LifeWatch

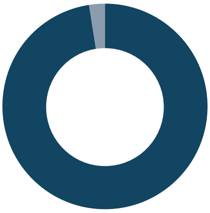
Annual Report 2014

LifeWatch at a glance

USD million	2014	2013	2012
Revenues	98.47	91.06	80.11
Gross Profit	53.18	53.61	46.03
EBITDA (LBITDA)	5.95	1.56	8.35
Net income (loss)	(2.73)	2.92	(0.37)
Total assets	68.98	71.46	59.68
Current assets	31.57	36.62	31.64
Other non-current assets	0.94	0.96	0.77
Deferred income taxes	5.22	6.83	4.42
Fixed assets, net	14.92	12.05	7.84
Goodwill, intangible and other assets, net	16.33	15.00	15.01
Current liabilities	22.56	22.22	13.63
Non-current liabilities	9.54	10.79	11.11
Shareholders' equity	36.88	38.45	34.94
Cash flow from operating activities	4.09	8.26	(7.75)
Employees	580	544	492

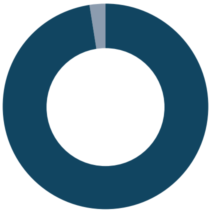
Total revenues Full Fiscal Year 2014: USD 98.47 million

By business segment



- Services 97.6%
- Sale of Systems 2.4%

By region



- USA 97.6%
- Other 2.4%

Key Data

Number of shares per 31 December	2014	2013	2012	2012
Number of shares issued	13,448,426	13,238,198	13,130,648	13,122,648
Nominal value per share	CHF 1.30	CHF 1.30	CHF 1.30	CHF 1.30
Treasury Shares	51,817	51,817	51,817	508,982
Number of shares outstanding	13,396,609	13,186,381	13,078,831	12,613,666

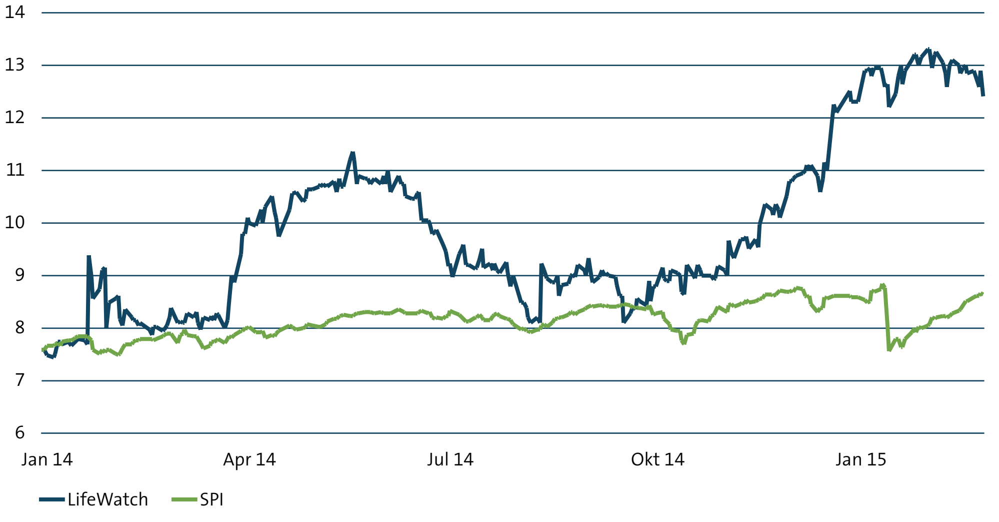
Key Share Information per 31 December	2014	2013	2012	2012
Earnings per Share	(0.205)	0.222	(0.029)	(2.556)
Shareholders equity per share	2.734	2.915	2.671	2.518

Share price in CHF	2014	2013	2012	2012
High	12.80	8.49	9.25	9.15
Low	7.40	6.55	3.70	1.97
Year-end price	12.30	7.59	7.40	4.40
Average number of shares traded per day	43,882	9,597	28,535	39,030
Market capitalization (CHF millions)	165.42	100.48	97.17	57.74

Ticker Details

ISIN-No.:	0012815459
SIX Ticker Symbol:	LIFE
Security-No.:	1281545
Indices:	SPI / SPI Extra / SPI ex SLI / SWISS ALL SHARE INDEX
Initial Public Offering:	29 Nov. 1999 SWX New Market
	SIX Swiss Exchange Main Board since 29 Oct. 2001

LifeWatch – Share Price Performance 2014



Shareholder Structure

Major Shareholders*	Percentage held
Himalaya (Cayman Islands) TMT Fund	15.26%
Shareholder Group**	26.00%
LB (Swiss) Investment AG	10.49%
LB (Swiss) Investment AG	3.10%
Dominik Aronsky	3.34%

* as of March 20, 2015
** see section 1.2 of Corporate Governance report for more details

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Ladies and gentlemen, dear shareholders of LifeWatch,

LifeWatch was able to improve its overall operational results in 2014. The second half of the year saw the start of a significant turnaround with sales increasing and costs being reduced, leading to a positive EBIT and EBITDA for the year as a whole, despite the negative results for the first half year. Overall, LifeWatch achieved revenues of USD 98.47 million in the year under review, 8.1% above the previous year. The volume increase in our monitoring business in the US in 2014 was above 13%, although Medicare price cuts of 8% implemented for 2014 offset this growth in monetary terms, as mentioned in the half-year report. Monitoring services contributed the vast majority to sales with USD 96.13million, up 7.4% in comparison to 2013. This revenue growth resulted from both a focused sales strategy and the provision of improved resources, tools and training to our sales force.

The restructuring of the Research and Development (R&D) activities in Israel and the realignment of the sales force in the US, already mentioned in the 2014 half year report, started to bear fruit in the second half of the year. Sales and marketing costs as a percentage of sales came down from 26.0% in the first half year to 20.2% in the second half whilst at the same time sales in the second half of the year increased by more than USD 2 million in comparison to the first half year. Similarly, R&D costs as a percentage of sales reduced from 6.8% in the first half year to 4.5% in the second half year, whilst at the same time R&D activities remained on track with our on-going development projects.

The restructuring efforts as well as unexpected legal case settlements led to a number of one-off costs, some of which were already mentioned in our half-year report. In particular, several legal case settlements relating to cases from previous years had a negative impact of nearly USD 2 million on profits. Without these one-off costs EBIT and EBITDA would have been higher by over USD 5 million resulting in adjusted EBIT and EBITDA figures of above USD 5 million and USD 11 million respectively.

As indicated at the beginning of the year, 2014 has been a year of consolidation, but we believe that the second half year shows the first signs that the measures taken are bearing fruit and that the turnaround is well underway.

New Products

We expect to launch two major new products in 2015. Development of the Vital Signs Patch (VSP) is progressing well and according to plan and we expect a US market introduction in the second half of 2015. International locations will follow shortly thereafter. Three pilot trials involving more than 60 patients are in progress at Mount Sinai, Montefiore and the University of Miami hospitals. All of these pilot trials are providing valuable data and experience as well as patient and physician feedback, which will assist in successfully launching this exciting new product. The VSP will allow the company to:

– move beyond remote cardiac monitoring into remote vital signs monitoring
– initially penetrate the hospital market before moving on to the ambulatory market and thereby offering a seamless transfer for the patient from a hospital to a home setting
– utilize the data collected to support clinical decision making and develop predictive analytics (e.g. early detection of infections, etc.)
– expand the business outside of the US

Our ultra-lightweight patch, which will offer comfortable and discreet cardiac monitoring, is also on-track for market launch in the second half of 2015 and we are excited at the additional prospect this provides us in our core market. In addition to the above new products, LifeWatch is also face-lifting its ACT product to allow faster, more efficient and easier use by patients. Together with the development of a universal communication gateway, the company pursues its goal of using only one communication device over time. All of the above developments serve to strengthen the company's position as a meaningful player in the digital health arena.

Outlook

We expect the turnaround seen in the second half of 2014, fueled by the results of the restructuring measures, to continue into 2015. We therefore expect that sales will continue to grow at above market growth rates and that EBIT, EBITDA and Net Income continue to improve.

Shareholder base stabilized

Despite the changes to the Board of Directors at the 2012 AGM, which occurred in January 2014, calm within the shareholder base did not ensue. However, following the failure of certain shareholders to become members of the board at the 2013 AGM in May 2014, several shareholders, closely allied to the previous board of directors, exited the company. A considerable step towards the stabilization of the shareholder base was achieved in February 2015 when Yacov Geva sold his entire holding in the company to several Swiss investors.

We would like to thank both our old and newer shareholders for their continued support and we look forward to meeting you at the upcoming AGM.

Patrick Schildknecht	Dr. Stephan Rietiker
Chairman of the Board	Chief Executive Officer

LifeWatch Strategy

LifeWatch focuses on four strategic directions for future growth:

1. Core Services – growth by facelifting our remote cardiac monitoring and home sleep testing technology
2. New Services – new areas of remote healthcare monitoring such as vital signs (patch technology)
3. New Geographies – expansion into attractive international markets
4. Develop and market our Biomedical Informatics platform

For more than 21 years, LifeWatch has helped healthcare professionals diagnose and treat millions of patients with our advanced health monitoring technologies and services. Physicians have direct online access to their patient's ECG data and clinical reports, which facilitates faster intervention at the earliest sign of a significant health event. Our commitment to developing technology and information solutions has helped set the standard for remote patient monitoring services.

We adhere to strict quality processes and criteria. LifeWatch technologies and systems solutions meet or exceed ISO, FDA and CMS standards. Our telehealth services are accredited by the Joint Commission and LifeWatch carries a designation by the American Academy of Sleep Medicine as an Out of Centre Sleep Test Supplier. Our quality system also extends to each patient's experience with our comprehensive services. We are proud of delivering an excellent service, demonstrated by our patient satisfaction results; in 2014, LifeWatch achieved a combined patient satisfaction score of 94.5% for "Good to Excellent" services for cardiac and home sleep testing.

LifeWatch continues to focus on developing digitized health services through advanced EMR integration solutions, which allows the secure electronic exchange of patient data to help physicians meet "Meaningful Use" criteria. The ability to access quickly and conveniently a patient's ECG data and integrate it with other patient information, such as diagnostic procedures, implantable devices, treatment and follow-up, is key to improving care, especially since patients are likely to be treated by multiple physicians. Having access to this data allows physicians to make more timely and informed decisions about the best course of care, and better coordinate with other caregivers.

Core Services

Remote Cardiac Monitoring

Cardiovascular disease (CVD) is responsible for 25% of all deaths in the United States (610,000) each year, with estimated direct and indirect costs to diagnose and treat CVD reaching $444 billion in 2010[1]. According to recent research[2], the increasing number of patients with cardiac conditions will drive up the utilization of cardiac monitoring services in the United States. The increases in the utilization of ambulatory cardiac monitoring services are also in line with the national healthcare shift towards outpatient facility care. Analysts forecast that cardiac event monitoring in Independent Diagnostic Testing Facilities (IDTF), such as LifeWatch, will see faster revenue growth than healthcare facilities; IDTF monitoring will represent nearly two-thirds of cardiac monitoring revenue in 2018, as IDTFs are considered to have a competitive advantage over healthcare facilities.

In the United States, the implementation of the Affordable Care Act (ACA) and healthcare reform includes the emergence of a value-based payment structure versus the current fee-for-service payment models. The ACA is encouraging outcome-based care delivery and end-to-end care coordination, while the Innovation Center at CMS (Centers for Medicare and Medicaid Services) is piloting new financial models for care delivery. These new pay structures will affect current market business models, and physicians and hospital systems are exploring new avenues to maintain and/or improve margins. LifeWatch is developing business models to address these emerging market demands. Our focus in 2015 is on quality metric improvements, the development of new technologies and payment structures, and delivering a quality service that yields high patient satisfaction scores.

1 www.cdc.gov
2 ND66-48 Frost & Sullivan, 2014

LifeWatch operates three credentialed cardiac monitoring centers across different time zones in the U.S. Certified Cardiac Technicians, senior clinicians and a supervising physician staff each of our centers. All incoming ECG transmissions are analysed, and the summary report and preliminary findings are posted to an online portal for physician review, or via EMR integration to the physician's electronic medical record system, or by fax. An event requiring immediate attention undergoes triage by our clinical staff, and physician notification conforms to specific physician instructions. Following their service, patients ship the device back to LifeWatch for cleaning, testing and reprocessing.

Our Ambulatory Cardiac Telemetry (ACT) service is the only 3-lead remote cardiac telemetry service in the market, offering more views of the heart than 1-lead devices. A clinical study[3] reported the increased value of 3-lead versus 1-lead recordings at detecting arrhythmias that can be missed by 1-lead recordings. Multi-lead recordings, such as the ACT 3-lead monitor also allow for improved detection of wider QRS complexes, which a 1-lead recording may not detect. The ACT monitor also offers 24–48 hour Holter functionality, and can function as an auto-detect and auto-send monitor for patients whose insurance will not cover telemetry services.

A key differentiator with our ACT service includes the reports generated from the incoming data. Physicians receive episodic, urgent, daily and end of session reports with clinically significant data, such as arrhythmia burden charts that depict the period of time a patient experiences Atrial Fibrillation, Tachycardia or Bradycardia. The report also displays patient symptoms and activities at the time of an event, which correlate to a histogram of the arrhythmia and heart rate. All of this data assists the physicians in determining the best treatment options for the patient.

LifeWatch also offers traditional cardiac monitoring services that utilize a variety of 1-lead event and digital Holter monitors.

3 Barrett P, Komatireddy R, Haaser S, Topol S, Sheard J, Encinas J, Fought A, Topol E, Comparison of 24-hour Holter Monitoring with 14-day Novel Adhesive Patch Electrocardiographic Monitoring. AJC 2014, 95e11–95e17

Home Sleep Testing

An estimated 1-in-15 American adults suffers from moderate to severe obstructive sleep apnea, yet approximately 82% of individuals with obstructive sleep apnea remain undiagnosed. Undiagnosed obstructive sleep apnea costs an estimated USD 65 – 165 billion per year in lost productivity and incremental healthcare costs[4]. One study[5] stated that the U.S. economy would save USD 11.1 billion and 980,000 lives annually if all U.S. drivers suffering from sleep apnea would be treated. Serious health conditions associated with obstructive sleep apnea include cardiovascular disease, stroke, high blood pressure and diabetes. Left untreated, sleep apnea can also cause automobile accidents caused by falling asleep at the wheel. Obstructive sleep apnea contributes to other serious diseases, such as atrial fibrillation and heart failure. Treating sleep apnea has the potential to reduce dramatically medical expenses, improve a patient's quality of life and lower associated health risks. More insurance companies are aware of the economic benefits of home sleep tests and are more inclined to recommend inexpensive and convenient home sleep testing over the more costly studies performed in a sleep lab.

Our NiteWatch Home Sleep Test is a patient-friendly system that utilizes a Type III device with 9-channels of data, including body position, Actigraphy and ECG, and thereby increases the clinical value by estimating sleep time and detecting arrhythmia episodes. Our device is one of the smallest and most comfortable devices in the market today. When a physician prescribes the sleep test, we ship the device and instructions to the patient's home. Our call center staff, under supervision by board-certified sleep physicians, contact the patient to help complete the home-based setup process. After the test is completed, our technical staff analyse the data and send a report to the prescribing physician.

4 The Price of Fatigue, Harvard Medical School, 2010
5 Sassani et al. Sleep 2004 28

New Technologies and Services

The U.S. market for multi-parameter vital sign monitors and wireless ambulatory telemetry monitoring is evolving and research forecasts strong growth due to the Accountable Care Act, healthcare reform, the aging population utilizing more and medical procedures, and the growing shortage of healthcare professionals.

In October 2014, LifeWatch received 510(k) clearance from the FDA (U.S. Food and Drug Administration) for the Vital Signs Patch (VSP). The VSP technology addresses an unmet need in health care institutions and supports the objectives of maximizing reimbursement under current or future payment structures and minimizing the risk of litigation or violations of current standards and policies. The Vital Signs Patch also supports U.S. hospitals in meeting a "Meaningful Use" requirement as defined in the American Affordable Care Act.

The VSP is an easy-to-use sensor worn on a patient's upper chest. It is intended to be used on adult patients in a clinical environment for the continuous, non-invasive monitoring of ECG, Heart Rate, respiration rate, surface temperature, and arterial blood oxygen saturation (intended use group adults 21 and above), when prescribed by a physician or other qualified healthcare professional. Upon activation and connectivity to the supporting system, the VSP provides automation and alerts of key vital signs via continuous wireless monitoring. LifeWatch is conducting four "Proof of Concept" (PoC) studies in the United States to support the VSP and expected to launch the full VSP system in Q3/2015.

Service Management Platform

LifeWatch continuously enhances its sophisticated service management platform. The three key components below create the platform for efficiently launching new services and entering new geographic markets:

1. Technology, which enables our remote solutions, including proprietary algorithms, internal information technology systems and applications, and an extensive patent portfolio covering telemedicine technologies.
2. Clinical Engine, which has the resources to capture, process, present and deliver digitized medical data to physicians. The Clinical Engine comprises systems, staff, processes and the expertise gained from monitoring hundreds of thousands of patient transmissions per year.
3. Insurance companies who are key players in the industry. We have an experienced team who develop and maintain these relationships and secure service contracts.

Business Overview 2014

Managed Care

In fiscal 2014, LifeWatch signed 49 new or amended agreements for its ACT and HST services. This includes a national provider agreement for ACT and traditional cardiac monitoring services with WellCare Health Plans Inc. This is a significant achievement, as it includes all WellCare Medicaid MCO (Managed Care Organization) and Medicare Advantage plans in eighteen states, including California, Florida, Georgia, Illinois, Michigan, Missouri, New Jersey, New York, Ohio, South Carolina and Texas. Medicaid is a social health care program for families and individuals with low income and limited resources. Wellcare estimates that it is one of the 10 largest Medicaid providers of managed care services plans, and among the ten largest providers of Medicare Advantage services in the Industry.

As announced in October 2014, Cigna Corporation has reinstated coverage of the Ambulatory Cardiac Telemetry (ACT) service provided by its subsidiary, LifeWatch Services, Inc. The coverage is retroactively effective as of June 15, 2014 and applies to all Cigna affiliated entities. In addition, the parties entered into a confidential settlement agreement and LifeWatch Services, Inc. will be dismissing its pending case filed in the U.S. District Court for the Eastern District of Pennsylvania.

LifeWatch is encouraged that more payors recognize the value of mobile outpatient telemetry services, however a few payors continue to deny reimbursement, despite its value of providing meaningful clinical data that can result in better patient outcomes.

Sales and Marketing

In the United States, we have both strengthened our sales leadership team and developed advisory boards comprised of tenured sales and marketing individuals that collectively possess a wealth of knowledge and experience. Their expertise is crucial in the training and development of new sales recruits and on-going marketing initiatives. Our well-trained sales representatives understand the market dynamics and trending, and maintain excellent relationships with physicians, hospitals, payors and other healthcare providers. LifeWatch also maintains a solid presence in clinical symposia through Continuing Medical Education (CME) grants and medical exhibitions.

Our U.S. marketing initiatives for 2014 included:

- Developing a new brand and look and feel of marketing materials, including a new website
- Supporting and exhibiting at over 130 local and national healthcare symposia
- Co-marketing educational materials with healthcare providers
- Providing outcomes monitoring analysis to demonstrate findings and key demographics
- Conducting further market research and identify key markets for expansion of new products.

LifeWatch has hired an experienced marketing professional in Europe focused on developing business models in specific countries where opportunities exist for our core and new technology and service platforms.

