



Annual Report 2011

SHL
Telemedicine



Corporate Profile

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

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

Key Figures (December 31)

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

	2011	2010
Revenues	42.4	50.3
EBIT	4.2	6.0
EBITDA	9.1	11.4
EBITDA margin	21.5%	22.7%
Net profit	4.0	4.9
Net profit per share	0.38	0.46

Cash, cash equivalents and
marketable securities

	33.3	20.2
Total outstanding debt	31.6	2.4
Total assets	108.2	95.1
Shareholder's equity	66.6	74.7

Employees	335	389
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Letter from the Chairman of the Board

2 | **T**his has been an exciting year for us as we set out to explore on how to bring telemedicine and our unique and innovative services and solutions to more and more people around the globe. We are at an era of constant change: technological transformation, shifting consumer behavior, changing demographics, disproportionately rising health care costs and more. As we have laid the foundations for expansion into new territories, we have witnessed that many of these changes strongly support and aid our business case. We expect that the significant effort invested, will bear fruit and that our expansion initiatives will materialize and have a major effect on the Company's business and financial performance in future years.

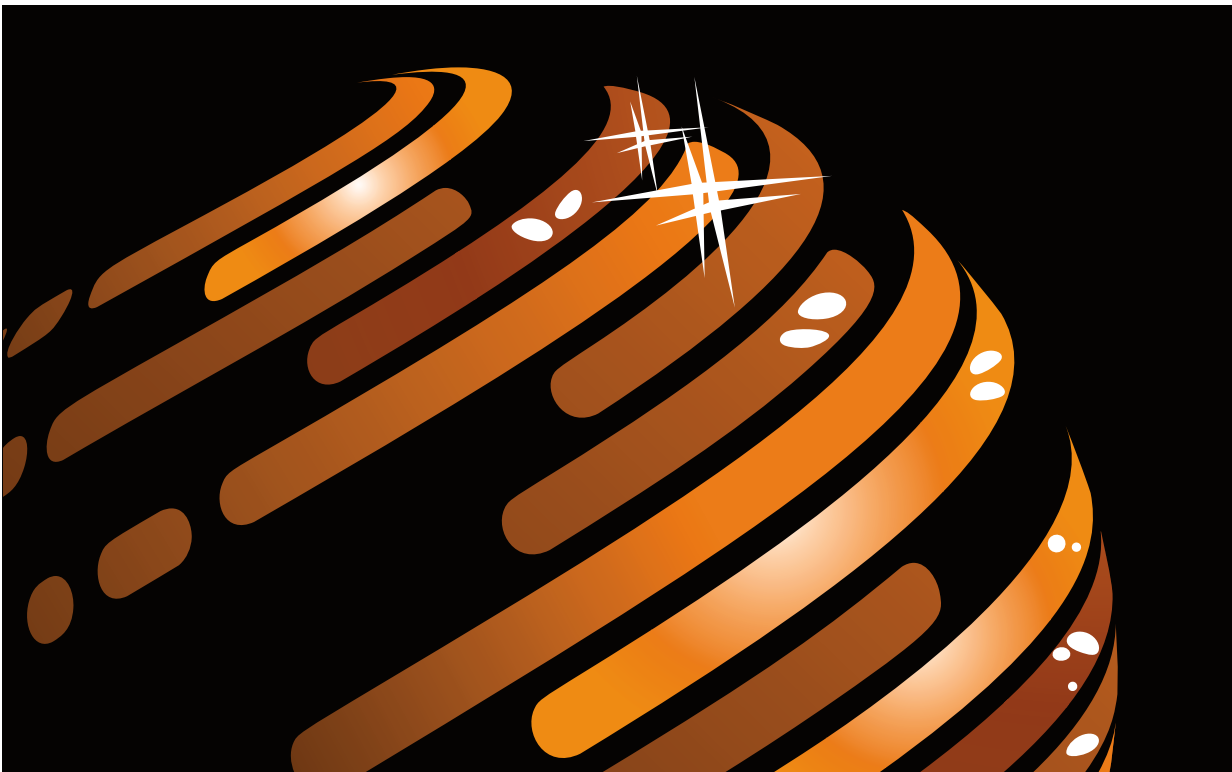
Germany

As previously communicated, in Germany we implemented a strategy shift to pursue long term large scale contracts with health insurers. We were happy to inform that we signed a

major agreement with IKK Sudwest, based in Saarbruecken, for the provision of telemedicine services to their insured who suffer from chronic conditions, specifically Congestive Heart Failure (CHF). We expect this to be a first in a series of additional large scale contracts with large German health insurers.

During the year, as anticipated, we have witnessed a diminution of patients relating to a merging health insurer and the continuation of a challenging business environment, emphasized by the Euro zone financial crisis, which led to continued aggressive consolidation and longer than expected sales cycles. We were able to streamline our operations effectively to accommodate for the reduced capacity, however our financial performance in Germany declined.

We expect to secure additional large scale contracts during 2012, leading to a return to significant growth.



Israel

In Israel our business continued its good financial performance, showing improved operating margins. Our Israeli operation is continuing to lead the Israeli telemedicine market and serves as an important knowledge base for the company.

Technology

One of 2011's highlights was the selection of SHL to present its new telemedicine technology, the "Smarheart", at the TechCrunch Disrupt Battlefield Conference in New York in May 2011. Smarheart is the world's smallest Hospital-Grade ECG that can be used by a non-professional end-user, is slightly bigger than an iPhone 4 and weighs even less.

Financial Highlights

During the year revenues and overall financial performance declined, stemming from SHL's operation in Germany and a decrease in the Philips US revenues.

We manage our cost base tightly. Although revenues decreased during the year, operating margins were only slightly lower thanks mainly to a significant reduction in expenses and investments, mainly in Germany.

Revenues for the year amounted to USD 42.4 million compared to revenues of USD 50.3 million in 2010 representing a decline of 18.9% at constant exchange rates*.

Gross profit for the year amounted to USD 27.0 million (63.7% of revenues) compared to USD 33.3 (66.2% of revenues) in 2010.

EBITDA for the year amounted to USD 9.1 million (21.5% of revenues) compared to an EBITDA of USD 11.4 million (22.7% of revenues) in 2010 with operating profit amounting to USD 4.2 million (9.9% of revenues) compared to USD 6.0 million (11.9% of revenues) in 2010.

Net income for the year amounted to USD 4.0 million (USD 0.38 per share) compared to USD 4.9 million (USD 0.46 per share) in 2010.

Cash used in operations amounted to USD 3.5 million compared to cash generated from operations of USD 3.0 million in 2010. Cash, cash equivalents and marketable securities amounted at December 31, 2011 to USD 33.3 million.

SHL's balance sheet continues to be strong with assets amounting to USD 108.2 million, of which current assets amounted to USD 55.7 million, while total liabilities amounted to USD 41.6 million. Shareholders' equity at December 31, 2011 stood at USD 66.6 million (61.6% of balance sheet).

Long-term loans

In July, SHL received long-term loans from financing institutions in the equivalent of USD 27.9 million (NIS 100 million). The loans which are denominated in NIS are spread over an 8 year term, bear an annual interest of 3.8%-3.9% and are linked to the Israeli CPI.

Dividend and share repurchase

During the year SHL paid a dividend of USD 0.66 per share, totaling USD 6.9 million. The Board of Directors also approved to increase the aggregate share re-purchase amount by an additional USD 2 million.

Outlook

It is expected that the new contract signed with IKK Sudwest will generate first revenues as of Q2 2012. Additional contracts to be executed in Germany should materialize soon. These contracts are expected to generate revenues gradually and given the cessation of recognition of revenues from Philips US, might lead to lower financial performance in 2012.

However, SHL expects that the success of its strategic shift in Germany, concurrently with the materialization of its expansion initiatives, will have a major effect on SHL's business and financial performance in the coming years.

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



Sincerely,

Elon Shalev

Chairman of the Board

* Constant currency - In order to enable meaningful comparison between the 2011 and 2010 results, 2011 results are also presented at constant currency exchange rates. These are calculated by translating the 2011 results using the average 2010 exchange rates instead of the current period exchange rates. Management believes that this presentation enables a more meaningful comparison between the periods due to the significant fluctuations in NIS/USD/EUR exchange rates.

Information for Investors

Capital structure

The issued share capital is divided into 10,419,589 registered shares with a par value of NIS 0.01 each (excluding 364,668 ordinary shares of NIS 0.01 par value each held by SHL)

Significant shareholders'

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

Alroy Group	27.24%
Tower Holdings B.V.	10.89%
G.Z. Assets and Management Ltd.	8.84%
Eli Alroy	5.68%
Public	47.35%

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2011, after deducting from the total number of shares outstanding 364,668 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Statistics on SHL Telemedicine as at December 31, 2011

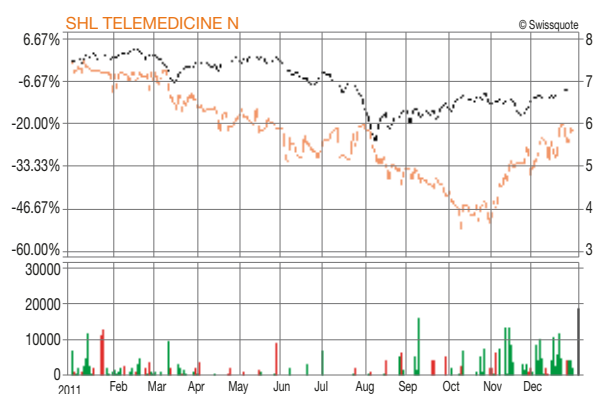
Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,419,589
Market price high/low (CHF)	7.55/3.56
Market capitalization high/low (CHF million)	78.7/37.1
Market capitalization 31/12/11 (CHF million)	61.3
Share capital – nominal value (NIS)	104,196
Majority interests	52.65%

Key figures per share at December 31, 2011

Net income per share (USD)	0.38
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Share price development



Listing

All SHL shares are listed on SWX Swiss Exchange

Ticker symbol: SHLTN

Currency: CHF

Listing date: November 15, 2000

Investor relations

SHL Telemedicine Ltd.

Erez Alroy, Co-CEO

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Annual General Meeting

June 12, 2012

Next Publications

Q1 Results: May 30, 2012

Q2 Results: August 22, 2012

Q3 Results: November 21, 2012

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SHL TeleMedicine Ltd. Corporate Governance Report

Introduction

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

All the relevant documents 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 2011

Effective as of the Annual General Meeting of Shareholders of the Company held on August 10, 2011 (the "AGM"), Mr. Yoram Alroy stepped down as the Chairman of Board of Directors (the "Board") but he continues serving as the President of the Company. The Board elected Mr. Elon Shalev to serve as Chairman in Mr. Alroy's stead as of the AGM and Mr. Shalev began his service following his re-election as a director at the AGM.

At the AGM, Mr. Yoram Alroy, Mr. Yariv Alroy, Mr. Erez Alroy, Mr. Elon Shalev, Mr. Hagai Shilo, Mr. Ziv Carthy, and Ms. Dvora Kimhi were re-elected to the Board of Directors until the next annual meeting. Mr. Nissim Zvili was re-elected as an independent (external) director of the Company, for one more three (3) year term in accordance with the Israeli Companies Law, 1999 (the "Israeli Companies Law"). Ms. Nehama Ronen continued to serve her second three (3) year term as an independent director of the Company until the Annual General Meeting in 2013.

In addition, at the AGM, the shareholders of SHL approved an amendment to the compensation package of the Co-CEOs and the President of the Company, following recommendations from outside compensation consultants (see Section 5 for additional information relating to compensation).

On August 23, 2011, the Board approved an increase to its share repurchase program, in an aggregate amount of US\$ 2 million so that the total amount allowed to be

repurchased, at any time shall not exceed USD 4 million. On September 23, 2011 SHL distributed a cash dividend to its shareholders in the amount of US\$ 0.66 per ordinary share, totaling approximately US\$ 7,000,000.

