholder submitting the Shareholder Statement, who acts in consort with others with respect to voting in shareholder meetings, whether in general or with respect to certain matter(s) on the agenda, shall indicate so in the Shareholder Statement, and shall describe the aforementioned arrangements and the identity of the shareholders so acting in consort. Any shareholder (as well as any shareholder acting in consort with such shareholder) having a personal interest in any matter on the agenda, shall describe the nature of such personal interest. Any shareholder may revoke his/hers/its Ballot by submitting a cancellation notice (the "Cancellation Notice"). The Cancellation Notice together with sufficient proof as to the identity of such canceling shareholder, to the absolute discretion of an officer of the Company, must be delivered to the registered office of the Company or to not later than 24 hours prior to the Annual Meeting. Any such shareholder submitting a Cancellation Notice may only vote by attending the Annual Meeting in person or by Proxy. One or more shareholders holding, at the Record Date, shares representing 5 percent or more of the total voting power in the Company, as well as any holder of such percentage out of the total voting power not held by the controlling shareholder(s), as such term is defined under Section 268 of the Companies Law, may, following the Annual General Meeting, in person or by proxy, inspect the Ballots and the record thereof at the Company's registered office. The competent court may, at the request of any shareholder who does not hold, at the Record Date, the aforementioned percentage, instruct the Company to allow the inspection of said documents and records, in whole or in part, on terms and conditions determined by the court.

6.4 Agenda

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

6.5 Registration in the Share Register

The shareholders entitled to participate in and to vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, such date shall not, pursuant to regulations promulgated under the Israeli Companies Law, be earlier than forty

(40) days prior the date of the General Meeting and not later than twenty eight (28) days prior to the date of such General Meeting, or different periods as shall be permitted by applicable law. A determination of shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

Under the Israeli Companies Law, except in certain cases specified under said Law, an acquisition of shares in a public company must be made by a means of a special tender offer if as a result of the acquisition the purchaser would become a twenty-five (25) percent (or more) shareholder, unless there is already a twenty-five (25) percent shareholder (or more). Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a forty-five (45) percent (or more) shareholder, unless there is already a shareholder holding more than forty five (45) percent of the voting rights in a company. These tender offer provisions shall not apply to SHL if the rules of the foreign country contain mandatory bid provisions. In any event, if as result of an acquisition of shares the acquirer will hold more than ninety (90) percent of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. If more than ninety-five (95) percent of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it.

As pursuant to Israeli law, shareholders having entered into a voting agreement are considered as holding together any shares held by each of them, the shareholders being a party to the Shareholders Agreement (see Section 1.3 above) (i.e. the Alroy Group, Tower Holdings B.V. and G.Z. Assets and Management Ltd.) have already exceeded the relevant thresholds applicable to the special tender offer requirement (i.e. 25% and 45%, respectively). Consequently, any additional purchases of shares by any of these parties, as well as any sale by any such party to a third party, will not trigger the special tender offer provisions stated above, provided that such parties together continue holding more than 45% of the voting rights of SHL, and further provided that any purchase of more than 90% of SHL's voting rights by the foregoing parties will trigger the full tender offer provisions set forth above.

Pursuant to the provisions of the Swiss Stock Exchange Act, any person who by acquiring exceeds the threshold of thirty-three and one third (331/3) percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SIX Swiss Exchange must make a mandatory offer to acquire all other shares. Since SHL is not incorporated in Switzerland, SHL believes that these provisions do not apply. However, it cannot be excluded that the Swiss securities supervisory authority or Swiss courts could rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction. For the provisions of the Israeli law, please see below. Pursuant to a Listing Agreement entered into in connection with SHL's initial public offering on the SIX New Market in November 2000, SHL agreed to comply, to the extent possible, with procedural rules and will accept recommendations issued by the Swiss Takeover Board.
SHL's Articles of Association do not contain provisions regarding opting out or opting up.

7.2 Clauses on Changes of Control

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

8. Auditors

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

Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent resolution. SHL's auditors were last re-appointed at the 2010 Annual General Meeting.
Since 1997, Mr. Chen Shein (CPA) is the head auditor within Kost, Forer, Gabbay & Kasierer responsible for the auditing of SHL.

8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2010 approximately USD 260 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group.

8.3 Additional Honorariums

In addition, Ernst & Young charged approximately USD 137 thousand for additional services performed for the SHL Group in the field of management consulting, tax advice, due diligence and other auditing activities. The aforesaid sums include payments made to other member firms of Ernst & Young outside of Israel.

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

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

9. Information Policy

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

SHL has instituted an insider trading policy which is 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".

SHL informs interested parties through a variety of corporate publications including annual and half-yearly reports, which can be ordered or downloaded from **www.shl-telemedicine.com**. These reports feature operational reviews as well as consolidated balance sheets, profit & loss statements and cash flow statements as of December 31 and June 30 respectively. The actual share price, press releases and presentations are also available on the website. SHL maintains two (2) websites offering up-to-date corporate and product information: **www.shl-telemedicine.com** and **www.shahal.co.il**.

Investor's calendar

Annual general meeting	May 31, 2011
Q1 Results	May 25, 2011
Q2 Results	August 10, 2011
Q3 Results	November 16, 2011

Contact persons for Investor Relations

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Consolidated Financial Statements 2010

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Financial Overview

Results of Operations

Revenues for the year increased over 2009, with operating and net profit remaining on par with 2009 results due to the effect of the significant expenditure of USD 3.8 million on introducing SHL's personal cardiac services mainly to the German consumer market.

Revenues

Revenues for fiscal year 2010 amounted to USD 50.3 million compared with revenues of USD 47.9 million for fiscal year 2009. At constant exchange rate terms revenues for fiscal year 2010 amounted to USD 53.4 million, representing a growth of 4.7% year over year. Revenues from the German operation reached USD 21.6 million (USD 23.9 million at constant exchange rate) compared with USD 21.2 million in 2009 (USD 22.3 million at constant exchange rate) representing growth of 7.2% at constant exchange terms. Revenues from the Israeli operation for fiscal year 2010 amounted to USD 22.3 million (USD 23.1 million at constant exchange terms) compared to revenues of USD 20.9 million in 2009 (USD 22.9 million at constant exchange terms), representing a growth of 0.9 % year over year at constant exchange rates. Revenues from the delivery of IT platform and related services to Philips/Raytel amounted in fiscal year 2010 to USD 6.4 compared to USD 5.8 million in 2009.

In terms of geographic breakdown of revenues, the German market accounted for 42.9% of group revenues, the Israeli market for 44.4% of group revenues and the US market for 12.7% of group revenues. This compared with 44.3%, 43.6% and 12.1% of group revenues in 2009, respectively.

Gross profit

In fiscal year 2010 gross margins were at 66.2% compared to 67.0% in 2009, bringing gross profit for the year to USD 33.3 million compared with a gross profit of USD 32.1 million in fiscal 2009. In constant currency terms gross profit margins were 66.1% compared to a gross profit margin of 66.5% in 2009.

Research and Development costs, net

Amortization of development costs amounted to USD 1.6 million in 2010 compared with USD 1.2 million in 2009. Investment in research and development amounted to USD 2.2 million compared to an investment of USD 1.6 million in 2009.

