Annual Report 2015

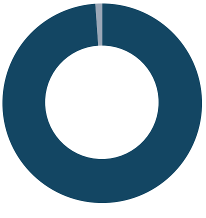
LifeWatch at a glance

USD million	2015	2015 adjusted*	2014	2013
Revenues	88.63	106.63	98.47	91.06
Gross Profit	37.59	55.59	53.18	53.61
EBITDA (LBITDA)	(3.62)	15.57	5.95	1.56
Net income (loss)	(11.95)	1.62	(2.73)	2.92
Total Assets	79.32	71.50	68.98	71.46
Current Assets	35.57	31.04	31.57	36.62
Other non-current assets	0.95	0.95	0.94	0.96
Non-current deferred income taxes	6.02	2.72	5.22	6.83
Fixed assets, net	16.35	16.35	14.92	12.05
Goodwill, intangible and other assets, net	20.44	20.44	16.33	15.00
Current Liabilities	50.21	28.82	22.56	22.22
Non-current Liabilities	3.34	3.34	9.54	10.79
Shareholders' equity	25.77	39.33	36.88	38.45
Cash flow from operating activities	9.94	9.94	4.09	8.26
Employees	612	612	580	544

* Adjusted for the Highmark award and the write-off of the LifeWatch V inventory

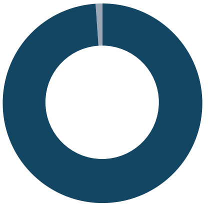
Total adjusted revenues Full Fiscal Year 2015:
USD 106.63 million

By business segment



● Services 99%
● Sale of Systems 1%

By region



● USA 99%
● Other 1%


We provide thousands of healthcare providers with timely access to patient data and analytics that facilitates better collaboration and earlier intervention of health events.

The LifeWatch Share's

The LifeWatch Share's

Key Data

Number of shares per 31 December	2015	2014	2013	2012
Number of shares issued	13,473,550	13,448,426	13,238,198	13,130,648
Nominal value per share	CHF 1.30	CHF 1.30	CHF 1.30	CHF 1.30
Treasury shares	15,625	51,817	51,817	51,817
Number of shares outstanding	13,457,925	13,396,609	13,186,381	13,078,831

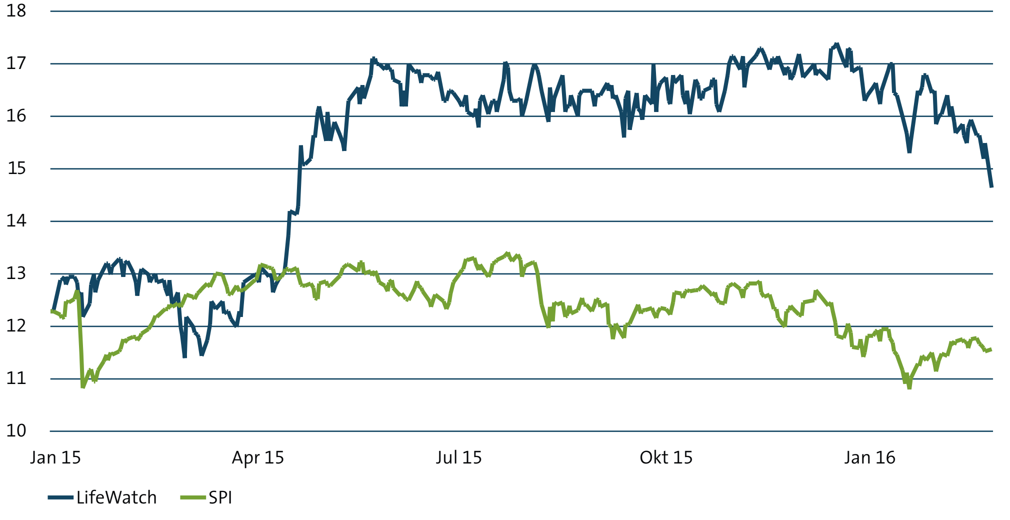
Key Share Information per 31 December	2015	2014	2013	2012
Earnings per share	(0.891)	(0.205)	0.222	(0.029)
Shareholders equity per share	1.912	2.734	2.915	2.671

Share price in CHF	2015	2014	2013	2012
High	17.50	12.80	8.49	9.25
Low	11.40	7.40	6.55	3.70
Year-end price	16.90	12.30	7.59	7.40
Average number of shares traded per day	34,379	43,882	9,597	28,535
Market capitalization (CHF millions)	227.70	165.42	100.48	97.17

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 October 29, 2001

LifeWatch – Share Price Performance 2015



Shareholder Structure

Major Shareholders*	Percentage held
Himalaya (Cayman Islands) TMT Fund	15.26%
Shareholder Group**	23.00%
LB (Swiss) Investment AG	9.98%

* as of March 11, 2016
** see section 1.2 of Corporate Goverance report for more details

Contact

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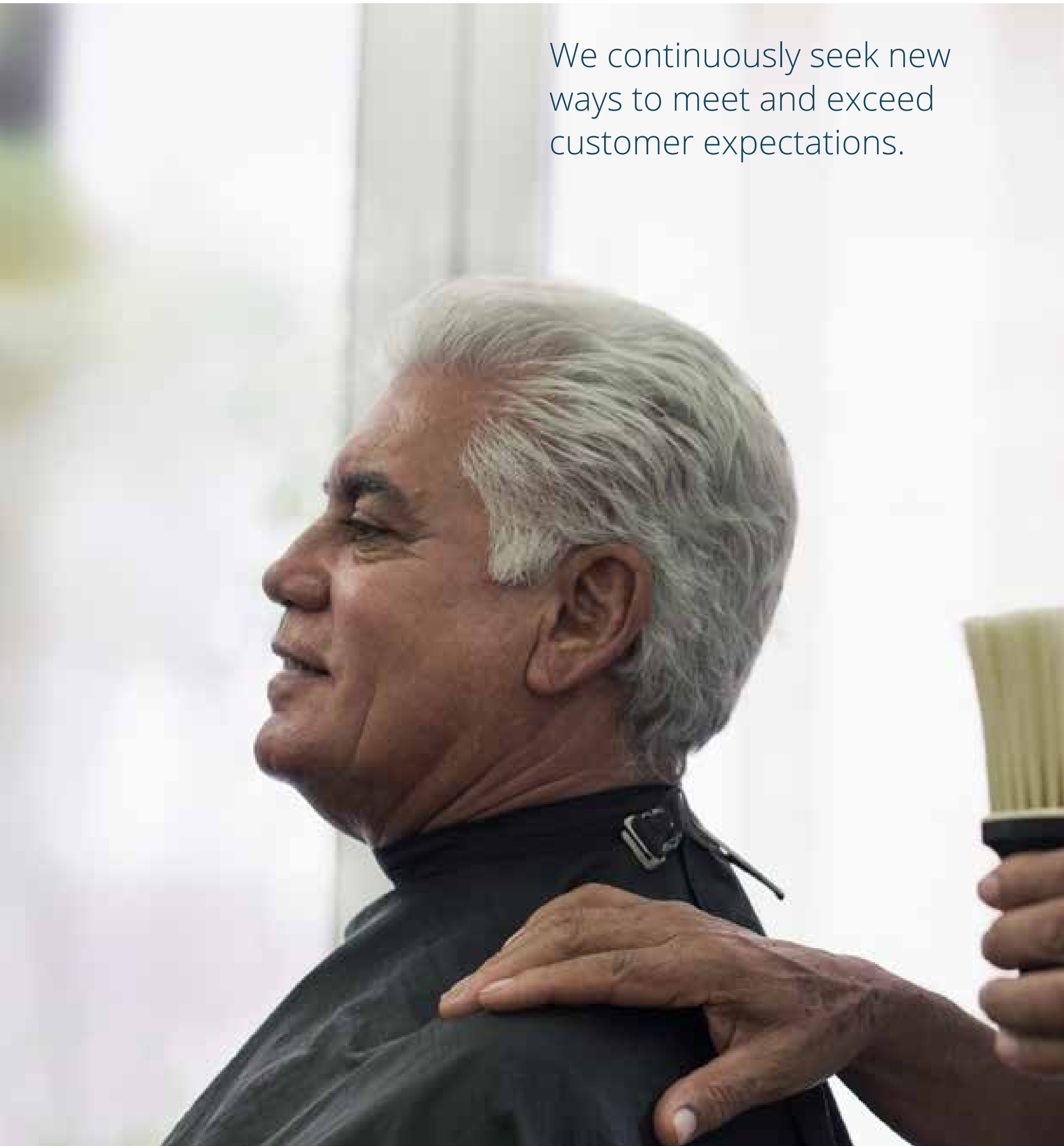
Tel +41 41 728 67 77 / Fax +41 41 728 67 70
E-Mail: investor-relations@lifewatch.com

We continuously seek new ways to meet and exceed customer expectations.



Letter to Shareholders

Letter to Shareholders

Dear ladies and gentlemen, shareholders of LifeWatch,

We are pleased to share, with you, the 2015 Annual Report.

LifeWatch was able to considerably improve its overall operational results in 2015, however the recently announced arbitration award against the company casts a shadow on an otherwise good year. LifeWatch will vigorously pursue all post-arbitration options, including lodging an appeal against the award, and is hopeful that the amount of the award can be reduced. Any reduction in the award amount would have a positive impact on revenue in the future. The arbitration award relates to revenue from the years 2009 and 2010, however under US GAAP rules the award amount of USD 18.7 million must be deducted from revenue in 2015; the interest due has been recognized as financial expense. This therefore results in a reduction of revenue, EBIT and EBITDA by the award amount of USD 18.7 million minus the moneys owed to LifeWatch but withheld by Highmark of USD 0.7 million, i.e. a net reduction of USD 18 million.

In order to analyze meaningfully the company's performance in 2015 it is necessary to set aside the distorting effect of the award on the 2015 financial results. In 2015, then the turnaround, which started in the second half of 2014, continued throughout 2015 with the result that LifeWatch produced three consecutive six-month periods with positive EBIT and EBITDA results. Excluding the effect of the Arbitration award, revenues were the second highest in the history of the company and continued the growth trend, which started in 2013; revenues in 2015 were 33% higher than in 2012 and the Company accomplished this without acquisitions. Overall, LifeWatch achieved revenues of USD 106.6 million (USD 88.6 million after the arbitration award) in the year under review. This is 8.3% above the previous year, with our US business, which represents nearly 99% of our overall turnover, growing by 9.8%. This growth is significantly above market average and shows that our customers highly value our service culture. Sales of our older devices in developing markets were unfortunately below expectations as a result of technology obsolescence.

During 2015 Medicare announced that, with effect from January 1, 2016, it would reinstate the 8% price cut for telemetry service, which was implemented in 2014. Furthermore, and as mentioned in the half-year report, Medicare also announced an increase of 0.5% in the Medicare physician reimbursement starting in July 2015 as well as an annual 0.5% increase from 2016 until 2019. These two changes offer the prospect of a stable price environment over the next few years and will add around USD 4 million to revenues in 2016.

In 2015 we also saw the first full year effect of the restructuring of the Research and Development (R&D) activities in Israel and the realignment of the sales force in the US, both of which took place during 2014. As a result, selling and marketing expenses in 2015 were 17% below 2014 and this despite the increase in sales volumes. R&D expenses reduced by more than 25% although roughly half of this was the result of capitalizing software development costs. Sales and marketing costs as a percentage of sales came down from 23.0% in 2014 to 17.6% in 2015. Similarly, R&D costs as a percentage of sales reduced from 5.6% in 2014 to 3.9% in 2015 and this in spite of several very important on-going product development projects.

General and administration costs as a percentage of sales remained stable in 2015 at 25.5% (2014: 25.5%).

The positive impact of the lower costs in selling, marketing and R&D activities led to improved adjusted EBIT and EBITDA figures with adjusted EBITDA reaching USD 15.5 million, equivalent to an EBITDA margin of 14.6%, which is the highest since 2009. Adjustments include the unforeseen write-off of our remaining LifeWatch V telephone inventory amounting to USD 1.2 million ad the arbitration award of USD 18. million net. We had hoped to use the LifeWatch V telephone inventory for the launch of our Vital signs monitoring patch, but the delay to this project means that this inventory is no longer at the required technological level. Furthermore, the non-consolidation of the Turkish joint venture meant that the full loss, and not just LifeWatch's portion, was deducted after EBIT in the profit and loss account. We hope however to consolidate the Turkish joint venture in the future.

As indicated in last year's annual report, 2014 was a year of consolidation. 2015 has seen this consolidation continue with a clear turnaround in the company's results. 2015 also saw the launch of several projects to update and enhance the company's internal IT systems. Most of this work should be complete in 2016 thereby providing the company with a flexible, state-of-the-art, IT infrastructure, which will allow further organic growth worldwide.

New Products and Markets

As announced during 2015, we have entered into a joint venture to develop our cardiac monitoring services in the Turkish market. This project is progressing according to plan and we expect to fully launch the service in late Q3 2016. Although limited revenues are expected in 2016, we expect a significant contribution to revenues in 2017 and beyond. Furthermore, the IT platform being developed for Turkey will, once implemented, allow us to expand to other markets in due course.