Operations and IT

LifeWatch continues to focus on major efficiency initiatives, including the following:

- Reduction in supply and distribution costs
- Decrease in professional services expenditures
- Automation of selected processes
- Investments in IT infrastructure

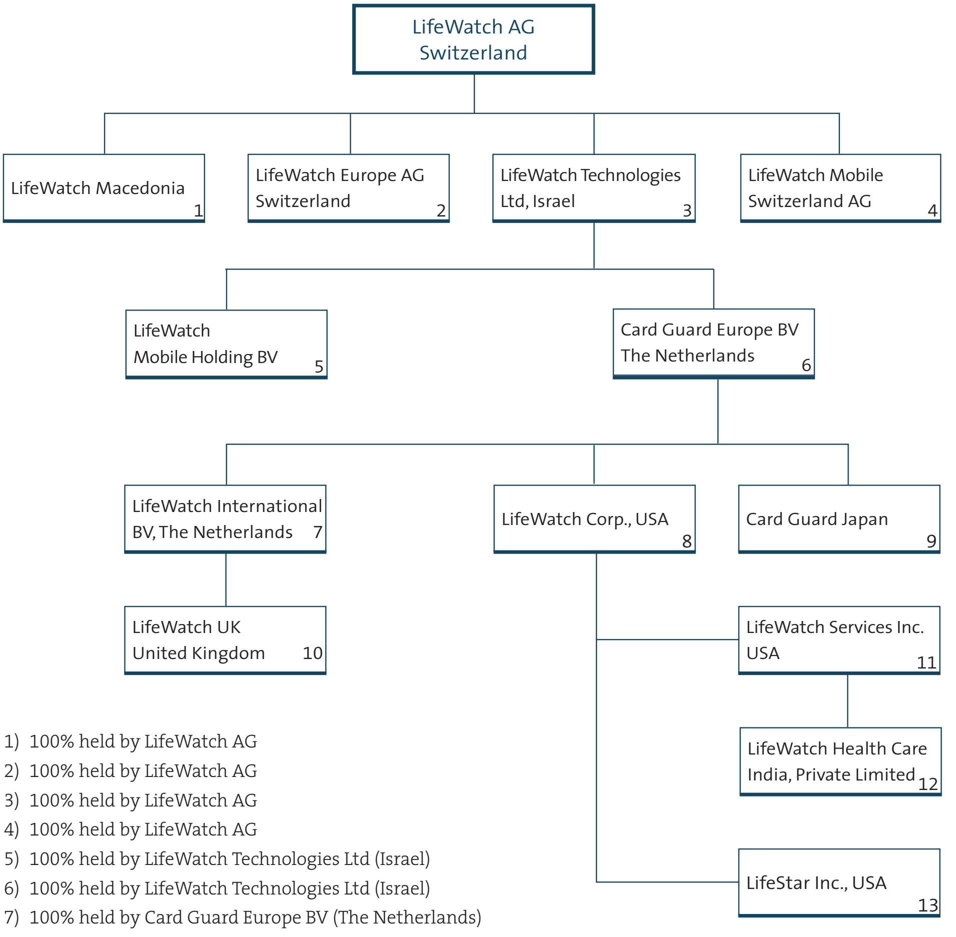
Environment

LifeWatch is fully committed to reducing reduce greenhouse gas (GHG) emissions, saving energy, and preventing the release of toxic substances that would otherwise harm the environment. Our product packaging is also made of 100%-recycled materials. In 2014, we responsibly recycled of a total of 12,336 pounds of electronics[6], which:

- Reduced GHG emissions equivalent to conserving 3,157 gallons of gasoline
- Conserved the energy equivalent of 3,899 gallons of gasoline
- Prevented 90,718,667 litres of water from being contaminated beyond EPA standards due to lead
- Prevented 28,500 litres of water from being contaminated beyond EPA standards due to mercury

6 Environmental Sustainability Report for LifeWatch Services, Inc.

Corporate Structure



1) 100% held by LifeWatch AG
2) 100% held by LifeWatch AG
3) 100% held by LifeWatch AG
4) 100% held by LifeWatch AG
5) 100% held by LifeWatch Technologies Ltd (Israel)
6) 100% held by LifeWatch Technologies Ltd (Israel)
7) 100% held by Card Guard Europe BV (The Netherlands)
8) 73.46% held by Card Guard Europe, BV and 26.54% held by LifeWatch Technologies, Ltd
9) 80% held by Card Guard Europe, BV
10) 91.5% held by LifeWatch International, BV
11) 100% held by LifeWatch Corp.
12) 100% held by LifeWatch Services Inc.
13) 100% held by LifeWatch Corp.

Corporate Governance

The Executive Management Team and the Board of Directors of LifeWatch AG ("the Company") consider corporate governance to be essential for responsible, transparent, efficient and value-driven corporate management. Good corporate governance promotes confidence and trust in the Company by investors, financial markets, business partners, employees and the public. The Executive Management Team and the Board of Directors are continuously trying to improve the principles of corporate governance and actively ensure that they are applied and lived throughout the LifeWatch Group. The central elements of corporate governance are contained in the Articles of Incorporation and organizational regulations, and are based on the guidelines and recommendations set out in the "Swiss Code of Best Practice for Corporate Governance" published by economiesuisse. For ease of reference, the order and numbering of the individual sections correspond to those used in the "Guidelines concerning information on corporate governance" published by SIX Swiss Exchange. Unless otherwise indicated, all information refers to fiscal year ending December 31, 2014 or the balance sheet date of December 31, 2014. Significant events that have occurred between the year end and the publication deadline for this report have also been included as appropriate.

1 Group Structure and shareholders

1.1 Group structure

1.1.1 LifeWatch is a specialist in telemedicine monitoring services and a leading developer and manufacturer of wireless healthcare and wellness related technologies and systems. The services and devices are used to assess a broad array of physiological functions that allow patients to be monitored and treated in their normal, everyday environment. The Group's financial accounts reflect the Group structure and are based on four business segments – Monitoring Services, Sales of Systems, Mobile Health and other. For an overview of the organizational Group structure, please refer to page 17 of this Annual Report.

1.1.2 Listed company

Company	LifeWatch AG, Neuhausen am Rheinfall, Switzerland
Listing	SIX Swiss Exchange, Main Segment
Ticker	LIFE
Market capitalization	CHF 165,415,640 as of December 31, 2014
Treasury shares	0.39% held by LifeWatch as of December 31, 2014
Security number	1281545

1.1.3 Non-listed companies

For an overview of affiliated and associated non-listed companies, belonging to the Life-Watch Group please refer to Note 17 in the consolidated financial statements of this Annual Report.

1.2 Significant shareholders

On December 31, 2014, the Company knew of the following shareholders holding over 3% of the voting stock in LifeWatch AG based on their own declarations. Constantly updated information on significant shareholders is available at www.six-swiss-exchange.com under "Significant Shareholders" when entering LifeWatch's ticker symbol "LIFE" in the product search box. (Link: http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=18933)

Dr. Yacov Geva, previous Chairman and Corporate CEO of LifeWatch, held directly and indirectly 16.82% of the voting rights in LifeWatch AG as disclosed on May 14, 2012.

Himalaya (Cayman Islands) TMT Fund held 15.26% of the voting rights in LifeWatch AG as disclosed on December 19, 2014.

Patrick Schildknecht, Martin Eberhard, Stephan Rietiker, Patrik Ringler, Roland Leutwiler, Oscar Weber, Adolf Köpfli, Peter Weber, Hans-Ulrich Greutert and Thomas Rühle are acting as an organised group and held directly and indirectly 26.5% of the voting rights in LifeWatch AG as disclosed on June 23, 2014.

Dominik Aronsky, Chief Information and Informatics Officer of LifeWatch, held 3.34% of the voting rights in LifeWatch AG as disclosed under Note 11 of the LifeWatch AG Statutory Financial Statements .

Significant changes since the year-end

As reported on February 4, 2015, Dr. Geva sold 1,977,282 shares in the company to a group of

Swiss Investors. This was Dr. Geva's entire shareholding at this time and consequently he ceased being a shareholder on this date.

LB (Swiss) Investment AG held in several funds, 3.104% and 10.486% of the voting rights in LifeWatch AG as disclosed on February 5, 2015.

2 Capital structure

2.1 Share capital as of December 31, 2014

Ordinary share capital:	CHF 17,482,953.80 13,448,426 registered shares of par value CHF 1.30 (fully paid-in)
Conditional share capital:	CHF 88,388.30 67,991 registered shares of par value CHF 1.30 (for option plans in favor of members of the Board, members of the Executive Management Team, employees and consultants)
Conditional share capital:	CHF 1,300,000 1,000,000 registered shares of par value CHF 1.30 (for bond issues and similar obligations)
Authorized share capital:	None

2.2 Conditional share capital

Pursuant to the Articles of Incorporation as of May 11, 2004, the share capital of LifeWatch AG may be raised through the issue of no more than 2,750,000 registered shares, to be fully paid-in, by an amount of no more than CHF 3,575,000 by virtue of the exercise of option rights granted to members of the Board, members of the Executive Management Team, employees and consultants.

During the fiscal year ending December 31, 2014 the Company issued 210,228 shares. In 2013 the Company issued 107,550 shares, and in 2012 the Company issued 8,000 shares.

With respect to option rights granted to members of the Board, members of the Executive Management Team, employees and consultants of the Company or its affiliates, any pre-emptive rights and rights to advance subscriptions are excluded. The issue of such option rights is effected in accordance with one or more option plans to be adopted by the Board of Directors.

The acquisition of shares through the exercise of option rights granted to members of the Board, members of the Executive Management Team, employees and consultants of the Company or its affiliates as well as any subsequent transfer of the shares are subject to the restrictions in the Articles of Incorporation of the Company (see also "Limitations on transferability and nominee registrations" in this section of the Annual Report).

Additionally, the share capital may be increased through the issue of no more than 1,000,000 fully paid-in registered shares, equal to an amount of up to a maximum of CHF 1,300,000:

a) through the exercise of option and/or conversion rights which are granted in relation to bond issues and similar obligations of the Company or its group companies
b) through the exercise of option rights which are granted to the shareholders of the Company.

The rights of the shareholders to subscribe shares in priority are excluded. The shares, which are issued under this provision, shall be subject to the transfer restrictions in the Articles of Incorporation of the Company. The rights of the shareholders to subscribe in priority in the context of warrants and/or convertible bonds and/or similar financing instruments may be limited or excluded for no more than 1,000,000 of such new registered shares by resolution of the Board of Directors, provided that such option and/or conversion rights are issued:

a) to finance the acquisition of enterprises, participations in such enterprises, divisions thereof or new investments of the Company
b) to issue warrants and/or convertible bonds and/or similar financing instruments on the international capital markets.

With reference to warrants and/or convertible bonds and/or similar financing instruments in respect of which the Board of Directors resolves to exclude the shareholders' right to subscribe in priority, the following shall apply:

a) The shares shall be issued in accordance with the prevailing terms and conditions of the conversion and option rights, respectively. The warrants and convertible bonds or similar financing instruments shall be issued in accordance with market conditions.
b) The exercise price for the conversion and option rights for the new registered shares must at least correspond to the market conditions prevailing at the time of the issue of the respective financing instrument.

2.3 Authorized share capital

As of December 31, 2014, the Company does not have any authorized share capital.

2.4 Changes in shareholders' equity since 2012

CHF	31.12.2014	31.12.2013	31.12.2012
Share capital	17,482,984	17,209,657	17,069,842
General reserve	14,875,969	14,119,919	13,860,620
Reserve for treasury stock	1,104,621	1,104,621	1,104,621
Retained earnings	2,602,193	7,677,660	15,205,362

Changes in shareholders' equity during fiscal year 2012

During the fiscal year ending December 31, 2012 the Company issued 8,000 registered shares with a par value of CHF 1.30, amounting to CHF 10,400 of additional share capital due to the exercise of options. The general reserve increased to CHF 13,860,620 due to an amount of CHF 791,625 transferred from the reserve of treasury stock and an amount of CHF 14,006 of additional paid-in capital resulted from the issuance of the new shares mentioned above, as a result of the exercise of options. The reserve for treasury stock as of December 31, 2012 decreased to CHF 1,104,621.

Changes in shareholders' equity during fiscal year 2013

During the fiscal year ending December 31, 2013 the Company issued 107,550 registered shares with a par value of CHF 1.30, amounting to CHF 139,815 of additional share capital due to the exercise of options. The general reserve increased to CHF 14,119,919 due to an amount of CHF 259,299 of additional paid-in capital from the issuance of the shares mentioned above. The reserve for treasury stock as of December 31, 2013 remained unchanged and amounted to CHF 1,104,621.

Changes in shareholders' equity during fiscal year 2014

During the fiscal year ending December 31, 2014 the Company issued 210,228 registered shares with a par value of CHF 1.30, amounting to CHF 273,296 of additional share capital due to the exercise of options. The general reserve increased to CHF 14,875,969 due to an amount of CHF 756,050 of additional paid-in capital from the issuance of the shares mentioned above. The reserve for treasury stock as of December 31, 2013 remained unchanged and amounted to CHF 1,104,621

2.5 Shares

In 2014 the share capital of LifeWatch AG was divided into 13,448,426 fully paid-in registered shares with a par value of CHF 1.30 each. All shares are entitled to dividends and carry a single vote. The Company maintains a stock ledger, listing the surname and first name (in the case of legal entities, the company name) and address of the holders and usufructuaries. Only persons or legal entities registered in the stock ledger shall be recognized as shareholders or usufructuaries by LifeWatch AG.

2.6 Profit sharing certificates

The Company has neither profit sharing certificates nor bonus certificates outstanding.

2.7 Limitations on transferability

2.7.1 and 2.7.2 Limitations on transferability and nominee registrations of registered shares
The Articles of Incorporation of LifeWatch AG contain no transfer restrictions ("Vinkulierung") with regard to the registered shares. However, pursuant to Art. 7 of the Articles of Incorporation of LifeWatch AG, the Board of Directors of LifeWatch AG may refuse to register an acquirer of LifeWatch AG shares as a shareholder with the registered right to vote if the acquirer, upon request, does not explicitly declare that he acquired the shares in his own name and for his own account. The Board of Directors may cancel the registration retroactively to the time of the registration if such registration was based on false declarations.

2.7.3 Admissibility of nominee registrations
Concerning the voting rights of nominee shares, the following applies: LifeWatch AG shall register in its stock ledger any shares in LifeWatch AG held by a nominee ("nominee shares") without voting rights, subject to any nominee shares for which the nominee:

a) discloses to LifeWatch AG the name, citizenship, and address of the ultimate beneficial owner, and the number of nominee shares held by such beneficial owner, or
b) explicitily declares that it acquired the nominee shares in its own name and for its own account.

Nominee shares for which the nominee discloses the above mentioned information (under a and/or b), shall be registered in LifeWatch AG's stock ledger with voting rights as soon as reasonably possible after LifeWatch AG's receipt of the respective disclosure notice.

2.8 Convertible bonds and warrants/options

LifeWatch AG has no convertible bonds outstanding as of December 31, 2014. The Company has several stock option plans, the essentials of which are disclosed and explained in the Financial Reporting section under Note 9e of this Annual Report. All of these options were granted to employees, directors, officers, consultants and members of the advisory board of the Company or its affiliates. Options granted under said plans are, if exercised, converted into registered shares of LifeWatch AG (subscription ratio 1:1) or common stock of LifeWatch Corp. (conditional upon listing, ratio 1:1). The options are not marketable and usually, unless otherwise stated in the notice of grant, vest within 4 years starting from the date of the grant. Each year, 25% of these options can be exercised. All options have durations of 10 years starting from the date of the grant. The Board of Directors has authority to approve deviations from the terms of the plans. The Board of Directors decided on July 13, 2005 to accelerate the vesting period of all the unvested LifeWatch options that had been granted to its Chairman and Vice Chairman prior to that date. The current exercise prices of all outstanding LifeWatch options range between USD 3.05 and USD 12.83. For further details please also refer to the financial reporting section under note 9e. The subscription ratio of these options is 1:1. If the total number of options outstanding at the end of 2014 (37,924 options) were fully exercised, this would represent 0.28% of the total number of shares. The conditional share capital of the Company as at December 31, 2014 is 67,991 shares which is more than sufficient to cover the exercise of these options.

3 Directors

3.1 Members of the Board of Directors

The company had three non-executive members of the Board of Directors as at December 31, 2014. Two of these board members, Patrick Schildknecht and Thomas Rühle, are members of a publicized shareholder group which held 26.5% of the shares of the company as published on June 27, 2014. Dr. Yacov Geva, previous member of the Board of Directors and previous Corporate CEO was the only executive member of the Board of Directors in 2014. All non-executive members of the Board of Directors are independent and were not previously members of the Executive Management Team of LifeWatch AG or any of its affiliates.

Thomas Rühle
Chairman of the Compensation Committee
Born 1960, German citizen, first election 2013

Thomas Rühle was Vice President Europe of Sanofi Pasteur MSD from 2005 till 2011. Previously, he acted as Chairman for the region Germany at Sanofi Pasteur MSD. Prior to Sanofi Pasteur MSD he held several marketing positions at leading pharmaceutical companies. Thomas Rühle holds a degree in economics of the BA Karlsruhe. Today he is engaged as a private investor in several health and logistic companies.

Patrick Schildknecht
Member of the Audit Committee
Born 1972, Swiss citizen, first election 2013

Patrick Schildknecht is the owner and president of SK Holding AG in Euthal, an investment company with several subsidiaries in retail trading as well as in the property development and building materials sectors. He started his career with the door manufacturer Portico S.A. in San Jose, Costa Rica. After returning to Switzerland in 1999 he worked five years as a strategy consultant with Arthur D. Little in Singapore and Switzerland. In 2004 he directed, as owner and CEO, Sycrilor Industries S.A. in Le Noirmont, a precision forge for the luxury goods and medical industry. Since then Patrick Schildknecht has acted as member of the Board of Directors in several public and private companies. In 1998 Patrick Schildknecht achieved a master of business administration at the University of Zurich.

Antoine Hubert
Member of the Compensation Committee
Chairman of the Audit Committee
Born 1966, Swiss citizen, first election 2014

Antoine Hubert is founder and Delegate of the Board of AEVIS Holding AG as well as one of the two main shareholders of the firm. AEVIS Holding SA invests in the healthcare sector, life sciences and personal care services. AEVIS's main shareholdings are Genolier Swiss Medical Network, the second largest group of private clinics in Switzerland, and Swiss Healthcare Properties AG, a company specialized in medical real estate, Nescens SA, a brand dedicated to better-aging, and AS Ambulances Services SA. Prior to acquiring a stake in Clinique de Genolier in 2002 and founding Genolier Swiss Medical Network in 2004, Antoine Hubert was mainly active in the property and real estate industry and has set up various businesses and served as a director to several companies in different industries.

Dr Stephan Rietiker

Born 1956, Swiss citizen, first election 2014, resigned 2014

Dr. Stephan Rietiker was elected a member of the Board of Directors at the Ordinary Shareholders Meeting 2012 which took place on January 30, 2014 and was immediately appointed Delegate of the Board of Directors to manage Company operations on an ad interim basis. He resigned from the Board of Directors at the Ordinary Shareholders Meeting 2013 which took place on May 28, 2014, to become Chief Executive Officer. For personal details, please refer to the section on members of the Executive Management Team on page 33 of this Annual Report.

The following members of the Board of Directors were either not re-elected (Dr. Yacov Geva and Urs Wettstein) or declined re-election (Kenneth R. Melani, M.D.) at the 2012 AGM held on January 30, 2014.

Dr Kenneth Melani

Born 1954, United States citizen, first election 2013, declined re-election 2014

Dr. Kenneth R. Melani is the former Chairman of the Board of Directors, is the former president and chief executive officer of Highmark, a health insurance company based in Pittsburgh and the largest health insurer in Pennsylvania. He graduated in 1975 with a chemistry degree and enrolled later in the Bowman Gray School of Medicine in North Carolina before specializing in adult internal medicine. In 1982, he started his own practice in Pennsylvania. Later he began to take on work for West Penn Cares, a company of West Penn-affiliated physicians, developing business opportunities with a commercial blood laboratory and in-home intravenous therapy devices. In 1989, he was appointed chief medical officer for Blue Cross of Western Pennsylvania. During this time, Blue Cross of Western Pennsylvania merged with Harrisburg's Pennsylvania Blue Shield and the company was re-christened Highmark. Kenneth Melani was awarded W&J College's "Entrepreneur of the Year Award" in 2009.

Dr Yacov Geva

Born 1949, United Kingdom citizen, first election 1989, not re-elected 2014

Dr. Yacov Geva was, up until January 30, 2014 a member of the Board of Directors and Corporate CEO since 1999. Dr. Yacov Geva is a co-founder of LifeWatch (former Card Guard AG and Card Guard Scientific Survival Ltd). Prior to co-founding LifeWatch Technologies Ltd (former Card Guard Scientific Survival Ltd), he served as a Chief Mechanical Engineer with Vishay Israel, a subsidiary of Vishay Intertechnology, USA, from 1979 to 1989. From 1976 to 1979, Dr. Yacov Geva was employed by the Koor Industries Group as a special projects manager for electronic communication projects. Dr. Yacov Geva is a graduate of the Technion-Israeli Institute of Technology, and holds a B.Sc. in Mechanical and Nuclear engineering. Furthermore, Yacov Geva holds a doctorate of business administration by the International School of Management, Paris and an honorary doctorate from Oxford Brooks University.

Urs Wettstein

Born 1955, Swiss citizen, first election 2000, not re-elected 2014

Urs Wettstein was non-executive Vice Chairman of the Board of Directors from LifeWatch AG's incorporation on July 13, 2001 until January 30, 2014. Urs Wettstein was an advisor and investor in numerous IPOs in Europe and operated an accounting, auditing and consultancy office in Zurich, Switzerland from 1983 to 2007. From 1976 to 1982, he was an auditor with Coopers & Lybrand AG, Zurich, and a tax consultant in the joint tax department of Coopers & Lybrand/Schweizerische Treuhandgesellschaft, Zurich. Urs Wettstein graduated as a Certified Public Accountant (Dipl. Wirtschaftsprüfer).

3.2 Other activities and business connections

Antoine Hubert is a member of the Board of Directors and Delegate of the Board of AEVIS Holding AG, a company quoted on the Swiss stock exchange. Apart from this position, neither Antoine Hubert nor any of the other members of the Board of Directors acted in any governing or supervisory bodies of important Swiss and foreign organizations, institutions or foundations in 2014.

The Articles of Association of the Company contain the following provision relating to other activities of the Board of Directors and the Executive Management Team:

The members of the Board of Directors and the members of Executive Management shall not occupy or exercise more positions in the highest managing or supervising body of other entities that are obliged to be entered into the commercial register or a comparable foreign register and that are neither controlled, by nor that control the Company:

- 4 positions in publicly listed companies whereby positions in several different companies that form part of the same group of companies are regarded as one position; and
- 8 paid positions with other entities, whereby positions in several different companies that form part of the same group of companies are regarded as one position; and
- 8 unpaid positions, whereby mere expense recovery is not deemed to be compensation and positions in several different companies that form part of the same group of companies are regarded as one position.

On March 27, 2006, LifeWatch Technologies Ltd. (former Card Guard Scientific Survival Ltd, Israel) signed a lease agreement with Ad Marom Assets and Initiation Ltd (Ad Marom Assets and Initiation Ltd, is a private Israeli company, of which 50% is held by the immediate past Corporate CEO of the Company and his family members and by the immediate past Vice Chairman of the Company [the "Landlord"]). According to the terms of the agreement, the Landlord intended to construct a building comprising about 6,000 square meters situated in Rehovot, Israel (the "Building"). LifeWatch Technologies Ltd intended to lease the Building for the term of 10 years, with an option to extend the lease for an additional period of 10 years. The Company had the right to rescind the agreement under certain conditions and exercised this right in March 2014. For further information please refer to Note 14d in the financial section of this Annual Report.