Selling and Marketing Expenses

Selling and marketing expenses increased by 5.0% for fiscal year 2010 and amounted to USD 14.7 million (29.2% of revenues) compared with USD 14.0 million (29.2% of revenues) in 2009. At constant exchange rates selling and marketing expenses increased by 3.3% over those of 2009. The increased selling and marketing costs are related to the introduction of our consumer services to the German market offset by lower expenses in Israel and in Germany.

General and Administrative Expenses

General and administrative expenses for fiscal year 2010 amounted to USD 10.9 million (21.7% of revenues), an increase of 7.9% over the USD 10.1 million (21.1% of revenues) expended in fiscal 2009. At constant exchange rates general and administrative expenses increased by 7.3% over those of 2009. The increased general and administrative expenses are related to the introduction of our consumer services to the German market.

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

For fiscal year 2010 EBITDA amounted to USD 11.4 million (22.7% of revenues) compared to an EBITDA of USD 11.6 million (24.2% of revenues) in fiscal 2009. At constant exchange rates EBITDA improved by 1.7% over fiscal year 2009 and amounted to USD 12.1 million compared to USD 11.9 million.

Operating profit (EBIT) for the year amounted to USD 6.0 million (11.9% of revenues) compared with USD 6.7 million (14.0% of revenues) in fiscal 2009. At constant exchange rates operating profit remained on par and amounted to USD 6.4 in 2010 compared with USD 6.5 million in 2009.

As previously described, although revenues have grown by USD 2.4 million this year, the significant investments related to the introduction of the consumer services mainly to Germany has led to slightly lower margins for the year.

Financial Income

Financial income, net, for the year amounted to USD 0.1 million compared to USD 0.7 million in 2009. Financial income, net decreased due to some exchange rate losses on SHL's investments and receivables denominated in USD which weakened during the year against the NIS.

Taxes on Income

For fiscal year 2010 taxes on income amounted to USD 1.2 million compared with taxes on income of USD 1.7 million in 2009. Taxes on income include USD 0.4 million in current taxes, USD 3.2 million in deferred taxes against a tax benefit related to the write down of a tax payable in respect of a tax assessment in dispute less taxes in respect of previous years in an amount of USD 2.4 million.

Net Income

Net income reported for the year amounted to USD 4.9 million (9.7% of revenues) compared with USD 5.4 million (11.3% of revenues) in 2009. At constant exchange rates, net income for the year remained at USD 5.2 million for 2010 and 2009. Basic and diluted earnings per share for fiscal year 2010 amounted to USD 0.46 compared with USD 0.51 per share for fiscal 2009.

Major Changes in Assets, Liabilities and Equity

SHL's balance sheet continues to be strong with a solid structure as of December 31, 2010. Current assets amounted at year end to USD 31.1 million (32.7% of total assets) of which USD 20.2 million in cash, cash equivalents and available-for-sale investments against total liabilities of USD 20.4 million. This is compared with current assets of USD 29.2 million (32.7% of total assets) at the end of 2009 of which USD 20.1 million was in cash, cash equivalents and available-for-sale investments against total liabilities of USD 24.1 million.

Long-term assets remained stable as of December 31, 2010 and amounted to USD 24.6 million compared with USD 23.2 million as of December 31, 2009.

Fixed assets, net amounted to USD 18.0 million as of December 31, 2010 of which USD 12.3 million are devices on loan to our subscribers. This is compared with fixed assets, net of USD 17.3 million as of December 31, 2009 of which USD 11.8 million are devices on loan to our subscribers. Intangible assets as of December 31, 2010 amounted to USD 21.4 million compared with USD 19.6 million as of December 31, 2009.

Total equity at December 31, 2010 increased by USD 9.4 million and amounted to USD 74.7 million (78.5% of balance sheet) compared with USD 65.3 million (73.0% of balance sheet) at December 31, 2009. The increase in equity is mainly attributed to the net income of USD 4.9 million together with an increase in the company's foreign currency translation reserve in the amount of USD 4.3 million related to the strengthening of the NIS against the USD in fiscal 2010.

Cash Flow

SHL's generated an operating cash flow of USD 3.0 million in 2010 compared with cash generated in the amount of USD 5.3 million in 2009.

In 2010 cash used in investing activities amounted to USD 4.2 million, of which investment in fixed and intangible assets amounted to USD 5.7 million, payments related to the acquisitions done in Israel in 2009 amounted to USD 0.4 million against proceeds, net received from the sale of available-for-sale investments in the amount of USD 1.9 million. For fiscal year 2009 cash used in investing activities amounted to USD 6.4 million, of which investment in fixed and intangible assets amounted to USD 7.0 million and the acquisition of two small telemedicine businesses in Israel amounted to USD 1.2 million against proceeds, net received from the sale of available-for-sale investments in the amount of USD 1.8 million

Cash provided by financing activities amounted to USD 2.0 million, of which short-term bank credit, net amounted to USD 1.8 million and proceeds from exercise of stock options amounted to USD 0.2 million. In 2009 cash used in financing activities amounted to USD 0.4 million, of which the repayment of short-term bank credit, net amounted to USD 0.2 million and treasury shares purchased amounted to USD 0.2 million.

Eran Antebi,
Chief Financial Officer

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

We have audited the accompanying consolidated financial statements of SHL Telemedicine Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control is management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2010 and 2009, and of its financial performance and cash flows for each of the years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 29, 2011

Kost Forer Gabbay and Kasierer

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2010	December 31, 2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	2,609	1,839
Available-for-sale investments	5	17,603	18,251
Trade receivables	6	7,984	*) 5,577
Prepaid expenses	8	1,864	2,020
Other accounts receivable	9	1,019	931
Inventory		-	600
		31,079	**29,218**
NON-CURRENT ASSETS:			
Trade receivables	7	11,324	*) 7,779
Prepaid expenses	8	5,534	5,082
Long-term deposits		151	104
Income taxes receivable		1,620	1,375
Deferred taxes	19d	5,963	8,901
		24,592	**23,241**
FIXED ASSETS:	10		
Cost		58,582	51,889
Less - accumulated depreciation		40,629	34,548
		17,953	17,341
INTANGIBLE ASSETS	11	21,440	19,628
Total assets		**95,064**	**89,428**

*) Reclassified.

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2010	2009
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	12	2,362	483
Deferred revenues	13	5,155	*) 7,558
Trade payables		1,996	2,209
Income taxes payable		1,059	2,951
Provisions	16	2,567	*) 4,006
Other accounts payable	14	6,207	*) 5,950
		19,346	23,157
NON-CURRENT LIABILITIES:			
Employee benefit liabilities	17	796	617
Deferred taxes	19d	226	353
		1,022	970
Total liabilities		20,368	24,127
EQUITY:	22		
Issued capital		31	31
Additional paid-in capital		93,406	92,939
Treasury shares		(1,573)	(1,567)
Foreign currency translation reserve		5,787	1,497
Capital reserve for available-for sale financial assets		58	275
Accumulated deficit		(23,013)	(27,874)
Total equity		74,696	65,301
Total liabilities and equity		95,064	89,428

*) Reclassified.