We had previously announced that we expected FDA clearance in 2015 for several new products, namely the Mobile Cardiac Telemetry (MCT) 1-Lead patch, the Vital signs monitoring patch and our ACT software for the Android operating system. Unfortunately, as a result of more stringent FDA clearance procedures, the FDA clearance for all of these projects was delayed. The significant delay in the clearance of the ACT software for the Android phone, which received FDA clearance in September 2015, meant that, in order to prevent order backlog, the company was forced to purchase additional outdated Windows CE phones leading to much higher costs. The MCT 1-Lead patch and the Vital signs monitoring patch both received FDA clearance in January 2016 and work is on-going to launch these products in the US market. The MCT 1-Lead patch is scheduled for a limited launch to key accounts in April 2016 with a general launch shortly thereafter. The launch of the Vital signs monitoring patch has been significantly delayed. The fact that this product is initially intended for hospital use, which is a new market for LifeWatch, as well as the fact that an equivalent product currently does not exist, has meant that much more work than originally foreseen is needed for usability testing and medical data validation and verification. Given the limited experience with the hospital market, the company had underestimated these aspects and decisive steps are now being taken to rectify this situation. A limited market launch is expected in 2017.

In addition to the internal developments mentioned above, the company also acquired, in November 2015, Flexlife Health Inc., a company offering remote patient monitoring services in the area of coagulation measurement. Furthermore, in early January 2016 LifeWatch signed an agreement with AliveCor Inc. to utilize the AliveCor® Mobile ECG technology in its cardiac monitoring business. Both of these developments result from the company's commitment to use the most innovative technologies available rather than developing everything in-house (Make or Buy Decision). Such decisions can help broaden our product offering, whilst at the same time shortening the time to market. The Flexlife INR offering will be launched in March 2016 and should contribute significantly to revenue in 2016 and beyond. The AliveCor® Mobile ECG technology will be launched once system integration has been completed and is expected to contribute to revenues in the second half of 2016.

As can be seen from the above, the company is active on many fronts to improve both its product offering and market penetration. Therefore, 2016 will see the company strengthen its' position as a meaningful player in the digital health arena.

Outlook

Clearly, the arbitration award and the potential need to pay around USD 21 million has a negative impact on the company's liquidity. The Board of Directors has however immediately reacted to this situation and is asking the shareholders to approve an ordinary capital increase of up to 5,000,000 shares at the upcoming AGM, in order to allow for a capital increase to provide the necessary liquidity to address this situation as well as provide funds for future growth and expansion.

The turnaround achieved in 2014 and 2015, together with the new products and markets being introduced in 2016, have set the stage for continued and accelerated growth over the next few years. We therefore, expect that revenues will continue to grow at above market growth rates and that EBIT, EBITDA and Net Income show an improvement in comparison to 2015.

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 Annual General Meeting.

Patrick Schildknecht
Chairman of the Board

Dr. Stephan Rietiker
Chief Executive Officer

Our remote monitoring solutions are backed by unmatched service and live patient support

Strategy & Core Business

LifeWatch Strategy

LifeWatchs's group strategy will focus on four main areas for future growth, namely:

1. Increase our arrhythmia monitoring business
2. Move into co-morbidities
3. Evolve from arrhythmia monitoring to vital signs monitoring
4. Globalization of our service / product offering

The opportunities available in Telehealth services may also offer an avenue to further growth, but this is currently under evaluation.

The growth in our core business in 2015, together with the establishment of the joint venture in Turkey for our arrhythmia business, are clear signs that the first and fourth points of the strategy listed above are being executed. The Flexlife acquisition, in the area of coagulation management, and the AliveCor agreement, which will broaden our cardiac event monitoring services, whilst at the same time opening the door to post-event cardiac monitoring via a patient's own mobile device, are further examples of the above strategy in action. We see many opportunities for our business and we will therefore continue to identify and evaluate new projects in order to achieve further earnings enhancing growth in the future.

LifeWatch has helped healthcare professionals diagnose and treat millions of patients with our advanced health monitoring technologies and services for more than 23 years. Physicians have direct online access to their patient's EKG 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. An example of this is the recent update and overhaul of our physician web portal, LifeWatch Connect, which now utilizes a state-of-the-art web platform and is much more user-friendly. Future releases will further enhance this portal, in particular by offering customized reporting functionality.

We adhere to strict quality processes and criteria. LifeWatch technologies and systems solutions meet or exceed ISO, FDA and CMS standards. Our quality system also extends to each patient's experience with our comprehensive services. We are proud to deliver excellent service, demonstrated by our patient satisfaction results; in 2014 and 2015, 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.

An estimated 2.7 to 6.1 million people in the United States have Atrial Fibrillation (AFib). With the aging of the U.S. population, this number is expected to increase. More than 750,000 hospitalizations occur each year because of AFib, and this condition contributes to an estimated 130,000 deaths each year. The death rate from AFib as the primary or a contributing cause of death has been rising for more than two decades.

AFib costs the United States about $6 billion each year. Medical costs for people who have AFib are about $8,705 higher per year than for people who do not have AFib [3].
It has been estimated that United States hospitalizations for atrial fibrillation increased by 23 percent between 2000 and 2010 [4].

A systematic review of worldwide population-based studies (n = 184) estimated that the number of individuals with AFib in 2010 was 33.5 million and that there are about 5 million new cases each year [5].

1 www.cdc.gov
2 ND66-48 Frost & Sullivan, 2014
3 www.cdc.gov
4 Patel NJ, Deshmukh A, Pant S, et al. Contemporary trends of hospitalization for atrial fibrillation in the United States, 2000 through 2010: implications for healthcare planning. Circulation 2014; 129:2371
5 http://www.uptodate.com/contents/epidemiology-of-and-risk-factors-for-atrial-fibrillation

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 Life-Watch, 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. A recent report from Berg Insight [6] states that 14 million people in the US and 30 million people in Europe are believed to suffer from some sort of cardiac arrhythmia.

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 2016 is on updating our internal IT infrastructure in order to offer our customers a better and more flexible service platform. Success in this area will help us keep existing customers as well as win new customers and further improve our patient satisfaction scores.

LifeWatch operates three credentialed cardiac monitoring centres across different time zones in the U.S. Certified Cardiac Technicians, senior clinicians and a supervising physician staff each of our centres. All incoming EKG transmissions are analysed, and the summary report and preliminary findings are posted to an online portal for physician review, or via Electronic Medical Record 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.

6 Berg Insight – mHealth and Home Monitoring 2015

Our Mobile Cardiac Telemetry (MCT) 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 [7] 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 MCT 3-lead monitor also allow for improved detection of wider QRS complexes, which a 1-lead recording may not detect. The MCT 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.

In 2016 we will be launching our Mobile Cardiac Telemetry (MCT) 1-Lead patch. The patch contains a removable "blue chip" which is transferred from one patch to the next, once the patch's battery depletes to a certain level. Battery life for each patch is around 7 to 9 days. The "blue chip" is reusable and the patch is disposable. Following their service, patients ship all items back to LifeWatch for either recycling or cleaning, testing and reprocessing. The MCT 1-Lead patch is expected to be used for patients who prefer the additional comfort of a completely wireless device as well as in situations where the additional information provided by a 3-Lead device is not required.

A key differentiator with our Mobile Cardiac Telemetry 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 the AFib burden chart that depict the period of time a patient experiences Atrial Fibrillation. 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. In 2016 these reports will be made more flexible, thereby allowing the physician to structure the report to his preferred format.

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

7 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

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 Affordable Care Act, healthcare reform, the aging population utilizing more and medical procedures, and the growing shortage of healthcare professionals.

In January 2016, LifeWatch received 510(k) clearance from the FDA (U.S. Food and Drug Administration) for its continuous Vital Signs Monitoring Service. The Vital Signs Patch 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 Vital Signs Patch 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 EKG, 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. The launch of the Vital signs monitoring patch has been significantly delayed. The fact that this product is initially intended for hospital use, which is a new market for LifeWatch, as well as the fact that an equivalent product currently does not exist, has meant that much more work than originally foreseen is needed for usability testing and medical data validation and verification. Given LifeWatch's limited experience with the hospital market, the company had underestimated these aspects and decisive steps are now being taken to rectify this situation. A limited market launch is expected in 2017.

In November 2015, LifeWatch acquired FlexLife Health Inc., a company offering INR international normalized ratio (INR) monitoring services via a proprietary web-based digital health platform that is superior to all other current service offerings in the market. Monitoring of the INR is essential for patients taking drugs like Warfarin (an oral anticoagulant), which pose a risk of bleeding or clotting if dosing is not properly monitored. This service is a good fit with our existing business, since the main cause of a clinical arrhythmia, detected by LifeWatch's existing cardiac devices, is atrial fibrillation for which Warfarin is a common treatment option. LifeWatch launched this service in March 2016.

In January 2016, LifeWatch signed an agreement with AliveCor Inc. to utilize the AliveCor® Mobile ECG technology in its cardiac monitoring business. The AliveCor® Mobile ECG technology will be launched in the second half of 2016, once system integration has been completed.

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. In 2015, we added 81 new or amended service contracts and now have a total of over 600 managed care contracts.

LifeWatch launched a major multi-faceted project in 2015 to update and improve its internal IT infrastructure. This project, which will be substantially complete in 2016, will provide the company with a state-of-the-art software and hardware platform. In addition to further improving our service, the platform will provide the flexibility to expand into different markets and geographies in the future.

Business Overview 2015

Managed Care

In fiscal 2015, LifeWatch signed 81 new or amended agreements for its ACT, INR and HST services and now has over 600 managed care contracts with provider networks.

Contracting with health payors and providers is a key LifeWatch strategy that can help protect our patients from excessive out-of-network charges. A study released in October 2015 by America's Health Insurance Plans, the industry trade group, found that patients receiving common treatments that aren't covered by their insurance plans routinely receive bills that are anywhere from 118 percent to more than 1,382 percent higher than what the benchmark Medicare rate is for the same services.

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

LifeWatch employs a dedicated and well-trained sales organization in the United States who have good working relationships with physicians and other healthcare providers. Comprehensive training programs are conducted throughout the year to help support new sales initiatives, and reinforce the value proposition of our services. In 2015, the company invested in over 120 Continuing Medical Education (CME) grants and medical symposia. In Europe, we continue to explore opportunities for cardiac monitoring services, and are working on a cohesive sales and marketing strategy for the vital signs monitoring system.

IT and Operations

In 2015, Global IT focused on scalability, improved processes and a cohesive look for our service products. These include services software development and QA as well as infrastructure and application support. Rebuilding legacy components of the services as well as large infrastructure enhancements and cloud migration were some of the major milestones carried out during the year. Our global expansion will rely on systems that are very scalable, and easy to maintain. The software development team developed these components on a newly built web-based platform, which was successfully completed in late 2015. New clinical viewing software and customer management software releases are planned during early to mid-2016. All of these software components are part of a single web-based system.

To build the foundation for growth and new product suites, the infrastructure team invested in a global MPLS network to help aid in the integration and communication between different segments of the company, and also extended the primary network to the cloud for ease of system and service management. A completely new Disaster Recovery process and system was put in place to allow full off-site and real-time recovery for all production systems, and to protect the stability of the environment.

In 2016, Global IT will leverage the work done in 2015 and build new product releases. These include a configurable reporting engine for our customer portal, a new customer management and billing application and a new clinical system for providing our primary services to customers. All of these are web-based, scalable and run on a redundant, secure infrastructure to support our future growth.

We made investments in Operations which were successfully implemented throughout 2015. These included:

- Release of enhanced MCT clinical reports
- Release of Android phones for MCT services with new software
- Release of new automated Holter reporting software
- Educational programs that saw a 12% increase in clinical productivity compared to 2014
- Increased MCT inventory that reduced backorders by 29% over 2014

Environment

LifeWatch is committed to reducing greenhouse gas emissions, and preventing the release of toxic substances that could harm the environment. Our product packaging is also made of 100%-recycled materials.

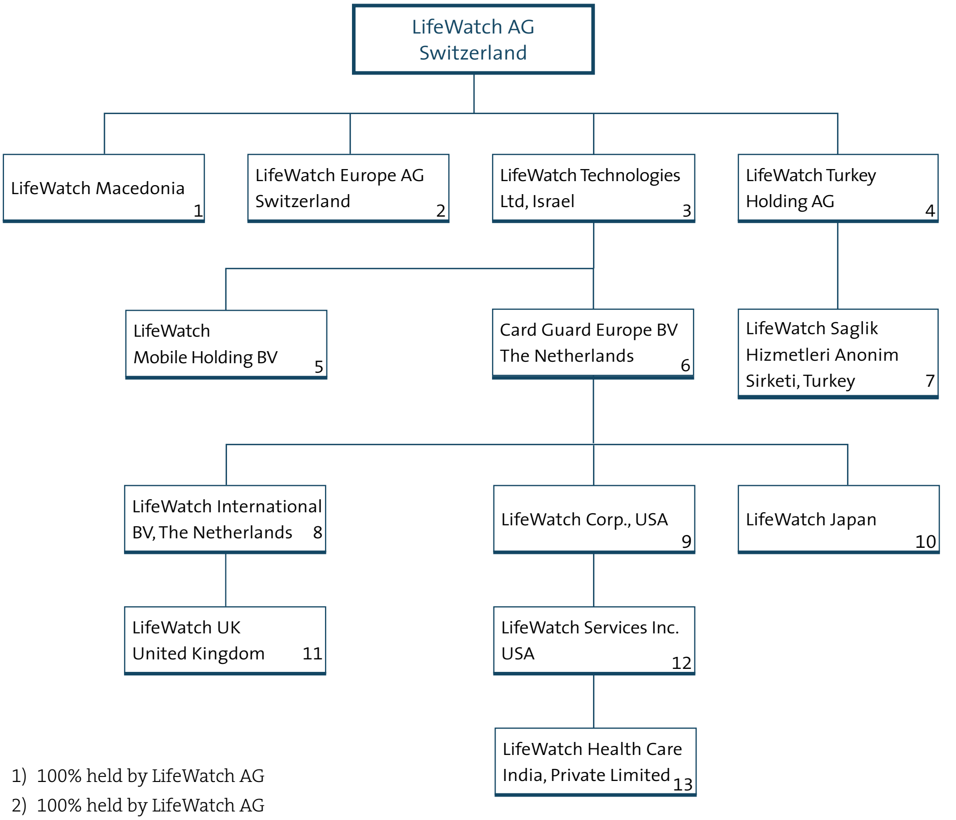
In 2015, we responsibly recycled of a total of 21,284 pounds of electronics. These actions:

- Reduced GHG emissions equivalent to conserving 4,839 gallons of gasoline
- Prevented the release of 15 mg of mercury from being released into the environment
- Prevented 782,540,000 litres of water from being contaminated beyond EPA standards due to lead

We strive to improve the quality and efficiency of digital health care delivery with advanced technologies, patient monitoring services, live support and information management.

