



Annual Report 2013



Corporate Profile

SHL Telemedicine is headquartered in Tel Aviv, Israel and is engaged in developing and marketing personal telemedicine systems and the provision of medical call center services, with a focus on cardiovascular and related diseases, to end users and to the healthcare community. SHL Telemedicine offers its services and personal telemedicine devices to subscribers utilizing telephonic and Internet communication technology. These services save life and improve the quality of life for our subscribers, while enabling cost savings for the health care community.

The Company is the market leader in Israel and active internationally in Germany, India and the United States in one business segment, Telemedicine services. SHL is listed on the SIX Swiss Exchange (SHLTN, ISIN) and has an ADR program listed over-the counter; Symbol: SMDCY. For more information please visit our web site at <http://www.shl-telemedicine.com>.

Key Figures (December 31)

All financial units in USD 1,000
(except profit per share)

	2013	2012
Revenues	29.7	26.9
EBIT (LBIT)	3.1	(5.7)
EBITDA (LBITDA)	8.1	(1.3)
EBITDA margin	27.3%	n.a.
Net profit(loss)	2.2	(7.4)
Net profit(loss) per share	0.22	(0.69)

Cash, cash equivalents and

marketable securities	28.4	26.8
Total outstanding debt	28.7	28.4
Total assets	108.5	99.7
Shareholder's equity	68.9	61.0

Employees	450	334
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Letter from the Chairman of the Board

2 | In 2013, SHL has made progress in executing its strategy. With the acquisition of German based almeda we secured another long-term, seven year contract for our institutional business. This strengthens our position as a leading provider of telehealth services in Germany, and enables further growth of our German platform. In addition, we continued to invest in our international expansion in India and the U.S. In India, we have succeeded, in a short period of time, in signing contracts with leading hospitals and expect to start providing telemedicine services in 2014. In the U.S., we have hired Mr. Robert E. Sass, an experienced executive, to lead our US initiatives. With mHealth and telehealth gaining momentum, we believe that we can offer an advanced product to the market place with our smartheart™ platform. These are large market opportunities that we plan to address and we will continue investing in these opportunities and our expansion during 2014.

Germany on track – back to growth

The recruitment of patients under the AOK Bayern and IKK Sudwest agreements has led to revenue growth of 17.3% in 2013 and improved overall financial performance.

We continue to receive positive feedback both from the health insurers and from the chronically ill patients we service, as we strive, through our advanced telemedicine platform, to improve their quality of life and keep them out of the hospitals. In July 2013, SHL announced the signing of an agreement to acquire the telehealth services business of Munich based almeda GmbH, a subsidiary of ERGO, which is a subsidiary of Munich RE. almeda's telehealth business services patients of various well known healthcare insurers. It provides telehealth services to indications such as Congestive Heart Failure, COPD, diabetes and various other diseases and medical helpline services. DKV, the largest customer of the almeda telehealth business and one of the largest German private health insurers and a subsidiary of ERGO, committed to retain the provision of almeda's telehealth services for a 7 year period. almeda will contribute annual revenues of USD 7 to 10 million to SHL's German business. Closing of the transaction occurred at the end of the year and as a result the Company recorded a gain in its operating profit of USD 8.5 million. The almeda telehealth services business complements and expands SHL's offering in Germany and will further advance its mission to become the leading provider of telehealth services in Germany.



Israel – solid fundamentals

SHL's Israeli business, through its sustained leadership of the Israeli telemedicine market, continued its trend of steady year over year growth leading to another year of improved profitability and enhanced margins. In addition SHL's Israeli business serves as an important knowledge base for the company.

Launch of telemedicine services in India

In 2013, SHL entered the Indian healthcare market and succeeded, within six months, in signing contracts with leading hospitals in Mumbai, Delhi, Bangalore and Kolkata. These hospitals will offer the SHL telemedicine solution to their patients, as part of their routine out-of-hospital patient care programs. SHL expects to start providing telemedicine services to these contracts in 2014.

Progress in the US

In the US, SHL is well positioned to capitalize on the growing telehealth and mhealth markets and is evaluating various opportunities to leverage the smartheart platform. Meanwhile, we hired Robert E. Sass to lead the US business. Bob is an experienced executive in the healthcare industry and prior to joining SHL spent 5 years

with Philips Healthcare in a variety of executive leadership assignments in Remote Patient & Home Monitoring.

Financial Highlights

During the year overall financial performance improved significantly as SHL's business continued to demonstrate sustained revenue growth, mainly in Germany, thanks to the recruitment of new patients to the AOK and IKK contracts and the continued strong financial performance in Israel. In addition, SHL has recorded a gain in its operating profit of USD 8.5 million related to the acquisition of Almeda, offset mainly by an accrual for doubtful accounts in Germany and Israel in the amount of USD 4.8 million.

Revenues for 2013 were up 10.4% (4.1% at constant exchange rates) and amounted to USD 29.7 million compared with revenues of USD 26.9 million in 2012. Revenues from the German operation amounted to USD 6.1 million compared with USD 5.2 million in 2012, an increase of 17.3% (13.5% at constant exchange rates). Revenues from the Israeli operation amounted to USD 23.6 million compared to revenues of USD 21.7 million in 2012, an increase of 8.8% (1.8% at constant exchange rates).

In terms of geographic breakdown, the German market accounted for 20.5% of group revenues and the Israeli market for 79.5% of group revenues. This compared with 19.3% and 80.7% of group revenues, respectively in 2012.

Gross margins were at 53.5% up from 53.2% in 2012, bringing gross profit for the year to USD 15.9 million, an increase of 11.2%, from a gross profit of USD 14.3 million in 2012.

EBITDA for the year amounted to USD 8.1 million (27.3% of revenues) with EBIT amounting to USD 3.1 million (10.4% of revenues) this compared to an LBITDA of USD 1.3 million and an LBIT of USD 5.7 million in 2012.

Net profit for the year amounted to USD 2.2 million (USD 0.22 per share) compared with a net loss of USD 7.4 million (USD 0.69 per share) in 2012.

Operating cash flow improved 75% for the year to USD 2.8 million compared to USD 1.6 million in 2012.

Balance sheet as of December 31, 2013 included cash, cash equivalents and marketable securities of USD 28.4 million (together with USD 2.9 million in cash received from almeda) compared to USD 26.8 million as of December 31, 2012.

As of December 31, 2013, SHL initiated the consolidation of almeda GmbH. SHL's assets as of December 31, 2013 totalled USD 108.5 million with shareholders' equity amounting to USD 68.9 million (63.5% of the balance

sheet) compared to assets of USD 99.7 million and shareholders' equity of USD 61.0 million as of December 31, 2012.

Growing internationally

Expansion into new markets, beyond Israel and Germany, remains a key priority for the years to come. As evidenced by a number of respective announcements for collaboration agreements in 2013 we have made first steps in India and are currently evaluating how to best approach the US market. In addition, we intend to exploit additional opportunities thanks to the global leverage and platform of the smartheart™ technology. In that context we have initiated local certification processes and can now market the smartheart™ in Japan. It is still premature to communicate in what kind of set-up we will sell telemedicine services in Japan but we now have this option in hand.

Our greatest asset is our team of more than 400 talented individuals who work to advance the business we have built and adapt it to ever-changing circumstances every moment, every day. They are the founders of our future, and I am grateful to them for their dedication. I also thank all of our clients and shareholders for their support.



Sincerely,

Elon Shalev

Chairman of the Board

Information for Investors

Capital structure

The issued share capital is divided into 10,435,526 registered shares with a par value of NIS 0.01 each (excluding 442,362 ordinary shares of NIS 0.01 par value each held by SHL)

Significant shareholders'

As of December 31, 2013, SHL was aware of the following shareholders with more than 3% of all voting rights in the company.

	2013 Number	2013 % Including Treasury shares	2013 % Excluding Treasury shares
Alroy Group	2,782,608	25.58%	26.66%
G.Z. Assets and Management Ltd.	921,533	8.47%	8.83%
Prime Finance Corporation	736,722	6.77%	7.06%
Copper Valley Finance Ltd.	736,722	6.77%	7.06%
Eli Alroy	749,299	6.89%	7.18%
SHL Treasury shares	442,362	4.07%	-

The above table of Significant Shareholders reflects both actual holdings as of December 31, 2013, after deducting from the total number of shares outstanding 442,362 Ordinary Shares held by SHL, and actual holdings as of December 31, 2013 calculated including ordinary shares held by SHL, all as indicated above, but does not reflect holdings on a fully diluted basis. All in accordance with notifications received by the Company from shareholders and the SAG registrar as of December 31, 2013.

Statistics on SHL Telemedicine as at December 31, 2013

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares*	10,435,526
Market price high/low (CHF)	8.9/6.01
Market capitalization high/low (CHF million)	96.8/65.4
Market capitalization 31/12/13(CHF million)	75.2
Share capital – nominal value (NIS)*	104,355
Majority interests	56.79%

* Excluding 442,362 ordinary shares held by SHL.

Share price development



Listing

All SHL shares are listed on SWX Swiss Exchange

Ticker symbol: SHLTN

Currency: CHF

Listing date: November 15, 2000

Company has an ADR program on the OTCBB

Ticker symbol: SMDCY

Investor relations

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Next Publications

Q1 Results: May 21, 2014

Q2 Results: August 20, 2014

Q3 Results: November 19, 2014

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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.

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

Changes in the Financial Year 2013

At the 2013 Annual General Meeting (the “AGM”), Mr. Elon Shalev, Mr. Yariv Alroy, Mr. Erez Alroy, Mr. Ziv Carthy and Ms Dvora Kimhi were re-elected to the Board of Directors until the next annual meeting. Ms. Nehama Ronen was re-elected as an independent (external) director for an additional three (3) year term, and Mr. Nissim Zvili continued to serve as an independent (external) director of the Company (with Ms. Ronen serving her third and last three (3) year term until the Annual General Meeting in 2016, and Mr. Nissim Zvili serving his second three (3) year term until the Annual General Meeting in 2014). In addition, two (2) new non-executive directors, Mr. Eliyahu Ayalon and Mr. Salomon Mizrahi (with Mr. Ayalon being an independent (non-dependent) director)), were elected to the Board of Directors at the AGM and Mr. Yoram Alroy, President, founder and former Chairman of the Board, stepping down from the Board of Directors as of such time. The Board of Directors further appointed a new member, Mr. Eliyahu Ayalon, to serve on the Company’s Audit Committee (replacing Ms. Dvora Kimhi who previously served in such capacity) following the AGM (for further information regarding the members of the Audit Committee and its tasks, please refer to Section 3.3 below).

Following the mutual agreement between the Company and its previous Internal Auditor regarding such Internal Auditor stepping down, the Board of Directors appointed Mr. Gil Roguz’inski to serve in such capacity, after receipt of a corresponding recommendation in this

respect from the Audit Committee, all pursuant to the provisions of the Israeli Companies Law. For further information regarding the appointment and tasks of the Internal Auditor, please refer to Section 3.3 below.

The shareholders agreement previously in effect among SHL, the Alroy Group and G.Z. Assets and Management Ltd. (the “Shareholders Agreement”) was terminated (for further information regarding the Shareholders Agreement, please refer to Section 1.2 below).

The Board of Directors of the Company approved the establishment of an American Depositary Receipts Level 1 program for SHL’s ordinary shares pursuant to which American Depositary Shares (each representing one (1) ordinary share in SHL) will be traded in the over-the-counter market in the U.S. The filing of the relevant registration statement with the U.S. Securities and Exchange Commission (“SEC”) was completed in January 2014. For further information regarding the rights attached to the American Depositary Shares, please refer to Section 2.4 below.

In January 2014, the Company adopted an office holder compensation policy pursuant to the provisions of the Israeli Companies Law – 1999 (the “Israeli Companies Law”) (for further information, please refer to Section 5.1 below).

Pursuant to a recent amendment to the Israeli Companies Law adopted in December 2013 and coming into effect on January 10, 2014 (the “Amendment”), (a) the Audit Committee of public companies was assigned additional tasks (for further information, please refer to Section 3.3 below); and (b) certain independent directors, may not be reappointed as independent directors (for further information, please refer to Section 3.1 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 SIX Swiss Exchange. In addition, certain reporting requirements apply to it directly as a foreign issuer with

a main trading market on the SIX Swiss Exchange (for further information, please refer to Section 2.4 below).

SHL is currently not subject to full SEC reporting obligations in connection with its ADR Program, subject inter alia to publication of certain information in English on its website pursuant to the applicable SEC regulation (see Section 9 below).

The information presented here is updated as of December 31, 2013, 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:

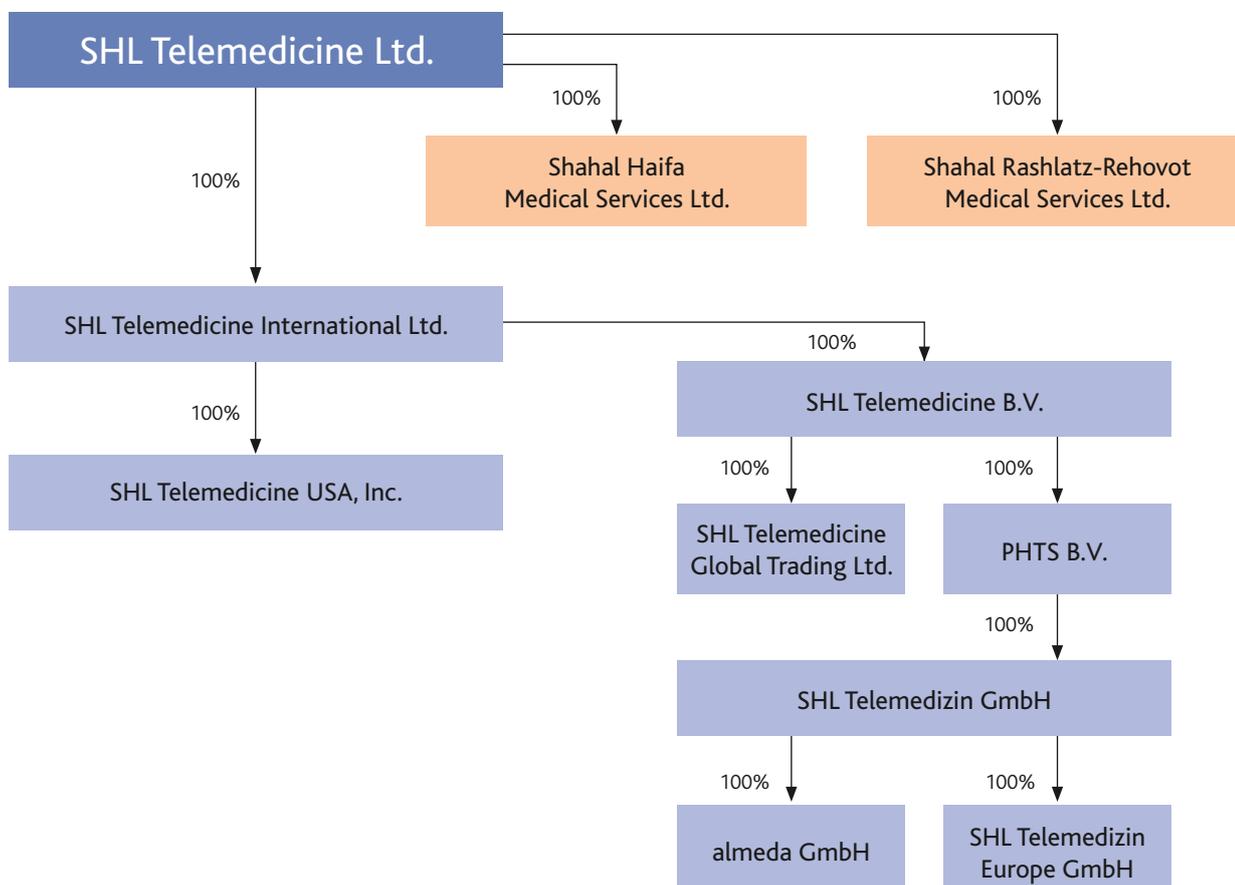
SHL Telemedicine Ltd. is a company incorporated in Israel whose shares are publicly traded on the SIX Swiss Exchange under the symbol SHLTN (see Section 1.1.2 for additional information on the Company).

SHL Telemedicine is headquartered in Tel Aviv, Israel and is engaged in developing and marketing personal

telemedicine systems and the provision of medical call center services, with a focus on cardiovascular and related diseases, to end users and to the healthcare community. SHL Telemedicine offers its services and personal telemedicine devices to subscribers utilizing telephonic and Internet communication technology. These services save life and improve the quality of life for our subscribers, while enabling cost savings for the health care community.

