

**SHL with significant breakthrough in Germany in 2005 – Voluntary change in accounting policy**

**Tel Aviv / Zurich, March 30, 2006 – During 2005 SHL achieved further progress in developing its core telemedicine markets. In Germany, SHL made significant breakthroughs with its telemedicine solution although it is still incurring substantial introductory costs associated with these activities. Results in the US were affected by the weak performance of the medical imaging services operations. According to a voluntary change in accounting policy revenues from the sale of devices will be recognized over the estimated term of subscribers' contracts.**

In 2005, revenues were USD 99.0 million compared to USD 107.7 in 2004. Revenues from the telemedicine services segment amounted to USD 58.4 million (2004: USD 59.4 million), while revenues from the medical services segment declined to USD 40.6 million (2004: USD 48.3 million) due to the impact of the divestiture of Bikurofe and the weak performance of the medical imaging centers in the US. Revenues from international markets comprise 76 % of total revenues compared to 71 % in the previous year. The gross profit of SHL amounted to USD 44.6 million compared to USD 48.8 million in 2004 representing a gross margin of 45.1% and 45.3% in 2005 and 2004, respectively.

EBITDA for the year amounted to USD 3.4 million, 3.4 % of revenues compared to USD 7.4 million and 6.9 % of revenues in 2004. LBIT amounted to USD 4.1 million, compared to an EBIT of USD 1.7 million in 2004. The decrease in operating profit resulted from the impact of the divestiture of Bikurofe and the first time inclusion of the results in Germany coupled with the weak performance of the medical imaging services operations in the US.

As a result of the sale in July, of Bikurofe Ltd., for USD 14.7 million and a further USD 4.3 million in previously announced dividends and other debts SHL recorded a capital gain of USD 8.8 million.

Loss before taxes for the year amounted to USD 0.1 million compared to USD 2.3 million for 2004. The disappointing medical imaging services operations in the US contributed USD 2.8 million to SHL's pre-tax loss. Tax expenses for the year increased to USD 7.4 million from USD 1.6 million in 2004 due mainly to the write off of the deferred tax asset related to its US carryforward tax losses in the amount of USD 4.8 million. Net loss totaled USD 7.5 million compared to USD 4.0 million in 2004. Loss per share attributable to the shareholders' of SHL amounted to USD 0.87 compared to USD 0.50 in 2004.

**Voluntary change in accounting policy**

These results were recorded after SHL implemented a voluntary change in its accounting policy for revenue recognition on sales of medical devices. Until the change, revenues were recognized at the time of the sale of devices while revenues from services provided were recognized ratably over the term of the subscribers' contracts. The change in policy is based on the premise that the sale and service components of SHL's service offerings have become inseparable and should be considered a single transaction. Accordingly, revenues from the sale of devices will now be recognized over the estimated term of subscribers' contracts together with the revenues derived from services.

This accounting policy better reflects the economic consequences of the transactions and enables better conformity and comparison between the different service offerings and product lines.

The change in accounting policy is being applied as of January 1, 2005. Previous years' revenues from sales of devices and the effects thereon have been retrospectively adjusted. The effect of these timing differences stemming from the deferment in the recognition of revenues resulted at December 31, 2005 in a decrease in post dated notes and prepaid commissions relating to the sale of the devices of USD 39.6 million that will no longer appear in SHL's balance sheet and an increase in fixed and deferred tax assets and capital of USD 8.6 million. The net amount of USD 31.0 million will be offset against the equity of SHL. The amount of the deferred revenues making up these post dated notes and net income resulting there from will be recognized in future years in line with the revenues from the service offerings.

**Operating cash flow**

During 2005 SHL's operating cash flow was about breakeven. At year end SHL had USD 25.3 million in cash, cash equivalents, marketable securities and deposits compared to USD 26.9 million in 2004.

**Key figures (in USD million)**

	<b>2005</b>	<b>2004</b>
Revenues	99.0	107.7
Gross Profit	44.6	48.8
EBITDA	3.4	7.4
(LBIT)/EBIT	(4.1)	1.7
Capital gain	8.8	-
Taxes on income	7.4	1.6
Net loss	(7.5)	(4.0)

## **Germany – Successful adoption of the SHL telemedicine solution**

2005 was marked by significant breakthrough in German market evidenced by agreements signed with major German health insurers with over 1.9 million insured, for the procurement of SHL's telemedicine solution for their members with chronic heart diseases, including congestive heart failure (CHF). SHL's position in the German market was further strengthened by the appointment of Prof. Dr. Dr. h.c. Werner Weidenfeld to the advisory board of SHL's German subsidiary PHTS.

SHL anticipates that it will enter into additional co-operation with German bodies in the field further enhancing its position in the German marketplace.

## **US – Solid platform for future growth, weak performance in medical imaging services**

SHL's US telemedicine operations continued to be profitable in 2005 and progressed well during the year entering into new promising fields such as anticoagulation blood monitoring, (INR@Home), and the remote monitoring of Implanted Cardiac Defibrillators (ICD's).

2005 saw a continued decline in the performance of the medical imaging centres. SHL is continuing in pursuing strategic alternatives for this operation while at the same time implementing certain restructuring measures to limit the negative impact on its financial results for 2006.

## **Israel – Focus on core telemedicine activities**

During the year the Israel telemedicine market continued to mature and gain wide acceptance within the community thus enabling SHL to extend its product offerings both to the institutional sector and direct to consumer sector. SHL will introduce new telemedicine offerings in the cardiovascular field supporting future growth.

In July 2005, SHL sold Bikurofe, SHL's Israeli medical services company.