LifeWatch in 2015

Corporate Structure



1) 100% held by LifeWatch AG
2) 100% held by LifeWatch AG
3) 100% held by LifeWatch AG
4) 55% held by LifeWatch AG
5) 100% held by LifeWatch Technologies Ltd (Israel)
6) 100% held by LifeWatch Technologies Ltd (Israel)
7) 100% held by LifeWatch Turkey Holding AG
8) 100% held by Card Guard Europe BV (The Netherlands)
9) 73.46% held by Card Guard Europe, BV and 26.54% held by LifeWatch Technologies, Ltd
10) 80% held by Card Guard Europe, BV
11) 91.5% held by LifeWatch International, BV
12) 100% held by LifeWatch Corp.
13) 100% held by LifeWatch Services Inc.
14) 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, 2015 or the balance sheet date of December 31, 2015. 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 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 three business segments – Monitoring Services, Sales of Systems and other. For an overview of the organizational Group structure, please refer to page 18 of this Annual Report.

1.1.2 Listed company

Company	LifeWatch AG, Zug, Switzerland
Listing	SIX Swiss Exchange, Main Segment
Ticker	LIFE
Market capitalization	CHF 227,702,995 as of December 31, 2015
Treasury shares	0.12% held by LifeWatch as of December 31, 2015
Security number	1281545
ISIN number	CH 0012815459

1.1.3 Non-listed companies

For an overview of affiliated and associated non-listed companies, belonging to the LifeWatch Group please refer to note 18 in the consolidated financial statements of this Annual Report.

1.2 Significant shareholders

On December 31, 2015, 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: https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=CARDGAG)

Patrick Schildknecht, Martin Eberhard, Stephan Rietiker, Patrik Ringler, Roland Leutwiler, Oscar Weber, Adolf Köpfli, Peter Weber, Hans-Ulrich Greutert, Thomas Rühle and Dominik Aronsky are acting as an organized group and held directly and indirectly 23.0% of the voting rights in LifeWatch AG as disclosed on December 15, 2015.

LB (Swiss) Investment AG held 9.98% of the voting rights in LifeWatch AG as disclosed on November 18, 2015.

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

Significant changes since the year-end

None

The rest of the shares are held by public shareholders.

The Company does not have any outstanding shareholders' agreements.

2 Capital structure

2.1 Share capital as of December 31, 2015

Ordinary share capital:	CHF 17,515,615.00 13,473,550 registered shares of par value CHF 1.30 (fully paid-in)
Conditional share capital:	CHF 55,727.10 42,867 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, 2015 the Company issued 25,124 shares. In 2014 the Company issued 210,228 shares, and in 2013 the Company issued 107,500 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, 2015, the Company does not have any authorized share capital.

2.4 Changes in shareholders' equity since 2013

CHF	**31.12.2015**	**31.12.2014**	**31.12.2013**
Share capital	17,515,615	17,482,984	17,209,657
Statutory capital reserve	16,305,675	15,980,590	15,224,540
Retained earnings	–4,762,930	2,602,193	7,677,660
Treasury shares	–115,242	–367,631	–317,761

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 statutory capital reserve increased to CHF 15,224,540 due to an amount of CHF 259,299 of additional paid-in capital from the issuance of the shares mentioned above.

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 statutory capital reserve increased to CHF 15,980,590 due to an amount of CHF 756,050 of additional paid-in capital from the issuance of the shares mentioned above.

Changes in shareholders' equity during fiscal year 2015

During the fiscal year ending December 31, 2015 the Company issued 25,124 registered shares with a par value of CHF 1.30, amounting to CHF 32,661.20 of additional share capital due to the exercise of options. The statutory capital reserve increased to CHF 16,305,675 due to an amount of CHF 188,413 of additional paid-in capital from the issuance of the shares mentioned above and CHF 136,673 as a result of profit realized on the transfer of Treasury shares to Board members.

2.5 Shares

In 2015 the share capital of LifeWatch AG was divided into 13,473,550 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 they acquired the shares in their own name and for their 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, 2015. 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 2015 (12,800 options) were fully exercised, this would represent 0.1% of the total number of shares. The conditional share capital of the Company as at December 31, 2015 is 42,867 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, 2015. Two of these board members, Patrick Schildknecht and Thomas Rühle, are members of a publicized shareholder group, which held 23.0% of the shares of the company as published on December 15, 2015. 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.

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 2015.

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.

3.3 Elections and terms of office

The 2014 AGM took place on April 29, 2015.

Name	Position	First elected	Elected until Shareholders' Meeting
Patrick Schildknecht	Chairman [1) 2)] Non-executive	2013	2015
Thomas Rühle	Member [1)] Non-executive	2013	2015
Antoine Hubert	Vice Chairman [3)] 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 the occasion of the Ordinary Shareholders Meeting 2012 meeting taking place on January 30, 2014
3) 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. Antoine Hubert has announced that he will retire from the board at the next annual general meeting, scheduled for April 15, 2016 and the Board of Directors intends to present new Board of Directors candidates for election at the annual general meeting.

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. For the whole of 2015 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 2015 the Board of Directors met 5 times physically for Board meetings with meetings lasting on average 2.9 hours and held 4 telephone conferences which lasted on average 1.1 hours. The Chairman, Patrick Schildknecht, 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 2015, 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. At the Ordinary Shareholders Meeting 2014, which took place on April 29, 2015 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 2015, the Committee held one physical meeting lasting 0.75 hours.

3.4.2.2 Audit Committee

The Audit Committee consists of at least two non-executive members of the Board of Directors. At the Ordinary Shareholders Meeting 2014, which took place on April 29, 2015, Antoine Hubert and Patrick Schildknecht were both re-elected to the Audit Committee with Antoine Hubert also being re-elected as Chairman of the Audit Committee by the Board of Directors. 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 2015, the Audit Committee held one telephone conference lasting 0.9 hours.

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 based on the recommendations of the Executive Management Team
- 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 with the CEO, Dr. Stephan Rietiker, in order to 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. 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, 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.

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.

4.2 Other activities and functions

None of the members of the Executive Management Team in 2015 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
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 2014 and 2015 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 2015, PwC charged the LifeWatch Group fees of USD 587,482 relating to auditing services for LifeWatch AG and its subsidiaries and the consolidated financial statements. Additional fees of USD 228,496 were also charged relating to tax and consulting advice to the various LifeWatch Group companies.

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 2015, the Audit Committee held one telephone conference with the external auditors to discuss such matters with the meeting lasting 0.75 hours.

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 24, 2016 – Publication of Annual Report 2015
April 15, 2016 – Ordinary General Meeting of Shareholders, Zurich
August 18, 2016 – Analyst Conference Results HY 2016

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 2015 closed on December 31, 2015. 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 compensation policy and the compensation for the Executive Management Team. The Executive Management Team then sets the compensation levels for all other LifeWatch employees based on the policy established by the Board of Directors. 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 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.

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;
- 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 shares or cash or both (2014: 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 shares (2014: 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 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 shares 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 shares, the Vice-Chairman 10,000 shares, while ordinary members of the Board of Directors are granted 8,000 shares. The shares allocated to non-executive members of the Board of Directors are blocked and held in escrow for 5 years. The total number of shares for a year are allocated pro rata temporis. In 2015 a slight change to the practice applied in 2014 occurred. In 2015 the board members payment in shares (2014: RSU's) is due to him immediately following his election. Should he not complete his period of office then he is obligated to transfer the unearned portion of the shares back to the company on a pro rata temporis basis. In 2014, the total number of RSU's awarded vested in two portions, namely 50% in December of the year concerned and the other 50% after the AGM for that year. 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 shares and 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 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 medical device industry. Data for this review is provided to the Compensation Committee from the Chief Executive Officer and the Executive Vice President of Human Resources. This data details relevant market rates for executive salaries based on an independent salary survey that has been selected for benchmarks and verified by the surveying body through payroll and public records. The sources for this data include: 2015 US Mercer SIRS® Survey. The Mercer SIRS survey focuses primarily on the life sciences industry.

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. 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 2015 and the allocation of variable compensation is based on effective results against this scorecard. The scorecard includes the following parameters: revenues, EBITDA margin, RoCE, (each carrying a 25% weighting) and qualitative factors (25% 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 share units (PSU's). Performance share units consist of shares in the company, with the number of shares being determined by using the average share price for the 30 trading days prior to the

AGM of the bonus performance year (2014: share price at the beginning of the year, or the date of the Executive Management Team member's appointment, if later). The performance share units are granted following approval of the variable compensation by the shareholders meeting and then vest from this date until the end of the third year following that for which the bonus was awarded (e.g. the performance share units for 2015 will be granted once the variable compensation is approved at the 2016 AGM in April 2016 and will vest from April 2016 to December 2018. 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 on a pro rata basis, based on the original vesting period.

The above performance plan was introduced in 2015 and will continue to be valid for 2016. The LTI plan in place for 2014 was structured similarly to the 2015 LTI plan, but the plan was never finalized and officially approved by the Board of Directors. Furthermore, no targets were set for the 3-year performance period for the PSU's that were allocated for 2014. As a result of this situation the Board of Directors decided to fix the payout for these PSU's at 100% at the end of the 3-year period.

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 2015, 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 share grant) and a cash element (i.e. committee fee) for their activities. The Chairman of LifeWatch AG received 20,000 shares (2014: 19,104), and cash remuneration of CHF 10,000 (2014: CHF 10,417) for his activities. In total, the following remuneration was paid during fiscal year 2015:

1.1 Remuneration (audited)

	2015					2014				
	Base		Variable	Other [5]	Total	Base		Variable	Other [5]	Total
	Cash CHF	Shares [4] CHF	CHF	CHF	CHF	Cash CHF	RSU's CHF	CHF	CHF	CHF
Patrick Schildknecht, Chairman [1) 2)]	10,000	309,000	–	28,429	347,429	10,417	204,397	–	14,500	229,314
Thomas Rühle [1]	15,000	123,600	–	13,356	151,956	14,583	86,000	–	6,789	107,372
Antoine Hubert, Vice Chairman [3]	25,000	154,500	–	17,134	196,634	22,917	98,664	–	8,207	128,788
Total Remuneration of the Board of Directors	**50,000**	**587,100**	**–**	**58,919**	**696,019**	**47,917**	**389,061**	**–**	**29,496**	**466,474**

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 the occasion of the Ordinary Shareholders Meeting 2012 meeting taking place on January 30, 2014

3) 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

4) Shares have been valued at the fair value at the date of theoretical transfer, namely the share price on April 29, 2015, of CHF 15.45; the shares are blocked for 5 years.

5) 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 2015 and no options were outstanding as at December 31, 2015 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. This was changed to shares in 2015 and 38,000 shares were allocated in fiscal year 2015 (2014: 34,356 RSU's) 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 610,178 shares (2014: 680,800 shares) in LifeWatch AG as of December 31, 2015.

1.5 Loans granted to the Board of Directors (audited)

As of December 31, 2015 no loans and credits (2014: CHF 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 2015, 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 2015, the members of the Executive Management Team received the following cash remuneration for their activities:

2.1 Remuneration (audited)

	2015					2014				
	Base	Variable		Other [1]	Total	Base	Variable		Other [1]	Total
	CHF	Cash CHF	Performance Plan Units [2] Number	CHF	CHF	CHF	Cash CHF	Performance Plan Units [2] Number	CHF	CHF
Total Remuneration of the Executive Management Team	1,439,816	171,915	13,368	336,259	2,156,075	1,049,283	223,510	22,552	852,798	2,402,980
Highest Total Compensation										
Dr. Stephan Rietiker	400,000	100,000	7,776	118,139	739,180	353,333	123,667	15,458	107,132	774,266

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

2) A total number of 13,368 PSU's were granted for 2015 (2014: 22,552). The total fair value of the PSU's for the purposes of the approval by shareholders is estimated at CHF 208,085 (2014: CHF 277,390) based on the market price of the shares on the day of the AGM.

There were six members of the Executive Management Team from January 1, 2015 to January 31, 2015, five members from February 1, 2015 to March 30, 2015 and then four members from March 31, 2015 until the year-end.