During 2013 the Company and its subsidiaries in Israel, Germany, and the U.S. operated in one business segment - telemedicine services.

Telemedicine services are the provision of telemedicine services and devices to subscribers utilizing telephonic and internet communication technology. SHL's telemedicine 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, SHL Telemedizin Europe GmbH and almeda GmbH (together "SHL Germany") operate in the German market and provide telemedicine services to patients in Germany, mainly through German health insurers. At the end of 2013, SHL Telemedizin GmbH acquired almeda GmbH, a company providing telehealth and helpline services to German health insurers. almeda will be run by SHL Germany's management as part of the SHL Germany Business. SHL Germany is run as a stand-alone business and enjoys a high degree of autonomy, with its own management.

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.

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 is active in performing its corporate duties, i.e. group management, business development, finance and oversight and control on an ongoing basis of its different territories (SHL Germany, SHL Israel and SHL INT). Corporate management also currently manages the group's activities in India. The Company is in the process of establishing a subsidiary of SHL INT which shall be in charge thereof in the future.

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 104,355.26 divided into 10,435,526 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 442,362 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 16. The registered shares of SHL are traded on the main board of the SIX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As of December 31, 2013, SHL's market capitalization was CHF 75.2 million. SHL's registered office is located at 90 Yigal Alon Street (Ashdar Building), Tel-Aviv, Israel. None of the issued and outstanding share capital of SHL is held by SHL's subsidiaries.

Name	Registered address	% of holding (directly or indirectly through wholly owned subsidiaries)
Shahal Haifa - Medical Services Ltd. ("SHL Haifa")	Tel-Aviv, Israel	100% (held by SHL)
Shahal Rashlatz-Rehovot Medical Services Ltd. ("SHL Rashlatz")	Tel-Aviv, Israel	100% (held by SHL)
SHL Telemedicine International Ltd. ("SHL INT")	Tel-Aviv, Israel	100% (held by SHL)
SHL Telemedicine B.V. ("SHL BV")	Amsterdam, Netherlands	100% (held by SHL INT)
Personal Healthcare Telemedicine Services Europe B.V. ("PHTS")	Amsterdam, Netherlands	100% (held by SHL BV)
SHL IRL B.V.	Amsterdam, Netherlands	100% (held by SHL BV)
SHL Telemedizin GmbH	Dusseldorf, Germany	100% (held by PHTS)
SHL Telemedizin Europe GmbH	Dusseldorf, Germany	100% (held by SHL Telemedizin GmbH)
almeda GmbH	Munich, Germany	100% (held by SHL Telemedizin GmbH)
SHL Telemedicine Global Trading Ltd.	Shannon, Ireland	100% (held by SHL BV)
SHL Telemedicine USA, Inc.	Delaware, USA	100% (held by SHL INT)
SHL Telemedicine North America, LLC	Delaware, USA	100% (held by SHL Telemedicine USA, Inc.)
Raytel Medical Corporation, LLC	Delaware, USA	100% (held by SHL Telemedicine North America, LLC)
SHL Telemedicine CPY Ltd.	Nicosia, Cyprus	100% (held by SHL INT)

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

1.2 Significant Shareholders

As of December 31, 2013, SHL was aware of the following shareholders with more than 3% of all voting rights in the company¹:

	2013 Number	2013 % Including Treasury shares	2013 % Excluding Treasury shares	2012 % Excluding Treasury shares
Alroy Group*	2,782,608	25.58%	26.66%	27.44%
G.Z.Assets and Management Ltd.	921,533	8.47%	8.83%	8.91%
Prime Finance Corporation	736,722	6.77%	7.06%	7.12%
Copper Valley Finance Ltd.	736,722	6.77%	7.06%	7.12%
Eli Alroy	749,299	6.89%	7.18%	7.24%
SHL Treasury shares	442,362	4.07%	-	-

* The 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 6.92% of the issued and outstanding share capital of SHL (calculated excluding treasury shares held by SHL), (ii) Mr. Erez Alroy, Co-CEO of SHL that holds individually and through a company wholly owned by him 0.18% of the issued and outstanding share capital of SHL (calculated excluding treasury shares held by 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 6.95% of the issued and outstanding share capital of SHL (calculated excluding treasury shares held by 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 5.11% of the issued and outstanding share capital of SHL (calculated excluding treasury shares held by SHL), and (v) Southland Holding Ltd., a private company owned by Mr. Erez Alroy, Mr. Yariv Alroy and Mr. Elon Shalev, holding approximately 7.5% of the issued and outstanding share capital of SHL (calculated excluding treasury shares held by SHL).

The above table of Significant Shareholders reflects both actual holdings as of December 31, 2013, after deducting from the total number of shares outstanding 442,362 Ordinary Shares held by SHL, (as described in Section 1.1.2 above), and actual holdings as of December 31, 2013 calculated including ordinary shares held by SHL, all as indicated above, but does not reflect holdings on a fully diluted basis.

All shareholdings that have been reported to SHL and the Disclosure Office of SIX Swiss Exchange as per Art. 20 of the Federal Act on Stock Exchanges and Securities Trading (SESTA) and the provisions of the

Stock Exchange Ordinance of the Swiss Financial Market Supervisory Authority (SESTO-FINMA) and published on SIX Swiss Exchange AG's electronic publication platform can be viewed at www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

The Shareholders Agreement, last in effect between and among SHL, G.Z. Assets and Management Ltd. and the Alroy Group and which related to the appointment of directors and the composition of committees of the Board of Directors was terminated in the year under review. The members of the Alroy Group continue to cooperate amongst one another in the nomination and appointment of members of the Board of Directors.

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

1.3 Cross-Shareholdings

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

2. Capital Structure

2.1 Capital on the Disclosure Deadline

Authorized share capital as of December 31, 2013

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, 2013

Number of Ordinary Shares	10,435,526
Par value	NIS 0.01 each
Share capital	NIS 104,355.26

* Excluding 442,362 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 16.

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

¹ With respect to Prime Finance Corporation, and Copper Valley Finance Ltd., the above information is based on the notification received by SHL from each of the foregoing shareholders on August 15, 2013, with respect to Eli Alroy (not a member of the Alroy group), the above information is based on the notification received by SHL on August 15, 2013 and with respect to all above shareholders also based on the shareholder register maintained by SIX SAG AG, as of December 31, 2013 (the "Shareholder Register"). With respect to G.Z. Assets and Management Ltd. and the Alroy Group, the above information is based on the notifications made by the aforementioned shareholders to the Disclosure Office on 10.12.2013 and 9.12.2013, respectively, as well as the Shareholder Register.

value each (the “Ordinary Shares”). The issued and outstanding share capital of SHL, as of December 31, 2013, was NIS 104,355.26, divided into 10,435,526 fully paid registered Ordinary Shares (excluding 442,362 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” below.

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 approved a maximum pool of up to 856,627 Ordinary Shares reserved for issuance upon exercise of Options to be granted pursuant to the now expired 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. The 2003 Share Option Plan expired in the year under review, but any options issued thereunder continue to be valid until expired in accordance with their terms as set forth under the relevant award agreement or the 2003 Share Option Plan.

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, and increased to 1,056,627 in May 2007, 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. With respect to recent option grants, the Board of Directors determined in each case that the exercise price for such option grants shall be the average share price in the thirty (30) days preceding the date of grant (and the foregoing has also been stipulated as the exercise price applicable to any grants of share-based compensation to the Company’s officers pursuant to the newly adopted Compensation Policy). Further, 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 Board of Directors of SHL may in its discretion reduce the relevant performance targets to zero, and has done so in most recent instances. The

options shall expire six (6) years from the date of grant (unless expired earlier under the terms of the 2005 Share Option Plan or the relevant award agreement).

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

	2013	Weighted Average exercise price in		2012	2013
		CHF	CHF		
As at January 1	926,224	6.61	820,853	6.52	
Granted during the year	66,379	7.78	207,189	6.91	
Forfeited during the year	(87,112)	7.07	(75,515)	6.96	
Exercised during the year	(249,969)	6.09	(26,303)	5.32	
Outstanding at the end of the year	655,522	6.86	926,224	6.61	
Vested at December 31	365,880	6.80	532,648	6.53	
	2013	Weighted Average exercise price in CHF		Vested	
Under the 2003 Share Option Plan	6,167		5.50	6,167	
Under the 2005 Share Option Plan	649,355		6.88	359,713	
	655,522		6.86	365,880	

2.3 Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2011, 2012 and 2013, SHL's issued share capital was comprised of 10,419,589, 10,343,801 and 10,435,526 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 (including the re-issuance of shares held by SHL as treasury shares upon the exercise of options previously granted) 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 increased and extended over time. As part of its approval of the share repurchase program (and its respective extensions and increase), 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 (as amended), 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\$4,000,000 (including all shares repurchased following the initial March 25, 2008 approval). The Board originally approved an initial repurchase period lasting up until June 30, 2008, and has since extended the duration of the share repurchase program several times, the latest such extension applicable to share repurchases made up until March 31, 2013. Each extension was made under reaffirmation by the Board that such repurchase by the Company of Ordinary Shares continues to satisfy the requirements of the Israeli Companies Law (as described above). The Board of Directors did not further extend the repurchase period beyond the aforementioned date in the year under review.

In the year under review, the Board of Directors of SHL approved the establishment of an ADR Level 1 Program in the U.S. with respect to the company's ordinary shares, pursuant to which American Depositary Shares (each representing one (1) ordinary share of SHL) will be traded in the U.S. over-the-counter market - the registration statement with respect to the ADR Program became effective as of January 31, 2014 (for rights of holders of American Depositary Shares, please see the following section.)

2.4 The Ordinary Shares and the American Depositary Receipts

2.4.1 The Ordinary Shares

General

SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (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 SegInterSettle 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, or as accrued over a period of two years, whichever is higher, each based on the most recent financial statements of the Company (provided that the date with respect to which such financial statements were prepared does not pre-date the distribution by more than six (6) months); provided, however, that there is no reasonable concern that the payment of such dividend will prevent the Company from satisfying its existing and foreseeable obligations as they become due. Any dividends will be subject to Israeli withholding tax. SHL's Articles of Association provide that the Board of Directors may from time to time declare and cause SHL to pay such dividend as may appear to the Board of Directors to be justified by the profits of SHL. The shareholders entitled to receive dividends are the shareholders on the date upon which it was resolved to distribute the dividends or at such later date as shall be provided in the resolution in question. Accordingly, under the SIS Agreement, each Registered Person is entitled to dividends (for a definition of such terms, please refer to Section 2.6 below).

Voting Rights

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. For additional information regarding voting rights of the Ordinary Shares, see Section "Voting Rights Restrictions and Representations" on page 39.

In case a company purchases its own shares, under the Israeli Companies Law, such shares become dormant and do not confer voting or any other rights so long as such shares are held by the company. As of December 31, 2013, the Company held 442,362 of its own Ordinary Shares.

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

2.4.2 The American Depositary Shares ("ADS")

SHL has entered into a Deposit Agreement with the Bank

of New York Mellon (acting as depositary with respect to the ADR Program, the "Depositary") and all owners and holders of ADS from time to time (the "Deposit Agreement") setting forth the terms and applicable to the deposit of ordinary shares of the Company with the Depositary (or the Zurich office of UBS A.G. acting as custodian) for the purposes set forth under the Deposit Agreement, the creation of ADS representing ordinary shares of SHL deposited and the execution and delivery of American Depositary Receipts evidencing the ADS.

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

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

The Ordinary Shares represented by ADS are voted by the Depositary pursuant to instructions given by the relevant owner of such ADS to the Depositary. The Depositary shall inform the relevant owner, upon receipt of a notice of any meeting of shareholders of SHL, inter alia regarding the manner in which such instructions may be given and the number of Ordinary Shares represented by the ADS held by such owner. The record date with respect to determination of the owners of ADS entitled to give instructions for the exercise of voting

rights shall be the date so fixed by the Company, or if a different date, then as close as practicable to the date fixed by the Company. The Depositary undertook not to vote any Ordinary Shares underlying the ADS other than in accordance with the instructions given by the relevant owner thereof.

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

2.4.3 Duties of Shareholders

Under the Israeli Companies Law, each shareholder has a duty to act in good faith and customary way toward the Company and other shareholders and to refrain from abusing his or her powers in the Company, such as in shareholder votes, and from discriminating other shareholders. Furthermore, specified shareholders have a duty of fairness towards the Company. These shareholders include any controlling shareholders, any shareholder who knows that he or she possesses the power to determine the outcome of a shareholders vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint an office holder or any other power with respect to the company. However, the Israeli Companies Law does not define the substance of this duty of fairness. The aforesaid duties of shareholders also apply to Registered Persons to the extent such Registered Persons exercise the rights attached to the Ordinary Shares (for a definition of the term “Registered Persons”, please refer to Section 2.6 below).

In addition, under the Israeli Companies Law, the disclosure requirements that apply to an office holder in a public company with respect to a personal interest such office holder may have with respect to an existing or proposed transaction of the company also apply to a controlling shareholder of a public company. For such purpose, a controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns twenty-

five (25) percent or more of the voting rights if no other shareholder owns more than fifty (50) percent of the voting rights.

Further, any shareholder participating in a vote on an extraordinary transaction (including a private placement which is an extraordinary transaction) with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest, or the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of the directors and office holders insurance and indemnification), must notify the Company prior to the relevant vote whether or not it has a personal interest in the relevant transaction – if no such notification is made, such shareholder is not entitled to vote and any vote of such shareholder is not counted (for approval requirements in connection with controlling shareholder transactions, please refer to the Section on “Statutory Quorums” below). The same notification requirement applies to (a) shareholders that have a personal interest in the appointment of an Independent (External) Director (for election of Independent (External) Directors, please see Section 3.1 below); (b) shareholders that have a personal interest in a full purchase offer (for full purchase offers, please see Section 7.1 below), and (c) any shareholder that has a personal interest in the approval of the Compensation Policy of the Company (for further details regarding the Compensation Policy, please see Section 5.1 below).

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

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 and ADS

Fully paid Ordinary Shares may be transferred freely. Pursuant to SHL’s Articles of Association no transfer of shares shall be registered in SHL’s Register of Shareholders unless a proper instrument of transfer

in form and substance satisfactory to the Board of Directors has been submitted to SHL together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered, SHL may continue to regard the transferor as the owner thereof. Any Registered Person who wishes to become registered in SHL's Register of Shareholders may request SIS to sign a deed of transfer. Pursuant to SHL's Articles of Association with regard to Ordinary Shares registered in the Register of Shareholders in the name of SIS or any nominee substituting SIS, a written request in a form satisfactory to the Board of Directors from a Registered Person, to be registered in the Register of Shareholders instead of SIS, together with a written confirmation issued by 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.

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

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

SIS Agreement and Shareholder Registration

SHL is currently party to an agreement with SIX SIS AG ("SIS", the "SIS Agreement"), according to which SIS agrees to act as a nominee on behalf of any person registered in a Share Register maintained by SIX SAG 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 SIS 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 Share Register.

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

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

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 nine (9) members, of whom two (2) members are independent (external) directors (Ms. Nehama Ronen and Mr. Nissim Zvili) (for further information on Independent Directors, please refer to the following section of this report).

Independent ("External") Directors

Israeli companies that have offered securities to the public in or outside of Israel are required to appoint two (2) Independent ("external") Directors under the provisions of the Israeli Companies Law. Each committee of a company's board of directors authorized to exercise the powers of the board of directors is required to include at least one (1) Independent Director, and pursuant to the Israeli Companies Law, the board of directors of a public company is required to appoint an audit committee and a Compensation Committee which must be comprised of at least three (3) directors, including all of the Independent (external) Directors. For the tasks of the Audit Committee and the Compensation Committee, respectively, and further requirements regarding the composition of the Audit Committee and the Compensation Committee, please refer to Section 3.3 below.