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

March 29, 2011		
Date of approval of the financial statements	Yariv Alroy Co - CEO	Yoram Alroy Chairman of the Board of Directors and President

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year ended December 31, 2010	2009
Revenues		50,252	47,890
Depreciation and amortization		2,287	2,317
Cost of revenues	23a	14,692	13,521
Gross profit		33,273	32,052
Research and development costs	23b	1,597	1,223
Selling and marketing expenses	23c	14,747	14,036
General and administrative expenses	23d	10,945	10,142
Operating income		5,984	6,651
Financial income	23e(1)	1,315	1,848
Financial expenses	23e(2)	(1,247)	(1,107)
Other expenses, net		-	333
Income before taxes on income		6,052	7,059
Taxes on income	19	1,191	1,682
Net income		**4,861**	**5,377**
Other comprehensive income		4,861	5,377
Exchange differences from foreign currency translation		4,290	471
Transfer to the statement of income of available-for-sale investment		280	(835)
Gain (loss) from available-for-sale investment		**(497)**	**1,176**
Total comprehensive income		**8,934**	**6,189**
Earnings per share:			
Basic and diluted net earnings per share	24	**0.46**	**0.51**

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

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

	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Capital reserve for avialable-for-sale investment	Accumulated deficit	Equity
Balance as of January 1, 2009	**31**	**92,738**	**(1,405)**	**1,026**	**(66)**	**(33,251)**	**59,073**
Purchase of treasury shares	-	-	(162)	-	-	-	(162)
Exercise of options	*) -	22	-	-	-	-	22
Share-based payments	-	179	-	-	-	-	179
Total comprehensive income	-	-	-	471	341	5,377	6,189
Balance as of December 31, 2009	**31**	**92,939**	**(1,567)**	**1,497**	**275**	**(27,874)**	**65,301**
Purchase of treasury shares	-	-	(6)	-	-	-	(6)
Exercise of options	*) -	216	-	-	-	-	216
Share-based payments	-	251	-	-	-	-	251
Total comprehensive income	-	-	-	4,290	(217)	4,861	8,934
Balance as of December 31, 2010	**31**	**93,406**	**(1,573)**	**5,787**	**58**	**(23,013)**	**74,696**

*) Represents an amount lower than $ 1.

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

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

	Year ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net income	4,861	5,377
Adjustments required to reconcile net income to net cash provided by operating activities:		
Adjustments to the profit or loss items:		
Depreciation and amortization	5,399	4,783
Capital gain from sale of property, plant and equipment	(27)	-
Change in employee benefit liabilities, net	133	(160)
Financial expenses, net	(68)	(741)
Cost of share-based payments	251	179
Taxes on income	1,191	1,682
Others	(3)	12
	6,876	5,755
Changes in asset and liability items:		
Increase in short and long-term trade receivables	(5,530)	(6,408)
Decrease in prepaid expenses	148	538
Increase in other accounts receivable	(511)	(380)
Increase (decrease) in trade payables	(240)	664
Decrease in deferred revenues	(2,069)	(1,408)
Increase (decrease) in short and long-term other accounts payable	(1,075)	1,597
	(9,277)	(5,397)
Cash paid and received during the year for:		
Interest received	720	680
Interest paid	(39)	(20)
Income taxes paid	(133)	(1,135)
	548	(475)
Net cash provided by operating activities	3,008	5,260

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

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

	Year ended December 31, 2010	2009
Cash flows from investing activities:		
Purchase of fixed assets	(3,469)	(5,356)
Acquisition of business activities	(435)	(1,228)
Investment in intangible assets	(2,240)	(1,602)
Proceeds from sale of fixed assets	27	-
Purchase of available-for-sale investments	(16,139)	(14,776)
Proceeds from sale of available-for-sale investments	18,012	16,612
Net cash used in investing activities	(4,244)	(6,350)
Cash flows from financing activities:		
Proceeds from exercise of options	216	22
Short-term bank credit, net	1,793	(216)
Treasury shares purchased	(6)	(162)
Net cash provided by (used in) financing activities	2,003	(356)
Exchange differences on balance of cash and cash equivalents	3	20
Increase (decrease) in cash and cash equivalents	770	(1,426)
Cash and cash equivalents at the beginning of the year	1,839	3,265
Cash and cash equivalents at the end of the year	**2,609**	**1,839**
Non-cash transactions:		
Acquisition of business activities (Note 3)	-	**576**

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

NOTE 1 | GENERAL

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

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. Measurement basis:

The Company's financial statements have been prepared on a cost basis, except for the following:

- Available-for-sale investments;
- Deferred tax assets and deferred tax liabilities;
- Employee benefit liabilities;
- Provisions;

The Company has elected to present the statement of comprehensive income using the nature of expense method.

2. Basis of preparation of the financial statements:

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

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the IFRIC and by the SIC.

3. Consistent accounting policies:

The accounting policies adopted in the financial statements are consistent with those of all periods presented, except as discussed below.

4. Changes in accounting policies:

IFRS 3 (Revised) - Business Combinations and IAS 27 (Amended) - Consolidated and Separate Financial Statements:

According to the new Standards there are changes in the definition of a business, the measurement of non controlling interests and the accounting treatment of contingent consideration, direct acquisition costs, subsequent recognition of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date, allocation of a subsidiary's loss, transactions with non controlling interests, classification of identifiable assets and liabilities, business combination achieved in stages and of cash flows from transactions with non-controlling interests

The Standards have been adopted prospectively from January 1, 2010 and have no material effect on the Company's financial statements.

IAS 1 - Presentation of Financial Statements:

The amendment to IAS 1 discusses the classification of liabilities as current or non-current with respect to convertible financial instruments. According to the amendment, a liability's terms that allow the counterparty, at any time, to settle the liability by issuance of equity instruments by the Company will not in themselves affect the classification of the liability in the statement of financial position as either current or non-current.

The amendment was adopted commencing from January 1, 2010, with retrospective application to comparative data.

IAS 7 - Statement of Cash Flows:

According to the amendment to IAS 7, only cash flows that are recognized as an asset may be classified as cash flows from investing activities. The amendment was applied retrospectively commencing from January 1, 2010, with no effect on the Company's financial statements.

IAS 36 - Impairment of Assets:

The amendment to IAS 36 clarifies the required accounting unit to which goodwill will be allocated for the purpose of testing the impairment of goodwill. According to the amendment, the highest possible level for allocating goodwill recognized in a business combination is an operating segment as defined in IFRS 8, "Operating Segments", before aggregation for reporting purposes.

The amendment has been applied prospectively commencing from January 1, 2010, with no effect on the Company's financial statements.

IAS 39 - Financial Instruments: Recognition and Measurement:
The amendment to IAS 39 clarifies that an entity may designate a portion of the change in fair value or the fluctuation in cash flows of a financial instrument as a hedged item, and limits the scope exclusion of forward contracts for future business combinations.
The amendment has no effect on the Company's financial statements.

IFRS 3 (Revised) - Business Combinations:
The Group has early adopted amendments to IFRS 3 (Revised) in these financial statements, as follows:

Transition provisions for accounting for contingent consideration in a business combination that occurred prior to the adoption of IFRS 3 (Revised):
According to the amendment, the amendments to IFRS 7, IAS 32 and IAS 39 which prescribe that contingent consideration in a business combination is within the scope of these standards, do not apply to contingent consideration in respect of a business combination whose acquisition date preceded the date of adoption of IFRS 3 (Revised). The amendment has been applied retrospectively.