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, 2015 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, 2015
22/02/2006	10	1:1	3.05	9,300
Total				**9,300**

For the fair value calculation of the options please refer to note 10e (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 13,368 shares (2014: 22,552 shares) of LifeWatch AG were granted for fiscal year 2015 to the members of the Executive Management Team.

2.4 Shareholdings

The members of the Executive Management Team (including closely linked parties) hold 304,500 (2014: 749,573) shares as of December 31, 2015.

2.5 Loans granted to the Executive Management Team (audited)

As of December 31, 2015 no loans and credits (2014: CHF 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 2015, LifeWatch AG paid CHF 0 (2014: CHF 0) to members of the Executive Management Team who gave up their function.

Compensation Approach in 2016

Building on the analysis delivered by Hay Group in late 2014, and to assist management and the Compensation Committee in assessing the Company's compensation programs, LifeWatch decided to engage an outside compensation consultant. Following a careful selection process and final credential review management selected Morgan HR Consulting, Ltd. to serve as its independent compensation consultant beginning in October 2015. The scope of activities for the Committee's independent compensation consultant included:

- Conducting a review of the competitive market data (including base salary, annual incentive targets and long-term incentive targets) for our executive officers, including our Chief Executive Officer
- Assessing our executive compensation peer group and recommending changes as necessary
- Assessing compensation levels within our peer group for executive officer positions and other selected positions
- Reviewing and commenting, as requested, on recommendations by management concerning executive compensation programs, including program changes and redesign, special awards, and our executive compensation peer group
- Reviewing the Compensation Discussion and Analysis section of the Proxy Statement, as requested
- Assisting in incentive plan design and modifications, as requested
- Providing market research on various issues as requested by management
- Preparing for Committee meetings, as requested
- Consulting with management on compensation matters

A report from this compensation consultant was presented to Board of Directors in early 2016.

As mentioned above under "Compensation for the members of the Executive Management Team", LifeWatch has slightly changed its performance units plan for members of the Executive Management Team for the current year. LifeWatch also slightly altered its approach for the compensation of the Board of Directors in 2015 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 (Morgan HR Consulting, Ltd.) in formulating its independent judgment and decisions in all compensation-related matters.

In order to build a world-class and more competitive talent base and address talent turnover due to competitive salaries, a survey of compensation levels was undertaken in Q4, 2015 for the entire company using external advisors (Morgan HR Consulting, Ltd.). Morgan HR advised that the Company's rapid growth had caused its compensation at all levels to fall well below market-competitive compensation levels of peer companies for salary and incentive pay. In addition, this survey revealed significant gaps in LifeWatch's overall compensation policy, which need to be addressed if LifeWatch wishes to be an attractive employer and be successful in the war for talent.

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

The compensation system for members of the Board of Directors for 2016 will remain unchanged with the exception that the number of shares will be reduced to reflect the increase in the share price over the recent past. If the Chairman is an existing member of the Board of Directors he will receive 15,000 shares, otherwise he will receive 10,000 shares i.e. if he is a new board member. The Vice-Chairman will receive 7,500 shares if he is an existing member of the Board of Directors or 5,000 shares if he is a new Board member, whereas ordinary members of the Board of Directors are granted 6,000 shares if they are an existing member of the Board of Directors and 4,000 shares if they are newly elected. Please see above under Compensation for the members of the Board of Directors for further information.

At the Annual General Meeting 2016, 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
  - 50% is paid out in cash, and,
  - 50% 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 and expense allowances, 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 2016, 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 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. Based on a proposal from the Hay Group, the scorecard was simplified in 2015. This same scorecard format containing four evaluation criteria, namely Revenues, EBITDA margin, RoCE and individual performance for 2016 will again be used in 2016. 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. Although applied in 2014 this plan was never completely documented or approved by the board. The Board of Directors however documented and approved a slightly amended LTI Plan for 2015. In the current long-term incentive plan, which was designed by the Hay Group, 50% of the variable compensation is allocated in cash with the other 50% being converted into target performance share units using the average share price for the 30 days prior to the AGM in the bonus year. 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 convert to shares at maturity and the shares are then transferred to the plan participant. This plan was approval by the Board of Directors at their meeting held on August 18, 2015 and amended and approved at the meeting of the Board of Directors held on March 15, 2016.

At the Annual General Meeting 2016, LifeWatch AG will seek approval of the total variable compensation amount for its Executive Management Team for the business year 2015. 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
Zug

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

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 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

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

Zurich, 24 March 2016

Financial Section

For over 23 years, we have helped thousands of healthcare professionals diagnose millions of patients.

Consolidated Financial Statements

Statutory Financial Statements

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

Consolidated Balance Sheets

USD in thousands	December 31 2015	December 31 2014
Assets		
Current assets		
Cash and cash equivalents	7,400	7,087
Restricted bank deposit (note 9b)	–	780
Accounts receivable, net (note 12a)		
Trade	11,580	9,282
Other	1,695	3,053
Deferred income taxes (note 11d)	13,142	9,398
Inventories (note 12b)	1,750	1,973
Total current assets	**35,567**	**31,573**
Other non-current assets		
Marketable securities (note 12c)	52	52
Severance pay funded (note 8)	25	25
Prepaid expenses and deposits	870	863
Total other non-current assets	**947**	**940**
Non-Current Deferred Income Taxes (note 11d)	6,018	5,217
Property Plant And Equipment, net (note 4)	16,348	14,922
Goodwill (note 2f)	15,859	14,976
Intangible Assets, Net (note 6)	4,581	1,356
TOTAL ASSETS	**79,320**	**68,984**

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

USD in thousands	December 31 2015	December 31 2014
Liabilities and shareholders' equity		
Current liabilities		
Current portion of long-term loans and other liabilities (note 7a)	6,508	2,296
Accounts payable and accruals		
Trade	7,733	6,628
Provision for settlement (note 3)	22,284	2,698
Other (note 12d)	13,686	10,940
Total current liabilities	**50,211**	**22,562**
Non-current liabilities:		
Provision for settlement (note 3)	–	5,512
Loans and other liabilities, net of current maturities (note 7)	1,616	3,047
Accrued expenses	797	*657
Obligation to affiliate (note 5b)	155	–
Accrued severance and other benefits (note 8)	776	*323
Total non-current liabilities	**3,344**	**9,539**
Commitments, contingent liabilities and pledges (note 9)		
Total liabilities	**53,555**	**32,101**
Shareholders' equity (note 10):		
Paid-in share capital including premium (ordinary shares of CHF 1.30 par value; issued and paid: 13,473,550 shares and 13,448,426 shares at December 31, 2015 and 2014, respectively)	150,422	149,518
Accumulated deficit	(123,846)	(111,898)
Accumulated other comprehensive loss	(765)	(437)
Capital reserve	70	70
Treasury shares (15,625 and 51,817 shares at December 31, 2015 and 2014)	(116)	(370)
Total shareholders' equity	**25,765**	**36,883**
Total liabilities and shareholders' equity	**79,320**	**68,984**

* Reclassified.

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

Consolidated Statements of Operations

USD in thousands (except share and per share data)	2015	2014	2013
Revenues (note 16):			
Services revenue, net	87,561	96,126	89,501
Sales of systems	1,067	2,345	1,562
Total revenues	**88,628**	**98,471**	**91,063**
Cost of revenues			
Cost of services	48,115	42,024	35,399
Cost of sales of systems	2,922	3,263	2,057
Total cost of revenues	**51,037**	**45,287**	**37,456**
Gross profit	**37,591**	**53,184**	**53,607**
Operating expenses			
Research and development expenses (note 2k)	4,140	5,562	7,751
Selling and marketing expenses	18,796	22,682	19,551
General and administrative expenses	26,316	25,139	26,394
Legal settlements and other (income) expenses, net (note 3)	–	(499)	2,000
Total operating expenses	**49,252**	**52,884**	**55,696**
Operating (loss) income	**(11,661)**	**300**	**(2,089)**
Financial expenses, net (note 12e)	(3,924)	(484)	(473)
Other (expenses) income, net	(32)	(4)	40
(Loss) income before taxes	**(15,617)**	**(188)**	**(2,522)**
Tax benefit (expense) (note 11)	4,459	(2,540)	5,444
Share in losses of affiliate company	(790)	–	–
Net (loss) income	**(11,948)**	**(2,728)**	**2,922**
(Loss) earnings per share (note 2m)			
Basic	(0.891)	(0.205)	0.222
Diluted	(0.891)	(0.205)	0.221
Weighted average number of shares outstanding used in computation of (loss)earnings per share (in thousands, note 2m):			
Basic	13,411	13,325	13,137
Diluted	13,411	13,325	13,231

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

Consolidated Statements of Comprehensive (Loss) Income

USD in thousands	2015	2014	2013
Net (loss) income	(11,948)	(2,728)	2,922
Other comprehensive loss:			
Actuary loss from pension fund	(328)	(266)	–
Foreign currency translation adjustment	–	–	(3)
Other comprehensive loss	**(328)**	**(266)**	**(3)**
Comprehensive (loss) income	**(12,276)**	**(2,994)**	**2,919**

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

Consolidated Statements of Changes in Shareholders' Equity

USD in thousands	Number of shares (in thousands)	Paid in share capital including premium	Warrants	Accumulated deficit	Capital reserve	Accumulated other comprehensive loss	Treasury shares	Total
Balance at January 1, 2013	**13,131**	**146,559**	**1,006**	**(112,092)**	**–**	**(168)**	**(370)**	**34,935**
Changes during 2013:								
Net income				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)
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 for board members		254						254
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**
Changes during 2015:								
Net loss				(11,948)				(11,948)
Other comprehensive loss						(328)		(328)
Treasury shares		142					254	396
Issuance of shares in respect of exercise of options granted to employees	25	229						229
Stock-based compensation for board members		532						532
Stock-based compensation expenses related to options granted to employees		1						1
Balance at December 31, 2015	**13,473**	**150,422**	**–**	**(123,846)**	**70**	**(765)**	**(116)**	**25,765**

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

Consolidated Statements of Cash Flows

USD in thousands	2015	2014	2013
Cash flows from operating activities			
Net (loss) income	(11,948)	(2,728)	2,922
Adjustments required to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Share in affiliate losses	790	–	–
Depreciation and amortization	8,041	5,649	3,649
Changes in deferred income taxes	(4,545)	1,637	(5,747)
Compensation expenses charged in respect of options and warrants granted to employees and service providers	–	37	101
Benefit received from shareholder	–	–	70
Change in accrued severance pay	87	(12)	6
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable, including non-current portion			
Trade	(2,292)	1,585	5,380
Other	1,351	336	(1,956)
(Increase) decrease in inventories	223	37	(985)
(Decrease) increase in accounts payable and accruals:			
Provision for settlement undertaken	18,136	–	–
Discharge of provision for settlement	(4,225)	(1,905)	(2,005)
Trade	1,105	1,324	1,721
Other	3,243	(1,871)	5,107
Net cash provided by (used in) operating activities	**9,966**	**4,089**	**8,263**
Cash flows from investing activities			
Purchase of fixed assets	(8,402)	(6,174)	(4,198)
Investment in intangible assets	(2,231)	(1,339)	–
Acquisition of business (see next page)	(1,500)	–	–
Investment and loans to affiliated subsidiary	(635)	–	–
Restricted bank deposit	780	32	(33)
Net cash used in investing activities	**(11,988)**	**(7,481)**	**(4,231)**
Cash flows from financing activities			
Issuance of shares in respect of exercise of employee and service providers stock options	229	1,140	421
Proceeds from sale of treasury shares	396	–	–
Proceeds from loans undertaken	–	1,298	–
Short-term credit from banks and other	4,000	–	–
Discharge of long term loans and capital lease obligations	(2,290)	(1,942)	(215)
Net cash provided by financing activities	**2,335**	**496**	**206**
Translation differences on cash balances of subsidiaries	**–**	**(153)**	**39**
Increase (decrease) in cash and cash equivalents	**313**	**(3,049)**	**4,277**
Balance of cash and cash equivalents at beginning of year	**7,087**	**10,136**	**5,859**
Balance of cash and cash equivalents at end of year	**7,400**	**7,087**	**10,136**

Consolidated Statements of Cash Flows

USD in thousands	2015	2014	2013
Acquisition of business (see note 5):			
Assets and liabilities at the date of acquisition:			
Account receivable	6	–	–
Account payables and other liabilities	(99)	–	–
Goodwill arising from acquisition	883	–	–
Other intangible assets arising from acquisition	1,030	–	–
Earn-out provision	(320)	–	–
Cash paid	**1,500**	**–**	**–**

USD in thousands	2015	2014	2013
Supplementary disclosure of cash flow information			
Interest paid	274	323	172
Income taxes paid	92	444	670
Supplementary disclosure of non-cash activities			
Capital leases of fixed assets	1,041	2,338	3,659

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, 2015, the Company's closing share price was CHF 16.9 (USD 17.0).

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 16.

On November 9, 2015, the Company entered into a Stock Purchase Agreement to acquire 100% of FlexLife Health Inc., an Ohio corporation (hereafter – "FlexLife"). FlexLife offers international normalized ratio (INR) monitoring services via a proprietary web-based digital health platform that is superior to all other current service offerings in the market, see note 5a.