3.3 Elections and terms of office

Please note that due to legal reasons and a conflict with a shareholder group no annual Shareholders Meeting of LifeWatch AG was held up in 2013. The meeting took place on January 30, 2014.

Name	Position	First elected	Elected until Shareholders' Meeting
Dr. Kenneth R. Melani	Chairman [1) 2)]	2013	2013
Patrick Schildknecht	Chairman [1) 3)] Non-executive	2013	2015
Dr. Yacov Geva	Member / CEO [4) 5) 6)]	1989	2013
Urs Wettstein	Vice Chairman [4) 6)] Non-executive	2000	2013
Thomas Rühle	Member [1)] Non-executive	2013	2015
Dr, Stephan Rietiker	Member [7)] Delegate of the Board	2014	2014
Antoine Hubert	Vice Chairman [8)] Non-executive	2014	2015

1) Member of the Board of Directors of LifeWatch AG elected on the occasion of an Extraordinary Shareholders Meeting taking place on January 23, 2013

2) Elected Chairman of the Board of Directors on July 7, 2013; retired from his position as a Member of the Board of Directors of LifeWatch AG on January 30, 2014

3) Elected Chairman of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2012 meeting taking place on January 30, 2014

[4] Member of the Board of Directors of Card Guard Scientific Survival Ltd prior to the incorporation of LifeWatch AG in 2001, subsequently elected Director of LifeWatch AG
[5] Retired from his position as Chairman of the Board of Directors on July 7, 2013; acting as Corporate Chief Executive Officer of LifeWatch until being released of CEO function on January 30, 2014
[6] Member of the Board of Directors of LifeWatch AG who was not re-elected on the occasion of the Ordinary Shareholders Meeting 2012 meeting taking place on January 30, 2014
[7] Elected member of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2012 taking place on January 30, 2014 and appointed Delegate of the Board of Directors
[8] Elected member of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2012 taking place on January 30, 2014 and appointed Vice Chairman of the Board of Directors

According to the Articles of Incorporation, the Board of Directors of LifeWatch AG consists of at least three members. The Shareholders Meeting will appoint the members of the Board of Directors for a term of office of no more than one year. The Shareholders Meeting shall further elect the Chairman of the Board of Directors out of the members of the Board of Directors.

Furthermore, the Articles of Association also contain provisions whereby the Shareholders Meeting elects a Compensation Committee consisting of two or more members. The members of the Compensation Committee are elected individually. Only members of the Board of Directors are eligible for election.

In order to ensure that Shareholders can be independently represented at a Shareholders Meeting, the Company's Articles of Association contain the following provisions:

– The Shareholders Meeting elects an independent shareholder representative.
– If the Company has no independent shareholder representative, the Board of Directors designates an independent shareholder representative for the next Shareholders Meeting.

LifeWatch AG was granted, in 2013, exception from compliance with the nationality requirement for the majority of the members of the Board of Directors pursuant to Art. 708 para 1 CO.

3.4 Internal organizational structure

The Board of Directors constitutes itself. It shall elect among its members a Vice Chairman and shall appoint a secretary, who need not be a member of the Board. Until January 30, 2014, Kenneth R. Melani, M.D., acted as Chairman and Urs Wettstein acted as Vice Chairman of the Board of Directors. For the rest of 2014 Patrick Schildknecht acted as Chairman and Antoine Hubert acted as Vice Chairman. The Board of Directors has the ultimate responsibility for the business strategy and the direction of the business of LifeWatch AG as well as the issuance of the necessary instructions.

3.4.1 Allocation of tasks within the Board of Directors

The most important duties of the Board of Directors, according to the Swiss Code of Obligations and the Articles of Incorporation of LifeWatch AG are:

- the strategic direction and the determination of the organization
- the regulation of accounting, financial control and financial planning
- the appointment and removal of the persons entrusted with management and representation of the Company
- the ultimate supervision of the persons entrusted with management of the Company
- the preparation of the business report and the compensation report as well as the preparation of the Shareholders Meeting and the implementation of the resolutions adopted by the Shareholders Meeting
- the examination of the professional qualifications of the qualified auditors

Decisions by the Board of Directors are taken in accordance with the majority requirements set forth in the Swiss Code of Obligations. Board meetings, at which the members of the Board of Directors meet physically, usually last for about half a day. The duration of Board meetings held by telephone conference depends on the specific items to be discussed during the meetings, but on an average they last for about one hour.

The Internal Regulations of LifeWatch AG stipulate that the Board of Directors must meet at least four times a year. During fiscal year 2014 the Board of Directors met five times physically for Board meetings with meetings lasting on average 4.4 hours, held 9 telephone conferences which lasted on average 1.2 hours and passed 3 circular resolutions. The Chairman, Kenneth R. Melani (up until January 30, 2014) and Patrick Schildknecht (from January 31, 2104 until December 31, 2014), determines the agenda and items for discussion at the Board meeting, however, all members of the Board of Directors can request to add further items to the agenda. All Board members receive extensive documents as preparation prior to the meetings. Such documents include particularly, but not exclusively, consolidated financial statements of the Group (balance sheets, statements of operations, statements of cash flows and notes to the financial statements). Members of the Executive Management Team, such as the Chief Financial Officer, or external consultants, such as the independent Group auditors, may be invited to attend the meetings of the Board of Directors.

3.4.2 Committees

In 2014 LifeWatch AG had two committees, a Compensation Committee and an Audit Committee. The members of these committees give specific recommendations to the entire Board of Directors. However, decision authority remains with the entire Board of Directors. The Board of Directors or the committees also engage external consultants, specialized attorneys and/or auditors to address specific topics, whenever required.

3.4.2.1 Compensation Committee

The Compensation Committee consists of at least two non-executive members of the Board of Directors. Up until January 30, 2014, members of the Compensation Committee were Kenneth R. Melani (Chairman of the Compensation Committee), Thomas Rühle and Urs Wettstein. Pursuant to the new Art. 26a of the Articles of Incorporation Thomas Rühle and Antoine Hubert were elected members of the Compensation Committee on the occasion of the Ordinary Shareholders Meeting 2012 which took place on January 30, 2014. Thomas Rühle was elected Chairman of the Compensation Committee by the Board of Directors. At the Ordinary Shareholders Meeting 2013 which took place on May 28, 2014 Thomas Rühle and Antoine Hubert were both re-elected to the Compensation Committee with Thomas Rühle also being re-elected as Chairman of the Compensation Committee by the Board of Directors.

The Compensation Committee proposes to the entire Board of Directors the compensation policy (including option programs) for all employees, including the members of the Executive Management Team, the members of the Board of Directors and consultants of the Company. In addition, the Compensation Committee supervises the administration of the share option plans of LifeWatch AG. The decision authority with regard to compensation remains with the entire Board of Directors. The Committee holds meetings as often as business requires, but at least once a year. In fiscal year 2014, the Committee held 2 physical meetings lasting on average 1.4 hours.

3.4.2.2 Audit Committee

The Audit Committee consists of at least two non-executive members of the Board of Directors. Up until January 30, 2014, members of the Audit Committee were Patrick Schildknecht (Chairman of the Audit Committee) and Urs Wettstein. Following the Ordinary Shareholders Meeting 2012 which took place on January 30, 2014, The Audit Committee consisted of Antoine Hubert (Chairman of the Audit Committee) and Patrick Schildknecht. The main activities of the Audit Committee are the review of risk management and internal controls of the Company, monitoring of financial reporting and audit review. The Audit Committee gives specific recommendations to the Board of Directors. The responsibility for the approval of the financial reporting and the financial statements and the decision authority remain with the entire Board of Directors. The Committee meets at least once a year. In fiscal year 2014, the Audit Committee held 2 telephone conferences, which lasted on average 1 hour.

3.5 Definition of areas of responsibility

The responsibility of the Board of Directors with respect to the non-transferable and irrevocable tasks is as defined by the Swiss Code of Obligations. The Board of Directors' main responsibilities are:

– to formulate the general Group strategy and the industrial and service concept behind the Group
– to decide on any acquisition, sale, foundation or liquidation of subsidiaries
– to define the Group's financing strategy including decisions on collective means of financing as well as to determine accounting, financial control and planning schemes
– to approve the financial statements
– to define the Groups organizational structure and its organizational regulations
– to appoint and dismiss members of the Executive Management Team
– to approve the annual, respectively business, report and the consolidated financial statements, conduct the annual Shareholders Meeting and execute its decisions

Apart from these main tasks, the Board of Directors delegates the power to manage the Company's day-to-day business activities to the Chief Executive Officer, who together with the Executive Management Team is responsible for the overall management of LifeWatch AG.

3.6 Information and control instruments vis-à-vis the Executive Management Team

The Board of Directors is regularly informed of significant matters involving the Company's business and receives regular reports from the Board Committees, the Chairman, as well as from the Executive Management Team. Regular written reports are also provided: LifeWatch runs a Management Information System (MIS), which provides financial information and comparative operational analyses, including monthly, semi-annual, and annual statements, regional revenue breakdowns and employee numbers of all LifeWatch subsidiaries. Every member of the Board of Directors received summary information and analyses on a monthly basis as well as prior to the Board meetings during the fiscal year. In addition, the non-executive Chairman of the Board of Directors and member of the Audit Committee, Patrick Schildknecht, maintained very regular contact (multiple times per week) with the CEO, Dr. Stephan Rietiker in order be kept fully updated on developments in the business and regularly asked for reports from the Executive Management Team on topics on which he wished additional information. The Chairman, Patrick Schildknecht also ensured the proper information flow between the Executive Management Team and the Board of Directors. In addition the CEO, Dr. Stephan Rietiker, also regularly briefed the members of the Board of Directors on operations and other activities of the Company and its subsidiaries. The Chief Financial Officer, Mike Turchi (formerly Kobi Ben Efraim), attended all meetings of the Board of Directors at which financial matters were discussed and participates at all meetings of the Audit Committee, reviewing the Company's financial performance and reporting, monitoring the internal and external audit processes and assessing the internal risk management and processes.

4 Executive Management Team

4.1 Members of the Executive Management Team

Details on the members of the Executive Management Team of LifeWatch AG are shown below:

Dr Stephan Rietiker, Chief Executive Officer

Born 1956, Swiss citizen, appointed June 1, 2014, joined in 2014

Dr. Stephan Rietiker received his medical doctorate from the University of Zurich in 1982 and is also qualified to practice medicine in the United States. He spent five years practicing internal medicine before moving into the Healthcare industry. He began his career with Roche in 1987 and thereafter held several senior positions in marketing / general management with Boehringer Mannheim and then Schering Plough. Subsequently, he became Vice President and General Manager, Europe for Covance Central Laboratory Services. In 2001, he was appointed President and CEO of Sulzer Medica (later Centerpulse) and was instrumental in resolving a landmark legal settlement in a major U.S. litigation. He was also responsible for restructuring the company, which ultimately led to its acquisition by Zimmer in 2003. After a year as CEO and Director at Pendragon Medical AG, he took on the role of Executive Director and CEO at IMI Intelligent Medical Implants in 2004. In 2006, Dr. Rietiker left IMI and incorporated AurigaVision AG, a Switzerland based investment platform that focuses on promising developmental-stage healthcare companies, including LifeWatch, AG. In June 2014, following a four month period as an Executive Board Member and Interim CEO of LifeWatch AG, the

Board appointed Dr. Rietiker as the Company's CEO. Dr. Rietiker has also been a Senior Advisor to Brown Brothers Harriman's Corporate Finance team from 2006 – 2014. In 2014 he was appointed Board Member of California based LoneStar Heart, a company developing breakthrough therapies against advanced heart failure.

Mike Turchi, Chief Financial Officer

Born 1960, United States citizen, appointed June 1, 2014, joined in 2000

Mike Turchi joined LifeWatch Services in 2000, and has more than 20 years of experience in the financial and business arena. Prior to LifeWatch, Mr. Turchi served as Controller for Baldwin Cooke. He holds a Bachelor of Science in Accounting from the University of Wyoming, an MBA with Honors from Lake Forest Graduate School of Management and is a member of Illinois' CPA Society and AICPA.

Stephanie J. Kravetz, Chief Legal Officer

Born 1966, United States citizen, appointed June 1, 2014, joined in 2011

Stephanie J. Kravetz received her Bachelor's Degree in Psychology and Chemical and Biological Sciences from the University of Minnesota in 1988 and a Doctorate in Jurisprudence from William Mitchell College of Law in St. Paul, Minnesota, in 1991. She is admitted to the bar in both Minnesota and Illinois. Ms. Krevatz spent more than 15 years as a national litigator with the law firm Robins, Kaplan Miller and Ciresi L.L.P., practicing in the areas of medical devices, pharmaceutical, healthcare and biotechnology. Among her clients were Fortune 500 companies, including Medtronic, Inc. as well as individual clients. After leaving private practice, Ms. Kravetz joined the LifeWatch Group of Companies in 2011. She served the company in multiple capacities including Of Counsel and General Counsel for LifeWatch Services, Inc. before accepting her current position in March 2014 as Chief Legal Officer and Secretary at LifeWatch AG, where she is responsible for the company's global legal affairs. Ms. Kravetz also holds certifications in healthcare compliance and corporate business compliance and directs the global governance as well as risk and compliance strategies for the LifeWatch Group of Companies. Ms. Kravetz is also the author of numerous published articles on legal-medical and compliance topics.

Dr Dominik Aronsky, Chief Information & Informatics Officer

Born 1964, Swiss citizen, appointed June 1, 2014, joined in 2014

Dr. Dominik Aronsky, MD, PhD, FACMI is a physician informaticist. His expertise and interests include the development, implementation, and evaluation of clinical information systems with a special emphasis on clinical decision support systems, knowledge management, and the application of artificial intelligence to support real time patient care. Prior to joining Life-

Watch he was an Associate Professor of Biomedical Informatics and Emergency Medicine at Vanderbilt University, Nashville, TN (USA), and a consultant in the biomedical informatics domain. He is on the board of directors of Apogee Informatics Inc. (USA), Clinerion AG (Switzerland) and Semedy AG (Switzerland). Dr. Aronsky worked for the company on a consulting basis from February 2014 until his appointment as Chief Information & Informatics Officer.

Yair Tal, President mHealth until January 31, 2015

Born 1967, Israeli citizen, appointed June 1, 2014, joined in 2008

Yair Tal received his BSc. in Engineering from Tel Aviv University in 1989, and his MBA from the Technion Israel Institute of Technology Haifa, in 2001. He began his engineering career in the technological division of the Intelligence Unit of the Israel Defense Forces in 1989, where for six years he held several positions, designing and managing engineering projects. Following his IDF service, he spent 10 years managing R&D projects in various fields for organizations including LSI Logic, Gilat Satellite Networks and Lycium Networks. In 2005, he took on the role of Vice President of Research and Development at Resolute Networks, where he managed the development of several product lines. Mr. Tal joined LifeWatch in 2008 as Vice President of Research and Development and was appointed General Manager of LifeWatch Technologies, Ltd. in Israel in 2010, a role which he held until his departure. Since 2011, he has additionally focused on business development activities for LifeWatch's mobile health business unit and now serves as President of mHealth.

Stefan Vogt, Chief Commercial Officer from January 1, 2015

Born 1965, Swiss and German citizen, joined in 2015

Stefan Vogt holds a Masters Degree in Economics from the University of Zürich, and a Bachelor Degree of Business Administration from the University in Freiburg i.B. He started his career in telecommunications with AT&T, where for 6 years he held positions in Sales and Marketing both in Europe and the U.S. In 1997 he joined SBC in Switzerland as Product Marketing Director, where he helped build the now 2nd largest telecom company in Switzerland. After working for Swisscom from 2003 to 2005, Mr. Vogt switched to the medical device industry in 2005, joining Institute Straumann as Vice President of Global Marketing. After leaving Straumann in 2007 he founded and built several companies in the medical device and dental industries. Mr. Vogt is President of the Board of Directors at the Swiss Dental Group AG (Switzerland), and sits on the Board of Directors at privateCare AG (Switzerland). Stefan Vogt worked for the company on a consulting basis from August 2014 until his appointment as Chief Commercial Officer.

Dr Yacov Geva, Chief Executive Officer until January 30, 2014
Born 1949, United Kingdom citizen, appointed in 1999, joined 1986

Dr. Yacov Geva, a co-founder of the Company, was Chief Executive Officer since 1999. From 1999 till July 2013 he has also acted as Chairman of the Board of Directors. For personal details, please refer to the section on members of the Board of Directors on page 26 of this Annual Report.

Kobi Ben Efraim, Chief Financial Officer until May 31, 2014
Born 1955, Israeli citizen, appointed February 2005, joined in 2001

Kobi Ben Efraim was appointed Chief Financial Officer of LifeWatch AG in February 2005. Prior to this, he was acting Chief Financial Officer of the Company from October 1, 2003. He joined LifeWatch as Director of Finance & Accounting in January 2001, and has over 20 years of experience in finance and accounting in the Israeli high tech industry. Prior to LifeWatch, from 1996 to 2000 he was employed with the DSPC Group (a NASDAQ-traded company), where he held a number of positions, including Chief Accountant of DSPC. In 1995, Mr. Ben Efraim was Deputy Controller in charge of tax and accounting at El-Op in Israel. From 1992 to 1994, he was Financial Manager and Controller at Elmo Motion Control Ltd (a privately owned industrial company in Israel). Kobi Ben Efraim was a member of the Board of Directors of LifeWatch Corp. He holds a B.A. degree in Economics and Accounting from the University of Tel Aviv, and is a Certified Public Accountant (IL).

Roger Richardson, President Global Patient Services until August 12, 2014
Born 1959, United States citizen, appointed June 1, 2014, joined in 2012

Roger Richardson has credentials as a Registered Respiratory Therapist, Respiratory Pediatric and Perinatal Care Specialist, and Registered Pulmonary Function Technologist which were obtained during his degree in Respiratory Applied Sciences and post-secondary educational clinical training at Vanderbilt University Medical Center. He is also the holder of credentials from the National Board of Respiratory Care and has been awarded Distinguished Service Awards from the Health Occupation Students of America and the affiliates of the American Association for Respiratory Care. Mr. Richardson has over 25 years of experience as a senior leader within the national and international healthcare arenas. Mr. Richardson began his career as a Director of Cardiopulmonary Services for Hospital Corporation of American and has worked internationally with Linde Gas Therapeutics and with the Cleveland Clinic Foundation.

4.2 Other activities and functions

None of the members of the Executive Management Team in 2014 acted in any governing or supervisory bodies of important Swiss and foreign organizations, institutions or foundations. Nor do any of the members of the Executive Management Team have permanent management or consultancy functions for important Swiss or foreign interest groups and none of them hold any official functions or political posts. Please also see the limitation on the number of permitted activities of Executive Management Team members included in the Company's Articles of Association and shown in Section 3.2 above.

Management contracts
Other than the consulting contracts for Dr. Dominik Aronsky and Stefan Vogt mentioned in section 4.1 above, no agreements pertaining to the provision of managerial services exist between LifeWatch AG and other companies or natural persons outside the LifeWatch Group of companies.

5 Shareholders' participation rights

5.1 Voting-rights and representation restrictions

Each share entitles to one vote. A shareholder with the registered right to vote who does not personally participate in the Shareholders Meeting may be represented by proxy. The holder of the proxy need not to be shareholder.

5.1.1 Voting-rights restrictions

LifeWatch AG does not have any special voting rights restrictions. The exercise of rights according to the Articles of Incorporation is the following:

- The Company shall only accept one representative per share.
- The right to vote and rights relating thereto under a registered share may be exercised vis-à-vis the Company only by persons registered in the stock ledger with the right to vote.
- The Board of Directors may refuse to register an acquirer as a shareholder with the registered right to vote if the acquirer, upon request, does not explicitly declare that he acquired the shares in his own name and for his own account.
- The Board of Directors makes sure that the shareholders may give
    1. instructions to the independent shareholder representative with respect to each motion contained in the invitation concerning agenda items; and

2. general instructions to the independent shareholder representative with respect to unannounced motions to agenda items, to new motions pursuant to art. 26d para. 3 of the Articles of Incorporation (dismissed compensation) as well as to new agenda items pursuant to art. 700 para. 3 CO.

- The Board of Directors further makes sure that the shareholder may submit their proxies and their instructions, also by electronic means, to the independent shareholder representative at the latest until 48 hours prior to the start of the Shareholders Meeting as mentioned in the invitation. Compliance with this term is determined based on the receipt of the proxy and the instructions by the independent shareholder representative. The Board of Directors determines the procedures for giving proxies and instructions by electronic means.
- The independent shareholder representative is obligated to vote the shares for which it received proxies in accordance with the instructions given. If he or she has received no instructions with respect to votes, he or she abstains from voting the respective shares.
- If the independent shareholder representative is not in a position to act or if the Company has no independent shareholder representative, the proxies and instructions given are regarded as given to the independent shareholder representative determined by the Board of Directors.

The Board of Directors may cancel the registration retroactively to the time of the registration if such registration was based on false declarations.