Pursuant to the Israeli Companies Law, to qualify for an appointment as an Independent (external) Director, the relevant candidate must possess either financial and accounting expertise or professional skills (as such terms are defined in rules promulgated under said law), provided that at least one (1) of the Independent Directors appointed possesses financial and accounting expertise. Further, all of the following persons are prevented from serving as Independent Directors: (a) any individual that is a relative of a controlling shareholder (as such terms are defined under the Israeli Companies Law); (b) any individual who has (or any of whose relatives, partners, employer, entities controlled by him, or someone that such individual is directly or indirectly subordinated to has) at the time of appointment or at any time during the two (2) years prior to such individual's appointment as an Independent Director, any "connection" (including, in general, employment, business and/ or professional relationships, control and/ or service as an office holder) with (i) the Company, (ii) its controlling shareholder(s) at the time of appointment, (iii) a relative of a controlling shareholder at the time of appointment, (iv) any entity whose controlling shareholder(s), at the time of appointment or during the two (2) years prior to the relevant Independent Director appointment is the Company or its controlling shareholder, or (v) the Chairman of the board, the general manager, a holder of 5% or more of the issued and outstanding share capital or voting rights in the company or the most senior financial executive in the company, at the time of appointment, and only if there is no controlling shareholder in the relevant company

or a holder of at least 25% of the voting rights in the company; (c) any individual whose position or other activities create or may create a conflict of interest with his or her role as an Independent Director or may adversely affect such role, or which may compromise such individual's ability to serve as an Independent Director; (d) an employee of the Israeli securities authority or an Israeli stock exchange; (e) a director of another company, if a director of such other company serves as an Independent Director in the first company; (f) without derogating from the restrictions set forth under (b) above, any individual who has (or whose relative, partner, employer or person to whom he/ she is directly or indirectly subordinated to, or a company in which he/ she is a controlling shareholder has) business or professional relationships with any person with respect to which an affiliation is prohibited under (b) above, even if such relationship is not an ongoing, constant relationship, and excluding relationships that are negligible; or (g) any person which in his/ her service as an Independent Director received any compensation for his/ her service beyond that authorized in accordance with applicable regulations promulgated under the Israeli Companies Law.

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

The Independent Directors generally must be elected by a majority vote of the shareholders, provided that (a) such majority includes a majority of shares held by shareholders who are not a controlling shareholder or who do not have a personal interest in the appointment

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

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

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

Independent Director and such appointment is approved in the same way as the appointment for the initial term is approved (see above).

At the AGM, Ms. Nehama Ronen was re-elected to serve her third (and last) consecutive term as an Independent Director of SHL until the Annual General Meeting of 2016. She may not be re-elected thereafter. Mr. Nissim Zvili serves his second term as an Independent Director of SHL until the Annual General Meeting of 2014, and may be re-elected for one (1) additional three (3) year term, subject to the above.

Independent ("Non-Dependent") Directors

Pursuant to the Israeli Companies Law, a public company may also designate certain directors as independent (non-dependent) directors. Pursuant to the relevant provisions of the law, independent (non-dependent) directors are either (i) Independent (external) Directors as set forth above, or (ii) such persons who fulfill all of the requirements applicable to Independent (external) Directors, as confirmed by the Audit Committee, except special financial or professional qualifications, and who have not served as a director of the Company for more than nine continuous (9) years (whereby any interruption of less than two (2) years does not suffice to constitute a disruption of such continuance).

As set forth below, a majority of the members of the Company's Audit Committee are required to be independent (non-dependent) directors.

The Company has currently one (1) director that has been designated as an independent (non-dependent) director: Mr. Eliyahu Ayalon.

Executive and Non-Executive Members of the Board

The only executive members of the Board of Directors are Mr. Erez Alroy and Mr. Yariv Alroy. In addition, in the year under review Mr. Yoram Alroy served as an executive director on the Board of Directors until the AGM, but his service ended as of such date. 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 significant 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 13 and “Share Ownership” on page 38.

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*
Elon Shalev	Israeli	Non-executive member/Chairman of the Board	1987	2014
Erez Alroy	Israeli	Executive member/Co-CEO	2008	2014
Yariv Alroy	Israeli	Executive member/Co-CEO	2010**	2014
Ziv Carthy	Israeli	Non-executive member	1997	2014
Nehama Ronen	Israeli	Non-executive member/Independent (external) Director	2007	2016
Nissim Zvili	Israeli	Non-executive member/Independent (external) Director	2008	2014
Dvora Kimhi	Israeli	Non-executive member	2010***	2014
Mr. Salomon Mizrahi	French	Non-executive member	2013	2014
Mr. Eliyahu Ayalon	Israeli	Non-executive member/Independent (non-dependent) director	2013	2014

* 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 23.

** 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.



Mr. Yoram Alroy, an executive member of the Board of Directors, stepped down from his position as a director effective as of the AGM.

national telecommunications provider, TASE: BEZQ), 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



Elon Shalev, Chairman of the Board

Elon Shalev is co-founder of SHL, has served as a director of SHL since its inception in 1987 and started serving as the Company's Chairman as of the 2011 AGM. From 1990 to 1993, he was SHL's

Chief Operating Officer. Mr. Shalev was the founder of Channel 2 news in Israel and from 1993 to 1995 served as its CEO. From 1996 to 1999, he was Editor in Chief of “Yediot Aharonot”, the largest daily newspaper in Israel and from 2000-2001 he was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group. Mr. Shalev serves as a senior advisor to the Saban Capital Group and serves as a director in Partner Communications Company (NASDAQ, TASE: PTNR), leading Israeli provider of telecommunications services (cellular, fixed-line telephony and internet services) under the orange™ brand and was director in several large and well known Israeli firms like Bezeq (the 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

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.



Ziv Carthy

Ziv Carthy has served as a director of SHL since 1997. Between 1994 and 1997 Mr. Carthy served as a member of SHL's executive management team. From 1999 to 2000 Mr. Carthy was the COO of GTEKO (a software firm). From 2001 to 2003 he was the CEO and co-founder of GUI Machine Inc., a software company, which was acquired by SAP AG. Between 2003 and 2007 Mr. Carthy held leadership positions in SAP AG in the US. His recent roles were Senior Vice President in the ERP Group, and Vice President of Developer Programs. Between 2007 and 2010, he was the General Manager of Time To Know, Inc. – an educational technology firm. In addition he served as a consultant and a Board member for technology startups in the Silicon Valley and Israel. Mr. Carthy holds an MBA from Harvard University, and a B.Sc. in Engineering from the Technion in Haifa, Israel. Nationality: Israeli.



Nehama Ronen – Independent Director

Nehama Ronen joined the Board of Directors of SHL as an Independent Director in 2007. Ms. Ronen is currently the chairperson 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 and in and Logisticare Ltd., Ms. Ronen previously served as a board member in other well known Israeli corporations such as Kamur Ltd. and Bazan Oil refineries Ltd., Israel's largest oil refinery. 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. In addition Ms. Ronen was a member of the presidency of the Israeli Chamber of Commerce. 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 in 2008. Mr. Zvili currently serves as the President of Alstom Israel, as the local representative of the French global infrastructure group. 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.



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.



Mr. Salomon Mizrahi

Mr. Mizrahi is the founder and Managing Partner of Groupe Lyautey Consulting, a French consulting firm specializing in the coaching of senior managers and monitoring of key strategic projects. Prior to founding his consulting practice Mr. Mizrahi was the Managing Partner, Financial Services, France and the Global Head of Capital Markets Industry of Arthur Andersen/Andersen Consulting (currently Accenture) and the Chairman of PwC Consulting, France. Mr. Mizrahi holds a MA in economics from the HEC Business School, Paris and a MA in Hebrew from the Paris University. Mr. Mizrahi serves as a Co-Director and Mentor of a joint academic program

in strategy and consulting of the Technion (MBA) – ESCP Europe Business School. Nationality: French.



Mr. Eliyahu Ayalon

Mr. Ayalon is a leading veteran of the Israeli High Tech Industry. From 1996 to 2000 Mr. Ayalon served as the CEO of DSP Group, Inc. (NASDAQ: DSPG), a leading provider of system on chip solutions and DSP technology and from 2000 to 2013 he served as its Chairman of the Board. Mr. Ayalon also served as a Board member of M-Systems (NASDAQ: FLSH), which invented the Disk on Key and was sold to San Disk and on the Boards of various private Technology Companies. Mr. Ayalon currently serves as a Board member of CEVA, Inc. (NASDAQ: CEVA), a leading IP Company licensing DSP Technology and application software. Mr. Ayalon holds a B.Sc. in Electronic Engineering from the Technion/Israel Institute of Technology and is a member of its Board of Governors. Nationality: Israeli and Italian.

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 (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 Israeli Companies Law apply preventing such director from being eligible for service as a director (such as a court conviction of an offense of corruption, fraud or use of inside information so long as five (5) years have not yet lapsed from the date of the relevant verdict). 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, a person who is a candidate to be a director of a company is required to disclose to the company, amongst others, whether the enforcement committee instituted under the Israeli Securities Law has imposed certain enforcement measures on such person preventing him/ her from serving as a director in a public company, so long as the applicable period of restriction imposed has not yet lapsed. If sanctions were imposed which prohibit service as a director in a public company, then (a) the relevant candidate will not be appointed as a director; and (b) the service of any person already serving as a director will immediately terminate with submission of notice regarding such enforcement measures by the relevant director.

Under the Israeli Companies Law, the following persons may not be appointed as Chairman of the Board of a public company: (a) neither the Chief Executive Officer itself nor any of his/her relatives (as such term is defined under the Israeli Companies Law and which does not include uncles, aunts or cousins) may at the same time serve as Chairman of the Board, unless the shareholders consent to such service, which, in any event, may not exceed three (3) year periods from the date of each such approval. Approval shall be obtained by the Audit Committee, the Board and the shareholders. Approval by the shareholders requires that either (i) the majority vote in favor of the resolution shall include the consent of at least two thirds (2/3) 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 and who are not controlling shareholders of the Company (whereby abstaining votes will not be counted), or (ii) the total shares of the shareholders who are not controlling shareholder and have no personal interest in approving the resolution voted against the resolution do not represent more than two (2) percent of the voting rights in the Company; or (b) a person directly or indirectly subordinated to the General Manager (i.e. to the Co-CEOs). In addition, in a public company the Chairman of the Board or his/ her relatives may not be authorized to exercise the powers of (a) the General Manager, unless under the special approval requirements set forth above and each time only for a period of up to three (3) years; or (b) a person directly or indirectly subordinated to the

General Manager, and the Chairman is also prevented from serving in any other position in the company or an entity in its control (except service as a director or Chairman of a company under its control.) Shareholders participating in the special approvals as described above must disclose prior to the vote whether or not they have a personal interest – if no such disclosure is made, the votes of such shareholders will not be counted.

3.3 Internal Organizational Structure

Pursuant to the Israeli Companies Law and SHL's Articles of Association, the Board 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 meets at least once each quarter. Topics addressed in the meetings include the strategy, business reviews and major projects, investments and transactions. Each of the Board Committees conducts its meetings according to the needs of the relevant Board Committee. The Chief Executive Officers and the Chief Financial Officer of the Company are invited to all meetings and regularly attend such. The Board of Directors invites its external legal counsel to participate in meetings from time to time, 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 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;
- 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 (including without limitations, dividends and share repurchases);
- express its opinion on a special tender offer, as set forth in Section 329 of the Israeli Companies Law.

Pursuant to the Articles of Association of SHL a quorum at a meeting of the Board 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 16 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.

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.

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

to an option plan approved by the board); approval of financial statements; approval of interested party transactions.

As required under the Israeli Companies Law, the Board of Directors has appointed an Audit Committee and 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, and a majority of its members must be Independent (Non-Dependent) Directors. The following persons may not be members of the Audit Committee: (a) the Chairman of the Board of Directors; (b) any director employed by the Company; (c) any director employed by a controlling shareholder of the Company or an entity under the control of such controlling shareholder; (d) any director who provides services, on a regular basis, to the Company, a controlling shareholder or an entity under the control of a controlling shareholder; (e) a director whose main livelihood is based on a controlling shareholder; and (f) a controlling shareholder or any of its relatives. Subject to limited exceptions, any person who could not be a member of the Audit Committee may not be present at its meetings. The Chairman of the Audit Committee shall be an Independent (external) Director not serving for more than nine (9) years. The legal quorum for any meeting of the Audit Committee shall be a majority of its members, provided that the majority of those present shall be Independent (non-dependent) Directors (see description above), and further provided that at least one (1) Independent (external) Director shall be present.

The role of the Audit Committee includes, amongst others, the following: (a) to examine flaws in the business management of the Company, in consultation with the Internal Auditor and the independent accountants, and to propose remedial measures to the Board of Directors; (b) to determine whether an interested party transaction is an ordinary or extraordinary transaction (where extraordinary transactions are subject to special approval requirements)(for special approval requirements with respect to controlling shareholder and director

engagement terms, please refer to the Section on “Compensation, Shareholdings and Loans” below); (c) to approve interested party transactions, where so required under the Israeli Companies Law; and (d) to examine the existing internal control measures of the Company and the functioning of the Internal Auditor (see below). Pursuant to the Amendment, the Audit Committee is also charged with (a) prescribing with respect to transactions with controlling shareholders or another person in which a controlling shareholder has a personal interest (even if they are determined by the Audit Committee not to be extraordinary transactions), as well as with respect to the engagement terms of controlling shareholders and their relatives, the obligation to conduct either (i) a competitive process under the supervision of either the Audit Committee or who else the Audit Committee may determine in respect thereof pursuant to the criteria set by it; or (ii) other processes as determined by the Audit Committee, prior to the relevant transaction, and all in accordance with the type of transaction in question, and the Audit Committee may set the relevant criteria therefor once a year in advance; and (b) to determine the manner of approval of transactions with controlling shareholders or another person in which a controlling shareholder has a personal interest and to determine kinds of such transactions which require the approval of the Audit Committee, all with respect to such transactions which pursuant to the determination of the Audit Committee are not extraordinary transactions but also not negligible – the Audit Committee may so determine with respect to types of transactions according to criteria it may set one a year in advance. The Audit Committee meets from time to time when deemed necessary. During the year under review it held 2 meetings.

Currently, the Audit Committee is composed of the following members: Mr. Eliyahu Ayalon, Ms. Nehama Ronen and Mr. Nissim Zvili.

Compensation Committee – Pursuant to the Israeli Companies Law, an Israeli public company is obligated to appoint a Compensation Committee, which shall be comprised of at least three (3) members and of which all Independent (external) Directors shall be members and constitute a majority. The remaining members of the Compensation Committee shall be such whose engagement terms correspond to the rules of compensation set forth under applicable regulations under the Companies Law with respect to Independent (external) Directors. Persons who may not be members

of the Audit Committee (see description above) may also not be members of the Compensation Committee. The Chairman of the Compensation Committee shall be an Independent (external) Director not serving for more than nine (9) years.

The role and authority of the Compensation Committee shall include (a) the issuance of a recommendation to the Board of Directors regarding the Compensation Policy, (b) issuance of a recommendation to the Board of Directors once every three (3) years regarding the extension of the Compensation Policy; (c) recommendation to the Board of Directors from time to time regarding any amendments to the Compensation Policy, as well as examination regarding its implementation; (d) approval of transactions with office holders (including controlling shareholders) regarding the terms of their engagement with the Company as required under the Israeli Companies Law; and (e) exemption of certain transactions from the shareholder approval requirement which may otherwise apply pursuant to the Israeli Companies Law. The Compensation Committee meets from time to time when deemed necessary. During the year under review it held 8 meetings.

The current members of the Compensation Committee are Ms. Nehama Ronen, Mr. Eliyahu Ayalon, and Mr. Nissim Zvili.

Pursuant to the Articles of Association, the committees shall, in performing their functions, conform to any regulations imposed on them 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 – Pursuant to the Israeli Companies Law, the Board of Directors of a public company shall appoint an internal auditor. Such appointment is made upon recommendation of the Audit Committee. Neither an interested party nor an officer of the company, any relatives of the foregoing or the external auditor or anyone on its behalf may serve in such position. The role of the Internal Auditor is to examine, among other things, whether SHL’s activities comply with the law and orderly business procedure. Pursuant to the Israeli Internal Audit Law, 1992, 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. In addition, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings. The Internal Auditor has no decision making powers.

The service of Mr. Avi Schwartzuch of the accounting firm Schwartzuch, Widavski and Co. as an Internal Auditor, terminated in the year under review and the Board of Directors, upon the recommendation of the Audit Committee, appointed Mr. Gil Ruguz'inski as SHL's new Internal Auditor, effective as of December 19, 2013.

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 titled "Auditors" on page 42) 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 page 26 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 conveys his findings to the Audit Committee and the external auditors

4. Senior Management

4.1 / 4.2 Members of Senior Management; Other Activities and Vested Interests

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	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
Yoav Rubinstein	Israeli	Senior Vice-President, Head of Global Business Development
Georg F. von Oppen*	German	Managing Director – SHL Telemedizin Germany
Arie Roth	Israeli	Chief Medical Manager
Robert E. Sass	U.S.	General Manager, SHL Telemedicine, USA

* As of February 28, 2014 Mr. von Oppen no longer holds the position of Managing Director, SHL Telemedizin Germany.