Amendment to IAS 1:
The Group has early adopted the amendment to IAS 1 commencing with these financial statements. According to the amendment, the change between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The Group has elected to present said changes in the statement of changes in equity. The amendment has been applied retrospectively to comparative data.

b. Significant accounting judgements estimates and assumptions used in the preparation of the financial statements:

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

- **Impairment of available-for-sale investment:**
  The Group assesses at the end of each reporting period whether there is objective evidence that the asset has been impaired and an impairment loss has been incurred. In evaluating impairment, the Group makes judgments as to indicators of objective evidence relating to the extent of the percentage of decline in fair value and of the duration of the period of the decline in fair value. See also g.

2. Estimates and assumptions:
The preparation of these financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.
The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Legal claims:**
  In estimating the likelihood of outcome of legal claims filed against the Group, the Group relies on the opinion of their legal counsel. These estimates are based on legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates, see also Notes 21c and 19g.

- **Impairment of goodwill:**
  The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows. Further details are given in i and Note 11 below.

- **Deferred tax assets:**
  Deferred tax assets are recognized for unused carry forward tax losses and temporary differences to the

extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in m below and Note 19d.

- **Development costs:**
  Development costs are capitalized in accordance with the accounting policy in k. In testing for impairment, management makes assumptions regarding the expected cash flows from the asset being developed, the discount rate and the expected period of benefits. Further details are given in Note 11.

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

d. Functional currency and foreign currency:

1. Functional currency and presentation currency:

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

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

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

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

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

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

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

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

2. Transactions, assets and liabilities in foreign currency:

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

3. Index-linked monetary items:

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

e. Cash equivalents:

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

f. Allowance for doubtful accounts:

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

g. Financial instruments:

1. Short-term receivables:

The Group has short term receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

2. Available-for-sale investments:

The Group has available-for-sale investments that are designated as available-for-sale or are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for exchange differences that relate to monetary debt instruments that are recognized as finance income or expense in profit or loss, are recognized directly in equity as other comprehensive income (loss) in the reserve for available-for-sale financial assets. When the investment is disposed of or in case of impairment, the comprehensive income (loss) is recognized in profit or loss. As for recognition of interest income on investments in debt instruments and dividend earned on investments in equity instruments, see q below.

Objective evidence of impairment of equity instruments includes a significant or prolonged decline in the fair value of the assets below its costs and evaluation of changes in the technological, market, economic or legal environment in which the issuer of the instrument operates. The evaluation of a significant or prolonged impairment depends on the circumstances at the end of each reporting period. The evaluation considers historical volatility in fair value and the existence of a decline in fair value of 20% or more, or whether the duration of the decline in fair value is six months or more. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost (less any previous impairment losses) and the fair value is reclassified from equity and recognized as an impairment loss in profit or loss. In subsequent periods, reversal of impairment loss is not recognized in profit or loss, but recognized as other comprehensive income. No impairment loss has been recognized in these financial statements.

Objective evidence of impairment of debt instruments may arise as a result of one or more events that have a negative impact on the estimated future cash flows of the asset since the recognition of the asset. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less principal payments, amortization using the effective interest method and previous impairment losses) and the fair value is reclassified from equity and recognized as an impairment loss in profit or loss. In a subsequent period, the amount of the impairment loss is reversed if the increase in fair value can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss. No impairment loss has been recognized in these financial statements.

3. Loans and borrowings:

Loans and borrowing are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value.

Gain and losses are recognized in profit and loss when the loans or receivables are derecognized or impaired.

4. Treasury shares:

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

5. Fair value:

The fair value of investments that are actively traded in organized financial markets is determined by reference to market prices at the end of the reporting period.

h. Leases:

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

i. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. Under this method, the identifiable assets and liabilities of the acquired business are recognized at fair value on the acquisition date. The cost of the acquisition is the aggregate fair value of the assets transferred, liabilities incurred and equity interests issued by the acquirer on the date of acquisition. In respect of business combinations that occurred on or after January 1, 2010, non-controlling interests are measured at fair value on the acquisition date or at the proportionate share of the non-controlling interests in the acquiree's net identifiable assets. Direct costs relating to the acquisition are recognized as an expense in profit or loss. As for business combinations that occurred through December 31, 2009, these costs are recognized as part of the acquisition cost.

On the acquisition date, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date.

Goodwill is initially measured at cost less, if relevant, any accumulated impairment losses which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed as measured on the acquisition date. If the resulting amount is negative, the acquisition is considered a bargain purchase and the acquirer recognizes the resulting gain in profit or loss on the acquisition date.

After initial recognition, goodwill is measured at cost less, if relevant, any accumulated impairment losses. Goodwill is not systematically amortized. As for testing the impairment of goodwill, see l1.

As for business combinations that occurred on or after January 1, 2010, contingent consideration is recognized at fair value on the acquisition date. If the contingent consideration is classified as a financial liability in accordance with IAS 39, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date (without subsequent remeasurement). As for business combinations that occurred through December 31, 2009, contingent consideration was recognized on the acquisition date if the outcome of the contingency was probable and the amount could be measured reliably. Subsequent changes in the likelihood of the contingent consideration are accounted for as a change in estimate with a resulting adjustment to the acquisition cost and goodwill.

Upon the disposal of a subsidiary resulting in loss of control, the Company:

- derecognizes the subsidiary's assets (including goodwill) and liabilities.
- derecognizes the carrying amount of non-controlling interests.
- recognizes the fair value of the consideration received.
- regarding loss of control on or after January 1, 2010, recognizes any remaining equity interest at fair value. Regarding loss of control through December 31, 2009, the portion of the investment sold is derecognized with recognition of the resulting gain or loss and any remaining investment is accounted for either by the equity method (IAS 28) or as a financial asset (IAS 39).
- recognizes any resulting difference (surplus or deficit) as gain or loss.
- regarding loss of control on or after January 1, 2010, reclassifies the components recognized in other comprehensive income on the same basis as would be required if the Company had directly disposed of the related assets or liabilities. Accordingly, cumulative exchange differences are reclassified to profit or loss upon loss of control. Regarding loss of control through December 31, 2009, only the proportionate share of cumulative exchange differences that is disposed of is reclassified to profit or loss.

j. Fixed assets:

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

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

	%
Medical equipment	10-15
Motor vehicles and ambulances	15-20
Office furniture and equipment	6-15
Computers and peripheral equipment	15-33
Leasehold improvements	see below
Devices on lease to customers	8-10

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

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of property, plant and equipment, see Note 10 below.

k. Intangible assets:

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

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

The useful life of intangible assets is as follows:

	Years
Developments costs	5
Computer software	5
Non competition	4

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

Research and development expenditures:

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

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

l. Impairment of non-financial assets:

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

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

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

1. Goodwill related to subsidiaries:

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

The Company reviews goodwill for impairment once a year as of March 31, June 30 and December 31 or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

As of December 31, 2010 no impairment loss was recorded.

2. Development costs capitalized during the development period:

The impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is impairment.

As of December 31, 2010 no impairment loss was recognized.

m. Taxes on income:

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

1. Current taxes:

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

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are recognized directly in other comprehensive income or in equity if the tax relates to those items.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized outside of profit or loss.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, "taxes on income".

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

n. Share-based payment transactions:

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions (see details outline in Note 22).

Equity-settled transactions:

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

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

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

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

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

o. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

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

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law in Israel under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed simultaneously with receiving the employee's services and no additional provision is required in the financial statements.

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

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits presented in the balance sheet presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs and any unrecognized actuarial gains and losses.