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. The information presented here is updated as of December 31, 2011, and was prepared in accordance with the Corporate Governance Directive of the SIX Swiss Exchange.

1. Group Structure and Shareholders

1.1 Group Structure

1.1.1 Management Principles:

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

During 2011 the Company and its subsidiaries in Israel, Germany and the U.S. operated in one business segment - telemedicine services.

Telemedicine services comprise the provision of telemedicine services and devices to subscribers utilizing telephonic and internet communication technology. SHL's telemedicine solution offers centralized remote diagnostic and monitoring services to end-users, making use of computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers

solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.

SHL Telemedizin GmbH and SHL Telemedizin Europe GmbH (together "SHL Germany") operate in the German market and provide telemedicine services to patients in Germany, mainly through German health insurers. SHL Germany is run as a stand-alone business and enjoys a high degree of autonomy, with its own management.

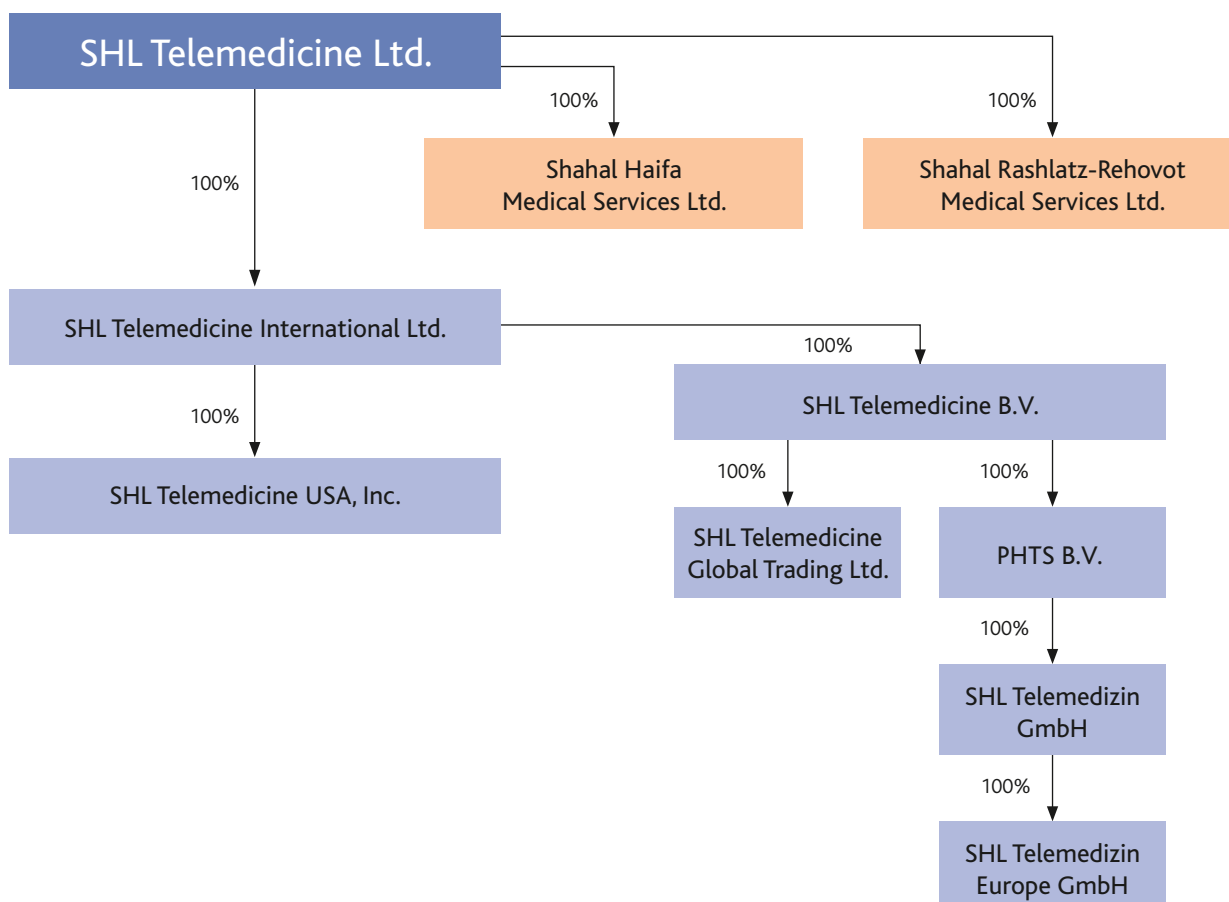
SHL Telemedicine Ltd., Shahal Haifa - Medical Services Ltd. and Shahal Rashlatz-Rehovot Medical Services Ltd. (together "SHL Israel") operate in the Israeli market and provide telemedicine services mainly to private paying subscribers. SHL Israel is run as a stand-alone business and enjoys a high degree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

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 104,195.89 divided into 10,419,589 fully paid registered ordinary shares of NIS 0.01 par value each (excluding 364,668 ordinary shares of NIS 0.01 par value each held by SHL). For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 15. The registered shares of SHL are traded on the main board of the SIX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As at December 31, 2011, SHL's market capitalization was CHF 61.3 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)
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)

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

1.3 Significant Shareholders

The following overview shows the shareholdings of significant shareholders as of December 31, 2011, compared to December 31, 2010:

	2011 Number	2011 %	2010 %
Alroy Group *	2,838,475	27.24%	27.30%
Tower Holdings B.V.	1,134,323	10.89%	14.36%
G.Z. Assets and Management Ltd.	921,533	8.84%	8.75%
Eli Alroy **	591,931	5.68%	5.62%
Public	4,933,327	47.35%	43.97%

* 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 6.93% of the issued and outstanding share capital of SHL, (ii) Mr. Erez Alroy, Co-CEO of SHL that holds individually and through a company wholly owned by him 0.18% of the issued and outstanding share capital of SHL, (iii) Mr. Elon Shalev, brother-in-law of Mr. Yoram Alroy, that holds, individually and through Elon Shalev Investments Ltd., a private company wholly owned by Mr. Elon Shalev, approximately 6.96% of the issued and outstanding share capital of SHL, (iv) Y. Alroy Family Ltd., a private company wholly owned by Mr. Yoram Alroy, Mr. Elon Shalev and members of their family, that holds approximately 5.12 % of the issued and outstanding share capital of SHL, and (v) Southland Holding Ltd., a private company owned by Mr. Erez Alroy, Mr. Yariv Alroy and Mr. Elon Shalev, holding approximately 8.05% of the issued and outstanding share capital of SHL.

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

The above table of Significant Shareholders reflects actual holdings as of December 31, 2011, after deducting from the total number of shares outstanding 364,668 Ordinary Shares held by SHL (as described in Section 1.1.2 above), and does not reflect holdings on a fully diluted basis.

Pursuant to the Shareholders Agreement (the “Shareholders Agreement”) originally entered between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., the aforementioned shareholders of the Company agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include three (3) nominees determined by the Alroy Group, two (2) nominees determined by Royal Philips Electronics, one (1) nominee determined by Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics had the right to nominate two (2) directors as long as it would hold at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it would hold at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics’ rights under the Shareholders Agreement were transferred to the Alroy Group in 2010 as a consequence of the purchase by the Alroy Group of shares previously held by Royal Philips Electronics and accordingly, the Shareholder Agreement is currently in effect only between SHL, the Alroy Group, Tower Holdings B.V. and G.Z. Assets and Management Ltd.. Additionally, the Shareholders Agreement provides that any committee of the Board of Directors shall include one (1) of the members of the Board of Directors nominated by the Alroy Group, one (1) member of the Board of Directors nominated by Royal Philips Electronics (such right having been transferred to the Alroy Group as a consequence of the purchase by the Alroy Group of shares previously held by Royal Philips Electronics in 2010) and one (1) of the members of the Board of Directors nominated by either Tower Holdings B.V. or G.Z. Assets and Management Ltd. The Shareholders Agreement is effective for a period of two (2) years commencing as of November 2011, and shall be automatically renewed for additional two (2) year periods unless either party provides a three (3) months written notice to terminate the Shareholders Agreement.

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

1.5 Cross-Shareholdings

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

2. Capital Structure

2.1 Capital on the Disclosure Deadline

Authorized share capital as of December 31, 2011

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

Issued and outstanding share capital as of December 31, 2010

Number of Ordinary Shares	10,419,589*
par value	NIS 0.01 each
Share capital	NIS 104,195.89

* Excluding 364,668 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section “The Ordinary Shares, Voting Rights” on page 15.

2.2 Authorized and Conditional Capital

General

Under Israeli law, a company’s authorized share capital represents the maximum amount of shares which is authorized for issuance by the company. SHL’s authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the “Ordinary Shares”). The issued and outstanding share capital of SHL is NIS 104,195.89, divided into 10,419,589 fully paid registered Ordinary Shares (excluding 364,668 Ordinary Shares held by SHL). Any increase in the authorized share capital is valid as of the date of the approval thereof by the shareholders (with respect to special majority requirements, please refer to Section 6.2 below). Authorized share capital, or any increase thereof is not limited in time. However, the shareholders may, at the General Meeting, cancel authorized but not yet issued share capital, provided that the Company did not undertake to issue shares out of such authorized but unissued share capital. Pursuant to SHL’s Articles of Association, the unissued shares are under the sole control of the Board of Directors of SHL who has the authority to allot or otherwise dispose of them on such terms and conditions as it may see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

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

Share Options

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

In September 2000, SHL 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.

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

otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The Board of Directors of SHL may in its discretion reduce the relevant performance targets to zero, and has done so in several instances. The options shall expire six (6) years from the date of grant.

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

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 to allow for the option holders holding such options to choose, whether to exercise by way of Net Exercise or by the current regular exercise mechanism.

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

	Weighted Average exercise price in		Weighted Average exercise price in	
	2011	CHF	2010	CHF
As at January 1	895,295	6.85	600,133	6.75
Granted during the year	156,078	6.32	351,000	6.91
Forfeited during the year	(227,164)	7.58	(28,947)	6.92
Exercised during the year	(3,356)	5.90	(26,891)	5.33
Outstanding at the end of the year	820,853	6.52	895,295	6.85
Vested at December 31	444,429	6.44	474,449	6.67
		Weighted Average exercise price in CHF		Vested
Under the 2003 Share Option Plan	278,714		6.03	278,714
Under the 2005 Share Option Plan	542,139		6.78	165,715
	820,853		6.52	444,429

For information with respect to the approval of share option grants to certain employees and service providers in lieu of options which expired in the year under review (including to controlling shareholders), please refer to Section 5 below.

2.3 Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2009, 2010 and 2011, SHL's issued share capital was comprised of 10,501,174, 10,527,165 and 10,419,589 Ordinary Shares, respectively. The foregoing changes in the Company's share capital result from the exercise of share options previously granted under SHL's Option Plans and the repurchase of shares by SHL under its share repurchase plan first approved by the Board of Directors of the Company on March 25, 2008, as increased and extended on August 23, 2011. 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, 2012. 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).

2.4 The Ordinary Shares

General

SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"), as set forth above. All the issued Ordinary Shares rank pari passu in all respects. The Ordinary Shares do not have preemptive rights. The ownership or voting of Ordinary Shares by

non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by the Articles of Association of SHL or the laws of the State of Israel. The Ordinary Shares are in book entry form only. No share certificates are issued; however, shareholders of record are entitled to receive non-negotiable confirmations from SHL evidencing their ownership of Ordinary Shares. Based on an agreement between SHL and SIX SIS AG (formerly SIS 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, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher provided, however, that there is no reasonable concern that the payment of 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 SNOG 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 34.

In case a company purchases its own shares, under the Israeli Companies Law, such shares become dormant

and do not confer voting or any other rights so long as such shares are held by the company.

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

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

Duties of Shareholders

Under the Israeli Companies Law, 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 the 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. 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 shareholders that have a personal interest in the appointment of an Independent Director (for election of Independent Directors, please see Section 3.1 below) and shareholder that have a personal interest in a full purchase offer (for full purchase offers, please see Section 7.1 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

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.