Yoram Alroy, President

Yoram Alroy founded SHL in 1987. Commencing in 1987 and until September 2003 he served as CEO and Chairman of SHL's Board of Directors. As of September 2003 and until the 2011 AGM, Mr. Alroy served both as the President of SHL and the Chairman of SHL's Board. At the 2011 AGM, Mr. Alroy stepped down from his position as Chairman and as of the 2013 AGM he stopped serving on the Board of Directors, but he continues to serve the Company as President. 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 a director of the Board of Directors of Shahal Haifa, Shahal Rishon and SHL INT. Nationality: Israeli

Yariv Alroy, Co-CEO

For additional information see Section "Members of the Board of Directors" on page 18.

Erez Alroy, Co-CEO

For additional information see Section "Members of the Board of Directors" on page 18.



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 field 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.



Yoav Rubinstein - Senior Vice-President, Head of Global Business Development

Yoav Rubinstein joined SHL in March 2012 as Senior Vice President, Head of Global Business Development. Before joining SHL, Mr. Rubinstein worked in the private equity industry, for 9.5 years as a Principal for Apax Partners and then as a Senior Advisor to Saban Capital Group. Mr. Rubinstein holds a BA in Business Administration from the Interdisciplinary Center, Israel. Nationality: Israeli and American.



Georg F. von Oppen, Managing Director - SHL Telemedizin, Germany

Georg F. von Oppen became Co-Managing Director of SHL Telemedizin in Germany in January 2011 and as of January 1, 2013 served as its sole Managing Director. Mr. von Oppen has more than 25 years of experience in Business Development in Mobile Communications in Europe and America. As a Senior Manager he successfully acquired Mobile Communications licenses across Europe and Latin America for BellSouth International. He was furthermore founding Partner of a Consulting Company in the US. Since 2008 Mr. von Oppen has been a Partner in the Management Consulting Company MCG in Munich. Nationality: German As of February 28, 2014 Mr. von Oppen no longer holds the position of Managing Director, SHL Telemedizin Germany.



Prof. Arie Roth, MD, Chief Medical Manager

Prof. Arie Roth has served as SHL's Chief Medical Consultant since its start of operations. Prof. Roth who received his medical degree from the Sackler School of Medicine of the University of Tel-Aviv, Israel is the director of the Cardiac Intensive Care Unit in the department of cardiology at the Tel-Aviv Sourasky Medical Center, and is a Professor of cardiology in the Sackler Faculty of Medicine, University of Tel-Aviv, Israel. Nationality: Israeli.



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

Bob joined SHL Telemedicine as General Manager SHL Telemedicine, USA at the end of 2013. Prior to joining SHL, he spent 5 years with Philips Healthcare in a variety of executive leadership assignments in Remote Patient & Home Monitoring. Bob came to Philips through the acquisition of Raytel Cardiac Services, formally owned by SHL. Mr. Sass has over 30 years of experience in the medical industry including being one of the founding corporate officers of Viterion Telehealthcare. Mr. Sass also served as a Board Member and President of the Remote Cardiac Services Provider Group, an industry association. Mr. Sass holds a Bachelor of Science Degree from the University of Dayton, Ohio. Nationality: U.S.

4.3 Management Contracts

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

In March 2001 SHL entered into a management contract with Erez Nachtomy pursuant to which Mr. Nachtomy is to provide SHL with services as an Executive Vice-President. The aforesaid management contract may be terminated by either party, at any time, by providing the other party ninety (90) days prior written notice. The compensation paid to Mr. Nachtomy pursuant to this agreement is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in Section 5.2 below.

In January 1990 SHL 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. The compensation paid to Prof. Roth pursuant to this agreement is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in Section 5.2 below.

On September 21, 2003, SHL entered into a management services agreement with Alroy Yoram Consulting and Management Ltd., an Israeli company wholly owned by

Mr. Yoram Alroy (who had previously been an employee of the Company) (for purposes of this paragraph, 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, which was amended (effective as of the 2011 Annual General Meeting) and approved by the Audit Committee, the Board of Directors and the shareholders of the Company in 2011 pursuant to the provisions of the Israeli Companies Law, as then in effect. The initial term of the aforesaid management agreement ended on September 21st, 2006, and the agreement stipulates that it 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, such term being subject to receipt of the corporate approvals required pursuant to the provisions of the Israeli Companies Law. Pursuant to the Israeli Companies Law (as amended), such agreement is for a term of three (3) years and accordingly will terminate in 2014, unless re-approved by the Compensation Committee, the Board and the shareholders of the Company, subject to special majority shareholder approval requirements, and in accordance with the Company's Compensation Policy (for further information, please refer to the section on compensation of "Senior Management" on page 37 below).

On November 30, 2005, 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 companies wholly owned by Mr. Yariv Alroy and Mr. Erez Alroy, respectively (who had previously been employees of the Company)(each – a "Service Provider"; together - the "Service Providers" for purposes of this paragraph), 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, such agreements amended (effective as of the 2011 Annual General Meeting) and approved as amended by the Audit Committee, the Board and the shareholders of the Company in 2011 in accordance with the provisions of the Israeli Companies Law, as then in effect. The initial term of each of the aforesaid management agreements ended on September 21st, 2006, and the agreements stipulate that the term thereof 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, such term being subject to receipt of the corporate approvals required pursuant to the provisions of the Israeli Companies Law. Pursuant to the Israeli Companies Law such agreements are for a term of three (3) years and accordingly will terminate in 2014, unless re-approved by the Compensation Committee, the Board and the shareholders of the Company subject to special majority shareholder approval requirements and in accordance with the Compensation Policy (for further information, please refer to the section on compensation of "Senior Management" on page 37 below).

Effective as of the 2011 Annual General Meeting, the Company entered into a service agreement with an entity controlled by Mr. Elon Shalev (for purposes of this paragraph, the "Service Provider") pursuant to which the Service Provider shall provide services to the Company as the Company's Chairman through Mr. Shalev exclusively. Such agreement shall be in effect for as long as Mr. Shalev shall serve as the Company's Chairman; subject to obtaining, from time to time, all corporate approvals requisite under applicable law. Pursuant to the Israeli Companies Law, such agreement is for a three (3) year term and accordingly will terminate in 2014, unless re-approved by the Compensation Committee, the Board and the shareholders of the Company subject to special majority shareholder approval requirements and in accordance with the Compensation Policy (for further information, please refer to the section on compensation of "Senior Management" on page 37 below).

In March 2012 SHL entered into a management contract with Yoav Rubinstein pursuant to which Mr. Rubinstein is to provide SHL with services as Senior Vice-President, Head of Global Business Development. The aforesaid management contract may be terminated by either party, at any time, by providing the other party sixty (60) days prior written notice. The compensation paid to Mr. Rubinstein pursuant to this agreement is part of the compensation figure disclosed, on an aggregate basis, with respect to all members of senior management, in Section 5.2 below.

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 37.

5. Compensation, Shareholdings and Loans

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

Pursuant to the Israeli Companies Law, an Israeli public company is required to adopt a compensation policy with respect to the terms of engagement of its officer holders (as such term is defined under the Israeli Companies Law and including without limitations, directors and controlling shareholders engaged as officers of the Company)(the "Compensation Policy"), subject to limited exceptions set forth in the regulations promulgated under the Israeli Companies Law in connection therewith (which are not applicable to SHL). The adoption of the Compensation Policy requires approval by the shareholders of the Company, further to approval by the Board of Directors which has to take into consideration the recommendations issued by the Compensation Committee in this respect. The relevant shareholder approval is subject to a special majority requirement of either (a) the majority vote in favor of the resolution including the consent of at least a majority of the shareholders' voting power represented at the meeting in person or by proxy and voting thereon who are neither controlling shareholders of the Company nor have a personal interest in approving the Compensation Policy (not including abstaining votes), or (b) the total number of votes of those shareholders described in (a) above and objecting to the adoption of the Compensation Policy not representing more than 2% (two percent) of the voting rights in the Company. Any shareholder participating in the vote on the adoption of the Compensation Policy has to inform the company prior to the relevant vote whether or not he/she/it has a personal interest therein. Votes of shareholders who did not notify the Company on whether or not they have a personal interest in accordance with the foregoing are not be counted.

Notwithstanding the aforesaid shareholder approval requirement, the Compensation Policy may also be approved, despite objection by the Company's shareholders in the event that after renewed consideration of the Compensation Policy and based on detailed reasons, both the Compensation Committee and thereafter the Board of Directors resolved that the

adoption of such Compensation Policy despite the shareholders' objection is in the Company's best interest.

SHL's Compensation Policy was brought to the approval of the shareholders of the Company at the AGM, but failed to obtain the relevant special majority approval as set forth above. In January 2014, the Compensation Committee and the Board of Directors of SHL approved the Compensation Policy despite the objection of the general meeting after having reconsidered the Compensation Policy and having determined that the adoption thereof is in the Company's best interest, all in accordance with the provisions of the Israeli Companies Law, as described above. The Compensation Policy requires renewed approval, once every three (3) years. In addition, the Board of Directors is required to examine from time to time whether any amendments to the Compensation Policy are necessary in light of changing circumstances or for any other reason, and similarly, the Compensation Committee shall issue recommendations to the Board of Directors in this respect from time to time. The Israeli Companies Law provides that the Compensation Policy shall be determined under consideration, amongst others, of the following: (a) furtherance of the Company's objectives, its business plan and policies, with a long term view; (b) creation of adequate incentives for officer holders of the Company under consideration of the Company's risk management policy; (c) size of the Company and the nature of its operations; and (d) with respect to variable compensation components – the contribution of the office holder to the achievement of the Company's targets and increase in revenues, all with a long term view and in accordance with the position of the relevant office holder. Further, the Compensation Policy shall deal with the following matters: (a) education, qualifications, expertise, professional experience and achievements of the relevant office holder; (b) the position of the office holder, his/ her responsibilities and previous engagements signed with him/ her; (c) the relation between the engagement terms of the relevant office holder to the engagement terms of the other employees and/ or subcontractors of the Company and particularly, the relation to the average salary and to the median (i.e. 50th percentile) salary of such employees and the impact of the difference between the foregoing on the working relationships in the Company; (d) in the event officer engagement terms include variable components – the possibility of reducing such components in the discretion of the Board of Directors,

as well as the possibility to determine ceilings for the value of variable components which are not paid in cash; and (e) in the event the officer engagement terms include retirement grants – the period of engagement of the office holder, the applicable engagement terms during such time period, the performance of the Company during such period, the contribution of the officer holder to the achievement of the Company's targets and increase of its revenues, as well as the circumstances of retirement. At last, the Compensation Policy must contain the following provisions: (a) with respect to variable compensation components: (i) such must be based on the achievement of long-term performance goals and objectively measurable criteria (although with respect to an immaterial part of such components, the Company may resolve that such shall be granted based on criteria not objectively measurable under consideration of the officer holder's contribution to the Company); and (ii) the proportion between fixed and variable compensation components must be set, as well as a ceiling for the value of variable components at the time of payment (provided that with respect to variable components which are not paid in cash, a ceiling needs to be fixed at the time of grant); (b) a provision pursuant to which an office holder will repay to the Company any sums paid to him/ her as part of his/ her compensation if such sum was paid based on data which later turned out to be faulted and which was restated under the Company's financial statements, all on such conditions as set forth under the Compensation Policy; (c) a minimum holding and vesting period for variable compensation components in the form of equity, under reference to adequate incentives with a long-term view; and (d) a ceiling with respect to retirement grants.

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

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

Pursuant to the Compensation Policy, SHL is entitled to grant to some or all of its officers a compensation package including any or all of the following: signing bonus, base salary, commissions, annual cash bonus, retirement grant, share-based compensation. The compensation for each officer may also include additional standard benefits such as social benefits, pension insurance, managers insurance, study fund, severance payment, car allowance, mobile phone allowance, and medical insurance, provided that, in any event, the aggregate amount and/or update of such additional benefits shall not exceed 50% of the officer's base salary (except with respect to such officers whose company car tax liability is grossed up, in which case such additional benefits shall not exceed 70% of the officer's base salary). The Compensation Policy further provides that SHL's officers shall be entitled to benefit from insurance, exculpation and indemnification arrangements to be approved from time to time pursuant to applicable law and the Articles of Association of the Company.

With respect to retirement terms, the Compensation Policy provides, *inter alia*, that (a) any advance notice period shall not exceed six (6) months, except with respect to the Co-CEOs who shall be entitled to a nine (9) month advance notice; and (b) the amount or value of any retirement grant, if granted, shall not exceed an additional six (6) months of base salary in addition to the advance notice period; provided that overall, the combination of the advance notice and retirement grant (if applicable) shall not exceed a period of twelve (12) months altogether.

Pursuant to the Compensation Policy, any annual cash bonus granted to an officer shall not exceed twelve (12) times such officer's monthly base salary and in any event, the aggregate amount of all annual cash bonuses paid together to the Company's officers (on an annual basis), on the date of payment thereof, shall not exceed the gross sum of US\$1,000,000 with respect to all of the Company's officers (excluding the Co-CEOs, whose bonus ceiling is a gross sum of US\$1,250,000 with respect to both of the Co-CEOs, together). Further, the Compensation Policy provides that any annual cash bonus shall be based mainly (at least 80%) on measurable criteria (including overall revenue growth and in Germany specifically; entry by SHL into new markets; launch of new products; increase in the number of patients serviced in Germany; increase in the number of subscribers and/ or users in India; regulatory standing; and the meeting of consolidated budget targets), and, with respect to its less significant part (up to 20%), in the Board of Director's sole discretion based on non-measurable criteria (including the contribution of the officer to the Company's business, its profitability and stability; the officer's unique contribution to the Company; satisfaction with the officer's performance (including the degree of involvement of the officer and devotion of efforts in the performance of his duties); the officer's ability to work in coordination and cooperation with other employees of the Company; and the officer's contribution to an appropriate control environment and ethical environment). Notwithstanding the foregoing, under the management agreements currently in effect with entities controlled by Mr. Yoram Alroy, Mr. Erez Alroy and Mr. Yariv Alroy (see also Section 4.3 above), the foregoing are entitled, together, to a profit based annual bonus, with respect to the preceding year or any part thereof, which is equal to 3.75% of the Company's yearly profits before taxes and excluding capital gains, as such profits are reflected in the Company's audited financial statements for the relevant fiscal year, provided that the aggregate amount of any bonus paid together to the foregoing persons shall not exceed the amount of US\$ 1,250,000 per year.

With respect to share-based compensation, the Compensation Policy provides that the Company shall be entitled to grant to its officers options, restricted stock units or any other share-based compensation pursuant to an equity plan as adopted or shall be adopted, from time to time and subject to any applicable law. The aggregate fair value of such share-based compensation,

measured at the time of grant, for all of the officers of the Company as a group, in a three years period, shall not exceed a fair value of US\$2,500,000, and individually for each officer shall not exceed a fair value which is the higher of: (i) three (3) times such officer's yearly base salary; or (ii) US\$300,000, whereby the fair value of the share-based compensation shall be calculated, at the time of grant, in accordance with the costs recorded in the Company's financial statements. Any share-based compensation, if granted, shall mature in installments or vesting periods (or depend on meeting milestones) which shall take into account the appropriate incentive, in light of the Company's objectives in the years following the approval of the grant, and in any event the vesting shall be at a minimum as follows: (i) first cliff following one (1) year from the date of grant; and (ii) full vesting following 24 months from the date of an officer's first grant. As of the second grant to an officer, full vesting shall occur no earlier than 36 months from the date of such grant. Pursuant to the Compensation Policy, the applicable exercise price of share based compensation shall be equal to the average closing price of the SHL's share during the thirty (30) day period preceding the date of grant.

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

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

5.2 Approval Requirements

Board of Directors

Except for limited circumstances provided for under regulations promulgated under the Israeli Companies Law, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment (including the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, require the approval of the Compensation Committee, the Board of Directors and the shareholders (by a simple majority) and the relevant approvals by the Compensation Committee and the Board of Directors need to be made in accordance with the Compensation Policy (subject to a limited exception). Further, pursuant to the Israeli Companies Law, approval by the shareholders of the terms of engagement of a controlling shareholder as an office holder (including as a director) or employee (and subject to the limited circumstances provided for under regulations promulgated under the Israeli Companies Law in which such shareholder approval is not required), requires either (i) that the majority vote in favor of the resolution shall include the consent of at least a majority of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) that the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than 2% (two percent) of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

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

as applicable, have a personal interest in the terms of office of such a director, then the relevant director may be present during the deliberations and may vote on his terms of office, and in such event, shareholders approval is also required.