Actuarial gains and losses are recognized as other comprehensive income (loss) in period in which they occur.

p. Revenue recognition:

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

Revenues from the rendering of services:

Revenues from services and sales of devices are recognized ratably over the estimated average service period of subscriber contracts (eight years), as adjusted for cancellations. A consideration received for services not yet performed as of balance sheet date, is recorded as deferred revenue, which is recognized as the services are performed. The deferred revenues from the sale of IT platform modules and related services are recognized as the services and modules are delivered.

Interest income:

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

q. Finance income and expenses:

Finance income comprises interest income on amounts invested (including available-for-sale financial assets), gains from sale of financial assets classified as available-for-sale, changes in fair value of financial assets at fair value through profit or loss, exchange rate gains recognized in profit or loss. Interest income is recognized as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the time value of provisions, changes in the fair value and impairment losses of financial assets.

r. Earnings per share:

Basic earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

For diluted earnings per share, the weighted average of shares outstanding is adjusted assuming conversion of potential dilutive shares (employee options).

s. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

t. Advertising expenses:

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

Presentation of statement of comprehensive income:

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

u. Disclosure of new IFRSs in the period prior to their adoption:

IFRS 7 - Financial Instruments: Disclosure:

The amendments to IFRS 7 deal with the following issues:

1. Clarification of the Standard's disclosure requirements. The amendment should be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011. Earlier application is permitted.
2. New disclosure requirements about transferred financial assets including disclosures regarding unusual transfer activity near the end of a reporting period. The amendment should be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

The relevant disclosures will be included in the Company's financial statements.

IFRS 9 - Financial Instruments:

In November 2009, the IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, all financial assets should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard is effective commencing from January 1, 2013. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively, except as specified in the Standard.

In October 2010, the IASB issued certain amendments to IFRS 9 regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in its application. The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

The relevant disclosures will be included in the Company's financial statements.

IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues:

The amendment to IAS 32 provides that rights, options or warrants to acquire a fixed number of the Company's equity instruments for a fixed amount of any currency are classified as equity instruments if the Company offers the rights, options or warrants pro rata to all of its existing owners of the same class of its non-derivative equity instruments.

The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

The Company believes that the amendment is not expected to have a material effect on the financial statements.

v. Reclassification:

During the year, the Company changed the classification of some receivables, deferred revenues and provisions in order to properly reflect the nature of their activities.

Comparative data were reclassified, and accordingly, $ 1,050 was reclassified from deferred revenues to short-term receivables and, $ 3,904 was reclassified from deferred revenues to long-term receivables.

w. Exchange rates and linkage basis:

1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rate as published by the Bank of Israel on December 31, 2010.
2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

Data regarding Israeli CPI and exchange rates of the U.S. dollar, the Euro and the Swiss Franc:

For the year ended	Israeli CPI Points *)	Exchange rate of € 1 NIS	Exchange rate of U.S.$ 1 NIS	Exchange rate of CHF 1 NIS
December 31, 2010	211.7	4.74	3.55	3.79
December 31, 2009	206.2	5.44	3.77	3.67
December 31, 2008	198.4	5.30	3.80	3.56
Change during the year	%	%	%	%
2010	2.7	(12.9)	(6.0)	3.3
2009	3.9	2.7	(0.7)	2.9

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

NOTE 3 | ACQUISITION OF BUSINESS ACTIVITIES

a. On June 10, 2009, the Company entered into an agreement with Keshev Lev Ltd. for the acquisition of its telemedicine subscribers. Total consideration, to be paid in 21 monthly installments based on the present value of the actual future subscriber payments, is estimated at $ 660 (including fixed assets, other assets and goodwill of $ 310). In 2010, a total of $ 435 has been paid.

b. On August 3, 2009, the Company acquired the business activity of Moked 24 Ltd. for a total consideration of $ 1,416. The purchase price was allocated to fixed assets, other assets and goodwill in an amount of $ 1,133.

NOTE 4 | CASH AND CASH EQUIVALENTS

	December 31, 2010	December 31, 2009
Cash in banks	1,680	1,355
Short-term deposits	929	484
	2,609	1,839

NOTE 5 | AVAILABLE-FOR-SALE INVESTMENTS

	December 31, 2010	December 31, 2009
Marketable securities:		
Corporate debentures - in U.S. dollars	1,579	2,066
Corporate debentures - in NIS	4,159	6,205
Government debentures - in NIS	11,865	9,980
	17,603	18,251

NOTE 6 | TRADE RECEIVABLES

a. Composition:

	December 31, 2010	December 31, 2009
Gross amount	8,520	7,147
Allowance for doubtful accounts	(2,321)	(2,313)
	6,199	4,834
Future revenues participation[1]	3,466	3,500
Current maturities of long-term receivables	1,785	743
	11,450	9,077
Offset from deferred revenues	(3,466)	(3,500)
	7,984	5,577

[1] Represents the present value of future guaranteed payments by Philips in connection with the sale of a subsidiary in 2007.

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

As of January 1 and December 31, 2009	2,313
Charge for the year	8
Utilized	-
As of December 31, 2010	**2,321**

c. The net trade receivables balances as of December 31, 2010 and December 31, 2009 do not include amounts that are past due or impaired.

NOTE 7 | LONG-TERM TRADE RECEIVABLES

	December 31, 2010	2009
Gross amounts[1]	8,732	16,292
Deferred revenues	(4,464)	(16,700)
	4,268	(408)
Current maturities of long-term trate receivables	(1,785)	(743)
	2,483	(1,151)
Future revenues participation[2]	8,841	8,930
	11,324	**7,779**

[1] Represents customers' future installments that are secured by pre-approved future debits to customers' bank accounts and credit card vouchers, which are linked to the Israeli Consumer Price Index.

[2] Represents the present value of future guaranteed payments by Philips in connection with the sale of a subsidiary in 2007.

NOTE 8 | PREPAID EXPENSES

Prepaid expenses (mostly agent selling commissions) are recognized in the statement of comprehensive income in future years, as follows:

	December 31, 2010	2009
First year prepaid expenses - short-term	1,864	2,020
Second year	1,505	1,706
Third year	1,218	1,214
Fourth year	941	851
Fifth year	789	652
Thereafter	1,081	659
Prepaid expenses - long-term	5,534	5,082
Total prepaid expenses	**7,398**	**7,102**

NOTE 9 | OTHER ACCOUNTS RECEIVABLE

	December 31, 2010	2009
Employees	283	189
Interest receivable	351	345
Others	385	397
	1,019	**931**

NOTE 10 | FIXED ASSETS

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance as of January 1, 2009	8,364	4,124	861	1,512	1,269	29,690	45,820
Additions during the year	1,839	217	188	284	330	2,226	5,084
Acquisition of business activity	-	-	-	-	-	272	272
Currency translation differences	150	47	13	21	22	460	713
Balance as of December 31, 2009	10,353	4,388	1,062	1,817	1,621	32,648	51,889
Additions during the year	1,233	228	37	104	197	2,215	4,014
Disposals during the year	-	-	-	(124)	-	-	(124)
Currency translation differences	519	296	71	131	115	1,671	2,803
Balance as of December 31, 2010	**12,105**	**4,912**	**1,170**	**1,928**	**1,933**	**36,534**	**58,582**
Accumulated depreciation:							
Balance as of January 1, 2009	6,218	3,662	422	849	809	18,571	30,531
Additions during the year	1,054	151	54	234	131	1,878	3,502
Acquisition of business activity	-	-	-	-	-	29	29
Currency translation differences	88	32	5	19	11	331	486
Balance as of December 31, 2009	7,360	3,845	481	1,102	951	20,809	34,548
Additions during the year	1,196	173	61	275	162	1,741	3,608
Disposals during the year	-	-	-	(124)	-	-	(124)
Currency translation differences	447	259	35	94	70	1,692	2,597
Balance as of December 31, 2010	9,003	4,277	577	1,347	1,183	24,242	40,629
Depreciated cost as of December 31, 2010	**3,102**	**635**	**593**	**581**	**750**	**12,292**	**17,953**
Depreciated cost as of December 31, 2009	**2,993**	**543**	**581**	**715**	**670**	**11,839**	**17,341**

As for charges, see Note 21.