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

SNOC Agreement and Shareholder Registration

SHL entered into an agreement with SNOC Swiss Nominee Company ("SNOC", the "SNOC Agreement"), which upon the merger of SNOC with SIX SIS AG by way of absorption was transferred by operation of law to SIS as of 2001, according to which SIS agrees to act as a nominee on behalf of any person registered in a Share Register maintained by SIX SAG AG, formerly SAG SEGA Aktienregister AG ("SAG", the "Share Register"). SIS is registered in SHL's Register of Shareholders as shareholder of all of the issued and outstanding Ordinary Shares. The registration of SIS as shareholder of record is due to certain legal requirements under the Israeli Companies Law requiring a company such as SHL to keep a register of shareholders registering its shareholders of record. Under the SNOC Agreement, SIS has irrevocably agreed and instructed SHL to enable each person registered from time to time with the SAG Register (a "Registered Person") to exercise, on behalf of SIS, with respect to such number of Ordinary Shares registered in the sub register on behalf of such Registered Person, all present and future rights and claims attached to the Ordinary Shares registered in SIS's name in SHL's Register of Shareholders. SHL has irrevocably acknowledged and accepted such instruction of SIS that a Registered Person is entitled to exercise all present and future rights and claims attached to the Ordinary Shares with respect to the number of Ordinary Shares registered on behalf of such person in the 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 directors (Ms. Nehama Ronen and Mr. Nissim Zvili) (for further information on Independent Directors, please refer to the following section of this report).

Independent Directors

Israeli companies that have offered securities to the public in or outside of Israel 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 which must be comprised of at least three (3) directors, including all of the Independent Directors. For the tasks of the audit committee and further requirements regarding the composition of the Audit Committee, please refer to Section 3.3 below.

Pursuant to the Israeli Companies Law, to qualify for an appointment as an Independent 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 affiliations (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; (d) a director of another company, if a director of such other company serves as an Independent Director in the first company; (e) 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 (f) 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; and (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); 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).

Ms. Nehama Ronen serves her second consecutive term as an Independent Director of SHL until the Annual General Meeting of 2013, and may be re-elected for one (1) additional three year term, subject to the conditions set forth above. Mr. Nissim Zvili serves his second term as an Independent Director of SHL until the Annual General Meeting of 2014 after having been re-elected at the 2011 AGM, and may be re-elected for one (1) additional three (3) year term, subject to the above..

Executive and Non-Executive Members of the Board

The only executive members of the Board of Directors are Mr. Yoram Alroy, Mr. Erez Alroy and Mr. Yariv Alroy. None of the current non-executive members of the Board of Directors was a member of the management of SHL or of any of SHL's group companies in the three (3) financial years preceding the period under review. The non-executive members of the Board of Directors have no 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 12 and "Share Ownership" on page 32.

Current Board Members

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

Name	Nationality	Position	First Election	Remaining Term*
Yoram Alroy	Israeli	Executive member/ President	1987	2012
Elon Shalev	Israeli	Non-executive member/ Chairman of the Board	1987	2012
Erez Alroy	Israeli	Executive member/ Co-CEO	2008	2012
Yariv Alroy	Israeli	Executive member/ Co-CEO	2010**	2012
Ziv Carthy	Israeli	Non-executive member	1997	2012
Nehama Ronen	Israeli	Non-executive member/ Independent Director	2007	2013
Nissim Zvili	Israeli	Non-executive member/ Independent Director	2008	2014
Hagai Shilo	British and Israeli	Non-executive member	2010	2012
Dvora Kimhi	Israeli	Non-executive member	2010***	2012

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

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

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



Yoram Alroy, President

Yoram Alroy founded SHL in 1987. Commencing in 1987 and until September 2003 he has served as CEO and Chairman of SHL's Board of Directors. As of September 2003 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, but 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 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 the 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 1996 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, one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur in the telecom market and is the Chairman and co-founder of Logia Ltd., a global provider of innovative mobile content solutions. In addition, Mr. Shalev serves as a senior advisor to the Saban Capital Group and served as a Board member in several large and well known Israeli firms like Bezeq (the Israeli national telecommunications provider), Yes (a multi channel satellite broadcast company) and Bezeq International (a long distance telecommunications provider). Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and SHL INT. Nationality: Israeli.



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 and 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 Bazan Oil Refineries Ltd., Israel's largest oil refinery. Ms. Ronen previously served as a board member in other well known Israeli corporations such as Kamur Ltd., and Logisticare Ltd. 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.



Hagai Shilo

Mr. Shilo is currently the Managing Director of Oceana Investment Partners LLP, investment advisers to the Oceana Concentrated Opportunities Fund. Mr. Shilo was formerly Director of Corporate

Finance and Investment banking at Benny Steinmetz Group and VP Investment Banking BNP Paribas and JP Morgan UK. Mr. Shilo has an MBA from the Rotterdam School of Management Erasmus University, Holland and a BA in Accounting and Economics from the Tel Aviv University. Nationality: Israeli and British.



Dvora Kimhi

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

3.2 Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, all members of the Board of Directors, except the two (2) Independent Directors (who are to be elected as described above), are elected individually at the Annual General Meeting of the shareholders by a vote of the holders of a majority of the voting power represented at such meeting to serve until the next Annual General Meeting. All directors of SHL, except for the Independent Directors - who may only serve three (3) three-year terms (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 which is a candidate to be a director of a company is required to disclose to the company, amongst others, whether the enforcement committee instituted under the Israeli Securities Law has imposed certain enforcement measures on such person preventing it from serving as a director in a public company, so long as the applicable period of restriction imposed has not yet lapsed. If sanctions were imposed which prohibit service as a director in a public company, then (a) the relevant candidate will not be appointed as a director; and (b) the service of any person already serving as a director will immediately terminate with submission of notice regarding such enforcement measures by the relevant director.

Pursuant to the Shareholders Agreement (for a complete description of the Shareholders Agreement, please refer to the Section on "Significant Shareholders", on page 12) currently in effect between SHL, the Alroy Group, Tower Holdings B.V. and G.Z. Assets and Management Ltd., the aforementioned shareholders of the Company agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include the respective number of nominees provided under the Shareholders Agreement determined by the Alroy Group, Tower Holdings B.V. and G.Z. Assets and Management Ltd., respectively, for as long as they fulfill the required minimum shareholding requirements.

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 in a quarter. Topics addressed in the meetings include the strategy, business reviews and major projects, investments and transactions. Each of the Board Committees conducts its meetings according to the needs of the relevant Board Committee. The Chief Executive Officers and the Chief Financial Officer of the Company are invited to all meetings and regularly attend such. The Board of Directors invites from time to time its external legal counsel to participate in meetings, as it deems necessary.

The Board of Directors has all powers vested in it according to the Israeli Companies Law and the Articles of Association, is authorized to determine the policy of SHL and to supervise the performance and actions of the 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 11 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. The Shareholders Agreement, as currently in effect following the sale of the shares by Royal Philips Electronics to the Alroy Group and the corresponding transfer of rights under the Shareholders Agreement, provides that any committee of the Board of Directors shall include two (2) of the members of the Board of Directors nominated by the Alroy Group, and, one (1) of the members of the Board of Directors nominated by either Tower Holding B.V. or G.Z. Assets and Management Ltd (for a complete description of the Shareholders Agreement, please refer to Section 1.3 above).

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

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

Audit Committee – Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent Directors, and, a majority of its members must be Independent (autonomous) Directors, (i.e. either (i) Independent (external) Directors as set forth above, or (ii) such persons which fulfill all of the requirements applicable to Independent (external) Directors, except special financial or professional qualifications, as confirmed by the Audit Committee, and who have not served as a director of the company for more than nine (9) years in a row). 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 (autonomous) 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 heightened approval requirements) (for special approval requirements with respect to controlling shareholder and director engagement terms, please refer to the Section on "Compensation, Shareholdings and Loans" below); (c) to approve interested party transactions, where so required under the Israeli Companies Law; and (d) to examine the existing internal control measures of the Company and the functioning of the Internal Auditor (see below). The Audit Committee meets from time to time when deemed necessary. During the year under review it held 8 meetings. Currently, the Audit Committee is composed of the following members: Ms. Dvora Kimhi, Ms. Nehama Ronen and Mr. Nissim Zvili.

Compensation Committee - the Board of Directors has appointed a Compensation Committee composed of the following members: Ms. Dvora Kimhi, Ms. Nehama Ronen and Mr. Nissim Zvili. The Compensation Committee was appointed by the Board of Directors for the purpose of referring to it for its recommendations to the Board of Directors all matters regarding the compensation and terms of employment of any of SHL's

controlling shareholders who are employed by the Company. The Compensation Committee does not have decision making powers. The Compensation Committee meets from time to time when deemed necessary. During the year under review it held 6 meetings. Compensation may be determined inter alia based on external consultants, then recommended by said committee to the Board. As set forth below (see the section on “Statutory Quorums” on page 34), under the Israeli Companies Law any compensation to a controlling shareholder is deemed an extraordinary transaction and needs approval of the Audit Committee, the Board and the Shareholders Meeting with a special majority vote.

Pursuant to the Articles of Association, the committees 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 – The Board of Directors has appointed Avi Schwartzuch of the accounting firm Schwartzuch, Widavski and Co. as an Internal Auditor, upon the recommendation of the Audit Committee. According to the Israeli Companies Law, neither an interested party nor an officer of the company, any relatives of the foregoing or the external auditor 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. Pursuant to the Companies Law, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings. The Internal Auditor has no decision making powers.

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

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

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

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

- The CEOs and CFO inform the Board of Directors regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board of Directors and CEOs and CFO as deemed necessary.
- Control over financial management is exercised by the Board together with SHL’s external auditors (for further information on the Company’s external auditors, please refer to the Section titled “Auditors” on page 36) 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 this page 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 Members of Senior Management

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

Name	Nationality	Position
Yoram Alroy	Israeli	President
Yariv Alroy	Israeli	Co-CEO
Erez Alroy	Israeli	Co-CEO
Eran Antebi	Israeli	CFO
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Eyal Lewin	Israeli	Co-Managing Director – SHL Telemedizin Germany
Georg F. von Oppen	German	Co-Managing Director – SHL Telemedizin Germany
Arie Roth	Israeli	Chief Medical Manager

Yoram Alroy, President

For additional information see Section “Members of the Board of Directors” on page 20.

Yariv Alroy, Co-CEO

For additional information see Section “Members of the Board of Directors” on page 20.

Erez Alroy, Co-CEO

For additional information see Section “Members of the Board of Directors” on page 20.



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.



Eyal Lewin, Co-Managing Director - SHL Telemedizin, Germany.

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



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

Georg F. von Oppen became Co-Managing Director of SHL Telemedizin in Germany in January 2011. 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.



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.

Management Contracts

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

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.

On September 21, 2003, SHL entered into a management services agreement with Alroy Yoram Consulting and Management Ltd., an Israeli based company wholly owned by Mr. Yoram Alroy (who had previously been an employee of the Company) (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. In the year under review, an amendment to the terms and provisions of the management agreement with the Service Provider were approved, by the Audit Committee, the Board of Directors and the General Meeting of the shareholders of SHL (at the AGM), pursuant to which the fees Service Provider is entitled to on a monthly basis were significantly reduced and the maximum absolute annual bonus cap applicable to Service Provider together with Mr. Yariv Alroy and Erez Alroy was increased to US\$ 1,250,000. The aforesaid amendment is effective as of the AGM. The initial term of the aforesaid management agreement ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by Service Provider); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement, provided that such agreement requires re-approval by the Audit Committee, the Board and the shareholders of the Company once every three (3) years subject to special majority shareholder approval requirements (for further

information, please refer to the section on compensation of "Senior Management" on page 29 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 based 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"), 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. At the AGM, an amendment to the respective engagement terms was approved by the shareholders (following corresponding recommendations and approval by the Audit Committee and the Board), pursuant to which (a) the fees each Service Provider is entitled to on a monthly basis were reduced by 10%; (b) the annual profit based bonus each of the two Service Providers is entitled to as a percentage of the Company's profits was increased to up to 3.75%, provided that the joint annual profit based bonus payable to the two Service Providers together with Mr. Yoram Alroy (whose maximum percentage of an annual profit based bonus remained unchanged at up to 3%) shall be 3.75%; (c) each of the Service Providers 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 and subject to receipt of all additional corporate approvals (including shareholder approval); and (d) the maximum absolute bonus cap applicable to both the Service Providers and Mr. Yoram Alroy together was increased to US\$ 1,250,000. The aforesaid amendments are in effect as of the AGM. The initial term of each of the aforesaid management agreements ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by one of the Service Providers); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement, provided that such agreements require re-approval by the Audit Committee, the Board and the shareholders of the Company once every three (3) years subject to special majority shareholder approval requirements (for further

information, please refer to the section on compensation of “Senior Management” on page 29 below).