At the AGM, the shareholders of the Company approved the payment of a compensation to the non-executive directors (except the Chairman), or an entity controlled by such director or the shareholder appointing such director, as the case may be and at such person's request, for their service equivalent in amount to that paid to Independent (external) Directors of the Company (see below). Such approved compensation included inter alia the grant of 18,000 options to purchase 18,000 ordinary shares of SHL under SHL's 2005 Share Option Plan with respect to the newly elected non-executive directors (subject to receipt of all required approvals with respect thereto). The compensation payable to Mr. Elon Shalev (or an entity controlled by him) for his service as the Chairman of the Board was previously approved at the 2011 Annual General Meeting in accordance with the special approval requirements applicable to controlling shareholder compensation terms (see above), all in accordance with the Israeli Companies Law as then in effect. The executive directors are currently not compensated for their service as members of the Board of Directors of SHL. The applicable compensation paid to the directors and the Chairman in the year under review pursuant to the foregoing is reflected in the table on "Compensation for Acting Members of Governing Bodies" on page 37 below.

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 reimbursement of reasonable expenses and 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, dependent on the relevant company's "rank", as determined based upon the company's shareholders' equity as such appears in the company's audited balance sheet for the preceding year. In the event a public company chooses to pay to the independent directors an annual fee and a participation fee in an amount between the "set" amount and the maximum amount

set under the regulations, then such compensation is not subject to approval by the shareholders of the company. The foregoing exception to the shareholder approval requirement does not apply with respect to compensation in the form of securities of the company. The payment of an annual fee in an amount between the "set" and the maximum amount, as well as a participation fee per meeting in the "set" amount, as stipulated under the relevant regulations, was previously approved with respect to Mr. Nissim Zvili (or an entity controlled by him) at the 2011 Annual General Meeting, and with respect to Ms. Nehama Ronen (or an entity controlled by her) such payment was approved at the AGM. As, pursuant to relevant regulations promulgated under the Israeli Companies Law all Independent Directors shall be entitled to the same compensation, the grant of 12,379 additional options to purchase SHL's shares to Mr. Zvili was approved at the AGM (subject to receipt by SHL of all required approvals in connection therewith), so that Mr. Zvili would hold the same number of options as Ms. Ronen. All of the foregoing terms were approved by the Audit Committee and the Board prior to the requisite shareholder approval (as required under the Israeli Companies Law, prior to the Amendment).

Directors are reimbursed for travel and other reasonable expenses related to their capacity as directors of SHL and are entitled to indemnification and D&O insurance coverage, all as re-approved and confirmed by the Audit Committee, the Board and the shareholders at the 2011 Annual General Meeting in general pursuant to the Israeli Companies Law as in effect prior to the Amendment, and as re-approved by the Compensation Committee, the Board and the shareholders of SHL at this year's AGM as part of the compensation package of those non-executive and Independent Directors elected at the AGM.

(For more information on director compensation, see also Section "Compensation for Acting Members of Governing Bodies" on page 36).

Senior Management (other than controlling shareholders)

Pursuant to the Articles of Association, the salaries and emoluments of the executives of SHL are currently determined by the Chief Executive Officers pursuant to the SHL Compensation Policy. Further, pursuant to the Israeli Companies Law, the engagement terms of office holders of the Company which are not directors,

controlling shareholders or their relatives, or the CEO of the Company (including indemnification undertakings and officer insurance coverage) require approval by the Board of Directors following approval by the Compensation Committee, and the approval by the Board of Directors and the Compensation Committee shall be in accordance with the Compensation Policy (subject to a limited exception).

Pursuant to the Israeli Companies Law, in general and subject to limited exceptions, the terms of engagement of a CEO of a public company (who is not also a director and not a controlling shareholder or relative thereof) is subject to approval by the Compensation Committee, the Board of Directors and the shareholders of the Company (subject to special approval requirements). However, as the Co-CEOs of SHL may be deemed controlling shareholders with respect to the approval of their engagement terms, the special approval requirements applicable to the engagement terms of controlling shareholders, as set forth below, apply to them.

Notwithstanding the foregoing, a transaction with an office holder (including the CEO, but excluding controlling shareholders and their relatives) which constitutes a change to existing engagement terms of such office holder solely requires approval by the Compensation Committee in the event that the Compensation Committee resolved that such change is immaterial.

In the year under review, the annual compensation of senior management, other than the President and Co-CEO's, was 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, all in accordance with the Company's Compensation Policy. In addition to the foregoing, all members of senior management were entitled to additional benefits in the form of a company car and a mobile phone.

Base salary and performance based cash bonus are subject to the Company's Compensation Policy and the conditions stipulated in such policy and are subject to the aforesaid corporate approval requirements for persons considered office holders, including office holders who may be deemed controlling shareholders, under the Israeli Companies Law. Share option incentive awards are subject to Compensation Committee approval in accordance with the Company's Compensation

Policy and further Board approval and such additional corporate approvals as set forth above with respect to office holders.

Factors taken into account related to the composition of the compensation packages of senior management members are set forth in SHL's Compensation Policy. Overall, the compensation of senior management in the year under review was comprised, on an average of approximately 85% of a cash base salary and 15% of cash bonuses and share options granted.

Co-CEO's and President

Notwithstanding the foregoing, with respect to the engagement terms of controlling shareholders and their relatives, special approval requirements apply. In general, the engagement of a controlling shareholder or its relative as an office holder or employee (including the terms and conditions of directors' and office holders' insurance and indemnification, subject to a limited exception), requires the approval of the Compensation Committee, the Board of Directors and the shareholders, and such approval by the Compensation Committee and the Board of Directors shall be made in accordance with the Compensation Policy (subject to a limited exception). Pursuant to the Israeli Companies Law, the shareholder approval must include at least a majority of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this special majority approval if the total shares of shareholders having no personal interest in the transaction and voted against the transaction do not represent more than 2% (two 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). Certain exceptions exist to the foregoing shareholder approval requirement, provided that the relevant terms have been approved by the Compensation Committee and the Board of Directors under confirmation that the circumstances triggering the relevant exception exist. Such exceptions include, amongst others, if 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. In any event, controlling shareholder engagement terms which are for a time period exceeding three (3) years require approval in accordance with the foregoing once every three (3) years.

The compensation packages of Mr. Yariv Alroy and Mr. Erez Alroy were amended pursuant to recommendations from outside compensation consultants in 2011, and such amended compensation terms were approved by the shareholders of SHL, at the 2011 Annual General Meeting, following recommendations and approval by the Audit Committee (acting also in its capacity as the Old Compensation Committee) and the Board of Directors in accordance with the approval requirements as then in effect. Further, in accordance with the foregoing, the engagement terms of Mr. Yoram Alroy as President of the Company were amended effective as of the 2011 Annual General Meeting by the relevant organs of the Company. Such agreements are in effect for a period of three (3) years and will terminate in 2014, unless re-approved with the special approval requirements as set forth above.

Overall, the compensation of the Co-CEO's and President in the year under review was comprised, on an average of approximately 85% of a cash base salary and 15% of cash bonuses and share options granted.

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

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, pursuant to the provisions of the Israeli Companies Law, 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 Compensation Committee, the Board of Directors and

the shareholders, and with respect to office holders who are not directors, the CEO or controlling shareholders of the Company or their relatives, such grant shall require approval by the Compensation Committee, followed by approval by the Board of Directors, all of the foregoing approvals of the Compensation Committee and the Board of Directors to be made in accordance with the Compensation Policy. 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. Further, SHL's Compensation Policy prescribes certain ceilings with respect to the value of any share-based compensation granted to (a) any individual officer; (b) the officers of SHL as a group; and (c) the non-executive directors as a group, in each case with respect to any three (3) year period. The Compensation Policy also requires that the Compensation Committee and the Board, when discussing the grant, shall consider whether such grant is a suitable incentive for increasing SHL's value in the long term, the economic value of the grant, the exercise price and the other terms.

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, was as follows:

Board of directors

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised	Total
Yariv Alroy	Executive member/Co-CEO	See compensation figures in Senior management compensation table			
Erez Alroy	Executive member/Co-CEO	See compensation figures in Senior management compensation table			
Elon Shalev ¹	Non-executive member/Chairman of the Board	66,468	-	-	66,468
Ziv Carthy	Non-executive member	23,111	-	-	23,111
Nehama Ronen	Non-executive member/Independent director	28,331	-	56,468	84,799
Nissim Zvili	Non-executive member/Independent director	27,551	-	38,834	66,385
Dvora Kimhi	Non-executive member/Independent director	28,255	-	-	28,255
Eliyahu Ayalon	Non-executive/Non-dependant director	6,224	-	56,468	62,692
Salomon Mizrahi	Non-executive member	6,224	-	56,468	62,692

Mr. Yoram Alroy stepped down from his position on the Board of Directors effective as of the AGM. Mr. Alroy was not entitled to compensation for his service as a director (for compensation paid to Mr. Alroy in his capacity as President of the Company, please refer to the table below).

Senior Management

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised ³	Total
Yoram Alroy	President	34,297	²	26,712	61,009
Yariv Alroy	Co-CEO	545,425	²	114,602	660,028
Erez Alroy	Co-CEO	553,864	²	51,006	604,870
Irit Alroy	CTO	207,849	-	35,594	243,443
Other members of senior management		947,302	125,176	34,226	1,106,704

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 Mr. Elon Shalev is the brother-in-law of Mr. Yoram Alroy. Compensation figures represent Mr. Shalev's fees for his service as a director and as the Chairman of the Board.
- 2 Pursuant to their respective engagement terms as in effect in the year under review, (a) Mr. Yoram Alroy is entitled to an annual profit based bonus of up to 3% of the Company's profits before taxes; and (b) each of Mr. Yariv Alroy and Mr. Erez Alroy is entitled to a profit based annual bonus of up to 3.75% of the Company's profits before taxes; provided that the aggregate and joint annual profit based bonus to all of Yoram Alroy, Erez Alroy and Yariv Alroy (the "Service Providers") together shall be equal to 3.75% of the Company's profits. In addition, each of Erez Alroy and Yariv Alroy may be entitled to special bonuses in the sole discretion of the Board in connection with the achievement of quantitative and/ or qualitative goals in accordance with the business plan and budget of the Company, as well as in connection with special corporate events and/ or other special events or occasions as the Board may deem fit, all as approved by, and subject to the sole discretion of, the Board, such Board approval to be made following and subject to corresponding recommendations of the Company's Compensation Committee. In any event, the aggregate bonus sums paid to all three Service Providers together (including both the profit based bonus and any special bonuses to Mr. Yariv Alroy and/ or Mr. Erez Alroy as aforesaid and as may be approved by the Board) shall not exceed a cap of US\$1,250,000 per year.
- 3 Represents the fair value of the share options granted in the year under review 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 4.3 "Management Contracts" on page 29.

Pursuant to the Israeli Companies Law as then in effect, the Audit Committee, the Board of Directors and the shareholders of SHL re-approved and confirmed the existing directors' and officers' insurance provided, and indemnification undertaking issued by, the Company in favor of its officers and directors (including controlling shareholders) at the 2011 Annual General Meeting.

Accordingly, (i) the Company was authorized to renew and/or purchase an insurance policy with respect to all directors and officers, in office from time to time, in a total coverage of up to US\$ 15 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 US\$ 15 million was re-confirmed. The entitlement to insurance, exculpation and indemnification arrangements, as may be approved by the Company from time to time, is also set forth in the Compensation Policy. The 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 AGM.

Compensation for Former Members of Governing Bodies

A total sum of US\$ 81,372 was paid to the former Co-Managing director of SHL Telemedizin GmbH.

Share Allotment in the Year Under Review

No Ordinary Shares of SHL were allotted to the executive or to the non-executive members of the Board of Directors, or to the Management or parties closely linked to any such person during the year under review, except for Ordinary Shares issued pursuant to the exercise of Options previously allotted. For information on option allotments to directors and management members, please refer to the Section immediately following.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2013, by the executive members of the Board of Directors and Senior Management and parties closely linked to such persons amounted in the aggregate to 2,838,475. For information on options allotted to the Board of Directors and senior management, please refer to the table below.

Elon Shalev, a non-executive member of the Board of Directors, and both Yariv and Erez Alroy, executive directors, are members of the Alroy Group. The Alroy Group holds, as of December 31, 2013, an aggregate number of 2,838,475 Ordinary Shares. For information regarding the shareholdings of the Alroy Group, please refer to the Section entitled "Significant Shareholders" on page 13.

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, 2013, an aggregate of 921,533 Ordinary Shares. No other non-executive member of the Board of Directors or parties closely linked to such person hold, pursuant to the Share Register, as of December 31, 2013, Ordinary Shares.

Share Options

Information with regard to Options held pursuant to the Option Plans as of December 31, 2013 by the non-executive and executive members of the Board of Directors and Senior Management and parties closely linked to such persons is as set forth below.

Name	Function	Share Options outstanding at December 31, 2013	Weighted Average exercise price in CHF	Granted during the year	Exercise price of options granted	Vested	Exercised
Yoram Alroy	President	-	-	-	-	-	32,560
Erez Alroy	Co-CEO	30,424	CHF 6.13	-	-	20,283	30,240
Yariv Alroy	Co-CEO	30,424	CHF 6.13	-	-	20,283	60,480
Elon Shalev	Non-executive member/Chairman of the Board	-	-	-	-	-	-
Ziv Carthy	Non-executive member	-	-	-	-	-	-
Nehama Ronen	Non-executive member/Independent director	18,000	CHF 7.78	18,000	CHF 7.78	-	-
Nissim Zvili	Non-executive member/Independent director	17,982	CHF 7.94	12,379	CHF 7.78	5,604	-
Dvora Kimhi	Non-executive member	18,000	CHF 7.65	-	-	18,000	-
Eliyahu Ayalon	Non-executive member	18,000	CHF 7.78	18,000	CHF 7.78	-	-
Salomon Mizrahi	Non-executive member	18,000	CHF 7.78	18,000	CHF 7.78	-	-
Eran Antebi	CFO	66,283	CHF 6.82	-	-	66,283	-
Erez Nachtomy	Executive vice president	72,395	CHF 8.66	-	-	66,597	18,266
Irit Alroy	Executive Vice President and CTO	10,440	CHF 6.13	-	-	6,960	18,678
Yoav Rubinstein	Senior Vice President	100,000	CHF 7.08	85,000	CHF 6.95	43,333	-
Georg F. von Oppen	Managing Director – SHL Telemedizin Germany	50,000	CHF 6.46	-	-	33,334	-
Arie Roth	Chief Medical Manager	10,000	CHF 6.80	-	-	10,000	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.

1,413 Options with an exercise price of CHF 5.90 each previously held by parties closely linked to non executive members of the Board of Directors were exercised in the year under review.

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 2013 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.

Loans Granted to Governing Bodies

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

6. Shareholder Participation

6.1 Voting Rights Restrictions and Representation Restrictions

There are currently no voting-rights and representation restrictions in place. Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SIS Agreement each person registered in the SAG Register is entitled to vote the number of shares registered in his name in the SAG Register. With respect to SHL's ADS, the Deposit Agreement (and the form of American Depositary Receipt annexed thereto), stipulates that each ADS represents one (1) Ordinary Share of SHL (subject to adjustments). The Ordinary Shares represented by ADS are voted by the Depositary pursuant to instructions given by the relevant owner of such ADS to the Depositary. The voting rights of the Ordinary Shares in general may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights if authorized in the future, such an authorization requires a majority of sixty-six (66) percent of the voting power present at the General Meeting. The quorum required for any meeting of shareholders is at least two (2) shareholders present in person or by

proxy who together hold or represent at least thirty-three and one third (33 1/3) percent of the 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. Further, subject to certain exceptions, extraordinary transactions (including a private placement which is an extraordinary transaction) with a controlling shareholder or extraordinary transactions with another 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 (or, with respect to compensation terms of controlling shareholders - the Compensation Committee), the Board of Directors and the shareholders, as further described above. Pursuant to the Israeli Companies Law, the shareholder approval must include at least a majority of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this special majority approval if the total shares of shareholders having no personal interest in the transaction and voted against the transaction do not represent more

than 2% (two 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). Transactions with controlling shareholders of the kind described above and which are for a time period exceeding three (3) years require approval in accordance with the foregoing once every three (3) years, subject to a limited exception. Special majority approvals also apply, inter alia, with respect to the approval by the shareholders of SHL of the Compensation Policy (for further information, please refer to Section 5.1 above) and the election of Independent Directors to the Board of Directors (for further information with respect hereto, please refer to Section 3.1 above).