In July 2015, the Company established a Joint Venture with IKSIR TEKNOLOJI SAGLIK VE KIMYA SAN. ve TIC. A.S. (hereafter – JV partner), a company located in Ankara, Turkey, to provide digital health solutions in the Turkish market. The Company transferred shares of LifeWatch Mobile Switzerland AG to the JV partner and recorded the transaction in the share register of LifeWatch Mobile Switzerland AG. In October 2015, LifeWatch Mobile Switzerland AG was renamed LifeWatch Turkey Holding. See note 5b.

In November 2015, the Turkish subsidiary which is wholly owned by Lifewatch Turkey Holding and is the entity that will conduct business operations, was established and registered.

LIQUIDITY

As stated in note 17c., as of December 31, 2015 LifeWatch Services, Inc. recorded a liability of approximately $21.9 million as a result of an adverse arbitration decision received in March 2016. Whilst a payment date has not yet been determined, the arbitrator's decision is final and binding, and LifeWatch Services, Inc. is obligated to pay the amount awarded. In addition to affecting the liquidity of LifeWatch Services, Inc., the arbitrator's decision resulted in LifeWatch Services, Inc. receiving a Notice of Default from one of its primary commercial lenders.

In order to satisfy the arbitrator's judgement amount, sustain LifeWatch Services, Inc's. operations and meet our business objectives, LifeWatch AG proposes to improve liquidity through the issuance of additional share capital. This action requires shareholder approval (by a simple majority), and approval will be sought at the annual general meeting scheduled for April 15, 2016. Whilst shareholder approval is not within the LifeWatch AG's control, we are confident that the shareholders will approve the capital increase, given the strength of the underlying business operations. Should the shareholders not approve the capital increase, there are a number of other options available to the Group to ensure its survival, including agreeing to installment payments to settle the award with cash generated from ongoing operations.

However, without obtaining additional financing or a payment plan, there is substantial doubt as to our ability to meet our business objectives and to continue as a going concern. If the Group is unable to timely obtain additional financing or delay payments, it may be required to reduce and possibly cease operations, liquidate Group assets or sell the business. There is a material uncertainty that group companies will be able to maintain commercial operations, or consummate such other financing or strategic alternatives in the time necessary to avoid the cessation of their operations and liquidation of the Company's assets.

If the above-mentioned financing actions are not successful, or cannot be completed in a timely manner, or if the Group is unable to improve its liquidity, group companies may be required to seek to implement in-court bankruptcy proceedings, which could lead to the liquidation of the company concerned.

As of March 18, 2016, the Group had cash reserves of approximately $3.3 million and an outstanding line of credit balance of $3.0 million. The credit line has been frozen at $3 million.

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. 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 translated 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 or at exchange rates at transaction dates if average rate is not reasonable estimation. The resulting aggregate translation adjustments are reported in shareholders' equity as a component of "accumulated other comprehensive loss".

4) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (see note 18). Intercompany balances and transactions have been eliminated. Profits from intercompany transactions not yet realized outside the Company have also been eliminated. The Company includes the results of operation of acquired business from the date of acquisition.

5) Investee companies

Investments in entities in which the Company has a significant influence are accounted for using the equity method and included within other non-current assets. Under the equity method, the Company generally recognizes its proportionate share of comprehensive income or loss of the entity. The Company also reviews these investments for impairment whenever events indicate the carrying amount may not be recoverable. Impairments on investee companies are recorded in the income statement under share in losses of affiliated companies.

6) Basis of presentation

The consolidated financial statements include the accounts of the Company and those of the subsidiaries that it controls due to ownership of a majority voting interest. The Company uses the voting interest entity model and the variable interest entity model (VIEs) to evaluate the inclusion of affiliate financial results using the consolidation or the equity method. The Company's share of earnings or losses of nonconsolidated affiliates is included in its consolidated operating results using the equity method of accounting when it is able to exercise significant influence over the operating and financial decisions of the affiliate.

7) Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

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 12c.

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 as follows:

	years
Manufacturing and peripheral equipment	3–15
Office furniture and equipment	7–15
Monitoring units	2–5
Motor vehicles	7

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

Intangible assets includes capitalized software costs for internal and external use, acquired technology, licensing agreement, customer list, patents and rights of use and other intangible assets (see note 6).

Assets that represent acquired technology and patents are stated at cost. The intangible assets, except of capitalized software costs, 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 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 the software is 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 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.

Capitalized computer software costs will be amortized using the straight-line method over a period of 3 to 5 years.

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 2015, the discount rate was 13.5%. The fair value exceeded book value by approximately 48.2%. A one percentage increase in the discount rate would reduce the calculated fair value by approximately 7.8%. A one percentage decrease in the terminal value growth rate would reduce the calculated fair value by approximately 4.9%.
As a result of the annual impairment test, there were no goodwill impairment losses in 2015, 2014 and 2013.

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 2015, 2014 and 2013.

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 11d 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 10f (2)), 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 income as 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. 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 could 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 issues. 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 five types of monitors: ACT, Event, Holter, INR 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 INR monitoring service revenue is recognized upon the completion of four INR blood measurements, not exceeding one test per week. 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 agreed proceeds for services or products, revenue is recorded on a cash basis.

Adjustments to the estimated proceeds, based on final settlement with the third party payers, are recorded upon settlement (see also note 9c).

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 2f)

l. Allowance for doubtful accounts

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.

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

Basic net (loss) income per share is computed based on the weighted average number of ordinary shares outstanding during each year (net of treasury shares). Diluted net (loss) 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 (loss) income per share.

In thousands	2015	2014	2013
Net (loss) income	(11,948)	(2,728)	2,922
Weighted average number of shares used in the computation of basic (loss) income per share	13,411	13,325	13,137
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	13,411	13,325	13,231
(Loss) income per common share:			
Basic	(0.891)	(0.205)	0.222
Diluted	(0.891)	(0.205)	0.221

n. 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.

o. Comprehensive income (loss)

The Company's comprehensive income (loss) consists of foreign currency translation adjustments and actuary pension fund (loss), which are presented net of income taxes.

p. Treasury shares

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

q. Concentration of credit risk

The majority of cash and cash equivalents as of December 31, 2015 and 2014 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 2015, 2014 and 2013 – see note 16c.

r. 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.

s. 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, if any, and accrues for these costs. Such contingencies are recorded as accrued expenses in the financial statements of the Company. 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.

t. Recently issued accounting guidance not yet adopted:

1. In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers". ASU 2014-09 supersedes the existing revenue recognition guidance and clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued an update to ASU 2014-09 – ASU 2015-14 deferring the effective date for public entities, on a retrospective basis, to annual reporting periods beginning after December 15, 2017.
   Early adoption is possible for reporting periods beginning January 1, 2017.
   The Company is still evaluating the impact of ASU 2014-09 on its financial statements.
2. In November 2015, the FASB issued an ASU 2015-17 to simplify the presentation of deferred income taxes. The ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Entities should apply the new guidance either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. The Company is currently evaluating when it will adopt the updated standard. The year-end 2015 balance for current and non-current deferred tax assets was $13,142 thousand and $6,018 thousand, respectively. Please see note 11d for more information on the Company's deferred tax assets and liabilities.
3. On July 22, 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU contains no amendments to disclosure requirements. The update replaces the concept of 'lower of cost or market' with that of 'lower of cost and net realizable value'. Net realizable value is defined by the guidance as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is still evaluating the impact of ASU 2015-11 on its financial statements.

4. On January 13, 2016, the FASB issued Accounting Standards Update intended to improve financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the balance sheet. The ASU on leases will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (early adoption will be permitted). The Company is currently evaluating the potential effect of the guidance on the Company's consolidated financial statements.
5. In August 2014, the FASB issued Accounting Standards Update 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.

Note 3

LEGAL SETTLEMENTS AND OTHER

During 2015, LifeWatch Services Inc. following a refund claim from an insurance company and a counter claim by the LifeWatch Services Inc. to that insurance company for unpaid services, the parties initiated an arbitration process. Arbitration occurred in August 2015 and in March 2016, an arbitrator from the International Centre for Dispute Resolution issued a material adverse decision against LifeWatch Services Inc., relating to its dispute with a private health insurer over billing and payment practices. The arbitrator found the LifeWatch Services Inc. liable for damages for the years 2009–2010 in the approximate amount of $18.7 million plus 6% per annum simple pre-judgement interest from January 2013. This amount will be reduced by approximately $0.7 million in offsets which have been previously taken for a net amount of settlement for $18 million, which was recorded as a reduction of service revenue on the Consolidated Statement of Operations and a Current Liability under Provision for Settlement on the Consolidated Balance Sheets. The Company is taking steps to vigorously pursue all viable post-arbitration options. These include, but are not limited to, seeking to vacate the arbitration award. See also note 9b, 9c and 17.

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 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.

During 2011 LifeWatch Services Inc. was under a civil investigation by U.S. Office of Inspector General (OIG) and U.S. Department of Justice (DOJ) regulatory bodies that audit Medicare and TriCare payments. LifeWatch Services, Inc. cooperated fully with the OIG and the DOJ throughout the investigation. According to the final settlement agreement the Company will pay the United States Department of Treasury the sum $18.5 million plus interest accrued at the rate of 1.625% per annum from October 20, 2011, over six years. The provision for the settlement was recorded in the financial statements of the Company.

The provision for settlement as of December 31, 2015 and December 31, 2014 is $22,284 thousand and $8,210 thousand, respectively.

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 31, 2015	December 31, 2014
Cost:		
Manufacturing and peripheral equipment	13,175	11,848
Office furniture and equipment	3,136	2,924
Monitoring units	27,237	23,359
Motor vehicles	17	161
Leasehold improvements	1,600	1,576
	45,165	**39,868**
Less – accumulated depreciation and amortization	28,817	24,946
Property Plan and equipment, net	**16,348**	**14,922**

b. Depreciation expenses totaled $8,005 thousand, $5,643 thousand and $3,642 thousand in 2015, 2014 and 2013, respectively.

c. Property plant and equipment as of December 31, 2015 and 2014 include assets, mainly monitoring units, leased under capital lease agreements (see note 7), in the amount of approximately $6,322 thousand and $6,165 thousand in 2015 and 2014, respectively, and the accumulated depreciation in respect of those assets is $3,640 thousand and $1,751 thousand in 2015 and 2014, respectively.

Note 5

INVESTMEMTS

a. Stock Purchase Agreement with FlexLife Health Inc

Summary of acquisition

On November 9, 2015, the Company entered into a Stock Purchase Agreement (the "FlexLife Acquisition") to acquire 100% of the issued and outstanding voting capital of FlexLife Health Inc., an Ohio corporation ("FlexLife"). FlexLife offers INR (international normalized ratio) monitoring services via a proprietary web-based digital health platform. Monitoring of the INR is essential for patients taking anticoagulant drugs, which pose a risk of bleeding or clotting if dosing is not properly monitored. The Company believes that this acquisition complements its existing cardiac monitoring business and allows it to provide doctors and their patients needing INR therapy due to atrial arrhythmias with a unique and easy-to-use product that will improve patient quality of life.

Purchase consideration

The Company acquired FlexLife for a total purchase price of approximately $1.82 million, which was payable in $1.5 million of cash plus an estimated $0.32 million earn-out provision for the achievement of defined future revenue. The acquired assets meet the definition of a business combination, and accordingly, have been accounted for using the purchase method of accounting prescribed by ASC 805 – Business Combinations.

The following table summarizes the fair value of the assets acquired and liabilities assumed and resulting goodwill for the FlexLife Acquisition:

USD in thousands	Acquisition Fair Value
Net Assets Acquired	
Accounts receivable	6
Customer list	170
Software Licensing Agreement	860
Goodwill	883
Total assets acquired	**1,919**
Deferred taxes liabilities	(99)
Total liabilities acquired	**(99)**
Net assets acquired	**1,820**

Revenue and profit consideration:

For the period ended December 31, 2015, approximately $9 thousand of revenue from the Company's 2015 acquisition of FlexLife is included in the Company's consolidated Statement of Operations.

Goodwill consideration:

The Company identified the value of customers and the software licensing agreement as finite-lived intangible assets acquired as part of the FlexLife Acquisition, and accordingly, assigned five-year expected useful lives to each asset. Both of these assets were valued based on the projected net present value of future cash flows to be generated from these assets. Goodwill represents both expected synergies and intangible assets that do not qualify for separate recognition, and equals the excess of purchase price over the fair value of the identifiable and tangible assets (net of liabilities assumed) acquired.

b. Joint Venture

In July 2015, the Company invested a capital contribution of $58 thousand for a 55% equity interest in a Joint Venture. The Company will provide cash financing to Joint Venture, if necessary, until the Joint Venture becomes cash-flow positive, limited to $3 million. The financing will be provided as follows: share capital of $100 thousand, a loan of $1.9 million to be repaid within a 10 year period and a loan of $1 million to be repaid within a 3 year period. The loans will be assessed annually for collectability. The Company has financed the Joint Venture in 2015 with a loan of $577 thousand. The Company has recorded 100% of the 2015 operating loss of the Joint Venture of $790 thousand since the Company is legally obligated by contract to fund the Joint Venture. As of December 31, 2015, the Company will provide, if necessary, the cash financing to the Joint Venture up to $2,227 thousand.

The Company's interest in the Joint Venture is recorded in the Company's financial statements using the equity method of accounting as determined by using the voting interest entity model.