## **Positive outlook for 2006**

With the continued expected advancement in its telemedicine businesses worldwide, SHL is poised to record a significant improvement in its financial performance in 2006. Revenues in the telemedicine sector are expected to increase and offset the decline in revenues in the medical services sector leaving overall revenues around those of 2005. Overall, SHL expects an increase in EBITDA to a range of USD 8 -10 million compared to the 2005 EBITDA of USD 3.4 million.

## **Next publications**

29 May 2006	Results Q1 06
23 August 2006	Results Q2 06
22 November 2006	Results Q3 06



**About SHL TeleMedicine**

SHL TeleMedicine Ltd. is a leading provider and developer of advanced personal telemedicine solutions as well as medical call center and diagnostic services to individuals and to the healthcare community. As a leading provider of remote health services in cardiology and in other medical areas, SHL maintains business operations in the US, Europe and Israel. SHL is listed on the SWX Swiss Exchange, symbol SHLTN. For more information please visit our web site on [www.shl-telemedicine.com](http://www.shl-telemedicine.com).

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<b>Balance-Sheets</b> (USD thousands)	<b>31.12.2005</b>	<b>31.12.2004 (*)</b>
Cash, cash equivalents and short term investments	20,962	22,080
Trade receivables	20,717	24,849
Inventory	642	654
Other current assets	3,508	4,523
<b>Current Assets</b>	<b>45,829</b>	<b>52,106</b>
<b>Long-term Assets</b>	<b>19,739</b>	<b>31,663</b>
<b>Fixed Assets, net</b>	<b>24,799</b>	<b>28,104</b>
<b>Intangible Assets, net</b>	<b>47,009</b>	<b>53,004</b>
<b>Total Assets</b>	<b>137,376</b>	<b>164,877</b>
Credit from banks and others	41,888	42,074
Trade payables	8,414	8,647
Income taxes payable	1,087	2,201
Other accounts payable	8,482	12,568
<b>Current Liabilities</b>	<b>59,871</b>	<b>65,490</b>
Long-term loans from banks and others	32,647	43,219
Accrued severance pay	241	1,202
Provisions	2,146	3,613
Deferred revenues	1,121	1,482
Deferred taxes	567	793
<b>Long-term Liabilities</b>	<b>36,722</b>	<b>50,309</b>
<b>Total liabilities</b>	<b>96,593</b>	<b>115,799</b>
Equity attributable to SHL shareholders:		
Share capital	31	31
Additional paid-in capital	91,762	91,594
Treasury shares at cost	(269)	(558)
Foreign currency translation reserve	(7,237)	(5,950)
Accumulated deficit	(44,656)	(37,357)
	<b>39,631</b>	<b>47,760</b>
Minority interest	1,152	1,318
<b>Total Equity</b>	<b>40,783</b>	<b>49,078</b>
<b>Liabilities and Equity</b>	<b>137,376</b>	<b>164,877</b>

(\*) – Retrospectively adjusted

<b>Statements of Operations</b> (USD thousands)	<b>2005</b>	<b>2004 (*)</b>
Revenues	99,048	107,657
Cost of sales	54,401	58,882
<b>Gross Profit</b>	<b>44,647</b>	<b>48,775</b>
Research and development costs, net	915	712
Selling and marketing expenses	13,882	13,637
General and administrative expenses	33,965	32,753
<b>Operating Income (Loss) (LBIT/EBIT)</b>	<b>(4,115)</b>	<b>1,673</b>
Financial expenses	(4,584)	(4,216)
Other income, net	8,572	207
<b>Loss before taxes on income</b>	<b>(127)</b>	<b>(2,336)</b>
Taxes on income	7,421	1,627
<b>Net Loss</b>	<b>(7,548)</b>	<b>(3,963)</b>
<b>Attributable to SHL shareholders'</b>	<b>(9,187)</b>	<b>(5,337)</b>
<b>Minority interest</b>	<b>1,639</b>	<b>1,374</b>

(\*) – Retrospectively adjusted

<b>Statements of Cash Flows (USD thousands)</b>	<b>2005</b>	<b>2004 (*)</b>
Net loss	(7,548)	(3,963)
Adjustment required to reconcile net loss to net cash	7,340	6,140
<b>Net Cash (used in) provided by Operating Activities</b>	<b>(208)</b>	<b>2,177</b>
Purchase of fixed assets	(5,400)	(6,027)
Cash received from sale of subsidiary	16,715	-
Net cash received in the acquisition of PHTS	-	11,035
Payment for acquisitions of business activities, net of cash acquired	-	(4,734)
Investment in intangible assets	(1,482)	(1,118)
Proceeds from sale of fixed assets	6	1,283
Short term investments, net	3,460	2,851
Long-term deposits, net	42	37
<b>Net Cash provided by Investing Activities</b>	<b>13,341</b>	<b>3,327</b>
Proceeds from exercise of options	52	-
Proceeds from long-term loans from banks and others, net	9,134	13,723
Repayment of long-term loans from banks and others, net	(18,614)	(11,108)
Short-term bank credit, net	1,250	(6,983)
Distributions to minority interest	(1,856)	(1,435)
Purchase of minority interest	-	(48)
Purchase of minority interest	31	-
Payment of liability regarding the acquisition of Raytel and business activities	(139)	(610)
Treasury shares purchased	-	(126)
<b>Net Cash used in Financing Activities</b>	<b>(10,142)</b>	<b>(6,587)</b>
Effect of exchange rate changes on cash and cash equivalents	(812)	160
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>2,179</b>	<b>(923)</b>
Cash and cash equivalents at the beginning of the year	16,884	17,807
<b>Cash and Cash equivalents at the end of the year</b>	<b>19,063</b>	<b>16,884</b>

(\*) – Retrospectively adjusted