Effective as of the AGM, 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 of the Board through Mr. Shalev exclusively. Such agreement shall be in effect for as long as Mr. Shalev shall serve as the Company’s Chairman; provided that such agreement requires re-approval by the Audit Committee, the Board and the shareholders of the Company once every three (3) years subject to special majority shareholder approval requirements (for further information, please refer to the section on compensation of “Senior Management” on page 29 below).

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts and the amendments made thereto in the year under review is included in the figure cited in the first paragraph of the Section “Compensation for Acting Members of Governing Bodies”, on page 31.

5. Compensation, Shareholdings and Loans

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

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

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

Board of Directors

Except for limited circumstances provided for under regulations promulgated under the Israeli Companies Law, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment (including the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, require the

approval of the Audit Committee, the Board of Directors and the shareholders. Further, pursuant to the Israeli Companies Law, approval by the shareholders of the terms of engagement of a controlling shareholder as an office holder (including as a director) or employee (and subject to the limited circumstances provided for under regulations promulgated under the Israeli Companies Law in which such shareholder approval is not required), requires either (i) that the majority vote in favor of the resolution shall include the consent of at least 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 or Audit 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 or the Chairman of the Board of Directors, 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, 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 (a) 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, for their service equivalent in amount to that paid to Independent (external) Directors of the Company (see below); and (b) the payment of the compensation payable to Mr. Elon Shalev (or an entity controlled by him) for his service as the Chairman of the Board in accordance with the special approval requirements applicable to controlling shareholder compensation terms (see above), all following corresponding approval thereof by the Audit

Committee (acting, with respect to Mr. Shalev, also in its capacity as the Compensation Committee) and the Board. 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 31 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 a fixed annual fee plus a participation fee per each Board or Committee meeting attended. The regulations promulgated under the Israeli Companies Law provide, inter alia, for minimum, "set" and maximum amounts with respect to the annual fee and the participation fee to be paid to Independent Directors, dependant on the relevant company's "rank", as determined based upon the company's shareholders' equity as such appears in the company's audited balance sheet for the preceding year. In the event a public company chooses to pay to the independent directors an annual fee and a participation fee in an amount between the "set" amount and the maximum amount set under the regulations, then such compensation is not subject to approval by the shareholders of the company. The foregoing exception to the shareholder approval requirement does not apply with respect to compensation in the form of securities of the company. At the AGM, 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 approved with respect to Mr. Nissim Zvili (or an entity controlled by him) whose term of service was extended at such AGM. In addition, the AGM approved to adjust the fees payable to Ms. Nehama Ronen (or an entity controlled by her) to be equal to the fees approved with respect to Mr. Zvili (pursuant to relevant regulations promulgated under the Israeli Companies Law which require that all Independent Directors are entitled to the same compensation). All of the foregoing terms were previously approved by the Audit Committee and the Board (as required under the Israeli Companies Law).

Directors are reimbursed for travel and other 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 AGM. (For more information on director compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies" on page 31).

Senior Management

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

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

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

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 the directors and office holders insurance and indemnification), require the approval of the Audit Committee, the Board and the shareholders. 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 Audit Committee and the Board 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.

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

Co-CEO's and President

In the year under review, the compensation packages of Mr. Yariv Alroy and Mr. Erez Alroy were amended pursuant to recommendations from outside compensation consultants, and such amended compensation terms were approved by the shareholders of SHL in accordance with the above at the AGM, following recommendations and approval by the Audit Committee (acting also in its capacity as the Compensation Committee) and the Board. Further, in accordance with the foregoing, the engagement terms of Mr. Yoram Alroy as President of the Company were amended by the relevant organs of the Company in the year under review. (For further details regarding the amendments made to the compensation packages of the Co-CEOs and the President of the Company, please refer to the Section on "Management

Contracts" on page 27 above.)

Overall, the compensation of senior management in the year under review was comprised, on an average of approximately 82% of a cash base salary and 18 % of cash bonuses and share options granted.

For more information on director and senior management compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies" on page 31).

Shareholding Programs

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

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

Compensation for Acting Members of Governing Bodies

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which is payable to the members of the Board of Directors and the Senior Management for their service or employment, as the case may be, during the year under review, is as follows:

Board of directors

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised ⁴	Total
Yoram Alroy	Executive member/ President	See compensation figures in Senior management compensation table			
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	36,681	-	-	36,681
Ziv Carthy	Non-executive member	21,868	-	-	21,868
Nehama Ronen	Non-executive member/ Independent director	24,849	-	-	24,849
Hagai Shilo	Non-executive member	21,868	-	-	21,868
Nissim Zvili	Non-executive member/ Independent director	22,925	-	-	22,925
Dvora Kimhi	Non-executive member	25,545	-	-	25,545

Senior Management

Name	Function	Base Compensation and fringe benefits	Cash Bonus	Share options granted or exercised ⁴	Total
Yoram Alroy ²	President	27,337	16,072 ³	-	43,409
Yariv Alroy ²	Co-CEO	582,915	72,325 ³	76,254 ⁵	731,494
Erez Alroy ²	Co-CEO	582,915	72,325 ³	76,254 ⁵	731,494
Irit Alroy	CTO	199,553	25,153	26,167 ⁵	250,873
Other members of senior management		1,213,825	57,293	176,982	1,448,100

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, from the AGM, as the Chairman of the Board.

² Compensation figures represent the applicable terms up until the AGM, and the changes made thereto effective as of the AGM.

³ In accordance with the amendments approved in the year under review with respect to Mr. Yoram Alroy's compensation terms as President of SHL and Mr. Yariv Alroy's and Mr. Erez Alroy's compensation terms as Co-CEOs of SHL, (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 Audit 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. The profit based bonus payable to all three Service Providers for 2011 amounts to USD 161 thousands. Subject to the aforesaid, the profit based bonus is to be allocated between the three Service Providers at their discretion. The amounts shown in the above table assume that 10% of the profit based bonus shall be paid to Mr. Yoram Alroy and the remainder shall be split evenly between Mr. Yariv Alroy and Mr. Erez Alroy.

⁴ 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.

⁵ Includes options granted in the year under review in lieu of options previously granted and expired, as approved by the Audit Committee, the Board and the shareholders of the Company.

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 4.2 "Management Contracts" on page 27.

Pursuant to a recent amendment to the Israeli Companies Law which came into effect in the year under review and which requires that the engagement terms of controlling shareholders and their relatives (including officers and directors insurance and indemnification undertakings) shall be approved at least once every three (3) years, the Audit Committee, the Board and the shareholders of SHL at the AGM have 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). 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 USD 15 million was re-confirmed. The grant of insurance coverage and the indemnification undertaking as aforesaid have been approved with respect to the directors elected to office in the year under review at the Annual General Meeting of shareholders.

Compensation for Former Members of Governing Bodies

No compensation to former members of governing bodies has been paid in the year under review.

Share Allotment in the Year Under Review

No Ordinary Shares of SHL were allotted to the executive or to the non-executive members of the Board 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, 2011, 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 and senior management, please refer to the section of this report below. Elon Shalev, a non-executive member of the Board of Directors is a member of the Alroy Group. The Alroy Group holds, as of December 31, 2011, 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 12.

Ziv Carthy, a non-executive member of the Board of Director, is a controlling shareholder of G.Z. Assets and Management Ltd., which holds, as of December 31, 2011, an aggregate of 921,533 Ordinary Shares. No other non-executive member of the Board of Directors or parties closely linked to such person holds, pursuant to the Share Register, as of December 31, 2011, Ordinary Shares.

Share Options

Information with regard to Options held pursuant to the Option Plans as of December 31, 2011 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. The below table also reflects options granted in the year under review to certain employees and office holders (including controlling shareholders), in lieu of options expired in the year under review (for further information, please refer to the sub-section on "Shareholding Programs" above).

Name	Function	Share Options outstanding at December 31, 2010	Weighted Average exercise price in CHF	Granted during the year	Exercise price of options granted	Forfeited during the year	Exercised	Share Options outstanding at December 31, 2011	Weighted Average exercise price in CHF	Vested
Yoram Alroy	President	32,560	CHF 6.89	-	-	-	-	32,560	CHF 6.89	32,560
Elon Shalev	Chairman of the Board of Directors	-	-	-	-	-	-	-	-	-
Erez Alroy	Co-CEO	60,664	CHF 7.07	30,424	CHF 6.13	30,424	-	60,664	CHF 6.02	30,240
Yariv Alroy	Co-CEO	90,904	CHF 6.68	30,424	CHF 6.13	30,424	-	90,904	CHF 5.98	60,480
Ziv Carthy	Non-executive member	-	-	-	-	-	-	-	-	-
Nehama Ronen	Non-executive member/ Independent director	14,603	CHF 8.50	-	-	-	-	14,603	CHF 8.50	14,603
Nissim Zvili	Non-executive member/ Independent director	18,000	CHF 8.30	-	-	12,396	-	5,604	CHF 8.30	5,604
Dvora Kimhi	Non-executive member	18,000	CHF 7.65	-	-	-	-	18,000	CHF 7.65	6,000
Hagai Shilo	Non-executive member	-	-	-	-	-	-	-	-	-
Eran Antebi	CFO	83,500	CHF 7.13	-	-	17,217	-	66,283	CHF 6.82	29,616
Erez Nachtomy	Executive vice president	100,661	CHF 6.38	17,395	CHF 5.81	17,395	-	100,661	CHF 6.23	46,599
Irit Alroy	Executive Vice President and CTO	29,118	CHF 6.74	10,440	CHF 6.13	10,440	-	29,118	CHF 5.98	18,678
Eyal Lewin	Co-Managing Director – SHL Telemedizin Germany	95,656	CHF 6.55	17,395	CHF 5.81	15,656	-	97,395	CHF 6.40	36,446
Georg F. von Oppen	Co-Managing Director – SHL Telemedizin Germany	-	-	50,000	CHF 6.46	-	-	50,000	CHF 6.46	-
Arie Roth	Chief Medical Manager	15,760	CHF 6.47	-	-	-	-	15,760	CHF 6.47	9,093

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

As of December 31, 2011 parties closely linked to the non-executive members of the Board of Directors hold 1,413 Options with an exercise price of CHF 5.90 each, pursuant to the Option Plans.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2011 to SHL or to any of its subsidiaries for additional services performed during the year under review which reach or exceed half of the ordinary remuneration of the member in question.

Loan Granted to Governing Bodies

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

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

6. Shareholder Participation

6.1 Voting Rights Restrictions and Representation Restrictions

There are currently no voting-rights and representation restrictions in place. Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SNOC Agreement each person registered in the SAG Register is entitled to vote the number of shares registered in his name in the SAG Register. The voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights if authorized in the future, such an authorization requires a majority of sixty-six (66) percent of the voting power present at the General Meeting. The quorum required for any meeting of shareholders is at least two (2) shareholders present in person or by proxy who together hold or represent at least thirty-three and one third ($33\frac{1}{3}$) 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, the Board and the shareholders. 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.