Composition of investment and loan to Joint Venture as of December 31, 2015, is as follows:

USD in thousands	
Investment in Joint Venture	58
Loan to Joint Venture	577
Total	**635**
Joint Venture operating loss	(790)
Obligation to affiliate	**(155)**

Note 6

INTANGIBLE ASSETS, NET

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

	Original amount December 31		Amortizable balance December 31	
USD in thousands	2015	2014	2015	2014
Software cost for internal use	1,494	403	1,494	403
Software cost for external use	2,076	936	2,076	936
Acquired technology and other intangible assets	610	610	–	–
Software licensing agreement (see note 5)	860	–	835	–
Customer list (see note 5)	170	–	165	–
Patents and rights of use	208	208	11	17
	5,418	**2,157**	**4,581**	**1,356**

Amortization expenses totaled $36 thousand, $6 thousand and $7 thousand in 2015, 2014 and 2013, respectively.

Estimated intangible asset amortization expenses for the years subsequent to December 31, 2015 are as follows:

Year	USD in thousands
2016	212
2017	211
2018	206
2019	206
2020	176
	1,011

b. Capitalization of Software development costs

According to U.S.GAAP the Company capitalized its development costs related to internal and external use projects.

The Company started to capitalize its software costs from the beginning of 2014 and estimates that a computer software capitalization for internal and external use will cease during the first quarter of 2016 when a computer software will be substantially completed and ready for its intended use (for software for internal use) and the product will be available for general release to customers (for software for external use).

The Company capitalized computer software costs for internal use in the amount of $1,091 thousand and $403 thousand in the years ended December 31, 2015 and 2014, respectively.

The Company capitalized computer software costs for external use in the amount of $1,140 thousand and $936 thousand in the years ended December 31, 2015 and 2014, respectively.

No amortization expenses were recorded in the years ended December 31, 2015 and 2014.

Note 7

LOANS AND OTHER LIABILITIES

a. Composition of loans and liabilities are as follows:

USD in thousands	December 31, 2015	December 31, 2014
Loans from bank and other	4,000	–
Obligations under capital leases	4,124	5,343
	8,124	**5,343**
Less – current maturities:		
Loans from bank and other	4,000	–
Obligations under capital leases	2,508	2,296
	6,508	**2,296**
Non-current bank loans and obligations under capital leases	**1,616**	**3,047**

b. As of December 31, 2015, aggregate future minimum payments are as follows:

USD in thousands	
2016	2,612
2017	1,106
2018	559
Total minimum payments	**4,277**
Less – amount representing interest	(153)
Present value of bank loans and capital lease obligations	**4,124**
Less – current portion	2,508
Long-term portion of bank loans and capital lease obligations	**1,616**

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

USD in thousands	**Capital leases**
2017	1,068
2018	548
	1,616

d. LifeWatch Services, Inc. has entered into a line of credit arrangement with a US based financial institution, which carries a maximum possible balance of $6,500 thousand. The loan has a variable interest rate of 4% plus 90-day LIBOR. The loan's interest rate as of the date of the financial statements was 4.516%. As of December 31, 2015, the Company had drawn down $4,000 thousand of the loan balance. Collateral used to secure the loan is all assets of LifeWatch Services, Inc. and an unconditional guarantee by the Company. The loan was renegotiated in February 2016 as described in note 17. Interest expense on loans from bank and other in 2015, 2014 and 2013 totaled $37 thousand, $122 thousand and $130 thousand, respectively.

e. Obligations under capital leases are denominated in dollars and bear annual interest rates of 3.28%–5.56% as of December 31, 2015. Interest expense on obligations under capital leases in 2015, 2014 and 2013 totaled $144 thousand, $178 thousand and $37 thousand, respectively.

Note 8

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.

Assumptions

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

	2015	2014
Discount Rate at 1.1	1.00%	1.00%
Expected return on plan assets at 1.1	2.50%	2.50%
Discount Rate at 31.12	0.90%	1.00%
Expected return on plan assets at 31.12	2.50%	2.50%
Future salary increases at 31.12	1.00%	1.00%
Future pension increases at 31.12	0.00%	0.00%
Expected average remaining working lives in years at 31.12	9.4	8.9

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 19 years (2014: 17 years).

As of December 31, 2015 and 2014 the pension plan had 7 and 5 active participants, respectively, and no pensioners.

The net periodic benefit cost for the pension plan for the years ended December 31, 2015 and 2014 was as follows:

	Defined Benefit Pension Plan	
USD in thousands	December 31, 2015	December 31, 2014
Net periodic benefit cost		
Service cost	208	84
Interest cost	12	2
Expected return on plan assets	(22)	(5)
Actuarial loss (gain) recognized in current year	14	–
Amortization of transition obligation (liability)	10	10
Net periodic benefit cost	**222**	**91**

The changes in the pension benefit obligation and the fair value of plan assets and the funded status of the plan for the years ended December 31, 2015 and 2014 were as follows:

USD in thousands	Defined Benefit Pension Plan December 31, 2015	December 31, 2014
Change in projected benefit obligation		
Benefit Obligation at beginning of period	707	–
Interest Cost	12	2
Current Service Cost (employer)	208	84
Plan participants contributions	141	73
Prior service cost (credit)	(114)	–
Benefits (paid) deposited	592	–
Actuarial changes	409	210
Other	(6)	338
Benefit obligation at end of period	**1,949**	**707**
Change in the fair value of plan assets		
Fair value of plan assets at beginning of period	441	–
Actual return on plan assets	(44)	(43)
Employer contributions	141	73
Plan participants contributions	141	73
Benefits (paid) / deposited	589	–
Other	–	338
Fair value of plan assets at end of period	**1,268**	**441**
Funded status at end of period	**(681)**	**(266)**

The net amount recognized in the balance sheet as of December 31, 2015 and 2014 was as follows:

USD in thousands	Defined Benefit Pension Plan December 31, 2015	December 31, 2014
Amounts recognized in the statement of financial position		
Projected benefit obligation	(1,949)	(707)
Fair value of plan assets	1,268	441
Funded status over- (underfunding)	**(681)**	**(266)**
Current liabilities	**–**	**(38)**
Non-current liabilities	**(681)**	**(228)**

USD in thousands	Defined Benefit Pension Plan December 31, 2015	December 31, 2014
Amounts recognized in accumulated other comprehensive income		
Net loss (gain)	660	208
Prior service cost (credit)	(114)	–
Transition obligation (assets)	48	58
Amounts recognized in accumulated other comprehensive income	**594**	**266**

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

USD in thousands	2015
Year:	
2016	8
2017	14
2018	20
2019	27
2020	34
2021–2025	586

Estimated contributions to the defined benefit pension plan in 2016 by the Company are $152 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, 2015 and 2014, plan assets totaled $1,268 thousand and $441 thousand, respectively. See also the table above showing the amounts recognized in the statement of financial position.
In accordance with ASC 715, the initial net liability that was established during the years ended December 31, 2015 and December 31, 2014 was recorded in Accumulated Other Comprehensive Income and is being amortized in equal installments over the expected remaining service life of employees, which is approximately 7 years (6.7 years) as of December 31, 2015.

b. 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 on section 14 of the Severance Compensation Act, 1963 (“section 14”) in their labor agreements. Pursuant to section 14, the Israeli Company’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 2015, 2014 and 2013 amounted to $238 thousand, $316 thousand and $355 thousand, respectively.
The Israeli Company expects to contribute approximately $242 thousand in the year ending December 31, 2016 to insurance companies in connection with its severance liabilities for its operations for that year.
The Israeli Company expects to pay $89 thousand in future benefits to its employees from 2016 to 2025 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**
2016	2
2017	0
2018	12
2019	16
2020	31
Thereafter (through 2025)	28

c. 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 401(k) plan. The U.S. subsidiaries' contributions for 2015, 2014 and 2013 were approximately $610 thousand, $601 thousand and $467 thousand, respectively.

Expenses in respect of severance in 2015, 2014 and 2013 amounted to $78 thousand, $130 thousand and $98 thousand, respectively.

Note 9

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 2021, 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 3 months of rental expenses of approximately $78 thousand.

The minimum projected lease payments under operating leases, at rates in effect at December 31, 2015, are as follows (U.S. dollars in thousands):

Year ending December 31	USD in thousands
2016	2,466
2017	2,119
2018	1,984
2019 and thereafter	852
	7,421

Rental expenses totaled $2,602 thousand, $2,421 thousand and $2,354 thousand in 2015, 2014 and 2013, 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 Company. 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.

   The Company appealed 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 was requested to rule. The parties received the decision in June of 2015 reversing, in great part, the District Court's decision and entitling the Company to a refund from the plaintiffs in the approximate amount of $3.75 million. Concentrated efforts are underway to reclaim these funds from the plaintiffs. The accrued income has not been recognized in the Company's financial statement as of December 31, 2015. In addition, an amount of approximately $1.6 million, which was restricted by various bodies/authorities in connection with the proceedings has been released and returned to the Company.

2) In 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. The Israeli Company filed a defense in October 2009.

   In 2014, the labor court ruled in favor of the Israeli Company awarding the former executive only a small fraction of the requested damages and the amount of approximately $120 thousand due was paid. The executive appealed the decision and the Company counter-appealed. A hearing on the matter was held on October 27, 2015 and the court upheld the lower court's decision in its entirety.

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. Arbitration occurred in August 2015. In March 2016, an arbitrator from the International Centre for Dispute Resolution issued a material adverse decision against the Company, relating to its dispute with a private health insurer over billing and payment practices. The arbitrator found the Company liable for damages for the years 2009–2010 in the approximate amount of $18.7 million plus 6% per annum simple pre-judgment interest from January 2013. This amount will be reduced by approximately $0.7 million in offsets which have been previously taken. The Company is taking steps to vigorously pursue all viable post-arbitration options. These include, but are not limited to, seeking to vacate the arbitration award. See note 3, 9c and 17.
4) A Qui Tam ("Whistleblower") action filed under seal in 2013 was unsealed and served upon the Company at the end of 2014. The US federal government and the State of Texas have declined to participate in this claim. The outcome is uncertain.
5) In 2014 the Company released its former CFO for cause. In 2015 the former executive filed an action with the Israeli labor court on a theory of wrongful termination and demanded his notice pay as well as other damages amounting to approximately $250 thousand. The matter is on hold in the labor court pending mediation to try and resolve the matter scheduled for May of 2016.

The Company's management, based on the advice of its legal counsel, believes that no provisions needed to be made in the financial statements for items 1, 2, 4 and 5 above.

c. Provision for settlement

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. In March 2016, an arbitrator from the International Centre for Dispute Resolution issued a material adverse decision against the Company, relating to its dispute with a private health insurer over billing and payment practices. The arbitrator found the Company liable for damages for the years 2009–2010 in the approximate amount of $18.7 million plus 6% per annum simple pre-judgement interest from January 2013. This amount will be reduced by approximately $0.7 million in offsets which have been previously taken. See note 3, 9b, and 17.

As of December 31, 2015 and 2014, the amount of provision for repayments was $22,284 thousand and $8,210 thousand, respectively.

Note 10

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, 2015, the registered share capital of the Company is composed of 13,473,550 shares of CHF 1.30 par value.

2) Conditional capital

As of December 31, 2015, the share capital of the Company may be increased through the issuance of no more than 42,867 registered shares of CHF 1.30 par value each, to be fully paid, by an amount of no more than CHF 55,727 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 2015, the Company issued 25,124 shares (representing a total of CHF 32,661) 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,	2015	2014	2013
Balance outstanding at beginning of year	52	52	52
Issues of treasure shares	(36)	–	–
Balance outstanding at end of year	**16**	**52**	**52**

c. Warrants:

1) Total compensation charged in respect of the warrants during 2015, 2014 and 2013 amounted to $0 thousand, $12 thousand and $57 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. During the year ended December 31, 2014 and 2013, 17,183 and 10,000 warrants to service providers were exercised. No warrants were exercised during the year ended December 31, 2015.

2) Warrants granted to service providers:

	2015		2014		2013	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at beginning of year	0	$0	47,500	$5.86	57,500	$5.42
Changes during the year:						
Cancelled	–	–	30,317	$5.98	–	–
Exercised	–	–	17,183	$5.66	10,000	$3.30
Outstanding at end of year	0	$0	0	$0	47,500	$5.86
Exercisable at end of year	**0**	**$0**	**0**	**$0**	**29,370**	**$4.94**

d. Stock-based compensation award:

1) Description of Stock-based compensation Plan for Board members

Members of the Board of Directors are remunerated in Restricted Share Units (RSU's) for their activities as a board member. 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 and 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 transfer, blocked and held in escrow for 5 years. The total number of RSU's for a year are allocated pro rata temporis with a transfer date one day after the AGM at which the board member is appointed (2014: half transferred on December 15th during the term of office and the other half transferred one day after the end of the board members term of office). Members of the

Board of Directors who leave office during their term of office are entitled to receive RSU's on a pro rata temporis basis up until the date they leave and must return any RSU's for the period from their date of leaving until the next AGM.

The Company calculates the fair value of the shares at the transfer date and records the related compensation expense over the requisite service period, which is AGM to AGM. Total compensation expense recorded in 2015 and 2014 was $537 thousand and $254 thousand, respectively.

2) Fair Value of RSU's issued to Board members in USD dollars in thousands:

	December 31, 2015		December 31, 2014	
	Number of shares	Fair value	Number of shares	Fair Value*
Non-vested at beginning of year	**12,878**	**141**	**–**	**–**
Changes during the year:				
Granted	–	–	36,182	395
Vested	12,878	141	23,304	254
Non-vested at end of year	**–**	**–**	**12,878**	**141**

* grant-date fair value per unit is $10.92.