6.3 Convocation of the General Meeting of Shareholders

Under SHL's Articles of Association, an Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board 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, 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 connection with the establishment of the ADR Program and pursuant to the Deposit Agreement, SHL has further undertaken to provide the Depository at least 35 days prior notice of any general meeting and details concerning the matters to be voted upon. 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. Pursuant to the Deposit Agreement, the Depository

is obligated to provide, if requested by SHL, as soon as practicable after receipt of notice of any meeting of shareholders, a notice to the owners of SHL's ADS containing (a) such information as is contained in such notice of meeting received by the Depository from SHL; (b) a statement that the owners of ADS as of a specified record date will be entitled, subject to applicable law and the Articles of Association of SHL, to instruct the Depository as to the exercise of the voting rights pertaining to the amount of Ordinary Shares represented by their ADS; and (c) a statement as to the manner in which such instructions may be given.

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. The record date with respect to determination of the owners of ADS entitled to give instructions for the exercise of voting rights shall be the date so fixed by the Company, or if a different date, then as close as practicable to the date fixed by the Company.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

Under Swiss law a person acquiring shares, participation or bonus certificates or any other participation rights in a company either directly, indirectly or in concert with third parties and in so doing reaches, in combination with his previously acquired equity securities in that company, a threshold of 33⅓% of the voting rights - regardless of whether this person can actually exercise those voting rights - is obliged to make a public takeover offer (the "Public Takeover Offer") for all of the listed securities of such company. The acquirer must, therefore make an offer to purchase or exchange securities in the company. In addition, a person who owns directly, indirectly or acting in concert with third parties securities which give him more than 33 % but less than 50% voting rights in the Company, will have to make a Public Takeover Offer upon excess of the 50% threshold. The same applies to a person that reduces its stake under 50% and thereafter again exceeds the threshold of 50%. However, any person holding more than 50% of the voting rights of a Company will be entitled to raise its stake without making a Public Takeover Offer.

In addition, pursuant to the Israeli Companies Law, 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. Pursuant to the Israeli Companies Law, all of the shares of the minority shareholders will

be transferred to the offeror in the event that either (a) such number of shares are tendered to the offeror so that more than ninety-eight (98) percent of the outstanding shares are held by it; or (b) such number of shares are tendered to the offeror so that more than ninety-five (95) percent of the outstanding shares are held by it and more than half of the shareholders that do not have a personal interest in the acceptance of the purchase offer tendered their shares.

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

7.2 Clauses on Changes of Control

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

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 2012 Annual General Meeting.

Mr. Yaki Buaron (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 2013 approximately USD 251 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 78 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.**

Pursuant to the relevant U.S. regulations applicable to SHL's ADR Program, SHL shall publish in English, on its web site or through an electronic information delivery system generally available to the public in Switzerland, information that, since the first day of its most recently completed fiscal year, it: (A) has made public or been required to make public pursuant to the laws of Israel (currently there is no information which so needs to be published); (B) has filed or been required to file with the SIX Swiss Exchange and which has been made public by the SIX Swiss Exchange; and (C) has distributed or been required to distribute to its security holders.

SHL maintains an insider trading and management transactions disclosure policy. The insider trading provisions are applicable to members of the Board, officers, employees, representatives and consultants of the company, as well as the immediate family members and household members of such persons, in addition to any other person which may receive inside information with respect to the company. Amongst others, the insider trading policy forbids trading in SHL's securities by the aforementioned persons while in possession of inside information, and additionally provides that board members and certain senior management members may only trade in SHL's securities during specifically stipulated "open periods". The provisions regarding disclosure and reporting of management transactions apply to members of the Board and members of Senior

Management (“Management Members”). According to the policy, Management Members are obliged to report a transaction in the company’s securities (as further described hereafter) if it has a direct or indirect effect on their assets. Transactions executed by related parties (including spouses, individuals living in the same household, and legal entities, partnerships and fiduciary institutions if the Management Member holds a management position in such entity or institution, controls it or is its beneficiary) must also be reported, if such transactions were carried out under the significant influence of the Management Member. Transactions required to be reported are all transactions (purchase and sale of rights) in (a) shares of SHL, (b) any conversion, purchase or sale rights that provide for or permit actual delivery of shares of SHL or conversion or sale rights of SHL, or (c) financial instruments on shares of SHL (options, forward contracts or contracts for difference) which provide for or permit cash settlement. Shares or options acquired under an ESOP do not have to be reported, except if there was an election right whether to receive cash or shares/options, however, any sale of shares or exercise of options acquired under an ESOP must be reported. Reports of transactions are made to SHL’s CFO who must then file such reports with the SIX Swiss Exchange.

Pursuant to an amendment of the Swiss Federal Act on Stock Exchanges and Securities Trading (“SESTA”) which came into effect on May 1, 2013, any holder of a significant interest in the Company is required to notify the Company and the SIX Swiss Exchange if its holding in the equity securities reaches, exceeds or falls below certain thresholds, subject to limited exceptions. The relevant thresholds triggering notification are 3%, 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% and 66 2/3% of the voting rights of the Company. Persons acting in concert must disclose their shareholdings on a consolidated basis and the holdings of all such a group’s members are aggregated in order to calculate compliance with relevant thresholds. The relevant shareholdings must be notified to the Issuer and Disclosure Office of the Six Swiss Exchange within four (4) trading days from execution of the relevant transaction. The Company shall then publish the information received within two (2) trading days from receipt of the notification. According to certain transitional provisions, any person(s) holding a participation in the Company prior to May 1, 2013 which triggers a notification obligation as aforesaid, will have to notify the Disclosure Office and SHL of its holdings

by April 30, 2014 (however, any increase in holdings exceeding further notification thresholds, or any change in a shareholder group structure, trigger the regular reporting obligations as described above).

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

Q1 Results	May 21, 2014
Q2 Results	August 20, 2014
Q3 Results	November 19, 2014

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Consolidated Financial Statements 2013

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Financial Overview

Results of Operations

Overall financial performance improved significantly as SHL's business continued to demonstrate sustained revenue growth, thanks mainly to the recruitment of new patients in Germany to the AOK and IKK contracts and the continued strong financial performance in Israel. At the end of the year SHL closed the acquisition of Almeda, a German telehealth services company, including securing a long term contract with DKV, a leading healthcare insurance provider in Germany, and recorded a gain in its operating profit of USD 8.5 million related to the acquisition. The gain is offset by an accrual for doubtful accounts in Germany and Israel in the amount of USD 4.8 million.

Revenues

Revenues for fiscal year 2013 were up 10.4% and amounted to USD 29.7 million compared with revenues of USD 26.9 million for fiscal year 2012. At constant exchange rate terms revenues for the fiscal year increased by 4.1% year over year. Revenues from the German operation amounted to USD 6.1 million compared with USD 5.2 million in 2012, an increase of 17.3%. At constant exchange rate terms revenues increased by 13.5% year over year. Revenues from the Israeli operation amounted to USD 23.6 million compared to revenues of USD 21.7 million in 2012, an increase of 8.8%. At constant exchange rate terms revenues increased by 1.8% year over year.

In terms of geographic breakdown, the German market accounted for 20.5% of group revenues and the Israeli market for 79.5% of group revenues. This compared with 19.3% and 80.7% of group revenues, respectively in 2012.

Gross profit

In fiscal year 2013 gross margins were at 53.5% up from 53.2% in 2012, bringing gross profit for the year to USD 15.9 million, an increase of 11.2%, compared with a gross profit of USD 14.3 million in fiscal 2012. At constant currency terms gross profit grew by 4.9% year over year.

Research and Development costs, net

Research and development costs amounted to USD 2.2 million compared with USD 1.5 million in 2012. In 2013 amortization of development costs increased to USD 1.9 million compared with USD 1.2 million in 2012. On the other hand investment in research and development in 2013 decreased to USD 1.9 million from USD 2.3 million in 2012.

Selling and Marketing Expenses

Selling and marketing expenses increased by 10.7% at constant exchange rate terms as a result of the recruitment of new patients in Germany and the investment in the expansion into India and the U.S. They amounted to USD 8.8 million (29.6% of revenues) in fiscal year 2013, an increase of 17.3% from USD 7.5 million (27.9% of revenues) in 2012.

General and Administrative Expenses

General and administrative expenses for fiscal year 2013, excluding one-time charges, decreased in constant exchange rate terms by 12.2% year over year due to ongoing adjustments of the Company's expense base. They amounted to USD 10.3 million (34.7% of revenues), a decrease of 6.4% from USD 11.0 million (40.9% of revenues) in fiscal year 2012. During 2013,

SHL has recorded an accrual for doubtful accounts in Germany and Israel in the amount of USD 4.8 million, offset by a decrease in a provision in the amount of USD 2.5 million. Excluding one-time charges, general and administrative expenses totaled USD 8.0 million in 2013 compared to USD 8.5 million in 2012, a decrease of 5.9% over 2012.

Gain from almeda acquisition

On December 31, 2013 the Company closed the acquisition of almeda, a telehealth services provider in Germany, for a minimal purchase price. Tangible assets acquired were valued at USD 4.1 million (USD 2.9 million cash and cash equivalents). Intangible assets acquired, net of taxes amounted to USD 4.4 million. The excess of the net tangible and identifiable intangible assets over the purchase price paid was recorded as a gain which amounted to USD 8.5 million.

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

EBITDA for fiscal year 2013 amounted to USD 8.1 million (27.3% of revenues) with EBIT for the year amounting to USD 3.1 million (10.4% of revenues) this compared to an LBITDA of USD 1.3 million and an LBIT of USD 5.7 million in fiscal year 2012. Even with the increased sales and marketing efforts in Germany and the additional territories, EBITDA for fiscal year 2013, excluding the gain from the almeda acquisition and one time charges in 2013 and 2012, as described above, was up by 53.8% to USD 2.0 million (6.7% of revenues) from USD 1.3 million (4.8% of revenues) in 2012.

Financial Income/Expenses

Financial expenses, net for fiscal year 2013 amounted to USD 1.6 million compared to financial expenses, net of USD 1.0 million in 2012. The difference is mainly attributable to exchange rate differences as the strengthening of the NIS against the USD by 6.2% affected the Company's US dollar cash reserves.

Taxes on Income

For fiscal year 2013 tax benefit amounted to USD 0.7 million compared to taxes on income of USD 0.6 million in 2012. Tax benefit includes USD 2.1 million for deferred tax assets recognized related to a statutory tax rate change in Israel and the almeda acquisition. This was offset by tax expenses in respect of previous years in the amount of USD 1.4 million.

Net Income/Loss

Net profit for the year amounted to USD 2.2 million (USD 0.22 per share) compared with a net loss of USD 7.4 million (USD 0.69 per share) in 2012.

Major Changes in Assets, Liabilities and Equity

SHL's balance sheet continues to be strong with a solid structure as of December 31, 2013.

Current assets amount at year end to USD 47.8 million (44.0% of total assets) of which USD 28.4 million in cash, cash equivalents and available-for-sale investments against total liabilities of USD 39.6 million. This compared with current assets of USD 49.9 million (50.0% of total assets) of which USD 26.8 million was in cash, cash equivalents and available-for-sale investments against total liabilities of USD 38.7 million, at the end of 2012.

Non-current assets amount to USD 11.6 million a decrease from USD 12.1 million as of December 31, 2012.

Property and equipment, net amounts to USD 16.0 million, of which USD 11.8 million are devices on loan to our subscribers. This is compared with property and equipment, net of USD 15.3 million as of December 31, 2012, of which USD 11.3 million are devices on loan to our subscribers.

Intangible assets as of December 31, 2013 amounted to USD 33.1 million compared with USD 22.5 million as of December 31, 2012. The increase is attributed to intangible assets purchased in the almeda acquisition and which consist of contracts valued at USD 5.1 million and customer relations valued at USD 3.8 million.

Total equity at December 31, 2013 amounted to USD 68.9 million (63.5% of balance sheet) compared with USD 61.0 million (61.2% of balance sheet) at December 31, 2012. The increase in equity results from the net income of USD 2.2 million and the increase in the foreign currency translation reserve in amount of USD 5.1 million, stemming from the strengthening of the NIS against the USD by 6.2 % in 2012 and the gain on available for sale investments and actuarial gain recorded in equity.

Cash Flow

Operating cash flow improved by 75% for the fiscal year of 2013 to USD 2.8 million from USD 1.6 million in fiscal year 2012.

Cash used in investing activities amounted to USD 3.2 million, of which investment in fixed and intangible assets amounted to USD 4.1 million, purchase of available-for-sale investments, net, amounted to USD 2.1 million, offset by the cash received from the acquisition of almeda in the amount of USD 2.9 million. For fiscal year 2012, cash used in investing activities amounted to USD 3.3 million, of which investment in fixed and intangible assets amounted to USD 4.4 million, offset by the sale of available-for-sale investments, net.

Cash used in financing activities amounted to USD 2.0 million, of which payment of long term loans amounted to USD 3.3 million offset by receipt of short term bank credit, net of USD 1.1 million. In 2012, cash used in financing activities amounted to USD 4.8 million, of which payment of long term loans amounted to USD 2.9 million, short-term bank credit, net amounted to USD 1.2 million, and purchase of treasury shares amounted to USD 0.7 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, 2013 and 2012, 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 as 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, 2013 and 2012, 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 24, 2014

Kost Forer Gabbay and Kasierer

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

		December 31,	
	Note	2013	2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	8,732	10,613
Available-for-sale investments	5	19,661	16,159
Trade receivables	6	10,479	* 16,096
Prepaid expenses	7	1,828	1,601
Inventory		869	367
Other accounts receivable	8	6,186	* 5,028
		47,755	49,864
NON-CURRENT ASSETS:			
Prepaid expenses	7	5,239	4,958
Long-term deposits		203	194
Deferred taxes	18c	6,190	6,957
		11,632	12,109
PROPERTY AND EQUIPMENT:			
	9		
Cost		69,613	62,328
Less - accumulated depreciation		(53,631)	(47,021)
		15,982	15,307
GOODWILL	10	14,076	13,044
INTANGIBLE ASSETS, NET	10	19,070	9,411
Total assets		108,515	99,735

* Reclassified

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

		December 31,	
	Note	2013	2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities	11	10,477	8,539
Deferred revenues	13	330	55
Trade payables		1,433	1,222
Provisions	14b	-	2,535
Other accounts payable	14a	4,568	4,181
Other liabilities	3	2,504	-
		19,312	16,532
NON-CURRENT LIABILITIES:			
Long-term loans	12	18,205	19,860
Deferred revenues	13	1,283	1,478
Employee benefit liabilities	16	805	879
		20,293	22,217
Total liabilities		39,605	38,749
EQUITY:			
	21		
Issued capital		31	31
Additional paid-in capital		95,014	94,341
Treasury shares		(2,956)	(2,920)
Foreign currency translation reserve		6,548	2,060
Capital reserve for available-for sale investments and actuarial gains		1,415	* 848
Accumulated deficit		(31,142)	* (33,374)
Total equity		68,910	60,986
Total liabilities and equity		108,515	99,735

* Reclassified

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

March 24, 2014

Date of approval of the
financial statements


Yariv Alroy
Co-CEO


Elon Shalev
Chairman of the Board

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Note	Year ended December 31,	
		2013	2012
Revenues		29,674	26,938
Depreciation and amortization		2,127	2,105
Cost of revenues	22a	11,607	10,575
Gross profit		15,940	14,258
Research and development costs, net	22b	2,206	1,458
Selling and marketing expenses	22c	8,787	7,528
General and administrative expenses	22d	10,341	11,021
Gain from almeda acquisition	3	(8,492)	
Operating income (loss)	22e(1)	3,098	(5,749)
Financial income	22e(2)	1,072	2,375
Financial expenses		(2,631)	(3,397)
Income (loss) before taxes on income		1,539	(6,771)
Tax benefit (taxes on income)	18b	693	(628)
Net income (loss)		2,232	(7,399)
Earnings per share:			
Basic and diluted income (loss) for the period	23	0.22	(0.69)
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation reserve		4,488	1,272
Actuarial gain		233	* 95
		4,721	1,367
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Transfer to the statement of income in respect of available-for-sale investments		146	(20)
Gain on available-for-sale investments		188	570
Impairment of available-for-sale assets carried to the income statement		-	177
		334	727
Total other comprehensive income		5,055	2,094
Total comprehensive income (loss)		7,287	(5,305)

* Reclassified

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

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

	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Capital reserve for available-for-sale investments and actuarial gains**	Accumulated deficit**	Total
	Audited						
Balance as of January 1, 2012	31	93,894	(2,201)	788	26	(25,975)	66,563
Purchase of treasury shares	-	-	(719)	-	-	-	(719)
Exercise of options	* -	62	-	-	-	-	62
Share-based payments	-	385	-	-	-	-	385
Total comprehensive income (loss)	-	-	-	1,272	822	(7,399)	(5,305)
Balance as of December 31, 2012	31	94,341	(2,920)	2,060	848	(33,374)	60,986
Purchase of treasury shares	-	-	(36)	-	-	-	(36)
Exercise of options	* -	304	-	-	-	-	304
Share-based payments	-	369	-	-	-	-	369
Total comprehensive income	-	-	-	4,488	567	2,232	7,287
Balance as of December 31, 2013	31	95,014	(2,956)	6,548	1,415	(31,142)	68,910

* Represents an amount lower than \$ 1.