5.2 Statutory quorums

A resolution of the Shareholders Meeting adopted by at least two thirds of the represented share votes and the absolute majority of the represented par value of shares is required for:
1. the change of the purpose of the Company
2. the creation of shares with privileged voting rights
3. the restriction of the transferability of registered shares
4. an increase of capital, authorized or subjected to a condition
5. an increase of capital out of equity, against contributions in kind, or in anticipation of a subsequent acquisition of assets, and the granting of special benefits
6. the limitation or withdrawal of pre-emptive rights
7. the change of the registered office of the Company
8. the dissolution of the Company with or without liquidation Shareholders' Meeting

5.3 Convocation of the Shareholders Meeting

The Shareholders Meeting shall be called by the Board of Directors and, if needed, by the auditors. One or more shareholders with the registered right to vote, who own shares of the Company representing at least 10% of the share capital of the Company may request that a Shareholders Meeting be held. Such request must be submitted to the Board of Directors in writing setting forth the items to be discussed and the proposed motions by the shareholders requesting the meeting.

5.4 Agenda

Notice to the Shareholders Meeting is given by way of publication of the invitation in the Swiss Official Gazette of Commerce (SHAB) at least twenty days before the day of the Shareholders Meeting. The notice shall state the day, time and place of the meeting, the agenda, the proposed motions of the Board of Directors and the proposed motions of the shareholders who have requested the Shareholders Meeting or that an item be included on the agenda. Registered shareholders will also receive a written invitation to the Shareholders Meeting by the Company. One or more shareholders with the registered right to vote who own shares in the Company representing at least one million Swiss Francs of the share capital of the Company may request no later than 60 days before the day of the meeting that an item be included in the agenda. Such request must be made in writing and specify the proposed motions.

5.5 Inscription into the share register

The record date for registration of the shareholders' voting rights is defined by the Board of Directors. As of the record date, the shareholders' register remains closed for registration of shareholders' voting rights.

6 Changes of Control and Defence Measures

6.1 Duty to make an offer

The Company's Articles of Incorporation do not contain any rules on opting-out or opting-up in order to cancel or restrict the obligation to submit an offer pursuant to the Federal Act on Stock Exchanges and Securities Trading.

In the event of a change of control, the five-year blocking period for the shares allotted to members of the Board of Directors will be lifted. Any unvested shares will become vested pro rata temporis. Furthermore any performance units allocated to the Executive Management Team will vest immediately. There are otherwise no change-of-control clauses included in agreements or compensation plans that benefit members of the Board of Directors, the Company's Executive Management Team, or the LifeWatch Group.

7 Auditors

7.1 Duration of the mandate and term of office of the lead auditor

The auditors are appointed by vote of the Annual General Meeting of Shareholders for a term of one-year. Since fiscal year 2002 and also in fiscal years 2013 and 2014 the Company has retained the services of PricewaterhouseCoopers AG (PwC), Birchstrasse 160, CH-8050 Zurich, Switzerland as its statutory auditors. Since fiscal year 2008 PwC has also acted as the Group auditors. The lead auditor at PwC, Switzerland, Michael Abresch, has been responsible for the audit mandate since 2010 and will need to be replaced after a maximum of seven years as required by Swiss law.

7.2 Auditing and additional fees

During 2014, PwC charged the LifeWatch Group fees of USD 431,524 relating to auditing services for LifeWatch AG and its subsidiaries and the consolidated financial statements. Additional fees of USD 247,670 were also charged relating to tax advice to the various LifeWatch Group companies and USD 23,252 for due diligence services to LifeWatch AG.

7.3 External Audit Information

The Audit Committee of the Board of Directors monitors and periodically assesses the performance, compensation and independence of the external auditors and once a year submits a recommendation to the Board of Directors on whether PwC should be proposed for re-election at the Annual General Meeting. The Audit Committee of the Board of Directors also annually assesses the extent of the external auditing, the auditing plans and the respective programs. Furthermore, in order to assess the performance of PwC, the Audit Committee have regular contact with the CEO and CFO. Criteria used to assess the auditors' performance include an evaluation of: their technical and operational competence, their independence and objectivity, the efficiency of the audit process including the communication and co-ordination with the Audit Committee and management and their provision of practical recommendations. In fiscal year 2014, the Audit Committee held two telephone conferences with the external auditors to discuss such matters with each meeting lasting an average of one hour.

8 Information policy

LifeWatch is committed to communicating in an open, transparent and effective manner with its shareholders, customers, employees and any other interested parties and will treat all parties equally.

LifeWatch AG publishes its earnings on a semi-annual basis and these earnings reports together with any other potentially market relevant information are available on the website (pull system) of the Company at www.lifewatch.com (under Investor Relations and Financial Publications). The earnings reports contain a detailed summary of events during the reported period as well as condensed consolidated financial reporting including balance sheet, statement of income, cash flow statement, changes in shareholders' equity and segment information. Additionally, LifeWatch publishes any price-sensitive information in accordance with the SIX Swiss Exchange rules for ad-hoc publicity and organizes analyst and media conferences or conference calls with the financial community to further discuss their reported earnings or any other matters of importance. Furthermore any interested party can sign up for customized e-mail alerts and documentation under http://irlifewatch.com/websites/lifewatch_ir/English/9510/alert-service.html (push system). A variety of other information including corporate structure, products, services, press releases, etc. is also provided on LifeWatch's website at www.lifewatch.com. Official notices by the Company are published in the Swiss Official Gazette of Commerce.

Important Dates

March 31, 2015 – Publication of Annual Results 2014
April 29, 2015 – Ordinary General Meeting of Shareholders, Zurich
August 20, 2015 – Analyst Conference Results HY 2015

For further questions:

LifeWatch AG
c/o Dynamics Group, Philippe Blangey / Doris Rudischhauser
Phone: +41 43 268 32 35
E-mail: investor-relations@lifewatch.com

Compensation Report

Unless otherwise indicated, all information refers to the fiscal year 2014 closed on December 31, 2014. This report also follows the recommendations defined in Appendix 1 to the Swiss Code of Best Practice for Corporate Governance published by economiesuisse, the Ordinance against excessive pay in stock exchange listed companies and complies with Chapter 5 of the Appendix to the SIX "Guidelines concerning information on corporate governance" and the requirements regarding transparency as defined in art. 663c Code of Obligations.

Responsibilities

The Compensation Committee of LifeWatch AG annually prepares specific proposals for all compensation to be paid. The basic principle for the determination of the total compensation is a discussion amongst the members of the Board of Directors of LifeWatch AG during which the Board members evaluate the compensation proposals and determine the compensation for each member of the Board of Directors and each member of the Executive Management Team. The Board of Directors of LifeWatch AG has the ultimate authority to set the compensation for all LifeWatch employees. The shareholders at the Annual General Meeting separately approve the total compensation for the Board of Directors and the Executive Management Team for the past financial year and the following year, respectively.

Compensation policy in general

LifeWatch is a globally active medical devices and service group. The Company maintains a compensation policy in accordance with the U.S. market for cardiac monitoring services and employment practices in the various countries in which it operates. Compensation reflects the market and the employment conditions in the relevant country as well as the individual qualifications and requirements needed for the specific position. In order to determine an appropriate compensation level the Compensation Committee utilizes the services of external advisors. In particular in 2014 the Compensation Committee commissioned the Hay Group to evaluate Executive Management Team compensation. The Hay Group utilize their proprietary Job Evaluation system which first differentiates a job position according to its "Organizational Facts", which include: involvement in decision making, freedom to act, size of the business, impact on value creation chain, involvement In strategy/concept development, etc. Once the job position has been evaluated, Hay then takes into account various dimensions for three equally weighted criteria namely, Know-How, Problem-Solving and Accountability in order to arrive at a Hay Group Points number, which is then compared with a worldwide database.

Section 26 of the Articles of Association of the Company containing the following provisions relating to the compensation of the Board of Directors and the Executive Management Team:

- Loans and credits may only be granted to the members of the Board of Directors or the members of Executive Management at market terms. Outstanding loans and credits to each such member shall not exceed 100% of the yearly compensation of the member concerned.
- Once a year, the Shareholders Meeting votes separately and in a binding manner on the approval of the total compensation the Board of Directors has resolved for:
  1. the compensation of the Board of Directors (including a possible additional compensation for work in committees) for the financial year following the ordinary Shareholders Meeting;
  2. the fixed compensation of the Executive Management for the financial year following the Shareholders Meeting;
  3. the variable compensation of the Executive Management for the financial year that ended prior to the ordinary Shareholders Meeting;
  4. the discretionary compensation (gratification) for the Executive Management for the financial year that ended prior to the ordinary Shareholders Meeting;
- If the total amount approved for the compensation of the Executive Management is insufficient to compensate members of Executive Management nominated after the resolution of the Shareholders Meeting until the beginning of the following approval period, the Company may use per person an additional amount of not more than 40% of the previously approved total compensation of the Executive Management during the respective approval period. The Shareholders Meeting does not vote on the used additional amount
- If, within the binding vote on total compensation amounts, the Shareholders Meeting refuses the approval of a total amount for the members of the Board of Directors or the members of Executive Management, the Board of Directors may, at the same Shareholders Meeting submit new motions (even several times). If no new motions are submitted or if all motions are dismissed, the Board of Directors may at any time, observing the legal and statutory requirements, call a new Shareholders Meeting.

As a general rule, members of the Board of Directors receive a fixed remuneration (either in Restricted Share Units or cash or both) whereas the compensation for all Executive Management Team members consists of fixed remuneration and a success-dependent variable salary element; these two form in combination the target market salary for a given position. It is not currently the Intention of the Compensation Committee to issue share options in the future.

Compensation for the members of the Board of Directors

Members of the Board of Directors are remunerated in Restricted Share Units (RSU's) for their activities as a board member and receive additional fixed cash remuneration for activities in one of the LifeWatch board committees. Yearly compensation is determined by the Board of Directors upon recommendation by the Compensation Committee. The member of the Board of Directors whose compensation is being determined is not permitted to comment or vote on the motion concerning his own remuneration. The Compensation Committee bases its judgment on industry standards for comparable Swiss industrial companies of similar size and complexity and is advised by the Hay Group (2013: hkp Switzerland AG). LifeWatch's peer group includes the SIX Swiss Exchange listed companies ACINO HOLDING, BACHEM HOLDING, COLTENE, SHL TELEMEDICINE, SIEGFRIED HOLDING, TECAN GROUP and YPSOMED HOLDING. As a result of recommendations of the advisors the cash compensation for board committee activities was fixed at CHF 15,000 per annum for Chairmanship of a board committee and CHF 10,000 for membership of a board committee. The number of RSU's to be allocated to each Board position is based on a market review carried out by hkp Switzerland AG in 2013 / early 2014 and was fixed as follows – the Chairman will receive 20,000 RSU's, the Vice-Chairman 10,000 RSU's, while ordinary members of the Board of Directors are granted 8,000 RSU's. The RSU's allocated to non-executive members of the Board of Directors are, following vesting, blocked and held in escrow for 5 years. The total number of RSU's for a year are allocated pro rata temporis with a grant date one day after the AGM. Furthermore, the total number of RSU's granted vest in two portions, namely 50% in December of the year concerned and the other 50% after the AGM for that year. Members of the Board of Directors who leave office during their term of office lose their entitlement to any unvested RSU's. Since the RSU program was only introduced in 2014, only 50% of the year's RSU allocation vested in 2014, leading to a lower charge to the profit and loss account than would normally be expected. If a Change of Control occurs and a member of the Board of Directors is removed from office prior to the end of his term of office, he is entitled to his compensation on a pro rata temporis basis. The Blocking Periods for all vested RSU's shall be lifted, unless the Board of Directors decides otherwise.

Compensation for the members of the Executive Management Team

The Compensation Committee determines the compensation for all members of the Executive Management Team and regularly benchmarks all components of each Executive Management Team member's compensation based on external advice. The Hay Group carried out the most recent benchmarking exercise in late 2014. The Hay Group utilize their proprietary Job Evaluation system which first differentiates a job position according to its "Organizational Facts", which include: involvement in decision making, freedom to act, size of the business, impact on value creation chain, involvement in strategy/concept development, etc. Once the job position has been evaluated, the Hay Group then take into account various dimensions for three equally weighted criteria namely, Know-How, Problem-Solving and Accountability in order to arrive at a Hay Group Points number, which is then compared with a worldwide database.

The fixed remuneration of the Chief Executive Officer is based on what has been assessed as industry standard for comparable U.S. American and Swiss industrial companies of similar size and complexity based on the Compensation Committee members' experience and after taking into account the results of the Hay benchmarking exercise. LifeWatch's peer group includes the SIX Swiss Exchange listed companies ACINO HOLDING, BACHEM HOLDING, COLTENE, SHL TELEMEDICINE, SIEGFRIED HOLDING, TECAN GROUP and YPSOMED HOLDING.

The fixed remuneration for other members of the Executive Management Team are determined by the Compensation Committee based on the market and employment conditions in the relevant country as gathered from various sources, the results of the Hay Group benchmarking exercise for the specific job position and the individual qualifications and requirements needed for the specific position.

The variable compensation paid to members of the Executive Management Team is also determined by the Compensation Committee under the Company's Long-term Incentive (LTI) plan and is based on actual performance in comparison with a previously defined performance scorecard. The Compensation Committee set up the LTI plan following advice and consultation with the Hay Group (2013: hkp Switzerland AG). The plan covers the variable component of the Executive Management Teams compensation. The Board of Directors approved a scorecard for the Executive Management Team for 2014 and the allocation of variable compensation is based on effective results against this scorecard. The scorecard includes parameters such as sales, EBITDA, ROCE, (60% weighting) comparisons of performance with a peer group of companies (10% weighting) and qualitative factors (30% weighting). The plan sets target bonus levels for each member of the Executive Management Team based on their position and these vary from between 40% and 100% of fixed remuneration. The target bonus level of between 40% and 100% of fixed remuneration would be paid if all criteria defined in the scorecard were exactly met; the actual bonus level can vary between 0% and 200% of the target level depending on effective performance. Once the variable compensation has been determined according to the above methodology, 50% of the variable compensation will be paid in cash with the other 50% being allocated to performance plan units. Performance plan units consist of shares in the company, with the number of shares being determined by using the share price at the beginning of the year, or the date of the Executive Management Team members appointment, if later. These performance plan units then vest over 3 years and eventual payments under the plan can vary from 0% and 200% depending on future EBITDA results. In case of a change of control all performance plan units will immediately vest.

The above performance units plan was only used for 2014 and a new simpler bonus and long-term incentive plan is being introduced for 2015. For details of the new plan please see the section on "Compensation Approach in 2015" below.

All members of the Executive Management Team have a notice period of 6 months.

1 Overview of Compensation for members of the Board of Directors

In fiscal year 2014, the non-executive members of the Board of Directors of LifeWatch AG received total compensation which consisted of an equity element (i.e. fixed-number RSU grant) and a cash element (i.e. committee fee) for their activities. The Chairman of LifeWatch AG received 19,023 RSU's, half of which only vest after the 2014 AGM, and cash remuneration of CHF 10,417 for his activities. In total the following remuneration was paid during fiscal year 2014:

1.1 Remuneration (audited)

	2014					2013			
	Base		Variable	Other [11]	Total	Base	Variable	Other [11]	Total
	Cash CHF	RSU's [10] CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF
Dr. Kenneth R. Melani, Chairman [1) 2)]	–	–	–	–	–	120,137	–	7,593	127,730
Patrick Schildknecht, Chairman [1) 3)]	10,417	204,397	–	14,500	229,314	46,986	–	2,970	49,956
Dr. Yacov Geva [4) 5) 6)]	–	–	–	–	–	117,096	–	7,400	124,496
Urs Wettstein, Vice Chairman [4) 6)]	–	–	–	–	–	100,000	–	6,320	106,320
Thomas Rühle [1)]	14,583	86,000	–	6,789	107,372	46,986	–	2,970	49,956
Gregory Henry Volkart [9)]	–	–	–	–	–	4,219	–	267	4,486
Jürg Stahl [9)]	–	–	–	–	–	3,014	–	190	3,204
Abraham Sartani [9)]	–	–	–	–	–	3,014	–	190	3,204
Dr. Stephan Rietiker [7)]	–	–	–	–	–	–	–	–	–
Antoine Hubert, Vice Chairman [8)]	22,917	98,664	–	6,874	128,455	–	–	–	–
Total Remuneration of the Board of Directors	**47,917**	**389,061**	**–**	**28,163**	**465,141**	**441,452**	**–**	**27,900**	**469,352**

[1] Member of the Board of Directors of LifeWatch AG elected on the occasion of an Extraordinary Shareholders Meeting taking place on January 23, 2013

[2] Elected Chairman of the Board of Directors on July 7, 2013; retired from his position as a Member of the Board of Directors of LifeWatch AG on January 30, 2014

[3] Elected Chairman of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2012 meeting taking place on January 30, 2014

[4] Member of the Board of Directors of Card Guard Scientific Survival Ltd prior to the incorporation of LifeWatch AG in 2001, subsequently elected Director of LifeWatch AG

[5] Retired from his position as Chairman of the Board of Directors on July 7, 2013; acting as Corporate Chief Executive Officer of LifeWatch until being released of CEO function on January 30, 2014

[6] Member of the Board of Directors of LifeWatch AG who was not re-elected on the occasion of the Ordinary Shareholders Meeting 2012 meeting taking place on January 30, 2014

[7] Elected member of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2012 taking place on January 30, 2014 and appointed Delegate of the Board of Directors; for compensation see under Executive Management Team

[8] Elected member of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2012 taking place on January 30, 2014 and appointed Vice Chairman of the Board of Directors

[9] Member of the Board of Directors of LifeWatch AG who resigned from his position in January 2013

[10] RSU's have been valued at the fair value at grant, namely the share price on May 28, 2014 of CHF 10.75; the RSU's are blocked for 5 years leading to a 30% reduction in value for income tax purposes for the member of the Board of Directors

[11] Other remuneration relates to employer social security contributions

1.2 Options

No options were granted to the non-executive members of the Board of Directors during 2014 and no options were outstanding as at December 31, 2014 for the non-executive members of the Board of Directors (including closely linked parties).

1.3 Share allotment

The Company commenced a Restricted Share Unit (RSU) program for its non-executive Board of Directors in 2014 and allocated 34,356 RSU's in fiscal year 2014 to the non-executive members of the Board of Directors.

1.4 Shareholdings

The non-executive members of the Board of Directors (including closely linked parties) held a total of 680,800 shares in LifeWatch AG as of December 31, 2014.

1.5 Loans granted to the Board of Directors (audited)

As of December 31, 2014 no loans and credits (2013: USD 0.00) were granted to and still outstanding with current and former members of the Board of Directors (including closely linked parties).

1.6 Compensation for former members of the Board of Directors (audited)

During fiscal year 2014, LifeWatch AG paid no compensation to members of the Board of Directors who gave up their function.

2 Overview Compensation for members of the Executive Management Team

In fiscal year 2014, the members of the Executive Management Team (including the delegate of the Board of Directors) received the following cash remuneration for their activities:

2.1 Remuneration (audited)

	2014					2013			
	Base	Variable		Other [2]	Total	Base	Variable	Other [2]	Total
	CHF	Cash CHF	Performance Plan Units [3] Number	CHF	CHF	CHF	Cash CHF	CHF	CHF
Total Remuneration of the Executive Management Team	1,049,283	223,510	22,552	852,798	2,402,980	843,209	451,294	1,303,972	2,598,475
Highest Total Compensation									
Dr. Stephan Rietiker	353,333	123,667	15,458	107,132	774,266	0	0	0	0
Dr. Jacov Geva [1]	n/a	n/a		n/a	n/a	686,036	451,294	1,290,056	2,427,386

1) Remuneration included in the total remuneration numbers for 2014

2) Other remuneration relates to employer social security and pension fund contributions as well as car allowances and expenses

3) A total number of 22,552 PPU's were granted for 2014 with a total fair value of CHF 277,390 based on the market price of the shares at the date of the end of the year

There were two members of the Executive Management Team from January 1, 2014 to May 31, 2014, five members from June 1, 2014 to August 12, 2014 and then four members from August 12, 2014 until the year-end. Dr. Stephan Rietiker was appointed Delegate of the Board of Directors on January 30, 2014 and resigned from this position on May 28, 2014 to become CEO. He only received remuneration for his executive function (Delegate and CEO) and this is reflected in the above remuneration numbers.

2.2 Options

The option scheme issued options to members of the Executive Management Team in earlier years but no new options have been issued since 2012. The option plan for the Executive Management Team was replaced with a performance units plan in 2014 (see below).

As at December 31, 2014 the members of the Executive Management Team and closely linked parties hold the following options, exercisable into shares of LifeWatch AG in total:

Options granted on	Duration years	Subscription ratio	Exercise price USD	Total options held on Dec 31, 2014
22/02/2006	10	1:1	3.05	9,300
01/04/2009	10	1:1	12.83	10,000
Total				**19,300**

For the fair value calculation of the options please refer to Note 9e (6) of the consolidated financial statements.

2.3 Share allotment

The Company introduced a performance units plan for members of the Executive Management Team in 2014. Under this performance unit plan 22,552 shares of LifeWatch AG were granted for fiscal year 2014 to the members of the Executive Management Team.

2.4 Shareholdings

The members of the Executive Management Team (including closely linked parties) hold a total of 749,573 shares as of December 31, 2014.

2.5 Loans granted to the Executive Management Team (audited)

As of December 31, 2014 no loans and credits (2013: USD 0.00) were granted to and still outstanding with current and former members of the Executive Management Team (including closely linked parties).

2.6 Compensation for former members of the Executive Management Team (audited)

During full fiscal year 2014, LifeWatch AG paid no compensation to members of the Executive Management Team who gave up their function.