In 2015 the Board of Directors were allocated 38,000 shares on a pro rata temporis basis for their period of office, namely from the AGM in 2015 to the AGM in 2016. Therefore in addition to the RSU's vesting above, 25,715 shares have been allocated for the period from the 2015 AGM until the end of the year and charged to the 2015 financial statements. The fair value per share is $15.43 giving a total of amount of $397 thousand.

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 CHF 1.30 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 10e (2).
5) No options to employees were granted during the years ended December 31, 2015, 2014 and 2013.
6) There is not unrecognized compensation cost of employee stock options at December 31, 2015.
The total cash received from employees as a result of employee stock option exercises for the years ended December 31, 2015, 2014 and 2013 was $229 thousand, $1,040 thousand and $388 thousand, respectively.
7) A summary of the activity of the option plans, as described in note 10e (1), is presented below:

	2015		2014		2013	
	Number	Weighted average exercise price USD	Number	Weighted average exercise price USD	Number	Weighted average exercise price USD
Options outstanding at beginning of year	37,924	7.35	275,672	5.94	375,847	5.43
Options exercised during the year*	(25,124)	9.40	(193,045)	5.43	(97,550)	4.03
Options expired and forfeited during the year	–	–	(44,703)	6.97	(2,625)	3.98
Options outstanding at end of year	12,800	3.33	37,924	7.35	275,672	5.94
Options exercisable at end of year	**12,800**	3.33	**37,086**	**7.32**	**258,172**	**5.75**
Weighted average fair value of options granted during the year		–		–		–

* The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013, was $145 thousand, $991 thousand and $353 thousand, respectively.

8) The following table summarizes information about options outstanding and exercisable at December 31, 2015:

	Options outstanding		Options exercisable
Exercise Price USD	Number of options	Weighted average remaining contractual life Years	Number of options
3.05–4.09	12,800	0.22	12,800
	12,800		12,800

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, 2015, the Israeli Company's accumulated deficit includes accumulated earnings from its approved enterprises in the amount of $15.7 million distribution of which as 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 11

TAXES ON INCOME

a. The Company:

General Corporate Tax System

Switzerland levies corporate income taxes at different levels: the federal, the cantonal and communal level. Therefore, a tax resident Company is generally subject to taxes at all levels. The overall effective tax rate largely depends on the yield (cantonal and communal tax rates are generally progressive), the place of business, the level of taxable capital in the Company and whether the Company qualifies for a privileged tax status at cantonal and communal level (holding Company, domiciliary Company or mixed Company).

Because of the great autonomy of the cantons and the related decentralized structure of the Swiss tax system, administration of the income taxes is the responsibility of each of the 26 cantons. The cantons also administer the direct federal tax on behalf of the federal government.

The Swiss Federation levies direct federal income tax at a flat rate of 8.5% on after tax profits. Since Swiss corporations may deduct all federal as well as cantonal and communal taxes in the year in which they are due or paid, the effective tax rate on profit before tax is 7.83%. Regarding cantonal and communal income tax, each canton has its own tax law and levies cantonal and communal taxes at different rates. The basis for determining the taxable income of corporate entities is the net income reported as per the statutory accounts. This means that in principle all types of income, including capital gains, are part of taxable income.
For qualifying dividend income and qualifying capital gains on the sale of investments a participation exemption is available which leads to a tax exemption of the respective income or at least to a significant reduction of tax on this type of income.
For dividend income purposes a qualifying participation is defined as either (i) a participation of at least 10% of the equity (capital stock) or a Company, or (ii) a participation with a current market value of at least CHF 1 million. There is no holding period requirement for dividend income purposes.
The participation deduction is also available for capital gains on the sale of qualifying participations. To qualify for the participation deduction, the participation sold must represent at least 10% of the equity (capital stock) of the Company. Further, the qualifying participation must be held for at least one year prior to the sale.
Capital taxes are levied on the cantonal level only (there is no capital tax at the federal level). The cantons levy capital tax on the net equity of a legal entity (i.e. share capital, legal reserves, other reserves, inappropriate retained earnings and any provisions that have not been allowed as deductions).

The Company in particular

The Company qualifies for the Swiss holding privilege. For a Swiss holding company to qualify for tax relief at cantonal level, three tests must generally be met. Firstly, the primary purpose of the company must be to hold and manage long-term equity investments in affiliated companies. Secondly, the company must not engage in a commercial activity in Switzerland. Thirdly, the company must pass an alternative asset or income test, whereby either 2/3 of the company's total assets must consist of substantial shareholdings or participations or 2/3 of total income of the company must consist of dividend income from substantial shareholdings or participations.
As the Company meets the requirements of a holding company, no income taxes are levied at the cantonal level. Accordingly, income from dividends, interest, royalties, and commission or management fees is exempt from cantonal income tax. However, income from Swiss real estate is always subject to ordinary local tax rates irrespective of the privileged status of the company.

At the federal level, no special holding privilege is granted. Accordingly, all income is subject to an effective federal income tax rate of 7.83%. However, dividend income derived from and capital gains realized on the disposal of qualifying participations are subject to a participation deduction.

In the canton of Zug the capital tax equals to 0.02 per mille of the taxable equity with a minimum of CHF 250.00, multiplied by the current cantonal and communal multiplier (2015: Canton and City of Zug: 149.586%).

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 the Israeli Company is taxed in Israel at the regular rate.

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate beginning in 2016 and thereafter, from 26.5% to 25%. Deferred taxes were calculated based on the tax rate in effect on balance sheet date (26.5%).

2) US Subsidiaries

Income derived from operations of the US subsidiaries is taxed at regular federal (34%) and state tax (combined rate of 3.0%) 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. On November 9, 2015 LifeWatch Services, Inc. acquired the stock of FlexLife Health, Inc. Results from acquisition date forward will be included in the LifeWatc Corp. consolidated tax return.

3) LifeWatch Europe AG

LifeWatch Europe AG is subject to ordinary taxation, as described in note 11a 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, 2015 and 2014 in the amounts of approximately $48 million and $56 million, respectively.

Tax losses may be carried forward for a maximum of 7 financial years. These carryforward losses expire between 2016 and 2022. As of December 31, 2015 and December 31, 2014, the Company estimates that it will not utilize the deferred taxes related to these carryforward tax losses and thus has recorded a full valuation allowance thereon.

The US subsidiaries have carryforward tax losses, as of December 31, 2015 and 2014 in the amounts of approximately $37 million and $43 million, respectively that may be used to offset future taxable income. These carryforward losses expire between 2023 and 2035. As of December 31, 2015, a valuation allowance of approximately $119 thousand was recorded with respect to the FlexLife Health, Inc acquired tax losses subject to the IRC Section 382 limitation. No valuation allowance was recorded in respect of carryforward tax losses as of December 31, 2014.

The Israeli Company has carryforward tax losses as of December 31, 2015 and 2014 in the amount of approximately $66 million and $68 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, 2015 and 2014 in the amount of approximately $4.4 million.

As of December 31, 2015 and 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.

d. Deferred income taxes

Composition of deferred taxes is as follows:

USD in thousands	December 31, 2015	December 31, 2014
Computed in respect of the following:		
Accrued related party interest	2,094	1,658
Carryforward tax losses	44,272	40,498
Reserve for accounts receivable (including provision for repayment and settlement)	3,804	6,064
Unrealized gain	6,362	7,460
Property and equipment	(5,176)	(7,233)
Research and development expenses	1,617	1,391
Intangible assets	(4,304)	(3,436)
Other	1,167	1,018
	49,836	**47,420**
Less – valuation allowance	(30,676)	(32,805)
	19,160	**14,615**
Deferred taxes are included in the balance sheet as follows:		
Current assets	**13,142**	**9,398**
Non-current assets	**6,018**	**5,217**

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

USD in thousands	2015	2014	2013
Domestic	(7,312)	(8,139)	(8,303)
Foreign	(8,305)	7,951	5,781
	(15,617)	**(188)**	**(2,522)**

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

1) As follows:

USD in thousands	2015	2014	2013
Current:			
Domestic	–	(771)	(2)
Foreign:			
U.S. subsidiaries	–	–	(46)
Israeli Company	(30)	(83)	(248)
Other subsidiaries	(126)	(49)	(7)
	(156)	**(903)**	**(303)**
Deferred taxes			
U.S. subsidiaries	4,615	(1,637)	5,747
	4,459	**(2,540)**	**5,444**

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	2015	2014	2013
Loss before taxes on income	(15,617)	(188)	(2,522)
Theoretical tax benefit at 7.83% in 2015, 2014 and 2013	1,223	15	197
(Increase) decrease in tax arising from different tax rates applicable to non-Swiss subsidiaries	523	(10,892)	3,244
Increase in taxes resulting from permanent differences	(94)	(191)	(84)
Increase (decrease) in uncertain tax position	(30)	–	40
Withholding tax	–	(855)	(251)
Changes in valuation allowance	2,129	9,707	1,417
Unrealized gain	1,088	(92)	567
Other – net	(380)	(232)	314
Tax benefit (expense) for the reported years	**4,459**	**(2,540)**	**5,444**

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. The US Company is under IRS examination for the year 2013. As of December 31, 2015 the Company's management cannot evaluate the impact of this examination.

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, 2015, 2014 and 2013 (not including interest or penalties):

	Year ended December 31		
USD in thousands	2015	2014	2013
Balance at beginning of year	**15**	**15**	**55**
Increase in unrecognized tax benefits as a result of tax positions taken during the year	30	–	–
Decrease in unrecognized tax benefits as a result of closed tax positions during the year	(15)	–	(40)
Balance at end of year	**30**	**15**	**15**

Note 12

SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

a. Accounts receivable:

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

USD in thousands	December 31, 2015	December 31, 2014
United States and Canada	10,904	9,109
Europe	22	61
Asia	654	112
	11,580	**9,282**
The above trade receivables are net of provision for doubtful accounts of	**5,564**	**7,129**

Doubtful account expenses in the amount of $4,548 thousand, $5,179 thousand and $6,832 thousand in 2015, 2014 and 2013, respectively, are included in general and administrative expenses.

2) Other is as follows:

USD in thousands	December 31, 2015	December 31, 2014
Government institutions	163	377
Prepaid expenses	565	1,084
Advance payments	225	564
Sundry	742	1,028
	1,695	**3,053**

b. Inventories:

USD in thousands	December 31, 2015	December 31, 2014
Raw materials	1,668	912
Finished products and products in process	82	1,061
	1,750	**1,973**
The above inventory balances are net of allowance for slow moving inventories of	**6,827**	**6,346**

Inventory write-off expenses in the amount of $1,584 thousand, $1,388 thousand and $537 thousand in 2015, 2014 and 2013, 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 December 31, 2015	Aggregate fair value December 31, 2014
Collateralized Debt Obligation – held to maturity	52	52
	52	**52**

2) No marketable securities were sold during 2015, 2014 and 2013.

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

USD in thousands	December 31, 2015	December 31, 2014
Non-current investments		
Collateralized Debt Obligation	52	52
	52	**52**

In 2013 a write down of $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, 2015 the investment in CDO is stated at fair value.

d. Accounts payable and accruals – other:

USD in thousands	December 31, 2015	December 31, 2014
Payroll and related expenses	3,313	3,671
Accrued vacation and recreation pay	1,876	1,707
Accrued expenses	5,673	2,265
Income tax payable	262	608
Deferred revenues	2,398	2,192
Sundry	164	497
	13,686	**10,940**

e. Financial (expenses) income, net

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

	Year ended December 31		
USD in thousands	2015	2014	2013
Interest expenses	(3,737)	(439)	(370)
Interest income	61	9	20
Foreign exchange differences	(218)	(25)	(96)
Other	(30)	(29)	(27)
	(3,924)	**(484)**	**(473)**

Note 13

FAIR VALUE MEASUREMENT

Financial assets carried at fair value as of December 31, 2015 and December 31, 2014 are classified in the table below under the category of Level 1, described in note 2r.

USD in thousands	December 31, 2015	December 31, 2014
Cash and cash equivalents		
Money market	3,608	4,170
Cash deposits and other	3,792	2,917
	7,400	**7,087**

Note 14

RISK ASSESSMENT

Risk assessment is a crucial component of any financial planning process. Financial risk assessment and managing that risk is an integral part of the Company processes. 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 15

RELATED PARTIES:

a. 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 10e (2) and the 2008 grant vests over 3 years – 1/3 at the end of each year.

b. 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.

Note 16

SEGMENT REPORTING

a. 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 – Mobile medical device platform designed for self-testing of vital signs for the consumer market.

Patient Services – Cardiac monitoring services of ACT, Event, Holter, INR, Pacemaker 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 operating segments included in "Other" do not meet the quantitative thresholds required for a separate presentation or the aggregation criteria under segment reporting guidance.