6.3 Convocation of the General Meeting of Shareholders

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

Not less than twenty-one (21) days prior notice shall be given to any General Meeting and shall be published in one newspaper in Israel and in one newspaper in Switzerland or in accordance with the rules and regulations of the stock exchange on which SHL's shares are listed. However, pursuant to regulations promulgated under the Companies Law and adopted in 2006, shareholders may vote on certain matters (such as the election or removal of directors or transactions between a company and any of its officers or controlling shareholders or in which such persons may have a personal interest) by submitting a written ballot with respect thereto (the "Ballot") (but may vote thereon in person or by Proxy). In the event such matters are included

in the agenda of a General Meeting then not less than thirty five (35) days' prior notice shall be given. In addition, SHL and SAG will, pursuant to an agreement between SHL and SAG, take all necessary steps to ensure that notices will be sent to the persons registered in the SAG Register. Pursuant to the Israeli Companies Law, the notice of the General Meeting shall include the agenda.

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

The aforementioned regulations also stipulate that any shareholder wishing to state his position with respect to any of the said matters on the agenda may do so by requesting the Company to deliver such position to the other shareholders (the "Shareholder Statement"). The Shareholder Statement must be delivered to the registered office of the Company or to SAG not later than 10 days following the Record Date as such date is determined by the Board of Directors. Shareholder Statement shall be delivered to all shareholders by SAG no later than 5 days following receipt thereof. Should a company elect to state its position with respect to such Shareholder Statement, it shall deliver such position (the "Company Statement") to the shareholders, via SAG, no later than 12 days prior to the Annual General Meeting. Any such Statement must be written in a clear and simple language, and shall include no more than 500 words per subject matter, and a total of no more than 1,500 words. A Shareholder Statement shall detail the identity of such shareholder, as well as his percentage interest in the Company; a shareholder who is a corporate entity shall detail the identity of its controlling shareholder(s), as well as additional holdings (if any) of such controlling shareholder(s) in shares of the Company, to the best knowledge of the shareholder submitting the Shareholder Statement. A shareholder submitting the Shareholder Statement, who acts in consort with others with respect to voting in shareholder meetings, whether in general or with respect to certain matter(s) on the agenda, shall indicate so in the Shareholder Statement, and shall describe the aforementioned arrangements and the identity

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

6.4 Agenda

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

6.5 Registration in the Share Register

The shareholders entitled to participate in and to vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, such date shall not, pursuant to regulations promulgated under the Israeli Companies Law, be earlier than forty (40) days prior the date of the General Meeting and not later than twenty eight (28) days prior to the date of such General Meeting, or different periods as

shall be permitted by applicable law. A determination of shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

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

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

further provided that any purchase of more than 90% of SHL's voting rights by the foregoing parties will trigger the full tender offer provisions set forth above.

Pursuant to the provisions of the Swiss Stock Exchange Act, any person who by acquiring exceeds the threshold of thirty-three and one third (33⅓) percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SIX Swiss Exchange must make a mandatory offer to acquire all other shares. Since SHL is not incorporated in Switzerland, SHL believes that these provisions do not apply. However, it cannot be excluded that the Swiss securities supervisory authority or Swiss courts could rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction. For the provisions of the Israeli law, please see below. Pursuant to a Listing Agreement entered into in connection with SHL's initial public offering on the SIX New Market in November 2000, SHL agreed to comply, to the extent possible, with procedural rules and will accept recommendations issued by the Swiss Takeover Board.

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

7.2 Clauses on Changes of Control

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

8. Auditors

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

Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent resolution. SHL's auditors were last re-appointed at the 2011 Annual General Meeting.

Since 1997, Mr. Chen Shein (CPA) [is the head auditor within Kost, Forer, Gabbay & Kasierer responsible for the auditing of SHL.

8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2011 approximately USD 268 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 177 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.**

In the year under review, SHL has amended its previously instituted insider trading policy in order to comply with rules published by the SIX Swiss Exchange by adding a management transactions disclosure policy. The insider trading policy is applicable to members of the Board, officers, employees, representatives and consultants of the company, as well as the immediate family members and household members of such persons, in addition to any other person which may receive inside information with respect to the company. Amongst others, the insider trading policy forbids trading in SHL's securities by the aforementioned persons while in possession of inside information, and additionally provides that board members and certain senior management members may only trade in SHL's securities during specifically stipulated "open periods". The management transactions disclosure policy is applicable to members of the Board and members of Senior Management ("Management Members"). According to the policy, Management Members are obliged to report a transaction 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.

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	June 12, 2012
Q1 Results	May 30, 2012
Q2 Results	August 22, 2012
Q3 Results	November 21, 2012

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Consolidated Financial Statements 2011

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Financial Overview

Results of Operations

During the year revenues and overall financial performance declined, stemming from SHL's operation in Germany and from a decrease in the Philips US revenues.

Although revenues decreased during the year, operating margins were only slightly lower thanks mainly to a significant reduction in expenses and investments, mainly in Germany.

Revenues

Revenues for fiscal year 2011 amounted to USD 42.4 million compared with revenues of USD 50.3 million for fiscal year 2010. At constant exchange rate terms revenues for the fiscal year declined by 18.9% year over year. Revenues from the German operation amounted to USD 14.8 million compared with USD 21.6 million in 2010 representing a decline of 34.7% at constant exchange terms. Revenues from the Israeli operation for fiscal year 2011 amounted to USD 22.8 million compared to revenues of USD 22.3 million in 2010, representing a slight decrease of 1.8 % year over year at constant exchange rates. Revenues from the delivery of IT platform and related services to Philips/Raytel amounted in fiscal year 2011 to USD 4.8 million compared to USD 6.4 million in 2010, representing a decline of 25% year over year.

In terms of geographic breakdown of revenues, the German market accounted for 34.9% of group revenues, the Israeli market for 53.8% of group revenues and the US market for 11.3% of group revenues. This compared with 44.3%, 42.9% and 12.7% of group revenues in 2010, respectively.

Gross profit

In fiscal year 2011 gross margins were at 63.7% compared to 66.2% in 2010, bringing gross profit for the year to USD 27.0 million compared with a gross profit of USD 33.3 million in fiscal 2010, representing a decrease of 21.9% in constant currency terms.

Research and Development costs, net

Amortization of development costs amounted to USD 1.0 million in 2011 compared with USD 1.6 million in 2010. Investment in research and development amounted to USD 2.4 million compared to an investment of USD 2.3 million in 2010.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 38% at constant exchange rates and amounted to USD 9.6 million (22.6% of revenues) compared with USD 14.7 million (29.2% of revenues) in 2010. The decrease in selling and marketing costs stems mainly from a significant reduction in investments in the consumer market initiatives and continuous streamlining of operations, mainly in Germany.

General and Administrative Expenses

General and administrative expenses for fiscal year 2011 amounted to USD 11.9 million (28.1% of revenues), compared to USD 10.9 million (21.7% of revenues) in fiscal 2010. In cash terms, general and administrative expenses decreased in 2011 by 0.4 million, however due to a reversal of a provision in 2010 in an amount of USD 1.4 million, general and administrative expenses increased year over year.

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

For fiscal year 2011 EBITDA amounted to USD 9.1 million (21.5% of revenues) compared to an EBITDA of USD 11.4 million (22.7% of revenues) in fiscal 2010.

Operating profit (EBIT) for the year amounted to USD 4.2 million (9.9% of revenues) compared with USD 6.0 million (11.9% of revenues) in fiscal 2010.

Financial Income

Although the Company received loans in an amount of USD 27.9 million during the year financial income, net, for the year amounted to USD 0.6 million compared to USD 0.1 million in 2010. The increase is a result of exchange rate gains on SHL's USD denominated receivables offset by the additional interest expenses on the loans.

Taxes on Income

For fiscal year 2011 taxes on income amounted to USD 0.8 million compared with taxes on income of USD 1.2 million in 2010. Taxes on income include USD 0.3 million in deferred taxes and USD 0.5 million in taxes in respect of previous years.

Net Income

Net income reported for the year amounted to USD 4.0 million (9.4% of revenues) compared with USD 4.9 million (9.7% of revenues) in 2010 reflecting a decrease of 18.4% at constant exchange rates. Basic and diluted earnings per share for fiscal year 2011 amounted to USD 0.38 compared with USD 0.46 per share for fiscal 2010.

Major Changes in Assets, Liabilities and Equity

SHL's balance sheet continues to be strong with a solid structure as of December 31, 2011. In July, SHL received long-term loans from financing institutions in the equivalent of USD 27.9 million (NIS 100 million). The loans which are denominated in NIS are spread over an 8 year term, bear an annual interest of 3.8%-3.9% and are linked to the Israeli CPI. As a result SHL's total assets and liabilities increased during the year.

Current assets amount at year end to USD 55.7 million (51.5% of total assets) of which USD 33.3 million in cash, cash equivalents and available-for-sale investments against total liabilities of USD 41.6 million. This is compared with current assets of USD 31.1 million (32.7% of total assets) at the end of 2010 of which USD 20.2 million was in cash, cash equivalents and available-for-sale investments against total liabilities of USD 20.4 million.

Long-term assets amount to USD 15.6 million a decrease from USD 24.6 million as of December 31, 2010.

Fixed assets, net amount to USD 15.7 million of which USD 10.9 million are devices on loan to our subscribers. This is compared with fixed assets, net of USD 18.0 million as of December 31, 2010 of which USD 12.3 million are devices on loan to our subscribers. Intangible assets as of December 31, 2011 amounted to USD 21.2 million compared with USD 21.4 million as of December 31, 2010.

Total equity at December 31, 2011 amounted to USD 66.6 million (61.6% of balance sheet) compared with USD 74.7 million (78.5% of balance sheet) at December

31, 2010. The decrease in equity comes mainly from the payment of a dividend in amount of USD 6.9 million and a decrease in the foreign currency translation reserve in amount of USD 5.0 million, stemming from the strengthening of the USD against the NIS by 7.6 % in 2011, offset by the net profit for the year.

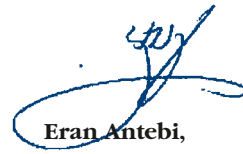
Cash Flow

Due to the decline in the German operation cash used in operating activities amounted to USD 3.5 million compared with cash generated from operating activities in the amount of USD 3.0 million in 2010.

In 2011 cash used in investing activities amounted to USD 4.9 million, of which investment in fixed and intangible assets amounted to USD 4.6 million. For fiscal year 2010 cash used in investing activities amounted to USD 4.2 million, of which investment in fixed and intangible assets amounted to USD 5.7 million and the acquisition of two small telemedicine businesses in

Israel amounted to USD 0.4 million against proceeds, net received from the sale of available-for-sale investments in the amount of USD 1.9 million

Cash provided by financing activities amounted to USD 23.8 million, of which short-term bank credit, net amounted to USD 4.6 million and receipt of long term loans, net amounted to USD 26.7 million against payment of a dividend in the amount of USD 6.9 million and purchase of treasury shares in the amount of USD 0.6 million. In 2010 cash provided by financing activities amounted to USD 2.0 million, of which short-term bank credit, net amounted to USD 1.8 million and proceeds from the exercise of options amounted to USD 0.2 million.



Eran Antebi,
Chief Financial Officer

* Constant currency - In order to enable meaningful comparison between the 2011 and 2010 results, 2011 results are also presented at constant currency exchange rates. These are calculated by translating the 2011 results using the average 2010 exchange rates instead of the current period exchange rates. Management believes that this presentation enables a more meaningful comparison between the periods due to the significant fluctuations in NIS/USD/EUR exchange rates.