Compensation Approach in 2015

In the current year, and as mentioned above under "Compensation for the members of the Executive Management Team", LifeWatch plans to change its performance units plan for members of the Executive Management Team. Furthermore, and as indicated in last year's annual report, LifeWatch significantly altered its approach for the compensation of the Board of Directors and the Executive Management Team in 2014 as well as introducing several measures to strengthen its corporate governance. The current approach is detailed below:

Compensation Governance

The Compensation Committee sets the principles underlying compensation for the members of the Board of Directors and the Executive Management Team, supervises compliance with these principles and ensures, during an annual review, that they are still appropriate. The annual review of principles is designed to ensure that they remain in line with LifeWatch's strategy, our shareholders' interests and legal and regulatory requirements.

Within the framework of these compensation principles and upon the recommendation of the Compensation Committee, the Board of Directors determines each year the amount and composition of the compensation for individual members of the Board of Directors and the Executive Management Team. The shareholders at the Annual General Meeting separately approve the total compensation for the Board of Directors and the Executive Management Team for the following year.

The Compensation Committee is responsible for preparing the proposals to be submitted by the Board of Directors to the General Meeting for the approval of the maximum total compensation amounts for the Board of Directors and the Executive Management Team. The Compensation Committee proposes targets for future compensation plans and evaluates achievement against the performance factors for plans that are due to vest.

The Compensation Committee is also responsible for drawing up employment contracts for members of the Executive Management Team.

The Compensation Committee bases its decisions on extensive market evidence and seeks support of external advisors (Hay Group) in formulating its independent judgment and decisions in all compensation-related matters.

Compensation Principles

The compensation system of LifeWatch is built upon four fundamental principles:

1. Compensation shall be market competitive and reflect the individual qualifications and requirements needed for the specific position.
2. Compensation shall contribute to establishing long-term motivation of our employees.
3. Compensation shall promote the retention of talent and the establishment of long-term loyalty of our employees.
4. Compensation shall ensure that the activity of management serves the long-term interests of our shareholders.

Compensation Regime for the Board of Directors

No change to the compensation system for members of the Board of Directors is proposed for 2015. Please see above under Compensation for the members of the Board of Directors for further information.

At the Annual General Meeting 2015, LifeWatch AG will seek approval of the maximum total compensation amount for its Board of Directors for the business year 2016. Such approval will be sought at each Annual General Meeting also in the future.

Compensation Regime for the Executive Management Team

The overall compensation of the members of the Executive Management Team will consist of two components:

- Fixed compensation (including the base compensation and other compensation)
- Variable compensation of which
  – up to 75% is paid out in cash, and,
  – up to 75% is delivered in form of an equity-based Long-Term Incentive units (LTI)

Base compensation – The guiding principles of the base salary setting process have not changed in comparison to the earlier followed practices.

Other compensation – Other compensation includes car allowance, coverage of expenses related to phone and other communication facilities and contributions to the Pension Fund and Insurance, including social security.

At the Annual General Meeting 2015, LifeWatch AG will seek approval of the maximum fixed compensation amount (including the base compensation and other compensation) of its Executive Management Team for the business year 2016.

Variable compensation

The members of the Executive Management Team have a target variable compensation defined in terms of a percentage of their base salary. The target bonus is determined taking into consideration the duties and responsibility of the recipients. The CEO has a target bonus of 100% in terms of base salary with other Executive Management members having a target bonus of between 40% and 50%. The new target bonus system is aimed at constructing a more consistent compensation mix, strengthening the link to performance whilst still allowing scope for rewarding outstanding performance achievements.

The annual bonus is calculated according to a scorecard-based assessment. Base on a proposal from the Hay Group, the scorecard has been simplified from that used in 2014 and will only contain four evaluation criteria, namely Sales, EBITDA margin, RoCE and individual performance for 2015. The achievement range spans between 0% and 200%. The effective bonus is therefore capped at twice the target bonus.

The annual bonus is split between an immediate variable cash compensation and the equity-based Long-Term Incentive (LTI) plan of LifeWatch AG.

Long-Term Incentive (LTI)

In order to align the long-term interests of the Executive Management Team with those of our shareholders, LifeWatch AG introduced an equity-based Long-Term Incentive plan (LTI) for the Executive Management Team in 2014. This LTI plan, whilst achieving its goals, proved to be somewhat complicated and a slightly amended LTI plan will be introduced for 2015. Under the new bonus and long-term incentive plan, which has been designed by the Hay Group, 50% of the variable compensation will also be allocated in cash with the other 50% being converted into target performance share units using the average share price for the 30 days before the year-end. Granted performance share units will be deferred for a period of 3 years and any eventual payout will depend on the attainment of pre-defined EBITDA targets. The final payout can vary between 0% and 200% depending on the achievement of the performance target. The performance share units will be paid out in cash based on the average share price for the 30 days prior to maturity. This plan is currently being reviewed and finalized by the Board of Directors and is therefore still subject to change. Approval by the Board of Directors is however expected prior to the 2014 AGM, which is scheduled to take place on April 29, 2015.

At the Annual General Meeting 2015, LifeWatch AG will seek approval of the maximum total variable compensation amount for its Executive Management Team for the business year 2014. Such approval will be sought at each Annual General Meeting also in the future.

Report of the statutory auditor
to the General Meeting
LifeWatch AG
Neuhausen am Rheinfall

We have audited the information marked as "audited" in the accompanying compensation report dated 31 March 2015 of LifeWatch AG for the year ended 31 December 2014.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility
Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

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

Opinion
In our opinion, the compensation report of LifeWatch AG for the year ended 31 December 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Dr. Michael Abresch Audit expert Auditor in charge	Michaela Berbalk Audit expert

Zürich, 31 March 2015

Consolidated Financial Statements

Statutory Financial Statements

The consolidated amounts are stated in thousands of U.S. dollars ($).

Consolidated Balance Sheets

USD thousands	Note	December 31 2014	December 31 2013
Assets			
Current assets:			
Cash and cash equivalents		7,087	10,136
Restricted bank deposit	8b	780	812
Accounts receivable, net	11a		
Trade		9,282	10,867
Other		3,053	3,366
Deferred income taxes	10d	9,398	9,426
Inventories	11b	1,973	2,010
Total current assets		**31,573**	**36,617**
Other non-current assets:			
Marketable securities	11c	52	52
Severance pay funded	7	25	28
Prepaid expenses and deposits		863	884
Total other non-current assets		**940**	**964**
Non-current deferred income taxes	10d	**5,217**	**6,826**
Property plant and equipment, net	4	**14,922**	**12,053**
Goodwill		**14,976**	**14,976**
Intangible assets, net	5	**1,356**	**23**
Total assets		**68,984**	**71,459**

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

USD thousands	Note	December 31 2014	December 31 2013
Liabilities and shareholders' equity			
Current liabilities:			
Current portion of long-term loans and other liabilities	6a	2,296	1,157
Accounts payable and accruals			
Trade		6,628	5,304
Provision for settlement	3	2,587	2,545
Other	11d	11,051	13,216
Total current liabilities		**22,562**	**22,222**
Non-current liabilities:			
Provision for settlement	3	5,512	7,349
Loans and other liabilities, net of current maturities	6	3,047	2,491
Accrued expenses		885	844
Accrued severance	7	95	107
Total non-current liabilities		**9,539**	**10,791**
Commitments, contingent liabilities and pledges	8		
Total liabilities		**32,101**	**33,013**
Shareholders' equity:	9		
Paid-in share capital including premium (ordinary shares of CHF 1.30 par value; issued and paid: 13,448,426 shares and 13,238,198 shares at December 31, 2014 and 2013, respectively)		149,518	147,024
Warrants		–	1,063
Accumulated deficit		(111,898)	(109,170)
Accumulated other comprehensive loss		(437)	(171)
Capital reserve		70	70
Treasury shares (51,817 shares at December 31, 2014 and 2013)		(370)	(370)
Total shareholders' equity		**36,883**	**38,446**
Total liabilities and shareholders' equity		**68,984**	**71,459**

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

Consolidated Statements of Operations

USD thousands (except share and per share data)	Note	2014	2013	2012
Revenues	15			
Services revenue, net		96,126	89,501	79,522
Sales of systems		2,345	1,562	589
Total revenues		**98,471**	**91,063**	**80,111**
Cost of revenues				
Cost of services		42,024	35,399	33,112
Cost of sales of systems		3,263	2,057	969
Total cost of revenues		**45,287**	**37,456**	**34,081**
Gross profit		**53,184**	**53,607**	**46,030**
Operating expenses				
Research and development expenses	2k	5,562	7,751	6,912
Selling and marketing expenses		22,682	19,551	16,573
General and administrative expenses		25,139	26,394	18,652
Legal settlements and other (income) expenses, net	3	(499)	2,000	(478)
Total operating expenses		**52,884**	**55,696**	**41,659**
Operating income (loss)		300	(2,089)	4,371
Financial (expenses) income, net	11e	(484)	(473)	(319)
Other (expenses) income, net		(4)	40	–
(Loss) income before taxes		**(188)**	**(2,522)**	**4,052**
TAX (EXPENSE) BENEFIT	10	(2,540)	5,444	(4,422)
Net (loss) income		**(2,728)**	**2,922**	**(370)**
(Loss) earnings per share	2n			
Basic		(0.205)	0.222	(0.029)
Diluted		(0.205)	0.221	(0.029)
Weighted average number of shares outstanding used in computation of (loss) earnings per share (in thousands)	2n			
Basic		13,325	13,137	12,920
Diluted		13,325	13,231	12,920

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

Consolidated Statements of Comprehensive (Loss) Income

USD thousands	2014	2013	2012
Net (loss) income	(2,728)	2,922	(370)
Other comprehensive loss			
Actuary loss from pension fund	(266)	–	–
Foreign currency translation adjustment	–	(3)	(2)
Other comprehensive loss	**(266)**	**(3)**	**(2)**
Comprehensive (loss) income	**(2,994)**	**2,919**	**(372)**

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

Consolidated Statements of Changes in Shareholders' Equity

USD thousands	Number of shares	Paid in share capital including premium	Warrants	Accumulated deficit	Capital reserve	Accumulated other comprehensive loss	Treasury shares	Total
Balance at January 1, 2012	**13,123**	**146,899**	**958**	**(111,722)**	**–**	**(166)**	**(4,209)**	**31,760**
Changes during 2012								
Net loss				(370)				(370)
Other comprehensive loss						(2)		(2)
Issuance of shares in respect of exercise of options granted to employees	8	26						26
Treasury shares		(425)					3,839	3,414
Stock-based compensation expenses related to options granted to employees		59						59
Compensation expenses due to issuance of warrants to service providers			48					48
Balance at December 31, 2012	**13,131**	**146,559**	**1,006**	**(112,092)**	**–**	**(168)**	**(370)**	**34,935**
Changes during 2013								
Net loss				2,922				2,922
Other comprehensive loss						(3)		(3)
Issuance of shares in respect of exercise of options granted to employees	97	388						388
Issuance of shares in respect of exercise of warrants granted to service providers	10	33						33
Benefit received from shareholder					70			70
Stock-based compensation expenses related to options granted to employees		44						44
Compensation expenses due to issuance of warrants to service providers			57					57
Balance at December 31, 2013	**13,238**	**147,024**	**1,063**	**(109,170)**	**70**	**(171)**	**(370)**	**38,446**
Changes during 2014								
Net loss				(2,728)				(2,728)
Other comprehensive loss						(266)		(266)
Stock-based compensation for board members		254						254
Issuance of shares in respect of exercise of options granted to employees	193	1,040						1,040
Issuance of shares in respect of exercise of warrants granted to service providers	17	100						100
Stock-based compensation expenses related to options granted to employees		25						25
Compensation expenses due to issuance of warrants to service providers			12					12
Cancellation of warrants		1,075	(1,075)					–
Balance at December 31, 2014	**13,448**	**149,518**	**–**	**(111,898)**	**70**	**(437)**	**(370)**	**36,883**

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

Consolidated Statements of Cash Flows

USD thousands	2014	2013	2012
Cash flows from operating activities			
Net (loss) income	(2,728)	2,922	(370)
Adjustments required to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,649	3,649	3,982
Changes in deferred income taxes	1,637	(5,747)	3,843
Compensation expenses charged in respect of options and warrants granted to employees and service providers	37	101	107
Benefit received from shareholder	–	70	–
Change in accrued severance pay	(12)	6	2
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, including non-current portion			
Trade	1,585	5,380	(7,503)
Other	336	(1,956)	(189)
Decrease (increase) in inventories	37	(985)	1,010
(Decrease) increase in accounts payable and accruals:			
Provision for settlement	(1,794)	(2,005)	(6,600)
Trade	1,324	1,721	313
Other	(1,982)	5,107	(2,341)
Net cash provided by (used in) operating activities	**4,089**	**8,263**	**(7,746)**
Cash flows from investing activities			
Purchase of fixed assets	(6,174)	(4,198)	(2,787)
Investment in intangible assets	(1,339)	–	–
Restricted bank deposit	32	(33)	(779)
Net cash used in investing activities	**(7,481)**	**(4,231)**	**(3,566)**
Cash flows from financing activities			
Issuance of shares in respect of exercise of employee and service providers stock options	1,140	421	26
Purchase of treasury shares	–	–	(603)
Proceeds from sale of treasury shares	–	–	4,017
Proceeds from loans undertaken	1,298	–	–
Discharge of long term loans and capital lease obligations	(1,942)	(215)	(217)
Net cash provided by financing activities	**496**	**206**	**3,223**
Translation differences on cash balances of subsidiaries	**(153)**	**39**	**108**
(Decrease) increase in cash and cash equivalents	**(3,049)**	**4,277**	**(7,981)**
Balance of cash and cash equivalents at beginning of year	**10,136**	**5,859**	**13,840**
Balance of cash and cash equivalents at end of year	**7,087**	**10,136**	**5,859**

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

Consolidated Statements of Cash Flows

USD thousands	2014	2013	2012
Supplementary disclosure of cash flow information			
Interest paid	323	172	342
Income taxes paid	444	670	384
Supplementary disclosure of non-cash activities			
Capital leases of fixed assets	2,338	3,659	205

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

Notes to the Consolidated Financial Statements

Note 1

FORMATION AND BUSINESS OF THE COMPANY

LifeWatch AG (the "Company") was incorporated in July 2001, under the name "Remmedtech AG". On August 14, 2001 the Company changed its name to "Card Guard AG". The Company was incorporated in order to become the parent company of Card Guard Scientific Survival Ltd. and its subsidiaries. On May 26, 2009 the Company changed its name to "LifeWatch AG" and in June 2012, Card Guard Scientific Survival Ltd. changed its name to LifeWatch Technologies Ltd (hereafter - "LWT" or the "Israeli Company").

The Company's shares are traded on the main Board of SIX-Swiss Exchange (hereafter – the "SIX") since October 29, 2001. On December 31, 2014, the Company's closing share price was CHF 12.3 (USD 12.43).

The Company and its subsidiaries provide monitoring services and develop, manufacture and market advanced telehealth systems for high-risk and chronically ill patients. For segment information, see note 15.

Note 2

SIGNIFICANT ACCOUNTING POLICIES

a. General

The significant accounting policies, applied on a consistent basis are as follows:

1) Accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and comply with Swiss law, applied on a consistent basis, unless otherwise indicated below. All amounts are presented in United States dollars ($ or USD) unless otherwise stated. The par value of capital stock is denominated in Swiss francs.

2) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates. As applicable to these consolidated financial statements, the most significant estimates are assumptions related to revenue and receivables allowances, deferred taxes, inventories, contingencies and valuation of goodwill.

3) Functional currency

The currency of the primary economic environment in which the operations of the Company and most of its subsidiaries are conducted, is U.S. dollars. Most of the Company's revenues are earned in the United States, in U.S. dollars. Most of the materials consumed by the Company (which represent most of the Company's production costs) are incurred in U.S. dollars with some production costs (mainly labor) that are incurred in the Israeli currency. A substantial part of the marketing expenses, including those of the subsidiaries in the United States, are incurred in U.S. dollars. Moreover, most of the Company financing is obtained in U.S. dollars. Thus, the functional and reporting currency of the Company and most of the subsidiaries is the U.S. dollar.

Balances in non-dollar currencies are converted into U.S. dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items (stated below) reflected in the statements of operations, the following exchange rates are used: (i) for transactions: exchange rates at transaction dates or average rates and (ii) for other items (derived from non-monetary balance sheet items such as depreciation and amortization, changes in inventories, etc.) historical exchange rates. The resulting currency exchange effects are reported as financial income or expenses, as appropriate.

The financial statements of subsidiaries whose functional currency is their respective local currency are translated into U.S. dollars as follows: assets and liabilities are translated using the year-end rate of exchange; results of operations are translated at average exchange rates during the year. The resulting aggregate translation adjustments are reported in shareholders' equity as a component of "accumulated other comprehensive loss".

4) Principles of consolidation:

a) The consolidated financial statements include the accounts of the Company and its subsidiaries (see note 17).

In these financial statements, "subsidiaries" are companies in which the Company owns, directly or indirectly, over 50% of the outstanding voting rights. The financial statements of the subsidiaries are consolidated with those of the Company.

b) Intercompany balances and transactions have been eliminated. Profits from intercompany transactions not yet realized outside the Company have also been eliminated.

b. Cash and cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits (up to three months from the date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

c. Inventories

Inventory is stated at the lower of cost or market. Cost is determined using the weighted average basis. Inventory costs include direct materials, direct labor costs and manufacturing overhead. Allowances are established to reduce the cost of excess and obsolete inventories to their estimated realizable value based on historical information and estimates of excess quantities and obsolescence on a product-by-product basis.

d. Marketable securities

Investments in marketable securities that are to be held to maturity are stated at amortized cost with the addition of computed interest accrued as of the balance sheet date (such interest represents the computed yield on cost from acquisition to maturity). Interest and amortization of premium discount for debt securities are reported as financial income or expenses.
Investments in marketable securities that are held to maturity are stated at amortized cost, net of write-down for any decrease in value that is not of a temporary nature. The fair value of those investments is based on current value or estimated upon the occurrence of identified events or changes in circumstances that might indicate that a write down of the investments is needed.
As to the fair value of marketable securities, see note 11c.

e. Property plant and equipment

Property plant and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives.
Annual rates of depreciation are as follows:

Manufacturing and peripheral equipment	6–33%
Office furniture and equipment	6–15%
Monitoring units	20–50%
Motor vehicles	15%

Leasehold improvements are amortized using the straight-line method over the shorter of the term of the lease and the estimated useful life of the improvements.
Property plant and equipment, mainly monitoring units, that are leased by the Company under capital leases are classified as Company assets and are recorded at the inception of the lease, at the lower of the assets' fair value or the present value of the minimum lease payments (not including the financial component).

f. Goodwill and intangible assets

Intangible assets

Assets that represent acquired technology and patents (see note 5) are stated at cost. They are amortized using the straight-line method over their estimated useful lives (5 to 8 years).

Software costs for internal use

Costs directly attributable to the development of computer software for internal use are capitalized under standard ASC 350-40 as intangible assets when preliminary project stage is completed, the Company has an intention and ability to complete the project and the software will be used to perform the function intended. Such costs include external direct costs of materials and services and payroll and payroll-related costs of employees directly involved in the project and related to software only. Software costs that do not meet capitalization criteria are expensed when incurred.

Capitalization will cease no later than the point at which a computer software project is substantially completed and ready for its untended use, that is, after all substantial testing is completed.

Software costs for external use

Costs directly attributable to the development of computer software for external use (costs of software to be sold, leased, or marketed) are capitalized under standard ASC 985-20 as intangible assets when technological feasibility of the project has been established and all research and development activities for the other components of the product or process have been completed. Such costs include external direct costs of materials and services and payroll and payroll-related costs of employees directly involved in the project and related to software only. In addition the Company capitalizes an allocated amount of indirect cost, such as overhead related to programmers and the facilities they occupy.

Capitalization of computer software costs will cease when the product is available for general release to customers.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination.

Goodwill is not amortized systematically, but instead the group tests goodwill for impairment at the reporting unit level on an annual basis or whenever circumstances change, which would indicate that impairment may have occurred. If the carrying value of goodwill exceeds its fair value, an impairment loss is recognized.

Goodwill impairment testing is a two-step process. The first step involves comparing the fair value of the Company's reporting units to their carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded.

For purposes of step one, the fair value of the reporting unit is determined using the income approach, whereby the fair value is calculated based on the present value of estimated future cash flows, applying a discount rate. The cash flow projections are based on revenues and expenses included in the current operating plan as well as a terminal value. The cash flow projections require significant estimates and judgments for variables such as selling price, number of enrollments, sales growth, operating costs, capital expenditures and market and economic conditions. The discount rate represents management’s estimate of the weighted average cost of capital, considering the capital structure of the Company and external industry data. For 2014, the discount rate was 15%. The fair value exceeded book value by approximately 57.9%. A one percentage increase in the discount rate would reduce the calculated fair value by approximately 6.7%. A one percentage decrease in the terminal value growth rate would reduce the calculated fair value by approximately 4.7%.

As a result of the annual impairment test, there were no goodwill impairment charges in 2014, 2013 or 2012.

g. Impairment of long-lived assets

The Company tests long-lived assets, including definite lived intangible assets, for impairment, whenever events or circumstances present an indication of impairment. When required, the Company records charges for impairment of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets. There were no impairment triggers in the current year. No impairment losses were recognized in 2014, 2013 and 2012.

h. Deferred income taxes:

1) Deferred income taxes are determined by the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax basis of assets and liabilities under the applicable tax law. Deferred tax balances are computed using the tax rates expected to be in effect when these differences reverse. Valuation allowances in respect of deferred tax assets are provided when it is more likely than not that all or a portion of the deferred income tax assets will not be realized. See note 10d for additional information regarding the composition of the deferred taxes.