NOTE 11 | INTANGIBLE ASSETS, NET

	Development costs	Non-compete agreements and others	Goodwill[1]	Total
As of January 1, 2010, net of accumulated amortization	6,289	366	12,973	19,628
Additions during the year	2,240	-	-	2,240
Amortization during the year	(1,581)	(141)	-	(1,722)
Currency translation differences	452	15	827	1,294
As of December 31, 2010, net of accumulated amortization	**7,400**	**240**	**13,800**	**21,440**
As of December 31, 2010:				
Cost	19,494	469	13,800	33,763
Accumulated amortization	(12,094)	(229)	-	(12,323)
Net carrying amount	**7,400**	**240**	**13,800**	**21,440**

	Development costs	Non-compete agreements and others	Goodwill[1]	Total
As of January 1, 2009, net of accumulated amortization	5,824	-	11,513	17,337
Additions during the year *)	1,602	432	1,372	3,406
Amortization during the year	(1,187)	(75)	-	(1,262)
Currency translation differences	50	9	88	147
As of December 31, 2009, net of accumulated amortization	**6,289**	**366**	**12,973**	**19,628**
As of December 31, 2009:				
Cost	14,483	441	12,973	27,897
Accumulated amortization	(8,194)	(75)	-	(8,269)
Net carrying amount	**6,289**	**366**	**12,973**	**19,628**

[1] The recoverable amount of the telemedicine operations in Germany to which the goodwill relates has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 17% (2009: 17%) and cash flows beyond the 5-year period are extrapolated using a 1% growth rate (2009: 1%).

*) See Note 3.

NOTE 12 | SHORT-TERM CREDIT FROM BANKS

	Interest rate	December 31,	
	%	2010	2009
Credit from banks:			
NIS – unlinked	Prime[1]+0.2	2,338	463
CHF		24	20
		2,362	483

[1] The Prime rate as of December 31, 2010 – 3.5% (December 31, 2009 – 2.75%).

NOTE 13 | DEFERRED REVENUES

	December 31,	
	2010	2009
As of January 1	24,258	39,179
Deferred during the year	17,893	19,605
Released to the statement of comprehensive income	(28,988)	(30,941)
Cancelled	(1,762)	(710)
Currency translation differences	1,684	625
As of December 31	13,085	27,758
Offset from long-term trade receivables (Note 7)	(4,464)	(16,700)
	8,621	11,058
Less-Philips trade receivables	(3,466)	(3,500)
	5,155	7,558
Presented in the balance sheet:		
Current	5,155	7,558
Non-current	-	-
	5,155	7,558

NOTE 14 | OTHER ACCOUNTS PAYABLE

Employees and payroll accruals	2,393	1,816
Accrued expenses	2,919	3,141
Government authorities	135	74
Former Raytel shareholders	357	357
Other	403	562
	6,207	5,950

NOTE 15 | FINANCIAL INSTRUMENTS

The Group's principal financial liabilities are comprised of short-term credit from banks and trade payables. The main purpose of these financial liabilities is to raise financing for the Group's operations. The Group has various financial assets such as trade receivables, available-for-sale investments, cash and deposits, which arise directly from its operations.

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

a. Interest rate risk:

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

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

b. Concentration of credit risks:

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

The Company's trade receivables are mainly derived from sales to customers in Germany and guaranteed minimum payments related to the sale of Raytel to Philips at the end of 2007. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers in Germany and the high credit rating that Philips has. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

c. Foreign currency risk:

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

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

	Increase/ decrease in exchange rates	Effect on profit before tax
2010	+10%	159
	-10%	(159)
2009	+10%	80
	-10%	(80)

d. Price risk:

The Group has investments in listed financial instruments that are classified as available-for-sale financial assets in respect of which the Group is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price. As of December 31, 2010, the balance of these investments is $ 17,603 thousand (2009 - $ 18,251 thousand).

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

	Increase/ decrease in exchange rates	Effect on profit before tax
2010	+5%	880
	-5%	(880)
2009	+5%	913
	-5%	(913)

e. Fair value of financial instruments:

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

f. Liquidity risk:

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

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

	In or linked to:					
	U.S.$	CHF	Euro	Israeli CPI	NIS	Total
December 31, 2010						
Assets:						
Cash and cash equivalents	323	146	783	-	1,357	2,609
Available-for-sale investments	1,579	-	-	-	16,024	17,603
Trade receivables	8,841	-	4,581	4,268	1,618	19,308
Other accounts receivable	1,176	-	144	604	715	2,639
Long-term deposits	-	-	151	-	-	151
	11,919	**146**	**5,659**	**4,872**	**19,714**	**42,310**
Liabilities:						
Credit from banks and others	-	-	-	-	2,362	2,362
Income tax payables	-	-	1,059	-	-	1,059
Trade payables	7	-	477	-	1,512	1,996
Other short and long-term liabilities	656	-	4,864	-	3,254	8,774
Accrued severance pay	-	-	100	-	696	796
	663	**-**	**6,500**	**-**	**7,824**	**14,987**
December 31, 2009						
Assets:						
Cash and cash equivalents	404	469	7	-	959	1,839
Available-for-sale investments	2,066	-	-	-	16,185	18,251
Trade receivables	4,323	-	4,436	4,200	397	13,356
Other accounts receivable	1,130	-	215	358	603	2,306
Long-term deposits	-	-	104	-	-	104
	7,923	**469**	**4,762**	**4,558**	**18,144**	**35,856**
Liabilities:						
Credit from banks and others	-	-	20	-	463	483
Trade payables	12	-	839	-	1,358	2,209
Income tax payable	-	-	-	-	2,951	2,951
Other short and long-term liabilities	605	-	5,638	-	3,713	9,956
Accrued severance pay	-	-	102	-	515	617
	617	**-**	**6,599**	**-**	**9,000**	**16,216**

NOTE 16 | PROVISIONS

	December 31,	
	2010	2009
Provision for future participation rights[1]	2,567	4,006
Less - current maturities	2,567	4,006
	-	-

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

NOTE 17 | EMPLOYEE BENEFIT LIABILITIES

a. The amount included in the balance sheet arising from obligations in respect of the defined benefit plan for severance pay is comprised as follows:

	December 31,	
	2010	2009
Present value of funded obligation	4,386	3,847
Fair value of plan assets	3,590	3,230
	796	617

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

Liability at the beginning of the year	617	777
Expense recognized in the statement of comprehensive income	695	294
Benefits not paid from assets	(65)	(49)
Contribution to assets	(489)	(441)
Currency translation differences	38	36
Liability at the end of the year	796	617