** Reclassified

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,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	2,232	(7,399)
Adjustments required to reconcile net income (loss) to net cash provided by operating activities :		
Income and expenses not involving operating cash flows:		
Depreciation and amortization	4,827	4,271
Capital gain from sale of property and equipment	(9)	(51)
Change in employee benefit liabilities, net	98	* 143
Financial expenses, net	1,559	1,022
Cost of share-based payments	369	385
Taxes on income	(693)	628
Gain from almeda acquisition	(8,492)	-
	(2,341)	6,398
Changes in operating assets and liabilities:		
Decrease in short and long-term trade receivables, net	6,592	5,385
Increase in inventory	(409)	(355)
Decrease (increase) in prepaid expenses	(12)	215
Decrease (increase) in other accounts receivable	(1,158)	(436)
Increase (decrease) in trade payables	213	(113)
Decrease in deferred revenues	(40)	(56)
Decrease in short and long-term other accounts payable	(1,823)	(906)
	3,363	3,734
Cash paid and received:		
Interest received	718	852
Interest paid	(1,110)	(1,150)
Income taxes paid	(47)	(809)
	(439)	(1,107)
Net cash provided by operating activities	2,815	1,626

* Reclassified

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,	
	2013	2012
Cash flows from investing activities:		
Purchase of property and equipment	(2,200)	(2,088)
Investment in intangible assets	(1,878)	(2,344)
Acquisition of almeda (a)	2,920	-
Proceeds from sale of property and equipment	29	73
Purchase of available-for-sale investments	(8,511)	(7,516)
Proceeds from sale of available-for-sale investments	6,402	8,596
Net cash used in investing activities	(3,238)	(3,279)
Cash flows from financing activities:		
Proceeds from exercise of options	304	62
Short-term bank credit, net	1,052	(1,244)
Payment of long-term loans	(3,267)	(2,900)
Treasury shares purchased	(36)	(719)
Net cash used in financing activities	(1,947)	(4,801)
Effect of exchange rate changes on cash and cash equivalents	489	156
Decrease in cash and cash equivalents	(1,881)	(6,298)
Cash and cash equivalents at the beginning of the year	10,613	16,911
Cash and cash equivalents at the end of the year	8,732	10,613
(a) Acquisition of almeda:		
Working capital (excluding cash)	590	
Receivables	(1,416)	
Property and equipment, net	(361)	
Contracts	(5,109)	
Customer relations	(3,803)	
Deferred taxes	2,023	
Other liabilities	2,504	
Gain from almeda acquisition	8,492	
	2,920	
(b) Non-cash transactions:		
Investment in property and equipment	134	19

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

NOTES TO CONSOLIDATED STATEMENTS

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

NOTE 1 | GENERAL

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

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

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

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

- Available-for-sale investments;
- Employee benefit liabilities;

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

2. Consistent accounting policies:

The accounting policies adopted in the financial statements are consistent with those of all periods presented.

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

1. Judgments:

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

• Impairment of available-for-sale investments:

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 h.

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 its 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 20c and 18f.

• 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 j and Note 10 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 18c.

- **Development costs:**

Development costs are capitalized in accordance with the accounting policy in l. 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 10.

- **Intangible assets:**

Intangible assets (mainly contracts and customer relations) acquired in a business combination are included at fair value at the acquisition date. In testing the value of these assets, management makes assumptions regarding the expected cash flows from the customer, the discount rate and the expected period of benefits. Further details are given in Note 10.

- **Determining the fair value of share-based payment transactions:**

The fair value of share-based payment transactions is determined using an acceptable option-pricing model. The assumptions used in the model can include the share price, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate.

- **Pensions and other post-employment benefits:**

The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 16.

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability

to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

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

d. Functional currency and presentation currency:

1. Functional currency and presentation currency:

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

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

The Group determines the functional currency of each Group entity.

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:

- 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.
- Income and expenses for each period presented in the statement of income are translated at average exchange rates for the presented periods.
- Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.
- 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.
- 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. Inventory:

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

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

g. 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.

h. Financial instruments:**1. Short-term receivables:**

Short-term receivables are investments with fixed or determinable payments that are not quoted in an active

market. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

2. Available-for-sale investments:

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

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets.

For equity instruments classified as available-for-sale financial assets, the objective evidence includes a significant or prolonged decline in the fair value of the asset below its cost and evaluation of changes in the technological, market, economic or legal environment in which the issuer of the instrument operates. The determination of a significant or prolonged impairment depends on the circumstances at the end of each reporting period. In making such a determination, historical volatility in fair value is considered, as well as a decline in fair value of 20% or more, or a decline in fair value whose duration 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 other comprehensive income and recognized as an impairment loss in profit or loss. In subsequent periods, any reversal of the impairment loss is not recognized in profit or loss but recognized in other comprehensive income.

3. Loans and borrowings:

Loans and borrowing are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, short-term borrowings (such as trade and other payables) are measured based on their terms, using the effective interest method.

4. Treasury shares:

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

i. 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.

j. Business combinations and goodwill:

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

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

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

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

When the net identifiable assets acquired and liabilities assumed value exceeds the acquisition consideration, the amount is recognized as gain from bargain purchase.

k. Property and equipment:

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the 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 (mainly 15)
Motor vehicles and ambulances	15 - 20 (mainly 20)
Office furniture and equipment	6 - 15 (mainly 6)
Computers and peripheral equipment	15 - 33 (mainly 20)
Leasehold improvements	see below
Telemedicine devices on loan 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 and equipment, see Note 9 below.

l. Intangible assets:

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

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

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

The useful life of intangible assets is as follows:

	Years
Developments costs	5 - 10
Computer software	5
Non competition	4
Contracts and customer relations	10-14

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 m below.

m. Impairment of non-financial assets:

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

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss. 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 regarding each of this 3 cash generating units as of March 31, June 30 and December 31 or more frequently if events or changes in circumstances indicate that there is impairment.

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

As of December 31, 2013, 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, 2013, no impairment loss was recognized.

n. 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 the reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

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

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

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

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

o. Share-based payment transactions:

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions (see details in Note 21).

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 21d. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account. The only conditions taken into account in estimating fair value are market conditions and non-vesting conditions. As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

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

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

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

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

new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

p. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

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

The Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law in Israel. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relation is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to 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 Group makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits presented in the balance sheet 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 (see details in Note 16).

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

q. Revenue recognition:

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

Revenues from sale of telemedicine devices:

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

Revenues from the rendering of services:

Revenues from services are recognized as the services are performed. Revenues from the 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.

Interest income:

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

r. Finance income and expenses:

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

Finance expenses comprise interest expense on borrowings, changes in the fair value and exchange rate differences.

s. Earnings per share:

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

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

t. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that

an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

Onerous contracts:

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

u. Advertising expenses:

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

v. Presentation of statement of comprehensive income:

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

w. IAS 19R - Employee Benefits:

In June 2011, the IASB issued IAS 19R whose adoption is required effective from January 1, 2013. The principal amendments in IAS 19R relate to the accounting treatment of a defined benefit plan. The first-time adoption of IAS 19R did not have a material impact on the Company's financial statements.

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

Amendments to IAS 36, "Impairment of Assets":

In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the amendments") regarding the disclosure requirements of fair value less costs of disposal. The amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures include the fair

value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.

The amendments are effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The appropriate disclosures will be included, if applicable, in the Company's financial statements upon the first-time adoption of the amendments.

y. Exchange rates and linkage basis:

- 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, 2013.
- 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 is as follows:

	Exchange Israeli CPI Points *	Exchange rate of € NIS	Exchange rate of U.S. \$ NIS	Exchange rate of CHF NIS
For the year ended				
December 31, 2013	223.8	4.78	3.47	3.89
December 31, 2012	219.8	4.92	3.73	4.07
December 31, 2011	216.3	4.94	3.82	4.06
Change during the year	%	%	%	%
2013	1.8	(2.8)	(6.9)	(4.4)
2012	1.6	(0.4)	(2.3)	(0.2)

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

NOTE 3 | ACQUISITION OF TELEHEATH SERVICES BUSINESS OF ALMEDA GmbH

On June 28, 2013 the Company, through its wholly owned German subsidiary (SHL Telemedizin GmbH) signed a Share Purchase Agreement to purchase all shares of almeda GmbH, a company providing telehealth services to German health insurers. The consideration for almeda was 1 Euro. Closing occurred on December 31, 2013, and almeda's assets and liabilities are consolidated from that date.

The fair values of the assets and liabilities acquired as of the date of acquisition (December 31, 2013) are as follows:

Cash and cash equivalents	2,920
Receivables	1,416
Inventories	39
Property and equipment	361
Contracts	5,109
Customer relations	3,803
Other payables	(629)
Other liabilities	(2,504)
Deferred tax liability	(2,023)
Gain from bargain purchase	(8,492)

The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a valuation conducted by an independent valuation specialist. The fair value of the tangible assets approximates its book value. See also Note 2l for the useful life of the contracts and customer relations. As to other liabilities acquired see also Note 2t. The excess of the net tangible and identifiable intangible assets over the purchase price paid was recorded as a gain. The gain has been recognized in the consolidated statement of comprehensive income as other income. The gain derives from the unique characteristics of almeda. Acquisition costs that are directly attributable to the transaction of approximately \$ 629 were carried out as an expense to the statement of comprehensive income. A deferred tax liability of \$ 2,023 was recorded for the difference between the assigned value and the tax base of the intangible assets acquired.

NOTE 4 | CASH AND CASH EQUIVALENTS

	December 31,	
	2013	2012
Cash in banks	5,349	1,974
Short-term deposits	3,383	8,639
	8,732	10,613

NOTE 5 | AVAILABLE-FOR-SALE INVESTMENTS

	December 31,	
	2013	2012
Marketable securities:		
Corporate debentures - in U.S. dollars	4,315	1,483
Corporate debentures - in NIS	11,951	10,740
Government debentures - in NIS	3,395	3,936
	19,661	16,159

NOTE 6 | TRADE RECEIVABLES

a. Composition:

	December 31,	
	2013	2012
Gross amount ¹	18,395	* 14,418
Allowance for doubtful accounts	(7,949)	(4,941)
	10,446	9,477
Future participation in revenues ²	-	5,197
Current maturities of long-term trade receivables, net of deferred revenues	33	1,422
	10,479	16,096

* Reclassified

1 Includes a balance of income receivables as of December 31, 2013 in the amount of \$ 6,274 (December 31, 2012- \$ 5,447).

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

b. The net trade receivable balances as of December 31, 2013 and 2012 do not include amounts that are past due or impaired. The Group recorded an allowance for doubtful and bad debts in the amount of \$ 4,874 (2012: \$ 2,562). This allowance was recorded in the general and administrative expenses.

NOTE 7 | PREPAID EXPENSES

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

	December 31,	
	2013	2012
First year prepaid expenses - short-term	1,828	1,601
Second year	1,482	1,382
Third year	1,162	1,099
Fourth year	937	899
Fifth year	728	688
Thereafter	930	890
Prepaid expenses - long-term	5,239	4,958
Total prepaid expenses	7,067	6,559

NOTE 8 | OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2013	2012
Employees	171	150
Interest receivable	316	262
Institutions	3,810	* 3,317
Others	1,889	1,299
	6,186	5,028

* Reclassified

NOTE 9 | PROPERTY AND EQUIPMENT

	Computers and peripheral equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance as of January 1, 2012	12,191	4,602	1,103	1,841	1,911	36,364	58,012
Additions during the year	286	50	15	6	154	1,596	2,107
Disposals during the year	-	-	-	(120)	-	-	(120)
Currency translation differences	289	112	27	49	51	1,801	2,329
Balance as of December 31, 2012	12,766	4,764	1,145	1,776	2,116	39,761	62,328
Additions during the year	383	23	43	367	369	1,149	2,334
Acquisition of a subsidiary (see note 3)	361	-	-	-	-	-	361
Disposals during the year	-	-	-	(231)	-	-	(231)
Currency translation differences	522	367	89	161	177	3,505	4,821
Balance as of December 31, 2013	14,032	5,154	1,277	2,073	2,662	44,415	69,613
Accumulated depreciation:							
Balance as of January 1, 2012	9,387	4,132	595	1,476	1,256	25,458	42,304
Additions during the year	857	145	58	141	138	1,698	3,037
Disposals during the year	-	-	-	(98)	-	-	(98)
Currency translation differences	242	104	16	44	34	1,338	1,778
Balance as of December 31, 2012	10,486	4,381	669	1,563	1,428	28,494	47,021
Additions during the year	827	140	61	134	147	1,663	2,972
Disposals during the year	-	-	(211)	-	(211)	-	-
Currency translation differences	761	343	54	134	114	2,443	3,849
Balance as of December 31, 2013	12,074	4,864	784	1,620	1,689	32,600	53,631
Depreciated cost as of December 31, 2013	1,958	290	493	453	973	11,815	15,982
Depreciated cost as of December 31, 2012	2,280	383	476	213	688	11,267	15,307

As for charges, see Note 20.

NOTE 10 | GOODWILL AND INTANGIBLE ASSETS, NET

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill ¹
As of January 1, 2013, net of accumulated amortization	9,376	35	-	9,411	13,044
Additions during the year	1,878	-	-	1,878	-
Acquisition of almeda (see note 3)	-	5,109	3,803	8,912	-
Amortization during the year	(1,855)	(35)	-	(1,890)	-
Currency translation differences	759	-	-	759	1,032
As of December 31, 2013, net of accumulated amortization	10,158	5,109	3,803	19,070	14,076

As of December 31, 2013:

Cost	26,928	5,544	3,803	36,275	14,076
Accumulated amortization	(16,770)	(435)	-	(17,205)	-
Net carrying amount	10,158	5,109	3,803	19,070	14,076

	Development costs	Contracts and others	Customer relations	Total other intangible assets	Goodwill ¹
As of January 1, 2012, net of accumulated amortization	8,305	86	-	8,391	12,817
Additions during the year	2,029	-	-	2,029	-
Amortization during the year	(1,183)	(51)	-	(1,234)	-
Currency translation differences	225	-	-	225	227
As of December 31, 2012, net of accumulated amortization	9,376	35	-	9,411	13,044

As of December 31, 2012:

Cost	23,175	435	-	23,610	13,044
Accumulated amortization	(13,799)	(400)	-	(14,199)	-
Net carrying amount	9,376	35	-	9,411	13,044

¹ The recoverable amount of the operations to which the goodwill mainly relates has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 14% (2012: 17%) and cash flows beyond the 5-year period are extrapolated using a 2% growth rate (2012: 1%).

NOTE 11 | CREDIT FROM BANKS AND CURRENT MATURITIES

	Interest rate	December 31,	
		2013	2012
	%		
Credit from banks:			
NIS - unlinked	Prime (1)+ 0.5-0.8	6,915	5,411
Current maturities of long-term loans (see Note 12) - linked to the Israeli CPI	3.8 - 3.9	3,562	3,128
		10,477	8,539

1 The Prime rate as of December 31, 2013 – 2.5% (December 31, 2012 - 3.25%).

NOTE 12 | LONG-TERM LOANS

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

The loans contain certain general default and financial covenants related to the Company's Israeli operations: (i) tangible equity to total assets of at least 20%; (ii) net debt to EBITDA of 1:5 at the maximum; and (iii) a limit on the amount of customers' future standing orders/ credit card debits that can be pledged to third parties. As of December 31, 2013 the Company is in compliance with these covenants.