2) Upon the distribution of dividends from tax-exempt income of "Approved Enterprises" (see also note 10b), the amount distributed will be subject to tax at the rate that would have been applicable had the Israeli Company not been exempt from payment thereof. The Company intends to permanently reinvest the amounts of tax-exempt income and does not intend to cause distribution of such dividends. Therefore, no deferred income taxes have been provided in respect of such tax-exempt income.
3) The Company may incur an additional tax liability in the event of an intercompany dividend distribution from foreign subsidiaries; no additional deferred income taxes have been provided, since it is the Company's policy and intention not to distribute dividends in the foreseeable future.
4) Taxes that would apply in the event of disposal of investments in foreign subsidiaries have not been taken into account in computing deferred income taxes, as it is the Company's policy to hold these investments, and not to realize them.
5) Deferred tax assets and liabilities are classified as current or noncurrent based on the classification of the related assets or liabilities for financial reporting or, if not related to an asset or liability for financial reporting, according to the expected reversal dates of the specific temporary differences.

i. Income tax uncertainties

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on the two-step process prescribed by applicable accounting principles. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires the Company to determine the probability of various possible outcomes. The Company reevaluates these uncertain tax positions on a semi-annual basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

j. **Revenue recognition**

The Company's revenue is derived from rendering services and sale of its systems. The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery does not occur until services have been provided to the customer or products have been delivered, title has passed to the customer and risk of loss has transferred.

For services provided to patients, the Company principally receives payment from third party payers, such as Medicare, and various medical insurance providers rather than individual customers. The Company records a contractual allowance reserve to account for potential differences in the amount billed and the amount expected to be received from the payer. The Company uses historical information to estimate the contractual allowance. These adjustments are recorded as a reduction of revenue at the time of sale. Accounts receivable are recorded at the invoice amount less these contractual adjustments.

The Company also reduces revenue for product returns and service complaints. Revenue is recognized only if these estimates can be reliably determined. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

1) Services revenue

The Company's primary service offerings are cardiac and obstructive sleep apnea monitoring.

The Company provides cardiac services using four types of monitors: ACT, Event, Holter and Pacemaker. ACT and Event monitors are generally worn by the patient for a period of mainly 21 and 30 days, respectively, and revenue for these services is recognized on a straight-line basis over this period (the "wear" period). Straight-line revenue recognition is used because the ACT and Event monitoring results are delivered to physicians throughout the wear period, the monitoring is continuous during the period, and no other discernible pattern of delivery exists. Holter monitoring services are recognized at the end of the wear period at the time the results are communicated to the physician. The Pacemaker monitoring service does not require a wear period, and the revenue is recognized at the time the service is performed. ACT, Event, Holter and Pacemaker services are not typically provided to the same patient at the same time.

The Company provides obstructive sleep apnea monitoring with a home sleep test (HST) device. The monitor is worn by the patient for a period of 1 to 3 days. When the device is returned to the Company, the recorded patient information is downloaded into a software program and a report is provided to the physician. Revenue is recorded upon the delivery of the report to the physician.

The Company's services are generally billed in advance and, where appropriate for ACT and Event, revenue recognition is deferred and included within "Accounts payable and accruals" in the accompanying consolidated balance sheets.

Billings for services reimbursed by third party payers, including Medicare and Medicaid, are recorded as revenues net of allowances for differences between amounts billed and the estimated receipts from such payers. Adjustments to the estimated receipts, based on final settlement with the third party payers, are recorded upon settlement. If the Company does not have enough historical information regarding the collectability of the product, revenue is recorded on a cash basis.

Adjustments to the estimated receipts, based on final settlement with the third party payers, are recorded upon settlement (see also note 8c).

2) Sale of systems

Revenues from sales of systems are recognized when an arrangement (usually in the form of a purchase order) exists, delivery has occurred, title has passed to the customer, the Company's fee is fixed or determinable and collectability is reasonably assured.

k. Research and development

Research and development expenses are charged to the statement of operations as incurred except when software costs are capitalized for internal or external use. (See note 2 f.)

l. Advertising expenses

Advertising expenses are charged to the statement of operations as incurred. Advertising expenses in 2014, 2013 and 2012 totaled $1,191 thousand, $1,209 thousand and $1,045 thousand, respectively. These amounts are reflected in selling and marketing expenses.

m. Allowance for doubtful accounts and contractual allowance reserve

For the sale of systems, the allowance for doubtful receivables is determined on the basis of rates that change according to the age of the customers' balances and specific debts doubtful of collection.

The Company makes judgments as to its ability to collect its receivable balances. The Company uses historical information to estimate the allowance for doubtful accounts. These provision amounts are reflected in general and administrative expenses.

n. Basic and diluted net income (loss) per share

Basic net income (loss) per share is computed based on the weighted average number of ordinary shares outstanding during each year (net of treasury shares). Diluted net income per share includes the potential effect of stock option and warrants outstanding during the year, in accordance with ASC 260 "Earnings per Share", using the treasury stock method.

The table below sets forth the weighted average number of shares used in the calculation of basic and diluted income (loss) per share:

USD thousands	2014	2013	2012
Net (loss) income	(2,728)	2,922	(370)
Weighted average number of shares used in the computation of basic income (loss) per share	13,325	13,137	12,920
Add:			
Additional shares from the assumed exercise of warrants to service providers	–	15	–
Additional shares from the assumed exercise of employee stock options	–	79	–
Weighted average number of shares used in computation of diluted (loss) income per share	13,325	13,231	12,920
(Loss) income per common share::			
Basic	(0.205)	0.222	(0.029)
Diluted	(0.205)	0.221	(0.029)

o. Stock-based compensation

The Company accounts for employee's share-based payment awards classified as equity awards using the grant-date fair value method. The fair value of share-based payment transactions is recognized as an expense over the requisite service period, net of estimated forfeitures. The Company estimates forfeitures based on historical experience and anticipated future conditions.

The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule using the straight-line method over the requisite service period for the entire award.

When stock options are granted as consideration for services provided by consultants and other non-employees, the grant is accounted for based on the fair value of the consideration received or the fair value of the stock options issued, whichever is more reliably measurable. The fair value of the options granted is measured on a final basis at the end of the related service period and is recognized over the related service period using the straight-line method.

p. Comprehensive income (loss)

The Company's comprehensive income (loss) consists of unrealized gains or losses on available for sale investments, foreign currency translation adjustments and actuary pension fund (loss), which are presented net of income taxes.

q. Treasury shares

Company shares held by the Company are presented as a reduction of shareholders' equity at their cost to the Company.

r. Concentration of credit risk

The majority of cash and cash equivalents as of December 31, 2014 and 2013 were deposited with large bank corporations. The marketable securities held by the Company are mainly corporate bonds. The Company believes that the credit risk relating to those balances is low.

Accounts receivable from third party payers potentially expose the Company to credit risk. The Company generally does not require collateral or other forms of security and maintains an allowance for potential credit losses. Management believes this risk is limited due to the large number of doctors and patients that comprise the Company's customer base, supported by a large number of insurance companies.

The Company recorded sufficient allowance for doubtful accounts. As to revenue generated from principal customers in 2014, 2013 and 2012 – see note 15c.

s. Fair value of financial instruments

The Company measures fair value and discloses fair value measurements for financial and non-financial assets and liabilities. Fair value is based on 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.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 – Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

t. Segment Reporting and Changes in Reportable Segments

The Company determines its reportable segments in accordance with the Financial Accounting Standard Board ("FASB") guidance relating to disclosures about segments of an enterprise and related information.

During the fiscal year ended December 31, 2012, the Company changed its reportable segments. The Company's reportable segments now consist of, Sales of Systems, Services, and Mobile Health. The results of operations of all the other activities of the Company are included in the column captioned "Other" as part of the Company's business segment presentation.

The operating segments included in "Other" do not meet the quantitative thresholds required for a separate presentation or the aggregation criteria under segment reporting guidance.

u. Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Group but which will only be resolved when one or more future events occur or fail to occur. The Group's management assesses such contingent liabilities and estimated legal fees which are probable and estimable if any, and accrues for these costs. Such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group's management evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

v. Recently issued accounting guidance not yet adopted:

1) In May 2014, the Financial Accounting Standards Board of the United States (the "FASB") issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the Company in the first quarter of 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the updated stan-

dard will have on its consolidated financial statements and related disclosures.

2) In August 2014, the FASB issued amended guidance related to disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, as necessary, to provide related footnote disclosures. The guidance has an effective date of December 31, 2016. The Company believes that the adoption of this new standard will not have a material impact on its consolidated financial statements.

Note 3

LEGAL SETTLEMENTS AND OTHER

During 2014 costs associated with legal settlements and other include the net effect of income from reduction of provision for legal settlements of $750 thousand (see also note 8b) and expenses related to the re-organization process which the Company made following a change of management of the Company in the beginning of 2014 of $251 thousand.
During 2013 costs associated with legal settlements and other include provision of $2 million related to litigations against the Company (see also note 8b).
During 2012 costs associated with legal settlements and other include the net effect of expense amounting to $118 thousand and income of $596 thousand as a result of the cancelation of previously recorded provision in this line item, related to regulatory service enrollments.

Note 4

PROPERTY PLANT AND EQUIPMENT, NET

a. Composition of property plant and equipment, grouped by major classifications, is as follows:

USD in thousands	December 2014	December 2013
Cost:		
Manufacturing and peripheral equipment	11,848	11,352
Office furniture and equipment	2,924	2,781
Monitoring units	23,359	17,891
Motor vehicles	161	161
Leasehold improvements	1,576	1,517
	39,868	**33,702**
Less – accumulated depreciation and amortization	24,946	21,649
Depreciated cost	**14,922**	**12,053**

b. Depreciation expenses totaled $5,643 thousand, $3,642 thousand and $3,975 thousand in 2014, 2013 and 2012, respectively.

c. Property plant and equipment as of December 31, 2014 and 2013 include assets, mainly monitoring units, leased under capital lease agreements (see note 6), in the amount of approximately $6,165 thousand and $3,756 thousand in 2014 and 2013, respectively, and the accumulated depreciation in respect of those assets is $1,751 thousand and $271 thousand in 2014 and 2013, respectively.

Note 5

INTANGIBLE ASSETS, NET

a. Composition of intangible assets, grouped by major classifications, is as follows:

	Original amount December 31		Amortized balance December 31	
USD in thousands	2014	2013	2014	2013
Software cost for internal use	403	–	403	–
Software cost for external use	936	–	936	–
Acquired technology and other intangible assets	610	610	–	–
Patents and rights to use a patent	208	208	17	23
	2,157	**818**	**1,356**	**23**

Amortization expenses totaled $6 thousand, $7 thousand and $7 thousand in 2014, 2013 and 2012, respectively.

Estimated intangible asset amortization expenses for the years subsequent to December 31, 2014 are as follows:

Year	USD in thousands
2015	6
2016	6
2017	5
	17

b. Capitalization of Software development costs

According to U.S.GAAP the Company examined the standards for capitalization of its development costs related to internal and external use projects. The company assessed whether software costs should be capitalized under ASC 350-40 (internal use software) or under ASC 985-20 (Costs of software to be sold, leased, or marketed).

Since the Company's business model for one of the projects is to provide monitoring services the Company believes that the developing software for this project is for internal use and ASC 350-40 is the appropriate standard to use.

The Company started to capitalize its software costs for this project from the beginning of 2014 and estimates that a computer software project will be substantially completed and ready for its intended use until the third quarter of 2015 and then, according to ASC 350-40, the Company will cease the software costs capitalization.

The software development in the other project will be for external use, since one of the Company's business models is to "lease" the system to the hospital for its internal use and Subtopic 985-20 is the appropriate standard to use. The Company started to capitalize its software costs from the beginning of 2014 and estimates that the product will be available for general release to customers during the second quarter of 2015.

Company capitalized $1,339 thousand in 2014 for both of these projects.

The company decided that capitalized computer software costs will be amortized using the straight-line method over a period of 3 to 5 years.

Note 6

LOANS AND OTHER LIABILITIES

a. Composition of loans and liabilities are as follows:

USD in thousands	December 2014	December 2013
Loans from bank and other	–	25
Obligations under capital leases	5,343	3,623
	5,343	**3,648**
Less – current maturities:		
Loans from bank and other	–	25
Obligations under capital leases	2,296	1,132
	2,296	**1,157**
Non-current bank loans and obligations under capital leases	3,047	2,491

b. As of December 31, 2014, aggregate future minimum payments are as follows:

USD in thousands	
2015	2,438
2016	2,225
2017	719
2018	188
Total minimum payments	**5,570**
Less – amount representing interest	(227)
Present value of bank loans and capital lease obligations	**5,343**
Less – current portion	(2,296)
Long-term portion of bank loans and capital lease obligations	**3,047**

c. Loans and other liabilities (net of current maturities) mature in the following years:

USD in thousands	**Capital leases**
2016	2,158
2017	704
2018	185
	3,047

d. Loans from bank and other are denominated in dollars and NIS, and bear annual interest rates of 2.77% and 4.87% as of December 31, 2014. Interest expenses of loans from bank and other in 2014, 2013 and 2012 totaled $122 thousand, $130 thousand and $82 thousand, respectively.

e. Obligations under capital leases are denominated in dollars and bear annual interest rates of 3.28% and 14.08% as of December 31, 2014. Interest expenses of obligations under capital leases in 2014, 2013 and 2012 totaled $178 thousand, $37 thousand and $21 thousand, respectively.

Note 7

ACCRUED SEVERANCE AND OTHER BENEFITS

a. In Switzerland

The Company maintains retirement savings plans for its employees as required by law at each of its locations. With the exception of Switzerland these plans are defined contribution plans and as such no obligation exists for the Company over and above the contributions which are made during the year concerned. In Switzerland the plan qualifies as a defined benefit plan. The pension plan provides benefits upon retirement based upon the amount held in the fund at retirement.

The Company used the year-end date, December 31 as the measurement date for the Swiss pension plan. Comparative figures are not presented as the plan commenced during 2014.

Assumptions

The assumptions used to determine the pension plan obligation and net periodic benefit cost are as follows:

	2014	**2013**
Discount Rate	1.00%	n/a
Expected return on plan assets	2.50%	n/a
Expected rate of salary increase	1.00% flat	n/a

The discount rate used to measure the pension benefit obligation is based on market yields of high quality corporate bonds at the measurement date. The average duration of the pension obligations in the Company plan is approximately 17 years.

As of December 31, 2014, the pension plan had five active participants and no pensioners.

The net periodic benefit cost for the pension plan for the years ended December 31, 2014 and 2013 was as follows:

USD in thousands	Defined Benefit Pension Plan December 31, 2014	December 31, 2013
Net periodic benefit cost		
Service cost	84	n/a
Interest cost	2	n/a
Expected return on plan assets	(5)	n/a
Amortization of initial obligation (liability)	10	n/a
Net periodic benefit cost	**91**	**n/a**

The changes in the pension benefit obligation and the fair value of plan assets and the funded status of the plan for the year ended December 31, 2014 and 2013 were as follows:

USD in thousands	Defined Benefit Pension Plan December 31, 2014	December 31, 2013
Change in benefit obligation		
Benefit obligation at beginning of period	-	n/a
Service cost	84	n/a
Interest cost	2	n/a
Plan participants contributions	73	n/a
Actuarial changes	210	n/a
Other	338	n/a
Benefit obligation at end of period	**707**	**n/a**
Change in plan assets		n/a
Actual return on plan assets	(43)	n/a
Employer contributions	73	n/a
Plan participant contributions	73	n/a
Other	338	n/a
Fair value of plan assets at end of period	441	n/a
Funded status at end of period	**(266)**	**n/a**

The amount of $338 thousand presented in “Other” above represents funds paid in by employees from their previous pension plans.

The net amount recognized in the balance sheet as of December 31, 2014 and 2013 was as follows:

USD in thousands	Defined Benefit Pension Plan December 31, 2014	December 31, 2013
Net amounts recognized in the balance sheets		
Current Liabilities	(38)	n/a
Non-current liabilities	(228)	n/a
Net amounts recognized in the balance sheet	(266)	n/a
Accumulated benefit obligation at the end of the period	**692**	**n/a**

Estimated future benefit payments, reflecting expected future service, as appropriate, are presented in the following table:

USD in thousands	2014	2015	2016	2017	2018	2019 through 2023
Defined benefit pension plan	7	11	16	21	27	538

Estimated contributions to the defined benefit pension plan in 2015 by the company are $108 thousand. The company contributes 50% of the total cost with the employee contributing the other 50%.

Plan Assets

The plan was started in 2014 and is managed by AXA Winterthur Insurance. AXA Winterthur invests the funds and provides a return each year for the plan, which is fixed by the trustee of the plan after taking into account the statutory minimum interest rate for pension fund plans. The assets are invested into insurance contracts that provide for guaranteed returns. As of December 31, 2014, plan assets totaled USD 441 thousand.
The following information relates to the projected and accumulated benefit obligations in excess of the fair value of plan assets at December 31, 2014 and 2013.

USD in thousands	December 31, 2014	December 31, 2013
Projected Benefit Obligation		
Exceeds the Fair Value of Plan Assets		
Projected benefit obligations	707	
Fair value of plan assets	441	n/a
Net Liability	**266**	**n/a**
Accumulated Benefit Obligation		
Exceeds Fair Value of Plan Assets		
Accumulated benefit obligation	692	n/a
Fair value of plan assets	**441**	**n/a**

In accordance with ASC 715, the initial net liability has been recorded in Accumulated Other Comprehensive Income and will be amortized in equal installments over the expected remaining service life of employees, which is approximately 7 years (6.7 years).

a. In Israel

Israeli law generally requires the payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The severance pay liability of the Israeli Company to its employees is recorded as if it was payable at each balance sheet date on an undiscounted basis, based upon the number of years of service and the latest monthly salary. This liability is partly covered by regular deposits with recognized pension funds, deposits with severance pay funds and by purchases of insurance policies. Under labor agreements, these deposits and insurance policies, as above, are in the employees' names and are, subject to certain limitations, the property of the employees.

The severance pay liability covered by the pension funds and by some of the insurance policies is not reflected in the balance sheets as the severance pay risks have been irrevocably transferred to the pension funds and insurance companies.

Most of the Israeli employees signed in section 14 of the Severance Compensation Act, 1963 ("section 14"). Pursuant to section 14, LWT Israel's employees are entitled to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with section 14 relieve the Company from any future severance payments in respect of those employees and as such the Company may only utilize the insurance policies for the purpose of disbursement of severance pay. The subsidiary has recorded a severance pay liability for the amount that would be paid if certain of its employees were terminated at the balance sheet date, in accordance with Israeli labor law. This liability is computed based upon the number of years of service multiplied by their monthly salary.

Expenses in respect of severance in 2014, 2013 and 2012 amounted to $316 thousand, $355 thousand and $276 thousand, respectively.

The Israeli Company expects to contribute approximately $244 thousand in the year ending December 31, 2015 to insurance companies in connection with its severance liabilities for its operations for that year.

The LWT Israel expects to pay $115 thousand in future benefits to its employees from 2015 to 2024 upon their normal retirement age. The amounts of such future benefits were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement. These amounts do not include amounts that might be paid to employees that will cease working for the Company before their normal retirement age.

Year	USD in thousands
2015	1
2016	8
2017	0
2018	17
2019	21
Thereafter (through 2024)	**68**

b. In the U.S.

The U.S. subsidiaries have a 401(k) plan covering substantially all domestic employees. Participants may elect to defer a portion of their eligible compensation. Participants are fully vested in all contributions they make to the plan. The U.S. subsidiaries currently match 50% of contributions up to 6% with vesting annually over a three year period. Contributions by the U.S. subsidiaries are made per the requirements of the 401k plan. The U.S. subsidiaries' contributions for 2014, 2013 and 2012 were approximately $601 thousand, $467 thousand and $244 thousand, respectively.

Expenses in respect of severance in 2014, 2013 and 2012 amounted to $130 thousand, $98 thousand and $159 thousand, respectively.

Note 8

COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

a. Commitments

Operating lease commitments

The Company leases office space and equipment under operating lease agreements. Those leases will expire on different dates between 2016 and 2019, some with options to renew for additional five year periods. The lease payments are denominated in different currencies depending on the location. In order to secure liabilities of the lease payments to a landlord, the Israeli Company has registered in 2012 a bank guarantee in the amount of approximately 3 month of rental expenses.

The minimum projected lease payments under operating leases, at rates in effect at December 31, 2014, are as follows (U.S. dollars in thousands):

Year ending December 31	
2015	2,587
2016	2,307
2017	1,941
2018	1,804
2019 and thereafter	359
	8,998

Rental expenses totaled $2,421 thousand, $2,354 thousand and $2,608 thousand in 2014, 2013 and 2012, respectively.

b. Litigation:

1) In June 2000, two pharmaceutical companies filed a summary procedure statement of claim in the District Court of Tel Aviv, Israel against the Israeli subsidiary. In November 2006 and July 2011, judgments were given, ordering the Company to pay the plaintiffs a total amount of approximately $4.6 million which includes Value Added Tax (VAT), interest, currency adjustments and attorney fees. As of December 31, 2011 the Company paid the total amount to the plaintiffs.

   As of the date of these financial statements, an additional demand by the plaintiffs was filed in the amount of approximately $3.5 million, over and above the amount already paid in 2011. In connection with this demand, an amount of approximately $1.6 million, currently presented in the current assets, is being restricted by various bodies/authorities. The Company submitted an appeal on the Tel Aviv District Court's decision and a hearing in the Israel High Court of Justice took place in September 2013. A decision on the appeal was suspended while the parties attempted court-ordered mediation. The mediation process was unsuccessful and the High Court of Justice has now been requested to rule. The parties are awaiting a decision.