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, 2011 and 2010, 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, 2011 and 2010, 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 27, 2012

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	2011	2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	16,911	2,609
Available-for-sale investments	4	16,383	17,603
Trade receivables	5	19,003	7,984
Prepaid expenses	7	1,710	1,864
Other accounts receivable	8	1,712	1,019
		55,719	31,079
NON-CURRENT ASSETS:			
Trade receivables	6	3,977	11,324
Prepaid expenses	7	4,915	5,534
Long-term deposits		72	151
Income taxes receivable		1,637	1,620
Deferred taxes	19d	4,960	5,963
		15,561	24,592
PROPERTY, PLANT AND EQUIPMENT:			
Cost	9	58,012	58,582
Less - accumulated depreciation		42,304	40,629
		15,708	17,953
INTANGIBLE ASSETS, NET	10	21,208	21,440
Total assets		108,196	95,064

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

		December 31,	
	Note	2011	2010
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities	11	9,441	2,362
Deferred revenues	13	114	5,155
Trade payables		999	1,996
Income taxes payable		-	1,059
Provisions	16	2,485	2,567
Other accounts payable	14	5,495	6,207
		18,534	19,346
NON-CURRENT LIABILITIES:			
Long-term loans	12	22,139	-
Employee benefit liabilities	17	810	796
Deferred taxes	19d	150	226
		23,099	1,022
Total liabilities		41,633	20,368
EQUITY:			
Issued capital	22	31	31
Additional paid-in capital		93,894	93,406
Treasury shares		(2,201)	(1,573)
Foreign currency translation reserve		788	5,787
Capital reserve for available-for sale financial assets		8	58
Accumulated deficit		(25,957)	(23,013)
Total equity		66,563	74,696
Total liabilities and equity		108,196	95,064

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

March 27, 2012

Date of approval of the
financial statements



Yariv Alroy
Co - CEO



Elon Shalev
Chairman of the
Board of Directors

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year ended December 31,	
		2011	2010
Revenues		42,374	50,252
Depreciation and amortization		2,467	2,287
Cost of revenues	23a	12,925	14,692
Gross profit		26,982	33,273
Research and development costs	23b	1,334	1,597
Selling and marketing expenses	23c	9,566	14,747
General and administrative expenses	23d	11,910	10,945
Operating income		4,172	5,984
Financial income	23e(1)	4,650	3,791
Financial expenses	23e(2)	(4,033)	(3,723)
Income before taxes on income		4,789	6,052
Taxes on income	19	792	1,191
Net income		3,997	4,861
Other comprehensive income :			
Foreign currency translation reserve		(4,999)	4,290
Transfer to the statement of comprehensive income in respect of available-for-sale investments		(130)	280
Gain (loss) on available-for-sale investments		80	(497)
		(5,049)	4,073
Total comprehensive income (loss)		(1,052)	8,934
Net earnings per share:			
Basic and diluted net earnings per share	24	0.38	0.46

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 investment	Accumulated deficit	Total
Balance as of January 1, 2010	31	92,939	(1,567)	1,497	275	(27,874)	65,301
Purchase of treasury shares	-	-	(6)	-	-	-	(6)
Exercise of options	*) -	216	-	-	-	-	216
Share-based payments	-	251	-	-	-	-	251
Total comprehensive income (loss)	-	-	-	4,290	(217)	4,861	8,934
Balance as of December 31, 2010	31	93,406	(1,573)	5,787	58	(23,013)	74,696
Purchase of treasury shares	-	-	(628)	-	-	-	(628)
Dividend paid	-	-	-	-	-	(6,941)	(6,941)
Exercise of options	*) -	21	-	-	-	-	21
Share-based payments	-	467	-	-	-	-	467
Total comprehensive income (loss)	-	-	-	(4,999)	(50)	3,997	(1,052)
Balance as of December 31, 2011	31	93,894	(2,201)	788	8	(25,957)	66,563

*) Represents an amount lower than \$ 1.

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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,	
	2011	2010
Cash flows from operating activities:		
Net income	3,997	4,861
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Adjustments to the profit or loss items:		
Depreciation and amortization	4,728	5,399
Capital gain from sale of property, plant and equipment	-	(27)
Change in employee benefit liabilities, net	76	133
Financial income, net	(617)	(68)
Cost of share-based payments	467	251
Taxes on income	792	1,191
Others	-	(3)
	5,446	6,876
Changes in asset and liability items:		
Increase in short and long-term trade receivables	(5,225)	(5,530)
Decrease in prepaid expenses	263	148
Increase in other accounts receivable	(690)	(511)
Decrease in trade payables	(1,420)	(240)
Decrease in deferred revenues	(5,189)	(2,069)
Decrease in short and long-term other accounts payable	(217)	(793)
	(12,478)	(8,995)
Cash paid and received during the year for:		
Interest received	799	720
Interest paid	(1,189)	(321)
Income taxes paid	(78)	(133)
	(468)	266
Net cash provided by (used in) operating activities	(3,503)	3,008

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,	
	2011	2010
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,535)	(3,469)
Acquisition of business activities	(278)	(435)
Investment in intangible assets	(2,048)	(2,240)
Proceeds from sale of property, plant and equipment	-	27
Purchase of available-for-sale investments	(7,971)	(16,139)
Proceeds from sale of available-for-sale investments	7,874	18,012
Net cash used in investing activities	(4,958)	(4,244)
Cash flows from financing activities:		
Proceeds from exercise of options	21	216
Short-term bank credit, net	4,644	1,793
Long-term loans received	27,948	-
Payment of long-term loans	(1,254)	-
Dividend paid	(6,941)	-
Treasury shares purchased	(628)	(6)
Net cash provided by financing activities	23,790	2,003
Exchange differences on balance of cash and cash equivalents	(1,027)	3
Increase in cash and cash equivalents	14,302	770
Cash and cash equivalents at the beginning of the year	2,609	1,839
Cash and cash equivalents at the end of the year	16,911	2,609
Non-cash transactions:		
Investment in intangible assets	315	-

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

NOTES TO CONSOLIDATED STATEMENTS U.S. dollars in thousands

NOTE 1 | GENERAL

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

At the end of 2010, an agreement with a major customer in Germany was terminated, leading to a decline in revenues in the year ended December 31, 2011.

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. Measurement basis:

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

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

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

2. Basis of preparation of the financial statements:

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

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

3. Consistent accounting policies:

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

4. Changes in accounting policies:

IAS 1 - Presentation of Financial Statements:

According to the amendment to IAS 1 (“the Amendment”), the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Group has elected to present this disclosure in the statement of changes in equity. The Amendment has been applied retrospectively from January 1, 2011.

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 (“the Amendment”) clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government-related entities. The Amendment has been applied retrospectively from January 1, 2011.

IFRS 7 - Financial Instruments: Disclosure:

The amendment to IFRS 7 (“the Amendment”) clarifies the Standard’s disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures and the nature and extent of risks arising from financial instruments. The Amendment also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The Amendment has been applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011.

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 judgments which have the most significant effect on the amounts recognized in the financial statements:

• Impairment of available-for-sale investment:

The Group assesses at the end of each reporting period whether there is objective evidence that the asset has been impaired and an impairment loss has

been incurred. In evaluating impairment, the Group makes judgments as to indicators of objective evidence relating to the extent of the percentage of decline in fair value and of the duration of the period of the decline in fair value. See also g.

- **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 17.

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 21c and 19g.

- **Impairment of goodwill:**

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows. Further details are given in i and Note 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 19d.

- **Development costs:**

Development costs are capitalized in accordance with the accounting policy in k. In testing for impairment, management makes assumptions regarding the expected cash flows from the asset being developed, the discount rate and the expected period of benefits. Further details are given in Note 10.

c. Consolidated financial statements:

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

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

d. Functional currency and presentation currency:

1. Functional currency and presentation currency:

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

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

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

- a) Assets and liabilities of foreign operations, including goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of said foreign operation, are translated at the closing rate at the end of the reporting period.
- b) Income and expenses for each period presented in the statement of income are translated at average exchange rates for the presented periods.
- c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.
- d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions (such as dividend) during the period are translated as described in b) and c) above.
- e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "foreign currency translation reserve".

2. Transactions, assets and liabilities in foreign currency:

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

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences

arising from the adjustment, as above, other than those capitalized to qualifying assets or carried to equity in hedge transactions, are recognized in profit or loss.

e. Cash equivalents:

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

f. Allowance for doubtful accounts:

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

g. Financial instruments:

1. Short-term receivables:

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

2. Available-for-sale investments:

The Group has available-for-sale investments that are designated as available-for-sale. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for exchange differences that relate to monetary debt instruments that are recognized as finance income or expense in profit or loss, are recognized directly in equity as other comprehensive income (loss) in the reserve for available-for-sale financial assets. When the investment is disposed of or in case of impairment, the comprehensive income (loss) is recognized in profit or loss. As for recognition of interest income on investments in debt instruments and dividend earned on investments in equity instruments, see p. below.

Objective evidence of impairment of equity instruments includes a significant or prolonged decline in the fair value of the assets below its costs and evaluation of changes in the technological, market, economic or legal environment in which the issuer of the instrument operates. The evaluation of a significant or prolonged impairment depends on the circumstances at the end of each reporting

period. The evaluation considers historical volatility in fair value and the existence of a decline in fair value of 20% or more, or whether the duration of the decline in fair value is six months or more. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less any previous impairment losses) and the fair value is reclassified from equity and recognized as an impairment loss in profit or loss. In subsequent periods, reversal of impairment loss is not recognized in profit or loss, but recognized as other comprehensive income. No impairment loss has been recognized in these financial statements.

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

3. Loans and borrowings:

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

4. Treasury shares:

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

5. Fair value:

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

h. Leases:

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

i. Business combinations and goodwill:

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

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

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

After initial recognition, goodwill is measured at cost less, if relevant, any accumulated impairment losses. Goodwill is not systematically amortized. As for testing the impairment of goodwill, see L1.

j. Property, plant and equipment:

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

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

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of property, plant and equipment, see Note 9 below.

k. Intangible assets:

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

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

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

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 1 below.

l. Impairment of non-financial assets:

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

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

and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss. A reversal of an impairment loss on a revalued asset is recognized in other comprehensive income. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment loss is also recognized in profit or loss.

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

1. Goodwill related to subsidiaries:

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

The Company reviews goodwill for impairment once a year as of March 31, June 30 and December 31 or more frequently if events or changes in circumstances indicate that there is 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, 2011 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, 2011 no impairment loss was recognized.

m. Taxes on income:

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

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of 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 recognized directly in other comprehensive income or in equity if the tax relates to those items.

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

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

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

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

n. Share-based payment transactions:

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

Equity-settled transactions:

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

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

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

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

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant

is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

o. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

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

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

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

The liability for employee benefits presented in the balance sheet presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs and any unrecognized actuarial gains and losses (see details in Note 17).

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

p. Revenue recognition:

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

Revenues from the rendering of services:

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

Interest income:

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

q. Finance income and expenses:

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

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

r. Earnings per share:

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

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

s. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material,

provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

t. Advertising expenses:

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

u. Presentation of statement of comprehensive income:

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

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

IFRS 7 - Financial Instruments: Disclosure:

The amendment to IFRS 7 ("the Amendment") provides new and expansive disclosure requirements regarding the derecognition of financial assets and regarding unusual transfer activity close to the end of a reporting period. The Amendment is to be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted. The appropriate disclosures will be included in the Company's financial statements.

IFRS 9 - Financial Instruments:

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

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

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

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

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

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

The Standard is effective commencing from January 1, 2015. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively, except as specified in the Standard.

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

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

Furthermore, according to the amendments, derivative

liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

IAS 1 - Presentation of Financial Statements:

In June 2011, the IASB issued an amendment to IAS 1 (“the Amendment”) which provides guidance for the presentation of other comprehensive income. According to the Amendment, items which may be carried to profit or loss at a later stage (such as upon derecognition or recovery) should be presented separately from items that can never be carried to profit or loss.

The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2013, or thereafter. Earlier application is permitted.

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

IAS 19 (Revised) - Employee Benefits:

In June 2011, the IASB issued IAS 19 (Revised) (“the Standard”). The principal amendments included in the Standard are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not recorded in profit or loss.
- The “corridor” approach which allowed the deferral of actuarial gains or losses has been eliminated.
- The return on the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.
- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- Past service cost arising from changes in the plan will be recognized immediately.