NOTE 13 | DEFERRED REVENUES

	December 31,	
	2013	2012
As of January 1	1,533	2,474
Deferred during the year	497	523
Released to the statement of comprehensive income	(584)	(1,287)
Cancelled	(297)	(465)
Currency translation differences	464	288
As of December 31	1,613	1,533
Less - long-term deferred revenues	1,283	1,478
	330	55

NOTE 14 | OTHER ACCOUNTS PAYABLE

a. Other accounts payables

	December 31,	
	2013	2012
Employees and payroll accruals	2,040	1,804
Accrued expenses	2,132	1,631
Government authorities	103	123
Former Raytel shareholders	-	357
Other	293	266
	4,568	4,181

b. Provisions

During the period, the company decreased a provision in the amount of \$ 2,500. This amount is presented in the consolidated statement of comprehensive income as a deduction from the general and administrative expenses.

NOTE 15 | FINANCIAL INSTRUMENTS

The Group's principal financial liabilities are comprised of short-term credit and long-term loans from banks and trade payables. The main purpose of these financial liabilities is 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.

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 Group to concentrations of credit risk consist principally of cash, cash equivalents, available-for-sale investments and trade receivables. Cash, cash equivalents and available-for-sale investments are deposited with major banks. Management believes that the financial institutions that hold the Group's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments. The Group's trade receivables mainly derived from sales to customers in Germany and Israel. The Group has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers. The Group performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

c. Foreign currency risk:

The Group is subject to foreign exchange risk as it operates and has sales in different countries 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.

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, 2013, the balance of these investments is \$ 19,661 (2012 - \$ 16,159).

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

	Increase/ decrease in price	Effect on profit before tax
2013	+5%	983
	-5%	(983)
2012	+5%	808
	-5%	(808)

e. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, 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. Israeli CPI risk:

The Group has long-term loans and revenues from customers that are linked to the changes in the Israeli CPI. The net amount of the financial instruments that are linked to the Israeli CPI and for which the Group is exposed to changes in the Israeli CPI amounts to a liability of approximately \$ 10,128 (December 31, 2012 - a liability of \$ 7,117). With all other variables held constant, the effect of an increase or decrease of 1% in the CPI on the Company's income before tax will be a decrease or increase of \$ 101, respectively.

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

	In or linked to					
	Israeli					Total
	U.S.\$	CHF	Euro	CPI	NIS	
December 31, 2013						
Assets:						
Cash and cash equivalents	1,350	113	3,970	-	3,299	8,732
Available-for-sale investments	4,315	-	-	10,478	4,868	19,661
Trade receivables	-	-	6,671	-	3,808	10,479
Other accounts receivable	291	-	1,253	1,161	4,642	7,347
Long-term deposits	-	-	203	-	-	203
	5,956	113	12,097	11,639	16,617	46,422
Liabilities:						
Credit from banks and current maturities	-	-	-	3,562	6,915	10,477
Trade payables	18	-	180	-	1,235	1,433
Long-term loans	-	-	-	18,205	-	18,205
Other short and long-term liabilities	291	-	1,010	-	3,597	4,898
Accrued severance pay	-	-	161	-	644	805
	309	-	1,351	21,767	12,391	35,818
December 31, 2012						
Assets:						
Cash and cash equivalents	201	141	626	-	9,645	10,613
Available-for-sale investments	1,483	-	-	8,717	5,959	16,159
Trade receivables	5,197	-	6,358	4,541	-	16,096
Other accounts receivable	620	-	37	2,414	4,371	7,442
Long-term deposits	-	-	194	-	-	194
	7,501	141	7,215	15,672	19,975	50,504
Liabilities:						
Credit from banks and current maturities	-	-	-	3,127	5,412	8,539
Trade payables	11	-	132	-	1,079	1,222
Long-term loans	-	-	-	19,860	-	19,860
Other short and long-term liabilities	620	-	3,414	-	2,737	6,771
Accrued severance pay	-	-	154	-	725	879
	631	-	3,700	22,987	9,953	37,271

NOTE 16 | 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,	
	2013	2012
Present value of funded obligation	6,084	5,292
Fair value of plan assets	5,279	4,413
	805	879

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

	December 31,	
	2013	2012
Liability at the beginning of the year	879	810
Expense recognized in the statement of comprehensive income	609	623
Benefits not paid from assets	(13)	(70)
Contribution to assets	(493)	(464)
Currency translation differences	(177)	(20)
Liability at the end of the year	805	879

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

	Year ended December 31,	
	2013	2012
Current service cost	520	524
Interest cost	22	22
Expected return on plan assets	67	77
Total expense included in statement of comprehensive income	609	623

d. The principal actuarial assumptions used are as follows:

	2013	2012
Discount rate	4.38%	4.49%
Future salary increase	5.46%	5.72%

NOTE 17 | INVESTMENTS IN SUBSIDIARIES

Principal subsidiaries:

	Country of incorporation	Percentage in equity
		%
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
almeda GmbH	Germany	100
SHL Telemedicine CPY Ltd.	Cyprus	100

NOTE 18 | TAXES ON INCOME

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

1. Companies in Israel:

The Israeli corporate tax rate was 24% in 2011 and 25% in 2012 and 2013.

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increased the corporate tax rate to 25% in 2012.

On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law"). The budget law consists of fiscal changes which includes, among others, increasing the corporate tax rate from 25% to 26.5%.

The deferred tax balances included in the financial statements as of December 31, 2013 are calculated according to the new tax rates. Following the change in tax rates, deferred taxes increased by \$ 258.

2. Foreign subsidiaries:

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

The U.S.:	tax at the rate of 34%.
Germany:	tax at the rate of 31.4%.

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

	Year ended December 31,	
	2013	2012
Deferred taxes	2,086	(339)
Taxes in respect of previous years	(1,393)	(289)
	693	(628)

c. Deferred tax assets (liabilities):

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

	Balance sheet items				
	Fixed and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Others	Total
Balance at January 1, 2012	(984)	299	6,393	263	5,971
Amount included in statement of comprehensive income	(283)	16	(20)	(52)	(339)
Currency translation differences	(33)	9	91	5	72
Balance at December 31, 2012 *	(1,300)	324	6,464	216	5,704
Amount included in statement of comprehensive income	(178)	(24)	2,350	(62)	2,086
Changes due to newly consolidated company	(2,023)	-	-	-	(2,023)
Currency translation differences	(105)	23	491	14	423
Balance at December 31, 2013	(3,606)	323	9,305	168	6,190

* The balance includes income tax receivables in the amount of \$ 1,393 that were recognized during the year in the consolidated statement of comprehensive income as tax expenses.

d. 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,	
	2013	2012
Income (loss) before taxes on income	1,539	(6,676)
Statutory tax rate in Israel	25%	25%
Tax computed at the statutory tax rate	385	(1,669)
Increase (decrease) in taxes resulting from:		
Tax exempt profit	(2,479)	-
Taxes in respect of previous years	1,393	289
Tax adjustment in respect of inflation in Israel	(4)	(9)
Non-deductible expenses	270	108
Different tax rates	245	(273)
Loss for which deferred taxes were not recognized	1,509	2,073
First time recognition of deferred tax asset in respect of tax losses	(2,023)	-
Other	11	109
Total tax expense (tax benefit) reported in the consolidated statements of comprehensive income	(693)	628

e. Carry forward tax losses:

The carry forward losses for tax purposes as of December 31, 2013 amount to \$ 45,453 (2012 - \$ 31,313) in Israel (which may be carried forward indefinitely) and \$ 37,630 (2012 - \$ 36,584) in Europe. In the U.S., SHL USA has federal and state net operating losses and credits of \$ 3,903 (2012 - \$ 4,372), 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 \$ 19,256 (2012 - \$ 16,978) 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. As of December 31, 2013, an amount of \$ 2,023 is recognized as a tax asset in respect of carry forward tax losses.

f. Tax assessment

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

On February 27, 2014 the Company was issued an updated tax assessment related to these years in the amount of \$ 6,200. On March 13, 2014 the Company filed an appeal. In the opinion of management, the provision in the accounts is sufficient to cover this liability.

NOTE 19 | TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions:

	Year ended December 31,	
	2013	2012
Rent expense to shareholders	250	247

b. Compensation of key management personnel:

Short-term employee benefits¹	1,429	1,325
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¹ Represents compensation payments to 5 people.

NOTE 20 | 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 2019.

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

	2013	2012
First year	1,556	744
Second to fifth year	4,457	1,536
	6,013	2,280

c. Contingent liabilities:

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

NOTE 21 | EQUITY

a. Composition of share capital:

	December 31, 2013		December 31, 2012	
	Authorized	Issued and outstanding*	Authorized	Issued and outstanding*
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,435,526	14,000,000	10,343,801

* 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, 2012	10,419,589	0.01
Exercise of employees' options into shares	26,303	0.01
Purchase of treasury shares	(102,091)	0.01
Balance at December 31, 2012	10,343,801	0.01
Exercise of employees' options into shares	67,328	0.01
Treasury shares sold against exercise of options	28,992	0.01
Purchase of treasury shares	(4,595)	0.01
Balance at December 31, 2013	10,435,526	0.01

c. Treasury shares:

The Company holds 442,362 shares (466,759 shares as of December 31, 2012) at a total cost of \$ 2,956 as of December 31, 2013 (\$ 2,920 as of December 31, 2012).

d. Share option plans:

On March 25, 2012, the Board of Directors approved the grant of 12,189 options to certain employees under the 2005 Share Option Plan. The weighted average fair value of options granted is CHF 3.232 (\$ 3.556). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.0; exercise price - CHF 6.16; expected volatility - 60.23%; risk free interest rate - 0.223%; expected dividend -0%; and expected average life of options - 3.08 years.

On August 28, 2012, the Board of Directors approved the grant of 95,000 options to certain employees under the 2005 Share Option Plan. The weighted average fair value of options granted is CHF 3.008 (\$ 3.138). The weighted average fair value was estimated based on the binomial

model using the following data and assumptions: share price - CHF 7.0; exercise price - CHF 6.95; expected volatility - 60.38%; risk free interest rate - 0.193%; expected dividend -0%; and expected average life of options - 3.15 years.

On September 30, 2012, the Board of Directors approved the grant of 100,000 options to an employee, under the 2005 Share Option Plan. The weighted average fair value of options granted is CHF 3.356 (\$ 3.592). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.44; exercise price - CHF 6.97; expected volatility - 60.44%; risk free interest rate - 0.153%; expected dividend -0%; and expected average life of options - 3.13 years.

On September 10, 2013, the Board of Directors approved the grant of 66,379 options to certain directors, under the 2005 Share Option Plan. The weighted average fair value of options granted is CHF 2.922 (\$ 3.137). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 7.70; exercise price - CHF 7.78; expected volatility - 50.86%; risk free interest rate - 0.6%; expected dividend -0%; and expected average life of options - 3.7 years.

In the years ended December 31, 2013 and 2012, the Group recorded share-based compensation in general and administrative expenses in the amount of \$ 369 and \$ 385, respectively.

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

	2013		2012	
	No. of options	WAEP (CHF)	No. of options	WAEP (CHF)
Outstanding at the beginning of the year	926,224	6.61	820,853	6.52
Granted during the year	66,379	7.78	207,189	6.91
Forfeited during the year	(87,112)	7.07	(75,515)	6.96
Exercised during the year *)	(249,969)	6.09	(26,303)	5.32
Outstanding at the end of the year	655,522	6.86	926,224	6.61
Exercisable at the end of the year	365,880	6.80	532,648	6.53
	Options outstanding at December 31, 2013		Weighted average exercise price in CHF	Vested options
Under the 2003 Share Option Plan	6,167		5.50	6,167
Under the 2005 Key Employee Share Option Plan	649,355		6.88	359,713
	655,522		6.86	365,880

* The weighted average share price at the date of exercise of these options was CHF 7.53 (2012 - CHF 7.16).

The weighted average remaining contractual life for the share options outstanding as of December 31, 2013 was 3.56 years (as of December 31, 2012 – 3.31 years).

f. On November 7, 2010, the Board of Directors of the Company determined that all exercise of options shall be effectuated by way of net exercise for all currently outstanding options and all new options to be granted under the 2005 Key Employee Share Option Plan. In addition, the Board amended the 2003 Share Option Plan in order to allow for a net exercise of the options outstanding. Such amendment allows the option holders holding such options to choose whether to exercise their options by way of net exercise or using the current regular exercise mechanism.

NOTE 22 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF COMPREHENSIVE INCOME

a. Cost of revenues:

	Year ended December 31,	
	2013	2012
Salaries and related benefits	6,799	6,053
Rental fees and maintenance	1,673	1,586
Others	3,135	2,936
	11,607	0,575

b. Research and development costs, net:

Salaries and related benefits	1,950	1,750
Amortization of development costs	1,855	1,183
Others	157	219
	3,962	3,152
Less - capitalization of development costs	1,756	1,694
	2,206	1,458

c. Selling and marketing expenses:

Salaries and related benefits	5,121	4,169
Advertising	1,148	987
Depreciation	440	461
Rental fees and maintenance	372	321
Maintenance of vehicles	730	569
Others	976	1,021
	8,787	7,528

d. General and administrative expenses:

Salaries and related benefits	3,879	3,764
Rental fees and office expenses	552	640
Professional fees	1,946	1,500
Allowance for doubtful and bad debts ¹	2,373	2,562
Depreciation and amortization	546	586
Others	1,045	1,969
	10,341	11,021

¹ See note 6b and 14b.

e. Financial income (expenses):

1. Financial income:

	Year ended December 31,	
	2013	2012
Exchange rate differences	145	1,482
Gain on marketable securities	116	21
Interest	811	824
Others	-	48
	1,072	2,375

2. Financial expenses:

Exchange rate differences	(643)	(1,397)
Loss on marketable securities	(266)	(41)
Interest	(1,506)	(1,757)
Others	(216)	(202)
	2,631	(3,397)

NOTE 23 | NET EARNINGS PER SHARE

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

	Year ended December 31,			
	2013		2012	
	Weighted number of shares	Net income	Weighted number of shares	Net loss
	In thousands		In thousands	
Number of shares and net income (loss) for the computation of basic net earnings	10,372	2,232	10,481	(7,399)
Effect of dilution - share options	86	-	39	-
For the computation of diluted net earnings	10,458	2,232	10,520	(7,399)

Number of shares and net income

(loss) for the computation of

basic net earnings

Effect of dilution - share options

For the computation

of diluted net earnings

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): 14,290 (2012- 26,507) options to employees under share-based payment plans.

NOTE 24 | SEGMENT INFORMATION

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

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

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

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 property and equipment and intangible assets.

a. Reporting on geographic segments:

	Europe	Israel	Rest of world	Adjustments	Total
Year ended December 31, 2013:					
External customers	6,058	23,616	-	-	29,674
Inter-segment revenues	-	393	-	(393)	-
Total revenues	6,058	24,009	-	(393)	29,674
Segment results	6,076	1,658	(2,118)	-	5,616
Corporate and research and development expenses					(2,518)
Finance expenses, net					(1,559)
Income before taxes on income					1,539
Year ended December 31, 2012:					
External customers	5,178	21,760	-	-	26,938
Inter-segment revenues	-	404	-	(404)	-
Total revenues	5,178	22,164	-	(404)	26,938
Segment results	(6,840)	3,276	(448)	-	(4,012)
Corporate and research and development expenses					(1,737)
Finance expenses, net					(1,022)
Income before taxes on income					(6,771)

b. Additional information:

	Europe	Israel	Rest of world	Adjustments	Total
Year ended December 31, 2013:					
Capital expenditures	422	3,789	-	-	4,212
Depreciation and amortization	539	4,288	-	-	4,827
Year ended December 31, 2012:					
Capital expenditures	227	3,909	-	-	4,136
Depreciation and amortization	777	3,494	-	-	4,271
As of December 31, 2013:					
Segment assets	21,426	57,043	361	-	78,830
Unallocated assets					29,685
Segment liabilities	3,855	5,463	315	-	9,633
Unallocated liabilities					29,972
As of December 31, 2012:					
Segment assets	6,649	64,505	331	-	71,485
Unallocated assets					28,250
Segment liabilities	3,701	4,541	631	-	8,873
Unallocated liabilities					29,876

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