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

	December 31,	
	2010	2009
Current service cost	534	435
Interest cost	201	170
Expected return on plan assets	(92)	(60)
Net actuarial loss (gain) recognized in the year	52	(251)
Total expense included in statement of comprehensive income	695	294

d. The principal actuarial assumptions used are as follows:

Discount rate	5.25%	5.70%
Future salary increase	5.80%	5.71%

NOTE 18 | INVESTMENTS IN SUBSIDIARIES

Principal subsidiaries:

	Country of incorporation	Percentage in equity 2010 and 2009
		%
Shahal Haifa - Medical Services Ltd.	Israel	100
SHL Telemedicine International Ltd.	Israel	100
Shahal Rashlatz Rehovot Medical Services Ltd.	Israel	100
SHL Telemedicine B.V.	Netherlands	100
SHL Telemedicine Global Trading Ltd.	Ireland	100
SHL Telemedicine North America LLC.	U.S.A.	100
SHL U.S.A. Inc.	U.S.A.	100
Personal Healthcare Telemedicine Services B.V.	Netherlands	100
SHL Telemedizin GmbH	Germany	100
SHL IRL B.V.	Netherlands	100
SHL Telemedizin Europe GmbH	Germany	100
LFS GP	Guernsey	100
LFS LP	Guernsey	100

NOTE 19 | TAXES ON INCOME

a. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

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

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

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

1. Companies in Israel:

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

Further to the abovementioned, in July 2009, the Knesset passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

As a result in 2009, the deferred tax assets decreased $ 164, which was charged to taxes on income in the income statement.

2. Foreign subsidiaries:

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

The U.S. -	tax at the rate of 34%.
Germany -	tax at the rate of 31.4%.
Ireland -	tax at the rate of 12.5%.

c. Taxes on income (tax benefit) included in the statements of comprehensive income:

	Year ended December 31,	
	2010	2009
Current taxes	409	493
Deferred taxes	3,189	1,189
Taxes in respect of previous years[1]	(2,407)	-
	1,191	1,682

[1] Includes a reduction of provision for tax payable in respect of tax assessment in dispute, in the amount of $ 2,805, (see g), net of taxes in respect of previous years.

d. Deferred tax assets (liabilities):

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

	Balance sheet items					
	Deferred revenues, net	Fixed and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Others	Total
Balance at January 1, 2009	7,653	(304)	282	1,284	802	9,717
Amount included in statement of comprehensive income	(629)	(85)	(102)	(20)	(353)	(1,189)
Currency translation differences	51	(7)	(3)	10	(31)	20
Balance at December 31, 2009	7,075	(396)	177	1,274	418	8,548
Amount included in statement of comprehensive income	-	(10)	97	(3,205)	(71)	(3,189)
Reclassification *)	(7,158)	-	-	7,158	-	-
Currency translation differences	83	(28)	16	284	23	378
Balance at December 31, 2010	**-**	**(434)**	**290**	**5,511**	**370**	**5,737**

*) The Company reclassified the deferred tax asset as a result of a new tax regulation in Israel.

The balance is presented as follows:

	December 31,	
	2010	2009
Non-current asset	5,943	8,901
Non-current liability	(226)	(353)
	5,717	**8,548**

e. A reconciliation of the theoretical tax expense assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax expense is as follows:

	Year ended December 31,	
	2010	2009
Income before taxes on income	**6,052**	**7,059**
Statutory tax rate in Israel	**25%**	**26%**
Tax computed at the statutory tax rate	1,513	1,835
Increase (decrease) in taxes resulting from:		
Utilization of tax losses for which no deferred taxes were recorded	(1,047)	(697)
Tax adjustment in respect of inflation in Israel	(11)	(11)
Non-deductible expenses	901	50
Different tax rates	518	244
Change in deferred taxes due to changes in tax rates	-	164
Reduction of provision for tax payable in respect of tax assessment in dispute	(2,805)	-
Reduction in deferred tax assets recognized for carry forward losses	2,122	-
Other	-	97
Total tax expense reported in the consolidated statement of comprehensive income	**1,191**	**1,682**

f. Carry forward tax losses:

The carry forward losses for tax purposes as of December 31, 2010 amount to $ 36,443 (2009 -$ 38,226) in Israel (which may be carried forward indefinitely) and $ 34,667 (2009 - $ 41,742) in Europe. In the U.S., SHL USA has federal and state net operating losses and credits of $ 4,069 (2009 - $ 3,741), which expire at various times. Deferred tax assets relating to carry forward tax losses as described above, and deductible temporary differences in the aggregate amount of $ 15,801 (2009 - $ 16,262) are not included in the consolidated financial statements as the management presently believes that it is not probable that these deferred taxes will be realized in the foreseeable future.

g. Tax assessment in dispute:

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

In January 2011, an agreement with the ITA was signed and thereafter it received court approval. The Company agreed to pay an amount of $ 800 and write-off an amount of around $ 1,600 of carry forward tax losses. After settlement was finalized and court approval received, the ITA approached the Company claiming that the agreement terms were a mistake and that it wishes to re-discuss the settlement terms. The Company rejected such request. In the opinion of management, the provision in the accounts is sufficient to cover this liability.

NOTE 20 | TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions:

	Year ended December 31,	
	2010	2009
Revenues	-	5,826
Rent expense to shareholders	248	248

b. Compensation of key management personnel:

Short-term employee benefits	1,582	1,483

NOTE 21 | COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

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

b. Lease commitments:

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

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

	2010	2009
First year	452	400
Second to fifth years	367	643
	819	1,043

c. Contingent liabilities:

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

NOTE 22 | EQUITY

a. Composition of share capital:

	December 31, 2010		December 31, 2009	
	Authorized	Issued and outstanding*)	Authorized	Issued and outstanding*)
	Number of shares			
Ordinary shares of NIS 0.01 par value each	**14,000,000**	**10,527,165**	**14,000,000**	**10,501,174**

*) Net of treasury shares.

b. Movement in share capital:

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

	Number of shares	NIS par value
Balance at January 1, 2009	10,512,473	
Exercise of employees' options into shares	19,915	0.01
Purchase of Treasury shares	(31,214)	
Balance at December 31, 2009	10,501,174	
Exercise of employees' options into shares	26,891	0.01
Purchase of Treasury shares	(900)	
Balance at December 31, 2010	**10,527,165**	

b. Treasury shares:

The Company holds 253,736 shares (252,836 shares as of December 31, 2009) for a total cost of $ 1,573 as of December 31, 2010 ($ 1,567 as of December 31, 2009).

c. Share Option Plans:

In September 2000, SHL adopted an option plan for the issuance of options to purchase Ordinary shares ("options") to its employees, directors, consultants and contractors that was amended in November 2000 ("the 2000 Share Option Plan"). In September 2000, SHL approved a maximum pool of up to 856,627 Ordinary shares reserved for issuance upon exercise of options that may be granted pursuant to the 2000 Share Option Plan ("the Option Pool").

In October 2003, due to a tax reform in Israel that changed the tax regime with respect to options granted to employees and directors, SHL adopted the 2003 Share Option Plan ("the 2003 Share Option Plan") for the issuance of options to employees, directors, consultants and contractors of SHL and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2000 Share Option Plan shall further serve for purposes of the 2003 Share Option Plan. The options are valid for a term of ten (10) years from the date of their grant, subject to early termination due to cessation of employment or service of the option holder.