The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

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

IFRS 13 - Fair Value Measurement:

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value. IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Company's financial statements upon initial adoption of IFRS 13.

The Company is evaluating the possible impact of the adoption of IFRS 13 but is presently unable to assess the effects, if any, on its financial statements.

w. Exchange rates and linkage basis:

1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rate as published by the Bank of Israel on December 31, 2011.
2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

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

	Israeli	Exchange	Exchange	Exchange
	CPI	rate of	rate of	rate of
	Points *)	€	U.S. \$	CHF
For the year ended		NIS	NIS	NIS
December 31, 2011	216.3	4.94	3.82	4.06
December 31, 2010	211.7	4.74	3.55	3.79
December 31, 2009	206.2	5.44	3.77	3.67
Change during the year	%	%	%	%
2011	2.2	4.2	7.6	7.1
2010	2.7	(12.9)	(6.0)	3.3

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

NOTE 3 | CASH AND CASH EQUIVALENTS

	December 31,	
	2011	2010
Cash in banks	3,777	1,680
Short-term deposits	13,134	929
	16,911	2,609

NOTE 4 | AVAILABLE-FOR-SALE INVESTMENTS

	December 31,	
	2011	2010
Marketable securities:		
Corporate debentures - in U.S. dollars	1,421	1,579
Corporate debentures - in NIS	6,137	4,159
Government debentures - in NIS	8,825	11,865
	16,383	17,603

NOTE 5 | TRADE RECEIVABLES

a. Composition:

	December 31,	
	2011	2010
Gross amount	11,991	8,520
Allowance for doubtful accounts	(2,307)	(2,321)
	9,684	6,199
Future participation in revenues ¹	4,209	3,466
Current maturities of long-term trade receivables, net	5,110	1,785
	19,003	11,450
Offset from deferred revenues	-	(3,466)
	19,003	7,984

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

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

Balance at January 1, 2010	2,313
Charge for the year	8
Balance at December 31, 2010	2,321
Reversal of collected doubtful accounts	(14)
Balance at December 31, 2011	2,307

c. The net trade receivables balances as of December 31, 2011 and December 31, 2010 do not include amounts that are past due or impaired.

NOTE 6 | LONG-TERM TRADE RECEIVABLES

	December 31,	
	2011	2010
Gross amounts ¹	6,455	11,047
Deferred revenues	(2,360)	(6,779)
	4,095	4,268
Current maturities of long-term trade receivables, net	(5,110)	(1,785)
	(1,015)	2,483
Future participation in revenues ²	4,992	8,841
	3,977	11,324

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

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

NOTE 7 | PREPAID EXPENSES

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

	December 31,	
	2011	2010
First year prepaid expenses - short-term	1,710	1,864
Second year	1,331	1,505
Third year	1,153	1,218
Fourth year	887	941
Fifth year	691	789
Thereafter	853	1,081
Prepaid expenses - long-term	4,915	5,534
Total prepaid expenses	6,625	7,398

NOTE 8 | OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2011	2010
Employees	439	283
Interest receivable	377	351
Others	896	385
	1,712	1,019

NOTE 9 | PROPERTY, PLANT 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, 2010	10,353	4,388	1,062	1,817	1,621	32,648	51,889
Additions during the year	1,233	228	37	104	197	2,215	4,014
Disposals during the year	-	-	-	(124)	-	-	(124)
Currency translation differences	519	296	71	131	115	1,671	2,803
Balance as of December 31, 2010	12,105	4,912	1,170	1,928	1,933	36,534	58,582
Additions during the year	891	49	19	57	125	1,394	2,535
Currency translation differences	(805)	(359)	(86)	(144)	(147)	(1,564)	(3,105)
Balance as of December 31, 2011	12,191	4,602	1,103	1,841	1,911	36,364	58,012
Accumulated depreciation:							
Balance as of January 1, 2010	7,360	3,845	481	1,102	951	20,809	34,548
Additions during the year	1,196	173	61	275	162	1,741	3,608
Disposals during the year	-	-	-	(124)	-	-	(124)
Currency translation differences	447	259	35	94	70	1,692	2,597
Balance as of December 31, 2010	9,003	4,277	577	1,347	1,183	24,242	40,629
Additions during the year	1,012	177	64	243	168	2,087	3,751
Currency translation differences	(628)	(322)	(46)	(114)	(95)	(871)	(2,076)
Balance as of December 31, 2011	9,387	4,132	595	1,476	1,256	25,458	42,304
Depreciated cost as of December 31, 2011	2,804	470	508	365	655	10,906	15,708
Depreciated cost as of December 31, 2010	3,102	635	593	581	750	12,292	17,953

As for charges, see Note 21.

NOTE 10 | INTANGIBLE ASSETS, NET

	Development costs	Non-compete agreements and others	Goodwill ¹	Total
As of January 1, 2011, net of accumulated amortization	7,400	240	13,800	21,440
Additions during the year	2,363	-	-	2,363
Amortization during the year	(830)	(147)	-	(977)
Currency translation differences	(628)	(7)	(983)	(1,618)

As of December 31, 2011, net of accumulated amortization **8,305** **86** **12,817** **21,208**

As of December 31, 2011:

Cost	20,482	435	12,817	33,734
Accumulated amortization	(12,177)	(349)	-	(12,526)

Net carrying amount **8,305** **86** **12,817** **21,208**

	Development costs	Non-compete agreements and others	Goodwill ¹	Total
As of January 1, 2010, net of accumulated amortization	6,289	366	12,973	19,628
Additions during the year	2,240	-	-	2,240
Amortization during the year	(1,581)	(141)	-	(1,722)
Currency translation differences	452	15	827	1,294

As of December 31, 2010, net of accumulated amortization **7,400** **240** **13,800** **21,440**

As of December 31, 2010:

Cost	19,494	469	13,800	33,763
Accumulated amortization	(12,094)	(229)	-	(12,323)

Net carrying amount **7,400** **240** **13,800** **21,440**

¹ The recoverable amount of the telemedicine operations in Germany 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 17% (2010: 17%) and cash flows beyond the 5-year period are extrapolated using a 1% growth rate (2010: 1%).

² On January 1, 2011, the Company changed the amortization period of certain development costs from five years to ten years, since it believes that it better reflects the assets' expected useful lives and the cash flow streams associated with the asset. The change is recognized prospectively as a change in accounting estimate. The effect on current and future years is as follows:

	2011	2012	2013	2014	2015	2016
Decrease (increase) in depreciation	870	404	180	(70)	(296)	(342)

NOTE 11 | SHORT-TERM CREDIT FROM BANKS AND CURRENT MATURITIES

	Interest rate	December 31,	
		2011	2010
Credit from banks:			
NIS - unlinked	Prime ¹ + (0.2-0.75)	6,543	2,338
CHF		-	24
Current maturities of long-term loans (see Note 12) - linked to the Israeli CPI	3.8%-3.9%	2,898	-
		9,441	2,362

¹ The Prime rate as of December 31, 2011 - 4.25% (December 31, 2010 - 3.5%).

NOTE 12 | LONG-TERM LOANS

In July 2011, the Company received long term loans from financing institutions in the aggregate amount of USD 27,948 (NIS 100,000 thousand) to be repaid in 96 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.

NOTE 13 | DEFERRED REVENUES

	December 31,	
	2011	2010
As of January 1	15,400	25,819
Deferred during the year	5,618	17,893
Released to the statement of comprehensive income	(16,600)	(28,988)
Cancelled	(1,363)	(1,762)
Currency translation differences	(581)	2,438
As of December 31	2,474	15,400
Offset from long-term trade receivables (Note 6)	(2,360)	(6,779)
	114	8,621
Less - Philips trade receivable	-	(3,466)
	114	5,155

NOTE 14 | OTHER ACCOUNTS PAYABLE

	December 31,	
	2011	2010
Employees and payroll accruals	2,458	2,393
Accrued expenses	2,275	2,919
Government authorities	159	135
Former Raytel shareholders	357	357
Other	246	403
	5,495	6,207

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 Company 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 Company's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

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

c. Foreign currency risk:

The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. Thus certain revenues and expenses are denominated in currencies other than the functional currency of the relevant entity in the Group. Group management

regularly monitors its foreign exchange risk and attempts to limit such risks by making adequate decisions regarding cash and credit positions.

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

	Increase/ decrease in exchange rates	Effect on profit before tax
2011	+10%	984
	-10%	(984)
2010	+10%	844
	-10%	(844)

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, 2011, the balance of these investments is \$ 16,383 (2010 - \$ 17,603).

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

	Increase/ decrease in exchange rates	Effect on profit before tax
2011	+5%	819
	-5%	(819)
2010	+5%	880
	-5%	(880)

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 borrowed from banks long-term loans 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 \$ 19,305 (December 31, 2010- an asset of \$ 4,872).

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

	In or linked to:					
	U.S.\$	CHF	Euro	Israeli CPI	NIS	Total
December 31, 2011						
Assets:						
Cash and cash equivalents	200	369	1,300	-	15,042	16,911
Available-for-sale investments	1,421	-	-	-	14,962	16,383
Trade receivables	9,201	-	8,186	4,095	1,498	22,980
Other accounts receivable	594	-	663	1,637	455	3,349
Long-term deposits	-	-	72	-	-	72
	11,416	369	10,221	5,732	31,957	59,695
Liabilities:						
Credit from banks and others	-	-	-	2,898	6,543	9,441
Trade payables	3	-	30	-	966	999
Long-term loans	-	-	-	22,139	-	22,139
Other short and long-term liabilities	594	-	4,876	-	2,624	8,094
Accrued severance pay	-	-	97	-	713	810
	597	-	5,003	25,037	10,846	41,483
December 31, 2010						
Assets:						
Cash and cash equivalents	323	146	783	-	1,357	2,609
Available-for-sale investments	1,579	-	-	-	16,024	17,603
Trade receivables	8,841	-	4,581	4,268	1,618	19,308
Other accounts receivable	1,176	-	144	604	715	2,639
Long-term deposits	-	-	151	-	-	151
	11,919	146	5,659	4,872	19,714	42,310
Liabilities:						
Credit from banks and others	-	-	-	-	2,362	2,362
Income tax payables	-	-	1,059	-	-	1,059
Trade payables	7	-	477	-	1,512	1,996
Other short and long-term liabilities	656	-	4,864	-	3,254	8,774
Accrued severance pay	-	-	100	-	696	796
	663	-	6,500	-	7,824	14,987

NOTE 16 | PROVISIONS

In connection with the acquisition of a subsidiary in 2004, the Company has an obligation to pay 3.5% of the annual revenues of such subsidiary, in certain countries, until 2010.

NOTE 17 | EMPLOYEE BENEFIT LIABILITIES

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

	December 31,	
	2011	2010
Present value of funded obligation	4,427	4,494
Fair value of plan assets	3,617	3,698
	810	796

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

	December 31,	
	2011	2010
Liability at the beginning of the year	796	617
Expense recognized in the statement of comprehensive income	518	695
Benefits not paid from assets	(42)	(65)
Contribution to assets	(477)	(489)
Currency translation differences	15	38
Liability at the end of the year	810	796

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

	December 31,	
	2011	2010
Current service cost	477	534
Interest cost	218	201
Expected return on plan assets	(117)	(92)
Net actuarial loss recognized in the year	-	52
Total expense included in statement of comprehensive income	578	695

d. The principal actuarial assumptions used are as follows:

Discount rate	5.02%	5.25%
Future salary increase	5.55%	5.80%

NOTE 18 | INVESTMENTS IN SUBSIDIARIES

Principal subsidiaries:

	Country of incorporation	Percentage in equity 2011 and 2010
Shahal Haifa - Medical Services Ltd.	Israel	100
SHL Telemedicine International Ltd.	Israel	100
Shahal Rashlatz Rehovot Medical Services Ltd.	Israel	100
SHL Telemedicine B.V.	Netherlands	100
SHL Telemedicine Global Trading Ltd.	Ireland	100
SHL Telemedicine North America LLC.	U.S.A.	100
SHL U.S.A. Inc.	U.S.A.	100
Personal Healthcare Telemedicine Services B.V.	Netherlands	100
SHL Telemedizin GmbH	Germany	100
SHL IRL B.V.	Netherlands	100
SHL Telemedizin Europe GmbH	Germany	100
LFS GP	Guernsey	100
LFS LP	Guernsey	100

NOTE 19 | TAXES ON INCOME

a. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

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

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

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

1. Companies in Israel:

On 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 increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly. The effect of the abovementioned changes as of December 31, 2011 on the deferred tax balances, the net income, the other comprehensive income and the equity is approximately \$ 833.