2) On November 2007 a former executive of the Company filed a financial claim against the Israeli Company in the amount of approximately $400 thousand together with interest and currency adjustment.

   In addition to the financial claim, the plaintiff appealed for royalties and options.

   In July 2009 a corrected claim was filed and the plaintiff has raised its claim to approximately $2.5 million in addition to his claim for royalties and options. LWT filed a defense in October 2009.

   During 2012 the process of filing the summations was completed.

   The Labor Court ruled in favor of the Israeli Company awarding the former executive only a small fraction of the requested damages which has now been paid. The executive appealed the decision and the Company counter-appealed. A hearing on the matter is scheduled for 2016.

3) Following a refund claim from an insurance company and a counter claim by the Company to that insurance company for unpaid services, the parties initiated an arbitration process. The outcome is still uncertain.

4) A Qui Tam ("Whistleblower") action filed under seal in 2013 was unsealed and served upon the Company at the end of 2014. The Federal government and the State of Texas, typically one of the most active states in this area, have declined to participate in this claim. An internal investigation into the allegations is ongoing.

The Company's management, based on the advice of its legal counsel, believes that the provision of $500 thousand that has been made in the financial statements for these above-mentioned four lawsuits is sufficient.

In addition, there are several claims against the Company including a lawsuit filed by a former employee of the company for insignificant amounts.

c. Provision for repayments

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated revenue adjustments due to audits, reviews, and investigations performed by payors. Such revenue adjustments are recorded in the period in which amounts due to contingent claims materialized and are further adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. As of December 31, 2014 and 2013 the amount of provision for repayments was $111 thousand and $1,225 thousand, respectively.

Note 9

SHAREHOLDERS' EQUITY

a. Share capital:

1) Share capital

The Company's ordinary shares confer upon their holders voting rights, the right to receive dividends, if declared, and any amounts payable upon the dissolution, liquidation or winding up of affairs of the Company.

As of December 31, 2014, the registered share capital of the Company is composed of 13,448,426 shares of CHF 1.30 par value.

2) Conditional capital

As of December 31, 2014, the share capital of the Company may be increased through the issuance of no more than 67,991 registered shares of CHF 1.30 par value each, to be fully paid, by an amount of no more than CHF 88,388 by virtue of the exercise of option rights granted to employees, directors, officers, consultants and members of the Advisory Board of the Company or its affiliates. In 2014, the Company issued 210,228 shares (representing a total of CHF 273,296) due to the exercise of such option rights. The conditional capital decreased accordingly.

Additionally, the share capital of the Company may be increased through the issuance of no more than 1,000,000 registered shares of CHF 1.30 par value each, to be fully paid up, by an amount of no more than CHF 1,300,000:

a) Through the exercise of option and conversion rights that are granted in relation to bond issues and similar obligations of the Company or its subsidiaries.
b) Through the exercise of option rights that are granted to the shareholders of the Company.

b. Treasury shares

The board of directors resolved that the Company will purchase its own shares up to 10% of its share capital.

The treasury shares are exempt from voting.

A reconciliation of opening and closing balances of the number of treasury shares (in thousands) is presented below:

Year ended December 31,	2014	2013	2012
Balance outstanding at beginning of year	52	52	509
Purchase of treasury shares	–	–	78
Sales of treasury shares	–	–	(535)
Balance outstanding at end of year	**52**	**52**	**52**

c. Warrants:

1) During 2012 the Company granted 20,000 warrants to a service provider to purchase in total 20,000 shares of the Company of CHF 1.30 par value, at an exercise price of CHF 8.51 (USD 9.19) and CHF 7.79 (USD 8.42) per share.

   The fair value of warrants granted was estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions under this method were used for the warrants granted: average risk free interest rate of 0.96% (in dollar terms), expected volatility of 59%, dividend yield of 0%, and derived expected life of 10 years.

   The fair value of warrants granted during 2012 was $116 thousand.

2) Total compensation charged in respect of the warrants during 2014, 2013 and 2012 amounted to $12 thousand, $57 thousand and $48 thousand, respectively, and was recorded as advisory expenses in general and administrative expenses. The fair value of each warrant granted is estimated on the date of grant using the Black-Scholes option pricing model.

   As of December 31, 2014, there was no future (non-recorded) compensation cost related to these warrants.

   During the year ended December 31, 2014 and 2013 17,183 and 10,000 warrants to service providers were exercised, respectively. No warrants were exercised during the year ended December 2012.

3) Warrants granted to service providers:

	2014		2013		2012	
	Number of warrants	Weighted average exercise price USD	Number of warrants	Weighted average exercise price USD	Number of warrants	Weighted average exercise price USD
Outstanding at beginning of year	47,500	5.86	57,500	5.42	37,500	3.51
Changes during the year:						
Cancelled	30,317	5.98	–	–	–	–
Exercised	17,183	5.66	10,000	3.30	–	–
Granted	–	–	–	–	20,000	9.00
Outstanding at end of year	**0**	**0**	**47,500**	**5.86**	**57,500**	**5.42**
Exercisable at end of year	**0**	**0**	**29,370**	**4.94**	**27,500**	**3.63**

d. Stock-based compensation award:

1) Members of the Company's Board of Directors are remunerated in Restricted Share Units (RSU's) for their activities as board members. The number of RSU's awarded to each Board member is based on his position and is based on a market review carried out by hkp Switzerland AG in 2013 through early 2014, as follows: Chairman – 20,000 RSU's; Vice-Chairman – 10,000 RSU's and remaining Board members – 8,000 RSU's. The RSU's are granted the day after the AGM at which the Board members are elected, and the total number of RSU's for a year is allocated pro rata temporis. The RSU's vest in two portions: 50% in December of the year awarded and the other 50% the day after the following AGM. Members of the Board of Directors who leave office during their term of office forfeit any unvested RSU's. Following vesting, the RSU's are blocked and held in escrow for 5 years.
The Company calculates the fair value of the RSU's at the grant date and records the related compensation expense over the vesting period. Total compensation expense recorded in 2014 and 2013 was $254 thousand and $0, respectively.

2) Fair Value of RSU's issued to Board members:

	2014		2013	
	Number	Fair Value [1] USD in thousands	Number	Fair Value USD in thousands
Non-vested at beginning of year	**–**	**–**	**–**	**–**
Changes during the year:				
Granted in the year	36,182	395	–	–
Vested in the year	23,304	254	–	–
Non-vested December 31	**12,878**	**141**	–	–

[1] grant-date fair value per unit is USD 10.92

e. Stock option plans:

1) In 2012, the Board of Directors of the Company adopted a new share option plan, which is substantially governed by terms and conditions similar to those that governed the previous plans.

   As of December 31, 2014 according to the Company's shareholders resolutions, under the current capital structure of the Company and according to this new share option plan or further share option sub-plans to be adopted by the Company in the future, there are no options to grant.

2) The options mentioned above are not marketable and usually vest as follows: 25% – within one year from date of grant and the rest in 12 equal quarterly installments.

   Options not exercised within 10 years from the date of grant will expire. The rights of the shares obtained upon exercise of the options will be identical to those of the other shares of the Company. The Board of Directors has authority to approve deviations from the terms of the plan.

3) The options granted to the Israeli employees under the aforementioned plans are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance.

   With regard to options granted up to December 31, 2002, the Company is allowed to claim as an expense for tax purposes the amount credited to the employees as a benefit upon sale of the shares allotted, upon the exercise of the option.

   As from January 1, 2003, in accordance with the Capital Gain route chosen by the Company and pursuant to the terms thereof, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company's accounts.

4) During 2012 the Company granted 10,000 options to employees to purchase in total 10,000 shares of the Company of CHF1.30 par value, at an exercise price of CHF 8.51 (USD 9.19). The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model. The option vest and expire as described in note 9d (2).

5) No options to employees were granted during the years ended December 31,2014 and 2013.

6) The fair value of options granted during the years ended December 31, 2014, 2013, and 2012 were $0 thousand, $0 thousand and $40 thousand, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2014	2013	2012
Dividend yield	n/a	n/a	0 %
Expected volatility	n/a	n/a	57.07 %
Risk-free interest rate	n/a	n/a	0.76 %
Expected life – in years	n/a	n/a	4

The expected volatility is based on the historical volatility of the common stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company's management uses the contractual term or its expectations, based on historical incidence of option exercises, as applicable, of each option as its expected life. The pre-vesting forfeiture rate of 0% is estimated based on pre-vesting forfeiture experience.

The total unrecognized compensation cost of employee stock options at December 31, 2014 is $3 thousand. The cost is generally expected to be recognized over a period of 0.5 years.

The total cash received from employees as a result of employee stock option exercises for the years ended December 31, 2014, 2013 and 2012 was $1,040 thousand, $388 thousand and $26 thousand, respectively.

7) A summary of the activity of the option plans is presented below:

	2014		2013		2012	
	Number	Weighted average exercise price USD	Number	Weighted average exercise price USD	Number	Weighted average exercise price USD
Options outstanding at beginning of year	275,672	5.94	375,847	5.43	388,847	5.65
Options granted during the year at market price	–	–	–	–	10,000	9.19
Options exercised during the year (*)	(193,045)	5.43	(97,550)	4.03	(8,000)	3.30
Options expired and forfeited during the year	(44,703)	6.97	(2,625)	3.98	(15,000)	14.70
Options outstanding at end of year	37,924	7.35	275,672	5.94	375,847	5.43
Options exercisable at end of year	**37,086**	7.32	**258,172**	**5.75**	**345,847**	**5.12**
Weighted average fair value of options granted during the year		**–**		**–**		**4.05**

(*) The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012, was $991 thousand, $353 thousand and $33 thousand, respectively.

8) The following table summarizes information about options outstanding and exercisable at December 31, 2014

	Options outstanding		Options exercisable
Exercise Price	Number of options	Weighted average remaining contractual life Years	Number of options
3.05 – 4.09	17,924	1.28	17,924
8.67 – 12.83	20,000	5.31	19,162
	37,924		37,086

f. Dividends:

1) According to Swiss law, retained earnings, as disclosed in the statutory financial statements of the Company, may be distributed to the shareholders as dividends, except for five percent of the net profit per year which must be allocated to the Company's general reserves until such reserves reach twenty percent of the paid in share capital. The general reserves can be freely used to the extent that it exceeds half of the share capital.
2) As of December 31, 2014, the Israeli Company's accumulated deficit includes accumulated earnings from its approved enterprises in the amount of $15.7 million distribution of which as a cash dividend, would entail payment of tax in Israel at the rate of up to 25%.

   The Company intends to permanently reinvest the amounts of such retained earnings, and it does not intend to cause distribution of such income as cash dividends.

Note 10

TAXES ON INCOME

a. The Company:

General Corporate Tax System

In Switzerland, resident companies are subject to federal, cantonal and communal corporate income tax on their worldwide income (with the exception of income from a business, permanent establishment or immovable property located abroad). Certain types of companies, including holding companies, receive special tax treatments for cantonal and communal tax purposes.

For federal tax purposes, corporate income tax is levied at a statutory flat rate of 8.5% (effective rate of 7.83% due to the deductibility of the federal, cantonal and communal tax due). The ordinary cantonal and communal corporate taxation is proportional with a statutory tax rate of 10.45% (effective rate of 8.79% for the cantonal and communal income tax; including the federal income tax: 15.93%).

Further to the corporate income taxes set out above, the canton levies a net worth tax based on the equity (defined as paid-in capital plus open reserves plus other reserves that have been taxed as profits plus loan capital, that economically has the character of equity capital under the thin capitalization rules) at the rate of 0.209% for ordinary taxed companies (2014). There is no net worth tax for federal tax purposes.

For Swiss federal (and cantonal/communal) corporate income tax purposes, there is a system whereby a company receiving dividends or capital gains derived from qualifying holdings may claim a tax relief (participation relief). This tax relief comes in the form of a reduction of corporate income taxes. It is computed based on the ratio that the net qualifying dividend income or capital gains bears to the total taxable profits of the recipient company. To qualify for relief on dividend income a Swiss company must own at least 10% of the registered capital of another company, or a participation in value which exceeds CHF 1 million. To qualify for relief on capital gains, a Swiss company must make a profit on the sale of a participation which represents at least 10% of the share capital of another company which is held for at least one year and which does not result in an unjustified tax saving by a group. The exemption described above does not apply to interest on loans to affiliates or other types of income.

The Company in particular

The Company qualifies for the Swiss holding privilege and is therefore completely exempt from cantonal and communal income tax. At the federal level, the Company is subject to corporate income tax which is levied at a statutory flat rate of 8.5% (effective rate of 7.83% if the deductibility of the federal tax due is taken into consideration).

Holding company status is granted subject to the following conditions:

1) The main purpose of the holding company (as per the bylaws) must be the management of financial investments in other companies;
2) At least two third of its assets (or income) must be derived from other participations;
3) A holding company may not be engaged in commercial activity in Switzerland.

As a holding company the Company is exempt from cantonal and communal corporate income tax. There is a complete exemption on income from dividends, interest, royalties, capital gains etc. This general rule has a few exceptions: any income or capital gain generated from real estate is subject to ordinary taxation; income for which treaty relief is obtained must be subject to ordinary taxation if required by the relevant tax treaty.

Holding companies are also subject to net worth tax at reduced rates of 0.0052% for cantonal and communal tax purposes. As mentioned above, there is no net worth tax at the federal level.

b. Subsidiaries:

1) LWT Israel

The income of LWT Israel is taxed in Israel at the regular rate.

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013–2014), 2013 (hereinafter – the Law) was published in Reshumot (the Israeli government official gazette) and enacts, among other things, the following amendment:

Raising the corporate tax rate beginning in 2014 and thereafter to 26.5% (instead of 25%). The expected impact of this update on the Company's financial statement is immaterial.

Capital gains for assets purchased since January 1, 2003 are subject to real capital gains tax at 25% and exempted from inflationary capital gains tax.

2) US Subsidiaries

Income derived from operations of the US subsidiaries is taxed at regular federal (34%) and state tax (combined rate of 4.5%) rates. On October 26, 2006 LifeWatch Corp. was formed by the contribution of the two operating companies, LifeWatch Services, Inc. and LifeWatch Technologies, Inc. .Under IRC section 1502, LifeWatch Services, Inc. was deemed the acquiring company and as such the LifeWatch Technologies, Inc. results from October 27, 2006 forward will be included in the LifeWatch Corp's consolidated tax return. LifeStar results from its inception date forward will be included in the LifeWatch Corp. consolidated tax return.

3) LifeWatch Europe AG

LifeWatch Europe AG is subject to ordinary taxation, as described in note 10a above.

4) Other Subsidiaries

The other subsidiaries are taxed under the laws and applicable tax rates of their countries of residence.

c. Carryforward tax losses

The Company has carryforward tax losses as of December 31, 2014 and 2013 in the amounts of approximately $56 million and $60 million, respectively.

Tax losses may be carried forward for a maximum of 7 financial years. These carryforward losses expire between 2015 and 2021. As of December 31, 2014 the Company estimates that it will not utilize the deferred taxes related to these carryforward tax losses and thus has full valuation allowance thereon. As of December 31, 2013 there was also a full valuation allowance.

The US subsidiaries have carryforward tax losses, as of December 31, 2014 and 2013 in the amounts of approximately $43 and $51 million, respectively that may be used to offset future taxable income. These carryforward losses expire between 2023 and 2032. As of December 31, 2014 and 2013 no valuation allowance was recorded in respect of carryforward tax losses.

The Israeli Company has carryforward tax losses as of December 31, 2014 and 2013 in the amount of approximately $68 million and $82 million, respectively that may be used to offset future taxable income. These carryforward tax losses can be utilized indefinitely.

In addition the Israeli Company has carryforward capital tax losses as of December 31, 2014 and 2013 in the amount of approximately $4.4 million and $5.0 million, respectively.

As of December 31, 2014 the Israeli Company estimates that it will not utilize the deferred taxes related to these carryforward tax losses and capital tax losses, and thus has full valuation allowance thereon. As of December 31, 2013 there was a full valuation allowance.

d. Deferred income taxes

Composition of deferred taxes is as follows:

USD in thousands	December 2014	December 2013
Computed in respect of the following		
Accrued related party interest	1,658	1,811
Carryforward tax losses	40,498	51,941
Reserve for accounts receivable (including provision for repayment and settlement)	6,064	6,594
Unrealized gain	7,460	7,435
Property and equipment	(7,233)	(9,875)
Research and Development Expenses	1,391	2,106
Intangible assets	(3,436)	(2,615)
Other	1,018	1,367
	47,420	**58,764**
Less – valuation allowance	(32,805)	(42,512)
	14,615	**16,252**
Deferred taxes are included in the balance sheet as follows:		
Current assets	9,398	9,426
Non-current assets	**5,217**	**6,826**

e. (Loss) income before taxes is composed as follows:

USD in thousands	2014	2013	2012
Domestic	(8,139)	(8,303)	(5,216)
Foreign	7,951	5,781	9,268
	(188)	**(2,522)**	**4,052**

f. Tax (expense) benefit included in the income statements:

1) As follows:

USD in thousands	2014	2013	2012
Current:			
Domestic	(771)	(2)	(4)
Foreign			
U.S. subsidiaries	-	(46)	(322)
Israeli Company	(83)	(248)	(246)
Other subsidiaries	(49)	(7)	(7)
	(903)	**(303)**	**(579)**
Deferred taxes			
U.S. subsidiaries	(1,637)	5,747	(3,843)
	(2,540)	**5,444**	**(4,422)**

2) A reconciliation of the theoretical tax expense, assuming all income is taxed at the regular rates applicable to income of the top holding company in Switzerland (see a. above) and the actual tax expense is as follows:

USD in thousands	2014	2013	2012
(Loss) income before taxes on income	(188)	(2,522)	4,052
Theoretical tax benefit (expense) at 7.83% in 2014, 2013 and 2012	15	197	(317)
(Increase) decrease in tax arising from different tax rates applicable to non-Swiss subsidiaries	(10,892)	3,244	(6,257)
Increase in taxes resulting from permanent differences	(191)	(84)	(54)
Increase (decrease) in uncertain tax position	-	40	(40)
Withholding tax	(855)	(251)	(252)
Changes in valuation allowance	9,707	1,417	(248)
Unrealized gain	(92)	567	2,732
Other – net	(232)	314	14
Tax (expense) benefit for the reported years	**(2,540)**	**5,444**	**(4,422)**
Effective tax rate	-	-	109%

g. Tax assessments:

1) The Company received final tax assessments up to and including financial year 2011.
2) The Israeli Company received final tax assessments up to and including financial year 2012.
3) US subsidiaries received final federal tax assessments up to and including financial year 2009.

h. Uncertain Tax Positions (UTP)

Following is a roll-forward of the total amounts of the Company's unrecognized tax benefits at the beginning and the end of the years ending on December 31, 2014, 2013 and 2012 (not including interest or penalties):

	Year ended December 31		
USD in thousands	2014	2013	2012
Balance at beginning of year	**15**	**55**	**15**
Decrease in unrecognized tax benefits as a result of closed tax positions during the year	–	(40)	–
Increases in unrecognized tax benefits as a result of tax positions taken during the year	–	–	40
Balance at end of year	**15**	**15**	**55**

Note 11

SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

a. Accounts receivable:

1) Trade, classified by geographical markets, is as follows:

USD in thousands	December 2014	December 2013
United States and Canada	9,109	10,545
Europe	61	160
Asia	112	162
	9,282	**10,867**
The above trade receivables are net of provision for doubtful accounts of	**7,129**	**6,684**

Doubtful account expenses in the amount of $5,179 thousand, $6,832 thousand and $3,361 thousand in 2014, 2013 and 2012, respectively, are included in general and administrative expenses.

2) Other is as follows:

USD in thousands	December 2014	December 2013
Government institutions	377	619
Prepaid expenses	1,084	1,168
Advance payments	564	1,002
Sundry	1,028	577
	3,053	**3,366**

b. Inventories:

USD in thousands	December 2014	December 2013
Raw materials	912	1,396
Finished products and products in process	1,061	614
	1,973	**2,010**
The above inventory balances are net of allowance for slow moving inventories of	**6,346**	**5,467**

Inventory write-off expenses in the amount of $1,388 thousand, $537 thousand and $296 thousand in 2014, 2013 and 2012, respectively, are included in cost of sales of systems.
2013 sales of systems include $100 thousand from the sales of inventory fully written down in the previous years.

c. Marketable securities:

1) Investments in Corporate marketable securities are composed as follows:

USD in thousands	Amortized cost	Aggregate fair value
December 31, 2014		
Marketable bond – held to maturity	–	–
Collateralized Debt Obligation – held to maturity	52	52
	52	**52**

2) No marketable securities were sold during 2014, 2013 and 2012.

3) The marketable securities are presented in the balance sheets as follows:

USD in thousands	December 2014	December 2013
Non-current investments		
Collateralized Debt Obligation	52	52
	52	**52**

As of December 31, 2013 a write down of USD 43 thousand of marketable securities that were held to maturity was recorded.
Collateralized Debt Obligation ("CDO") – investment in CDO comprises of an investment in interest bearing preferred stock and a zero coupon US Treasury bond which mature in February 2017.
As of December 31, 2014 the investment in CDO is stated at fair value.

d. Accounts payable and accruals – other:

USD in thousands	December 2014	December 2013
Payroll and related expenses	3,671	4,051
Accrued vacation and recreation pay	1,707	1,976
Accrued expenses	2,265	4,019
Sales and other tax payable	117	6
Income tax payable	608	15
Deferred revenues	2,192	1,676
Provision for repayment (note 8c)	111	1,225
Sundry	380	248
	11,051	**13,216**

e. Financial (expenses) income, net

Financial (expenses) income, net are comprised of the following:

	Year ended December 31		
USD in thousands	2014	2013	2012
Interest expenses	(439)	(370)	(332)
Interest income	9	20	29
Foreign exchange differences	(25)	(96)	19
Other	(29)	(27)	(35)
	(484)	**(473)**	**(319)**

Note 12

FAIR VALUE MEASUREMENT

Financial assets carried at fair value as of December 31, 2014 are classified in the table below under the category of Level 1, described in note 2s.