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

On May 12, 2009, the Board of Directors approved the grant of 68,500 options to employees, under the 2005 Share Option Plan. The weighted average fair value of options granted by the Company, in the amount of CHF 1.984, was estimated based on the following data and assumptions (weighted average): share price - CHF 6.90; exercise price - CHF 7.10; expected volatility - 55.40%; risk-free interest rate - 3.55%; expected dividend - 0%, expected average life of options - 3.5 to 5 years.

On June 24, 2010, the Board of Directors approved the grant of 220,000 options to certain employees, under the 2005 Share Option Plan. The fair value of options granted is between CHF 2.267 - CHF 2.844 ($ 2.505 - $ 2.574). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.75; exercise price - CHF 6.70; expected volatility - 51.88%; risk-free interest rate - 1.01%; expected dividend - 0%, expected average life of options - 3.5 to 5 years.

On August 3, 2010, the Board of Directors approved the grant of 69,000 options to certain employees, under the 2005 Share Option Plan. The fair value of options granted is between CHF 2.14 - CHF 3.304 ($ 2.065 - $ 3.188). The weighted average fair value was estimated based on the binominal model using the following data and assumptions: share price - CHF 6.80; exercise price - CHF 6.80; expected volatility - 50.03%; risk-free interest rate - 0.98%; expected dividend - 0%, expected average life of options - 3.5 to 5 years.

On November 11, 2010, the board of Directors approved the grant of 44,000 options to certain employees, under the 2005 Share Option Plan. The fair value of options granted is between CHF 2.38 – CHF 3.65 ($ 2.49 – $ 3.82). The weighted average fair value was estimated based on binominal model using the following data and assumptions: share price – CHF 7.84: exercise price – CHF 7.84: expected volatility – 46.86%: risk-free interest rate – 0,91%: expected dividend – 0%, expected average life of options - 3.5 to 5 years.

In the years ended December 31, 2010 and 2009, the Company recorded share-based compensation in general and administrative expenses in the amount of $ 251 and $ 179, respectively.

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

	2010		2009	
	No.	WAEP (CHF)	No.	WAEP (CHF)
Outstanding at the beginning of the year:	600,133	6.75	577,912	6.51
Granted during the year	351,000	6.91	68,500	7.1
Forfeited during the year	(28,947)	6.92	(26,364)	5.78
Exercised during the year *)	(26,891)	5.33	(19,915)	5.21
Outstanding at the end of the year	**895,295**	**6.85**	**600,133**	**6.75**
Exercisable at the end of the year	**474,449**	**6.67**	**413,463**	**6.55**

	Options outstanding at December 31, 2010	Weighted average exercise price in CHF	Vested
Under the 2003 Share Option Plan	282,483	6.02	282,483
Under the 2005 Key Employee Share Option Plan	612,812	7.23	191,966
	895,295	**6.85**	**474,449**

*) The weighted average share price at the date of exercise of these options was CHF 6.87 (2009 - CHF 7.85).

NOTE 23 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF COMPREHENSIVE INCOME

a. Cost of revenues:

	Year ended December 31, 2010	2009
Salaries and related benefits	7,902	7,019
Rental fees and maintenance	1,675	1,591
Materials and components	81	102
Others	5,034	4,809
	14,692	13,521

b. Research and development costs, net:

	Year ended December 31, 2010	2009
Salaries and related benefits	1,691	1,098
Amortization of development costs	1,581	1,187
Others	565	540
	3,837	2,825
Less - capitalization of development costs	2,240	1,602
	1,597	1,223

c. Selling and marketing expenses:

	Year ended December 31, 2010	2009
Salaries and related benefits	6,793	6,775
Advertising	4,257	4,008
Depreciation	520	446
Rental fees and maintenance	352	317
Maintenance of motor vehicles	622	537
Others	2,203	1,953
	14,747	14,036

d. General and administrative expenses:

Salaries and related benefits	5,947	4,849
Rental fees and office expenses	681	693
Professional fees	2,008	1,559
Depreciation and amortization	1,011	967
Others	1,298	2,074
	10,945	10,142

e. Financial income (expenses):

1. Financial income:

	Year ended December 31, 2010	2009
Exchange rate differences	314	202
Gain on marketable securities	225	326
Interest	703	773
Others	73	547
	1,315	1,848

2. Financial expenses:

Exchange rate differences	(848)	(518)
Interest	(38)	(294)
Others	(361)	(295)
	(1,247)	(1,107)

NOTE 24 | NET EARNINGS PER SHARE

a. Details of the number of shares and income used in the computation of earnings per share:

	Year ended December 31, 2010		2009	
	Weighted number of shares	Net income	Weighted number of shares	Net income
	In thousands	$	In thousands	$
Number of shares and income for the computation of basic net earnings	10,515	4,841	10,488	5,377
Effect of dilution - share options	63	-	27	-
For the computation of diluted net earnings	10,578	4,841	10,515	5,377

b. To compute diluted net earnings per share, options (dilutive potential Ordinary shares), detailed below, have not been taken into account since their conversion increases the basic earnings (anti-dilutive effect): 33,428 options to employees under share-based payment plans.

NOTE 25 | SEGMENT INFORMATION

The Group operates in three segments: Europe, United States and Israel.

Management monitors the operating results of its geographical units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on segment profit. Group financing (including corporate, research and development expenses, finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Segment assets do not include deferred taxes and loans to associates, as these assets are managed on a group basis.

Segment liabilities do not include deferred taxes, current tax liability and loans, as these liabilities are managed on a group basis.

Capital expenditures consist of additions to fixed assets and intangible assets.

a. Reporting on geographic segments:

	Europe	U.S.A.	Israel	Adjustments	Total
Year ended December 31, 2010:					
External customers	21,605	6,433	22,214	-	50,252
Inter-segment revenues	-	-	513	(513)	-
Total revenues	**21,605**	**6,433**	**22,727**	**(513)**	**50,252**
Segment results	**2,663**	**5,988**	**3,600**	**-**	**12,251**
Corporate and research and development expenses					(6,267)
Finance income, net					68
Income before taxes on income					**6,052**
Year ended December 31, 2009:					
External customers	21,152	5,826	20,912	-	47,890
Inter-segment revenues	2,419	-	4,526	(6,945)	-
Total revenues	**23,571**	**5,826**	**25,438**	**(6,945)**	**47,890**
Segment results	**3,729**	**5,584**	**3,253**	**-**	**12,566**
Corporate and research and development expenses					(5,915)
Other expenses, net					(333)
Finance income, net					741
Income before taxes on income					**7,059**

b. Additional information:

	Europe	U.S.A.	Israel	Adjustments	Total
Year ended December 31, 2010:					
Capital expenditures	546	-	5,164	-	5,710
Depreciation and amortization	966	-	4,433	-	5,399
Year ended December 31, 2009:					
Capital expenditures	2,109	-	6,653	-	8,762
Depreciation and amortization	1,014	-	3,769	-	4,783

	Europe	U.S.A.	Israel	Adjustments	Total
As of December 31, 2010:					
Segment assets	3,802	1,506	69,560	-	74,868
Unallocated assets					20,212
Segment liabilities	9,821	662	7,569	-	18,052
Unallocated liabilities					2,362
As of December 31, 2009:					
Segment assets	12,238	484	56,616	-	69,338
Unallocated assets					20,090
Segment liabilities	11,585	617	11,442	-	23,644
Unallocated liabilities					483

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