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%.

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

	Year ended December 31,	
	2011	2010
Current taxes	-	409
Deferred taxes	248	3,189
Taxes in respect of previous years	544	(2,407)
	792	1,191

d. Deferred tax assets (liabilities):

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

	Balance sheet items					
	Deferred revenues, net	Property, plant and equipment and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Others	Total
Balance at January 1, 2010	7,075	(396)	177	1,274	418	8,548
Amount included in statement of comprehensive income	-	(10)	97	(3,205)	(71)	(3,189)
Reclassification *)	(7,158)	-	-	7,158	-	-
Currency translation differences	83	(28)	16	284	23	378
Balance at December 31, 2010	-	(434)	290	5,511	370	5,737
Amount included in statement of comprehensive income	-	(621)	32	97	(86)	(578)
Currency translation differences	-	71	(23)	(376)	(21)	(349)
Balance at December 31, 2011	-	(984)	299	5,232	263	4,810

*) In 2010 the Company reclassified the deferred tax asset as a result of a new tax regulation in Israel.

The balance is presented as follows:

	December 31,	
	2011	2010
Non-current asset	4,960	5,963
Non-current liabilities	(150)	(226)
	4,810	5,737

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

	Year ended December 31,	
	2011	2010
Income before taxes on income	4,789	6,052
Statutory tax rate in Israel	24%	25%
Tax computed at the statutory tax rate	1,149	1,513

Increase (decrease) in taxes resulting from:

Utilization of tax losses for which no deferred taxes were recorded	(879)	(1,047)
Tax adjustment in respect of inflation in Israel	(6)	(11)
Non-deductible expenses	317	901
Different tax rates	155	518
Reduction of provision for tax payable in respect of tax assessment in dispute	-	(2,805)
Reduction in deferred tax assets recognized for carry forward losses	74	2,122
Other	(18)	-

Total tax expense reported in the consolidated statement of comprehensive income

	792	1,191
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f. Carry forward tax losses:

The carry forward losses for tax purposes as of December 31, 2011 amount to \$ 32,887 (2010 - \$ 36,443) in Israel (which may be carried forward indefinitely) and \$ 32,451 (2010 - \$ 34,667) in Europe. In the U.S., SHL USA has federal and state net operating losses and credits of \$ 4,203 (2010 - \$ 4,069), which expire at various times. Deferred tax assets relating to carry forward tax losses as described above, and deductible temporary differences in the aggregate amount of \$ 15,239 (2010 - \$ 15,801) are not included in the consolidated financial statements as the management presently believes that it is not probable that these deferred taxes will be realized in the foreseeable future.

g. Tax assessment in dispute:

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

In January 2012, an agreement with the ITA was finalized and signed and thereafter received court approval. The Company agreed to pay an amount of \$ 800 and write-off an amount of approximately \$ 3,800 of carry forward tax losses.

NOTE 20 | TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions:

	Year ended December 31,	
	2011	2010
Rent expense to shareholders	246	248

b. Compensation of key management personnel:

Short-term employee benefits	1,604	1,582
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NOTE 21 | COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

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

b. Lease commitments:

Certain of the Group's facilities are rented under operating leases for various periods ending through 2015.

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

	2011	2010
First year	476	452
Second to fifth years	511	367
	987	819

c. Contingent liabilities:

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

NOTE 22 | EQUITY

a. Composition of share capital:

	December 31, 2011		December 31, 2010	
	Authorized	Issued and outstanding*)	Authorized	Issued and outstanding*)
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,419,589	14,000,000	10,527,165

*) 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, 2010	10,501,174	-
Exercise of employees' options into shares	26,891	0.01
Purchase of Treasury shares	(900)	-
Balance at December 31, 2010	10,527,165	-
Exercise of employees' options into shares	3,356	0.01
Purchase of Treasury shares	(110,932)	-
Balance at December 31, 2011	10,419,589	-

b. Treasury shares:

The Company holds 364,668 shares (253,736 shares as of December 31, 2010) for a total cost of \$ 2,201 thousands as of December 31, 2011 (\$ 1,573 thousands as of December 31, 2010).

c. Share Option Plans:

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

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

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

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

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

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

On November 11, 2010, the Board of Directors approved the grant of 44,000 options to certain employees, under the 2005 Share Option Plan. The fair value of options granted is between CHF 2.38 - CHF 3.65 (\$ 2.49 -\$ 3.82). The weighted average fair value was estimated based on binomial model using the following data and assumptions: share price - CHF 7.84; exercise price - CHF 7.84; expected volatility - 46.86%; risk-free interest rate - 0.91%; expected dividend - 0%, expected average life of options - 3.5 to 5 years.

On March 27, 2011, the Board of Directors approved the grant of 50,000 options to an employee, under the 2005 Share Option Plan. The weighted average fair value of options granted is CHF 1.887 (USD 2.07). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 6.46; exercise price - CHF 6.46; expected volatility - 45.98%; risk-free interest rate - 1.32%; expected dividend - 9.26% for 2011 (0% for 2012 and hereafter); and expected average life of options - 2.3 years.

On June 21, 2011, the Board of Directors approved the grant of 34,790 options to certain employees, under the 2005 Share Option Plan. The weighted average fair value of options granted is CHF 1.782 (USD 2.113). The weighted average fair value was estimated based on the binomial model using the following data and assumptions: share price - CHF 5.82; exercise price - CHF 5.81; expected volatility - 47.80%; risk-free interest rate - 1.05%; expected dividend - 9.97% for 2011 (0% for 2012 and hereafter); and expected average life of options - 2.3 years.

On August 10, 2011 the Board of Directors approved the grant of 71,288 options to certain employees under the 2005 Share Option Plan. The weighted average fair value of options granted is CHF 1.626 (USD 2.244). The weighted average fair value was estimated based on the binomial model using the following data and assumptions. Share price - CHF 5.4; exercise price - CHF 6.13 expected volatility - 48.91%, risk free interest rate - 0.495%, expected dividend - 12.64% (0% for 2012 and hereafter); and expected average life of options - 3.86 years.

In the years ended December 31, 2011 and 2010, the Company recorded share-based compensation in general and administrative expenses in the amount of \$ 467 and \$ 251, respectively.

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

	2011		2010	
	No.	WAEP (CHF)	No.	WAEP (CHF)
Outstanding at the beginning of the year:	895,295	6.85	600,133	6.75
Granted during the year	156,078	6.32	351,000	6.91
Forfeited during the year	(227,164)	7.58	(28,947)	6.92
Exercised during the year *)	(3,356)	5.9	(26,891)	5.33
Outstanding at the end of the year	820,853	6.52	895,295	6.85
Exercisable at the end of the year	444,429	6.44	474,449	6.67

	Options outstanding at December 31, 2011	Weighted average exercise price in CHF	Vested options
Under the 2003 Share Option Plan	278,714	6.03	278,714
Under the 2005 Key Employee Share Option Plan	542,139	6.78	165,715
	820,853		444,429

*) The weighted average share price at the date of exercise of these options was CHF 7.05 (2010 - CHF 6.87).

e. 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 to allow for the option holders holding such options to choose, whether to exercise by way of Net Exercise or by the current regular exercise mechanism. The amendment has no effect on these financial statements.

f. Dividend

On August 23, 2011, the Board of Directors of the Company approved a distribution of dividend in the amount of \$ 0.66 per share totaling approximately \$ 7,000, which was paid on September 23, 2011 to shareholders of record on September 22, 2011. The Board of Directors also approved to increase the aggregate share re-purchase amount by an additional \$ 2,000.

**NOTE 23 | SUPPLEMENTARY
INFORMATION TO STATEMENTS OF
COMPREHENSIVE INCOME**

a. Cost of revenues:

	Year ended December 31,	
	2011	2010
Salaries and related benefits	7,177	7,902
Rental fees and maintenance	1,800	1,675
Others	3,948	5,115
	12,925	14,692

b. Research and development costs, net:

	Year ended December 31,	
	2011	2010
Salaries and related benefits	1,926	1,691
Amortization of development costs	1,028	1,581
Others	743	565
	3,697	3,837
Less - capitalization of development costs	2,363	2,240
	1,334	1,597

c. Selling and marketing expenses:

	Year ended December 31,	
	2011	2010
Salaries and related benefits	5,342	6,793
Advertising	1,217	4,257
Depreciation	567	520
Rental fees and maintenance	366	352
Maintenance of motor vehicles	652	622
Others	1,422	2,203
	9,566	14,747

d. General and administrative expenses:

	Year ended December 31,	
	2011	2010
Salaries and related benefits	5,558	5,947
Rental fees and office expenses	716	681
Professional fees	2,168	2,008
Depreciation and amortization	786	1,011
Others	2,682	1,298
	11,910	10,945

e. Financial income (expenses):

1. Financial income:

	Year ended December 31,	
	2011	2010
Exchange rate differences	3,673	2,790
Gain on marketable securities	-	225
Interest	977	703
Others	-	73
	4,650	3,791

2. Financial expenses:

Exchange rate differences	(2,831)	(3,324)
Loss on marketable securities	(13)	-
Interest	(1,189)	(321)
Others	-	(78)
	(4,033)	(3,723)

NOTE 24 | NET EARNINGS PER SHARE

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

	Year ended December 31,			
	2011		2010	
	Weighted number of shares	Net income	Weighted number of shares	Net income
	In thousands	\$	In thousands	\$
Number of shares and income for the computation of basic net earnings	10,519	3,997	10,515	4,861
Effect of dilution - share options	3	-	63	-
For the computation of diluted net earnings	10,522	3,997	10,578	4,861

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): 193,133 options to employees under share-based payment plans.

NOTE 25 | SEGMENT INFORMATION

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

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

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

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

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

a. Reporting on geographic segments:

	Europe	U.S.A.	Israel	Adjustments	Total
Year ended December 31, 2011:					
External customers	14,786	4,816	22,772	-	42,374
Inter-segment revenues	-	-	248	(248)	-
Total revenues	14,786	4,816	23,020	(248)	42,374
Segment results	1,644	4,589	3,975	-	10,208
Corporate and research and development expenses					(6,036)
Finance income, net					617
Income before taxes on income					4,789
Year ended December 31, 2010:					
External customers	21,605	6,433	22,214	-	50,252
Inter-segment revenues	-	-	513	(513)	-
Total revenues	21,605	6,433	22,727	(513)	50,252
Segment results	2,663	5,988	3,600	-	12,251
Corporate and research and development expenses					(6,267)
Finance income, net					68
Income before taxes on income					6,052

b. Additional information:

	Europe	U.S.A.	Israel	Adjustments	Total
Year ended December 31, 2011:					
Capital expenditures	369	-	4,529	-	4,898
Depreciation and amortization	721	-	4,007	-	4,728
Year ended December 31, 2010:					
Capital expenditures	546	-	5,163	-	5,709
Depreciation and amortization	966	-	4,433	-	5,399
As of December 31, 2011:					
Segment assets	9,117	370	65,415	-	74,902
Unallocated assets					33,294
Segment liabilities	5,001	598	4,454	-	10,053
Unallocated liabilities					31,580
As of December 31, 2010:					
Segment assets	3,802	1,506	69,560	-	74,868
Unallocated assets					20,212
Segment liabilities	9,821	662	7,569	-	18,052
Unallocated liabilities					2,362

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