USD in thousands	Level 1
Cash and cash equivalents	
Money market	4,170
Cash deposits and other	2,917
	7,087

Note 13

RISK ASSESSMENT

Financial risk assessment and management is an integral part of the LifeWatch AG Company management. The Company provides guidance on the identification of risks and implementation of monitoring procedures. Such monitoring procedures contain regular review of accounting policy assessment including changes in accounting policy, significant accounting matters and items requiring significant management judgment and estimates. The implementation of accounting policies, the adherence to regulations and the monitoring on a day-to-day risk basis are carried out by the relevant accounting and treasury functions. The Company has established an annual process for preparing a financial risk assessment in the areas of accounting complexity and the overall control environment.

Note 14

RELATED PARTIES:

a. The former CEO was entitled, according to the Board of Directors' resolution from 2010, among other benefits, to a monthly payment in the amount of approximately $60 thousand.

b. As of December 31, 2013, the number of outstanding options granted to the former CEO amount to 78,328 options, out of which, 53,328 options were granted in 2006 and the remaining 25,000 options granted in 2008. The exercise prices of the options are $4.09 and $7.39 per share, respectively. The 2006 grant vests and expires as described in note 9 e(2) and the 2008 grant vests over 3 years - 1/3 at the end of each year.

c. The Company approved a payment of $1.3 million (CHF 1.2 million) to the former CEO in December 2013 as settlement of his then current contract and entered into a new contract with him commencing in January 2014, such new contract being in compliance with the new legislation adopted following the referendum on the so-called "Minder"-Initiative.

d. On March 27, 2006 the Israeli Company signed a lease agreement with Ad Marom Assets and Initiation Ltd. (Ad Marom Assets and Initiation Ltd., is a private Israeli company, in which 50% is held by the following: the former Chairman of the Company and his family members and by the former Vice Chairman of the Company (the "Landlord")). According to the terms of the agreement, the Landlord intends to construct a building comprising of about 6,000 square meters situated at Plout St., Rehovot, Israel (the "Building"). The Israeli Company shall lease the Building for a term of 10 years, with an option to extend the lease for an additional period of 10 years. Construction of the Building has not been started yet and the Israeli Company has the right to rescind this agreement under certain conditions. The Israeli Company exercised its right to rescind the agreement in March 2014.
The Israeli Company used for employee parking a vacant parcel of land owned by Ad Marom.
In 2013, the Company booked a capital reserve of $70 thousand for this use.

Note 15

SEGMENT REPORTING

a. The Company changed its reportable segments during the year ended December 31, 2012. The Company's reportable segments now consist of:

Sales of Systems – Development, manufacture and marketing of trans-telephonic and wireless diagnostic equipment for the medical industry.

Mobile Health (formerly LifeWatch V) – Mobile medical device platform designed for self-testing of vital signs for the consumer market.

Services – Cardiac event monitoring, pacemaker, ambulatory heart monitoring device and sleep disorder services.

The results of operations of all the other operations of the Company not assigned directly to any of the above segments and are included in "Other" as part of the Company's business segment presentation.

The table below presents information about reported segments:

USD in thousands	Sales of Systems	Mobile Health	Services	Other	Reconciling items	Consolidated total
For the year 2014:						
Revenues from external customers	2,325	20	96,126	–	–	98,471
Inter segments revenues	13,118	2	–	–	(13,120)	–
	15,443	**22**	**96,126**	**–**	**(13,120)**	**98,471**
Operating income (loss)	7,681	(4,789)	5,283	(7,005)	(870)	300
Depreciation and amortization	400	–	16,350	–	(11,101)	5,649
Goodwill	–	–	14,976	–	–	14,976
Capital investments	680	–	19,100	197	(11,465)	8,512
Total assets	**103,456**	**-**	**82,901**	**2,522**	**(119,895)**	**68,984**
For the year 2013:						
Revenues from external customers	1,317	245	89,501	–	–	91,063
Inter segments revenues	9,919	–	–	–	(9,919)	–
	11,236	**245**	**89,501**	**–**	**(9,919)**	**91,063**
Operating (loss) income	457	(6,848)	9,578	(7,515)	2,239	(2,089)
Depreciation and amortization	252	–	14,895	–	(11,498)	3,649
Goodwill	–	–	14,976	–	–	14,976
Capital investments	537	–	15,985	–	(8,665)	7,857
Total assets	**97,355**	**1,994**	**86,115**	**3,448**	**(117,453)**	**71,459**
For the year 2012:						
Revenues from external customers	589	–	79,522	–	–	80,111
Inter segments revenues	2,653	–	–	–	(2,653)	–
	3,242	**–**	**79,522**	**–**	**(2,653)**	**80,111**
Operating (loss) income	(9,371)	(4,695)	12,139	(4,617)	10,915	4,371
Depreciation and amortization	232	–	16,066	–	(12,316)	3,982
Goodwill	–	–	14,976	–	–	14,976
Capital investments	207	–	4,770	–	(1,985)	2,992
Total assets	**105,570**	**47**	**83,780**	**1,770**	**(131,491)**	**59,676**

b. The table below shows revenues and long-lived assets classified by geographical location of the customers:

USD in thousands	Revenues	Long-lived assets
Year ended December 31, 2014		
United States and Canada	96,126	13,583
Europe	77	270
Asia	1,960	–
Other	308	1,069
	98,471	**14,922**
Year ended December 31, 2013		
United States and Canada	89,510	11,181
Europe	321	74
Asia	1,069	–
Other	163	798
	91,063	**12,053**
Year ended December 31, 2012		
United States and Canada	79,654	7,225
Europe	75	107
Asia	379	3
Other	3	503
	80,111	**7,838**

c. The table below shows revenues of customers comprising more than 10% of revenue:

	Year ended December 31		
USD in thousands	**2014**	**2013**	**2012**
Revenue – company A (services segment)	**38%**	**40%**	**37%**

Note 16

SUBSEQUENT EVENTS

In February 2015, the Company entered a settlement agreement with Yacov Geva, the former founder and CEO of LifeWatch AG. As part of the settlement agreement his shareholding in the Company has been sold. The settlement is reflected in the 2014 financial results.

In February 2015, the Company resolved the Body Science, LLC patent lawsuit which was dismissed with prejudice by the District of Massachusetts court.

In March 2015, the Company entered a settlement agreement with the Israeli Tax Authorities to resolve a tax liability relating to a withholding tax from 2001. The settlement is reflected in the 2014 financial results.

In March 2015, the Company, after careful evaluation of procedural options, filed a motion to dismiss the Whistleblower complaint in US court.

Note 17

COMPANY STRUCTURE

The Company structure as of December 31, 2014 and 2013, comprises of subsidiaries and associated companies as follows:

	Place of incorporation	Purpose of Company
LifeWatch Technologies Ltd.	Rehovot, Israel	Research and development, manufacturing and trading
LifeWatch Europe AG	Neuhausen am Rheinfall, Switzerland	Sales & Marketing Europe
Card Guard Europe BV	CM Haarlem, Netherlands	Holding company
LifeWatch Services Inc.	State of Delaware, USA	Monitoring Services
Life Star Inc.(*)	State of Delaware, USA	Monitoring Services
LifeWatch Corp.	State of Delaware, USA	Holding Company
LifeWatch International BV	CM Haarlem, Netherlands	Holding company
Card Guard Japan Ltd.	Tokyo, Japan	Sales & Marketing
LifeWatch UK Ltd.	London, United Kingdom	Monitoring Services
LifeWatch MK Ltd	Skopje, Macedonia	Software design and Quality assurance
LifeWatch Healthcare India Private Limited	Villivakkam, Chennai,India	Monitoring Services
LifeWatch Mobile Holding BV(*)	CM Haarlem, Netherlands	Designing & selling mobile health services
LifeWatch Mobile AG (*)	Meggen, Switzerland	Sales & Marketing of mobile devices

(*) Inactive Company

Authorized capital	Issued capital	Percentage held at December 31 2014 %	2013 %
NIS 2,000,000	NIS 1,073,494	100	100
CHF 100,000	CHF 100,000	100	100
EUR 90,756	EUR 19,513	100	100
USD 7,000	USD 681	100	100
USD 10	USD 1	100	100
USD 200,000	USD 90,000	100	100
EUR 100,000	EUR 20,000	100	100
JPY 40,000,000	JPY 40,000,000	80	80
GBP 1,500,000	GBP 384,001	91.5	91.5
–	–	100	100
INR 2,500,000	INR 100,000	100	100
EUR 1	EUR 1	100	100
CHF 100,000	CHF 100,000	100	100

Report of the statutory auditor
to the general meeting of
LifeWatch AG
Neuhausen am Rheinfall

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of LifeWatch AG, which comprise the balance sheet, statement of operations, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and notes (pages 56 to 101) for the year ended December 31, 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we 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 consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers the internal control system 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, 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 for the year ended December 31, 2014 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Dr. Michael Abresch Audit expert Auditor in charge	Carrie Rohner

Zürich, 31 March 2015

Statutory Balance Sheet as of December 31

CHF	Note	December 31 2014	December 31 2013
Assets			
Investments	1	80,000,000	75,193,115
Fixed assets	2	181,850	–
Non-current assets		**80,181,850**	**75,193,115**
Cash		441,283	1,835,885
Treasury stock	5	367,631	317,761
Receivables from subsidiaries		639,046	–
Other current assets		563,141	61,943
Current assets		**2,011,101**	**2,215,589**
Total assets		**82,192,951**	**77,408,704**
Liabilities and shareholders' equity			
Share Capital	3/4	17,482,954	17,209,657
Legal reserves	6	15,980,589	15,224,540
General reserve		14,875,968	14,119,919
– thereof reserve from capital contribution (gross)		567,377,514	566,621,465
– thereof loss carry forwards set off		–552,501,546	–552,501,546
Reserve for treasury stock	6	1,104,621	1,104,621
– thereof reserve from capital contribution		1,104,621	1,104,621
– thereof other reserve for treasury shares		–	–
Unappropriated earnings	7	2,602,193	7,677,660
Shareholders' equity		**36,065,736**	**40,111,857**
Long term loan from subsidiaries		**42,735,405**	**30,547,690**
Non-current liabilities		**42,735,405**	**30,547,690**
Accounts payable		242,757	594,999
Payables to subsidiaries		380,503	409,245
Accruals and other liabilities		2,749,546	5,735,990
Tax provision		19,004	8,923
Current liabilities		**3,391,810**	**6,749,157**
Total liabilities		**46,127,215**	**37,296,847**
Total liabilities and shareholders' equity		**82,192,951**	**77,408,704**

Statutory Income Statement 2014 and Previous Year

CHF	Note	2014	2013
Income			
Financial income		52,216	41,872
Management Fee		697,406	–
Increase on Investments	1	4,806,885	–
Changes to value of treasury stock		49,870	1,515
Total income		**5,606,377**	**43,387**
Expenses			
Financial expenses		–3,197,269	–1,223,620
Personnel expenses		–2,684,853	–2,943,143
Administrative expenses		–4,029,578	–3,398,629
Depreciation	2	–12,376	–
Taxation expense		–757,768	–5,697
Total expenses		**–10,681,844**	**–7,571,089**
Net loss		**–5,075,467**	**–7,527,702**

Notes to the Statutory Financial Statements as of December 31, 2014

Note 1

INVESTMENTS

Investments held directly by LifeWatch AG are:

	2014	2013
– LifeWatch Technologies Ltd., Israel (formerly Card Guard Scientific Survival Ltd.)		
Percentage of capital held:	100%	100%
Capital in local currency: NIS	1,073,493.90	1,073,493.90
Purpose: Research and development, manufacturing and trading of medical technology		
– LifeWatch Europe AG, Switzerland		
Percentage of capital held:	100%	100%
Capital in local currency: CHF	100,000.00	100,000.00
Purpose: Sales & Marketing Europe		
– LifeWatch Mobile Switzerland AG, Switzerland		
Percentage of capital held:	100%	100%
Capital in local currency: CHF	100,000.00	100,000.00
Purpose: Sales and marketing of mobile devices		
– LifeWatch Macedonia		
Percentage of capital held:	100%	100%
Capital in local currency: EUR	5,000.00	5,000.00
Purpose: Development of Software		

All investments are tested for impairment annually. For the purpose of preparing annual financial statements such impairment test is based on a comprehensive valuation analysis prepared by a third party valuation expert using the Discounted Cash Flow (DCF) method for LifeWatch's principle business. Based on the valuation result the company has reversed a portion of the previous recognized impairment write-offs in the amount of CHF 4,806,885 (2013: 0).

Note 2

FIXED ASSETS

	Fixtures & Fittings	Computer Equipment	Other	Total
Cost				
Balance 1.1.2014	0	0	0	**0**
Additions	131'645	61'601	980	**194'226**
Disposals	0	0	0	**0**
Balance 31.12.2014	131'645	61'601	980	**194'226**
Depreciation				
Balance 1.1.2014	0	0	0	**0**
Charge during the year	4'973	6'424	979	**12'376**
Depreciation on disposals	0	0	0	**0**
Balance 31.12.2014	4'973	6'424	979	**12'376**
Net Book Value	**126'672**	**55'177**	**1**	**181'850**

Note 3

SHARE CAPITAL

This consists of 13,448,426 (2013: 13,238,198) registered shares of CHF 1.30 (2013: CHF 1.30) each and amounts to CHF 17,482,953.80 (2013: CHF 17,209,657.40).

During fiscal year 2014 the share capital was increased by an amount of CHF 273,296 (2013: CHF 139,815) through the issuance of 210,228 (2013: 107,550) registered shares of a par value of CHF 1.30 (2013: CHF 1.30) each. The increase resulted from the exercise of options under the terms of conditional capital (Note 4).

Note 4

CONDITIONAL SHARE CAPITAL

The share capital of LifeWatch AG may be raised through the issue of no more than 67,991 (2013: 278,219) registered shares of a par value of CHF 1.30 (2013: CHF 1.30) each, to be fully paid in by an amount of no more than CHF 88,388.30 (2013: CHF 361,684.70) by virtue of the exercise of option rights granted to employees, directors, officers, consultants and members of the advisory board of the Company or its affiliates.

The share capital of LifeWatch AG may be increased through the issue of no more than 1,000,000 (2013: 1,000,000) registered shares of a par value of CHF 1.30 (2013: CHF 1.30) each, to be fully paid in by an amount of up to a maximum of CHF 1,300,000 (2013: CHF 1,300,000) through the exercise of option and/or conversion rights which are granted in relation to bond issues and similar obligations of the Company or its group companies, and/or through the exercise of option rights which are granted to the shareholders of the Company.

Note 5

TREASURY STOCK

	Treasury stock CHF	Number of shares
December 31, 2012	316,246	51,817
December 31, 2013	317,761	51,817
December 31, 2014	367,631	51,817

As of December 31, 2014, zero (2013: 44,953) of the Treasury stock is reserved to secure conversion rights arising from the share option plan of LifeWatch AG.
Treasury stock is a Current asset as at December 31, 2014. For comparative purposes Treasury stock as at December 31, 2013 has been reclassified to Current assets.
Treasury stock has been valued at the lower of purchase price or market price (SIX-closing price) as of December 31, 2014.
In 2013 and earlier a portion of these registered shares were held with the purpose to transfer the shares to the respective option holders upon exercise of the respective option right in accordance with the existing share option plan. This was necessary since not sufficient conditional capital existed to cover all outstanding options. Acquisition and disposal of the Treasury stock was therefore partially valued at the exercise price under the option plan. At the balance sheet date in 2013 and earlier, the reserved Treasury stock was valued at the lower of the market price (SIX-closing price) or the exercise price under the option plan, with the remaining Treasury stock being valued at the lower of the market price (SIX-closing price) or the purchase price.

Note 6

LEGAL RESERVES

General reserve:

	CHF
December 31, 2012	13,860,620
– thereof reserve from capital contributions (gross)	566,362,166
– thereof loss carry forwards set off	–552,501,546
Additional paid-in capital resulting from the issuance of registered shares under the conditional capital	259,299
December 31, 2013	14,119,919
– thereof reserve from capital contributions (gross)	566,621,465
– thereof loss carry forwards set off	–552,501,546
Additional paid-in capital resulting from the issuance of registered shares under the conditional capital	756,049
December 31, 2014	14,875,968
– thereof reserve from capital contributions (gross)	567,377,514
– thereof loss carry forwards set off	–552,501,546

Reserve for treasury stock (pursuant to Art. 659a para. 2, of the Swiss Code of Obligations)

	CHF
December 31, 2012	1,104,621
– thereof reserve from capital contributions (gross)	1,104,621
December 31, 2013	1,104,621
– thereof reserve from capital contributions (gross)	1,104,621
December 31, 2014	1,104,621
– thereof reserve from capital contributions (gross)	1,104,621

The company set off losses of CHF 552,501,546 against reserves which consisted of capital contributions by the shareholders. The losses set off against capital contributions are reported separately in the balance sheet. In connection with the introduction of the capital contribution principle the Federal Tax Administration (FTA) states the view in its Circular Letter Number 29 that losses that have been charged to Capital contribution reserves definitively reduce the Capital contribution reserves. The Board of Directors does not unconditionally share this opinion, which is why such potential capital contribution reserves are also documented as capital contribution reserves in the balance sheet 2014. However, a considerable uncertainty exists whether and in what amount the caption "reserve from capital contribution" reported in the balance sheet qualifies for the tax privileges of the capital contribution principle. Out of the total amount of CHF 567,377,514 reported per December 31, 2014, the amount of CHF 13,054,989 has been approved to date by the Swiss Federal Tax Administration and are therefore available for withholding tax exempt payout.

Note 7

UNAPPROPRIATED EARNINGS

	CHF
December 31, 2012	15,205,362
Net Loss of the year	–7,527,702
December 31, 2013	7,677,660
Net Loss of the year	–5,075,467
December 31, 2014	2,602,193

Note 8

SIGNIFICANT SHAREHOLDERS

As per December 31, 2014 the following shareholders held over 3% of the voting stock:

- Mr. Yacov Geva holds, directly and indirectly, 2,226,808 shares (16.82%) (2013: 2,226,808 shares, 16.96%)
- Himalaya (Cayman Islands) TMT Fund holds 2,020,587 shares (15.26%) (2013: <3%)

- Patrick Schildknecht, Martin Eberhard, Stephan Rietiker, Patrik Ringler, Roland Leutwiler, Oscar Weber, Adolf Köpfli, Peter Weber, Hans-Ulrich Greutert and Thomas Rühle are acting as an organised group holding directly and indirectly 3,539,858 shares (26.5%) of the voting rights in LifeWatch AG as disclosed on June 24, 2014 (2013: 3,660,627 shares, 27.9%)
- Dr. Dominik Aronsky holds, directly and indirectly 420,727 shares (3.18%), (2013: <3%)

Note 9

RISK ASSESSMENT

The Company is fully integrated into the group-wide risk assessment process of the LifeWatch Group. This group risk assessment process also addresses the nature and scope of business activities and the specific risks of the Company. Please also refer to the disclosure in the group financial statements in Note 13.

Note 10

ADDITIONAL INFORMATION REQUESTED BY THE SWISS CODE OF OBLIGATIONS ON PARTICIPATIONS

Participations

As of December 31, 2014 (2013) the following numbers of participations were held by members of the Board of Directors and the Management Board (including persons closely related to these members):

	Shares (Number)
Board of Directors: [5]	
Schildknecht Patrick [2]	469,000 (547,265)
Rühle Thomas [2]	95,000 (45,000)
Hubert Antoine [1]	116,800 n/a

	Shares (Number)	Expiring 2016	Share options Expiring 2018
Management Board			
Rietiker Stephan [3)]	300,000		
Kravetz Stephanie [4)]	0		
Turchi Mike [4)]	0	9,300 n/a	
Aronsky Dominik [4)]	449,573		
Tal Yair [4)]	0		10,000 n/a
Total 2014	**1,430,373**	**9,300**	**10,000**
Total 2013	**592,265**	**n/a**	**n/a**

Explanations:

1) Elected as per 30. January 2014
2) Elected as per 23. January 2013
3) Appointed 30. January 2014
4) Appointed 28. May 2014
5) Board members hold no options in the company

Note 11

POST BALANCE SHEET EVENTS

Company founder and former CEO Yacov Geva sold his entire shareholding of 1,977,282 shares in the company on February 4, 2015 to several Swiss investors and, as part of the agreement, all claims between LifeWatch and Yacov Geva were settled.

Note 12

OLD ACCOUNTING LAW

Applying the transitional provisions of the new accounting law, these financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations effective until 31 December 2012.

PROPOSAL OF THE BOARD OF DIRECTORS FOR APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes to carry forward the profit as follows:

	CHF
Balance brought forward	7,677,660
Loss for the year 2014	–5,075,467
Balance available for the general meeting of shareholders	2,602,193
Balance to be carried forward	**2,602,193**

Report of the statutory auditor
to the General Meeting of
LifeWatch AG
Neuhausen am Rheinfall

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of LifeWatch AG, which comprise the balance sheet, income statement and notes (pages 104 to 112), for the year ended 31 December 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the 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 financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Dr. Michael Abresch	Michaela Berbalk
Audit expert	Audit expert
Auditor in charge	

Zürich, 31 March 2015

Important Addresses

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