The table below presents information about reported segments:

USD in thousands	Sales of Systems	Mobile Health	Patient Services	Other	Reconciling items	Consolidated total
For the year 2015:						
Revenues from external customers	1,067	–	87,561	–	–	88,628
Inter segments revenues	8,389	–	–	–	(8,389)	–
	9,456	**–**	**87,561**	**–**	**(8,389)**	**88,628**
Operating (loss) income	(2,095)	–	(8,373)	(5,284)	4,091	(11,661)
Depreciation and amortization	516	–	19,356	40	(11,871)	8,041
Goodwill	–	–	15,859	–	–	15,859
Capital investments	797	–	16,001	66	(7,421)	9,443
Total assets	**107,422**	**–**	**103,006**	**2,522**	**(133,630)**	**79,320**
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 (loss) income	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**

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, 2015:		
United States and Canada	87,563	14,700
Europe	–	318
Asia	1,047	–
Other	18	1,330
	88,628	**16,348**
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**

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

	Year ended December 31		
USD in thousands	**2015**	**2014**	**2013**
Revenue			
company A (services segment)	**44.6%**	**39.4%**	**37.4%**
company B (services segment)	**12.1%**	**13.1%**	**10.6%**

Note 17

SUBSEQUENT EVENTS

a. Line of Credit agreement

On February 1, 2016, LifeWatch Services, Inc. entered into an amended and restated line and security agreement with a US based financial institution. The restated agreement increases the maximum borrowings under the line of credit to $7.0 million and extends the maturity date to February 2, 2017. This agreement is in default as of March 15th , 2016 and frozen with an outstanding balance of $3 million as a result of the legal settlement in note 17c. The Company is in negotiations with the US financial institution for a resolution.

b. Credit Facility agreement

On January 16, 2016, the Company entered into a $6.0 million Credit Facility with a Switzerland-based financial institution, which is intended to be used for and finance general corporate activities. The interest rate for all Credit Facility advances that are drawn by the Company is determined by the Bank and paid quarterly. The Credit Facility is collateralized with a $6.6 million First Demand Guarantee by the Company, and expires on June 30, 2017. This credit facility is currently suspended as a result of the legal settlement described in note 17c.

c. Legal Settlement

In March 2016, an arbitrator from the International Centre for Dispute Resolution issued a material adverse decision against the Company, relating to its dispute with a private health insurer over billing and payment practices. The arbitrator found the Company liable for damages for the years 2009–2010 in the approximate amount of $18.7 million plus 6% per annum simple pre-judgement interest from January 2013. This amount will be reduced by approximately $0.7 million in offsets which have been previously taken for a net amount of settlement for $18 million. The Company is taking steps to vigorously pursue all viable post-arbitration options. These include, but are not limited to, seeking to vacate the arbitration award.

Note 18

CORPORATE STRUCTURE

The Company structure as of December 31, 2015 and 2014, comprises of subsidiaries and affiliated 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
LifeWatch Corp.	State of Delaware, USA	Holding Company
LifeWatch International BV	CM Haarlem, Netherlands	Holding company
LifeWatch 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 Turkey Holding	Meggen, Switzerland	Holding company
FlexLife Health Inc.	State of Delaware, USA	Monitoring Services

* Inactive Company

Authorized capital	Issued capital	Percentage held at December 31 2015 %	2014 %
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 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
CHF 100,000	CHF 100,000	55	100
USD 250	USD 23	100	–

Report of the statutory auditor
to the General Meeting of
LifeWatch AG
Zug

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 70 to 123) for the year ended December 31, 2015.

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, 2015 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. We draw your attention to note 1 to the consolidated financial statements, which describes a material adverse decision against the US subsidiary of the Company issued in March 2016 by an arbitrator, relating to its dispute with a private health insurer over billing and payment practices. The arbitrator found the US Subsidiary liable for damages in the approximate amount of $18 million plus 6% per annum simple pre-judgement interest from January 2013 (a total of $3.5 million as of March 2016). It is expected that payment is due within twelve months of the arbitrator's judgement date. The US subsidiary, which encompasses the majority of the group's assets, liabilities and operations does not have sufficient funds and other resources to repay the amount determined by the arbitrator while meeting its other obligations and funding its other financial needs for at least the following twelve months. This raises substantial doubt as to the ability of the US subsidiary and, therefore the ability of the entire group, to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this material uncertainty. For management's plans to obtain additional funding, see note 1. Our opinion is not modified with respect to this matter.

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

Zurich, 24 March 2016

Statutory Balance Sheet as of December 31

CHF	Note	December 31 2015	December 31 2014
Assets			
Current assets			
Cash and cash equivalents		690,091	441,283
Receivables from group companies		441,092	639,046
Accrued income and prepaid expenses		641,764	563,141
Total current assets		**1,772,947**	**1,643,470**
Non-current assets			
Long-term receivables from group companies		577,383	0
Investments	2	80,000,000	80,000,000
Property, plant and equipment	3	209,093	181,850
Total non-current assets		**80,786,476**	**80,181,850**
TOTAL ASSETS		**82,559,423**	**81,825,320**
Liabilities and shareholders' equity			
Short-term liabilities			
Trade payables to third parties		563,945	242,757
Accrued expenses		1,691,721	2,749,546
Short-term provisions		3,431	19,004
Total short-term liabilities		**2,259,097**	**3,011,307**
Long-term liabilities			
Long-term interest-bearing liabilities to group companies		51,199,838	43,115,908
Total long-term liabilities		**51,199,838**	**43,115,908**
Total liabilities		**53,458,935**	**46,127,215**
Shareholders' equity			
Share capital	4	17,515,615	17,482,954
Statutory capital reserves	7	568,807,221	568,482,135
Reserve from capital contribution		568,807,221	568,482,135
Retained earnings		2,602,193	7,677,660
Accumulated losses		–559,709,299	–557,577,013
Loss brought forward set off		–552,501,546	–552,501,546
Loss for the year		–7,207,753	–5,075,467
Treasury stock	6	–115,242	–367,631
Total shareholders' equity		**29,100,488**	**35,698,105**
TOTAL LIABILITIES		**82,559,423**	**81,825,320**

Profit and Loss Statement for the Financial Year ended December 31

		P&L by nature of expense	
CHF	Note	2015	2014
Management fee		1,351,986	697,406
Total income		**1,351,986**	**697,406**
Expenses			
Staff costs		–2,872,316	–2,684,853
Other operating costs		–3,011,746	–4,029,578
Depreciation		–39,292	–12,376
Total expenses		**–5,923,354**	**–6,726,807**
Earnings before interest and tax		**–4,571,368**	**–6,029,401**
Financial income		101,210	4,908,971
Financial expenses		–2,735,345	–3,197,269
Earnings before taxes		**–7,205,503**	**–4,317,699**
Direct taxes		–2,250	–757,768
Loss for the year		**–7,207,753**	**–5,075,467**

Notes to the Statutory Financial Statements as of December 31, 2015

Note 1

ACCOUNTING PRINCIPLES APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b CO, effective since 1 January 2013).

The financial statements of LifeWatch AG, with registered office in Zug, comply with the requirements of the new Swiss accounting legislation of the Swiss Code of Obligations (SCO), which became effective on January 1, 2013 and required implementation in 2015. In accordance with the SCO, LifeWatch AG has restated the 2014 financial statements to be comparable with the 2015 presentation. This resulted in changes to the presentation of the profit and loss statement and balance sheet and the reclassification of the treasury stock held by LifeWatch AG from treasury stock to equity. This reclassification reduced the 2014 previously reported total current assets, total assets, total shareholders' equity and total liabilities by CHF 367,631.

LifeWatch AG is presenting consolidated financial statements according to US GAAP. As a result, these financial statements and notes do not include additional disclosures, cash flow statement and management report.

Significant items are accounted for as follows:

Recognition of income
Income comprise management fees from other group companies.

Non-current assets and leases
Property, plant and equipment is carried at cost less depreciation.

Cash flows for operating leases are recognised as expense directly at the time of payment.

Depreciation is calculated on the basis of the following useful lives and in accordance with the following methods:

Property Plant and Equipment	Useful life	Method
Office furniture	17 years	6%, linear
Office equipment	7 years	15%, linear
IT equipment	3 years	33%, linear

Treasury Stock

Treasury stock have been valued at the lower of cost or market value.

Foreign Currencies

Monetary and non-monetary items in foreign currency are translated into Swiss francs at the following exchange rates:

Foreign Currency	2015 profit and loss statement	Balance sheet as at December 31, 2015
USD	0.971176	1.001012

The exchange rates used for balance sheet items are the rates prevailing on December 31; the exchange rates used for transactions conducted during the course of the year and for items in the profit and loss statement are average rates for each month of the 2015 financial year.

Liquidity

As stated in note 9 under Significant events occurring after the balance sheet date, as of December 31, 2015 LifeWatch Services, Inc. recorded a liability of approximately $21.9 million as a result of an adverse arbitration decision received in March 2016. Whilst a payment date has not yet been determined, the arbitrator’s decision is final and binding, and LifeWatch Services, Inc. is obligated to pay the amount awarded. In addition to affecting the liquidity of LifeWatch Services, Inc., the arbitrator’s decision resulted in them receiving a Notice of Default from one of their primary commercial lenders. Since LifeWatch AG is dependent on funding from LifeWatch Services, Inc. this situation has a material negative impact also on LifeWatch AG. For more detail please refer to notes 1 and 17c of the consolidated financial statements.

In order to satisfy the arbitrator's judgement amount, sustain Group operations and meet our business objectives, the Company proposes to improve liquidity through the issuance of additional share capital. This action requires shareholder approval (by a simple majority), and approval will be sought at the annual general meeting scheduled for April 15, 2016. Whilst shareholder approval is not within the Company's control, we are confident that the shareholders will approve the capital increase, given the strength of the underlying business operations. Should the shareholders not approve the capital increase, there are a number of other options available to the Group to ensure its survival, including agreeing to installment payments to settle the award with cash generated from ongoing operations.

However, without obtaining additional financing or a payment plan, there is substantial doubt as to our ability to meet our business objectives and to continue as a going concern. If the Group is unable to timely obtain additional financing or delay payments, it may be required to reduce and possibly cease operations, liquidate the Group's assets or sell group businesses. There is a material uncertainty that the Group will be able to maintain commercial operations, or consummate such other financing or strategic alternatives in the time necessary to avoid the cessation of the Company's operations and liquidation of the Company's assets.

If the above-mentioned financing actions are not successful, or cannot be completed in a timely manner, or if the Company is unable to improve its liquidity, the Company may be required to seek to implement in-court bankruptcy proceedings, which could lead to the liquidation of the Company.

Note 2
INVESTMENTS

Investments held directly and indirectly by LifeWatch AG are shown in note 18 on page 122 of the consolidated financial statements.

All investments are tested for impairment annually. For the purpose of preparing annual financial statements the impairment test for the investment in LifeWatch Services Inc. 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 45,000 (2014: CHF 4,806,885).

Note 3

PROPERTY, PLANT AND EQUIPMENT

	Fixtures & Fittings	Computer Equipment	Other	Total
Cost				
Balance 1.1.2014	0	0	0	**0**
Additions 2014	131,645	61,601	980	**194,226**
Disposals 2014	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 2014	4,973	6,424	979	**12,376**
Depreciation on disposals 2014	0	0	0	**0**
Balance 31.12.2014	4,973	6,424	979	**12,376**
Net Book Value 31.12.2014	**126,672**	**55,177**	**1**	**181,850**
Cost				
Balance 1.1.2015	131,645	61,601	980	**194,226**
Additions 2015	0	66,535	0	**66,535**
Disposals 2015	0	0	0	**0**
Balance 31.12.2015	131,645	128,136	980	**260,761**
Depreciation				
Balance 1.1.2015	4,973	6,424	979	**12,376**
Charge 2015	12,072	27,220	0	**39,292**
Depreciation on disposals 2015	0	0	0	**0**
Balance 31.12.2015	17,045	33,644	979	**51,668**
Net Book Value 31.12.2015	**114,600**	**94,492**	**1**	**209,093**

Note 4

SHARE CAPITAL

This consists of 13,473,550 (2014: 13,448,426) registered shares of CHF 1.30 (2014: CHF 1.30) each and amounts to CHF 17,515,615.00 (2014: CHF 17,482,953.80).

During fiscal year 2015 the share capital was increased by an amount of CHF 32,661 (2014: CHF 273,296) through the issuance of 25,124 (2014: 210,228) registered shares of a par value of CHF 1.30 (2014: CHF 1.30) each. The increase resulted from the exercise of options under the terms of conditional capital (note 5).

Note 5

CONDITIONAL SHARE CAPITAL

The share capital of LifeWatch AG may be raised through the issue of no more than 42,867 (2014: 67,991) registered shares of a par value of CHF 1.30 (2014: CHF 1.30) each, to be fully paid in by an amount of no more than CHF 55,727.10 (2014: CHF 88,388.30) 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 (2014: 1,000,000) registered shares of a par value of CHF 1.30 (2014: CHF 1.30) each, to be fully paid in by an amount of up to a maximum of CHF 1,300,000 (2014: 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 6

TREASURY STOCK, INCLUDING SHARES HELD BY SUBSIDIARIES (CARRYING VALUE)

	Number 31.12.2015	Value (CHF) 31.12.2015	Number 31.12.2014	Value (CHF) 31.12.2014
January 1	51,817	367,631	51,817	317,761
Purchases	0	0	0	0
Shares transferred to the Board of Directors	36,192	252,289	0	0
December 31	15,625	115,242	51,817	367,631

As of December 31, 2015, zero (2014: zero) of the Treasury stock are reserved to secure conversion rights arising from the share option plan of LifeWatch AG.

Treasury stock has been valued at the lower of purchase price or market value (SIX-closing price) as of December 31, 2015.

Note 7

STATUTORY CAPITAL RESERVES

	CHF
December 31, 2013	**566,621,645**
Reserve from capital contribution	566,621,465
Additional paid-in capital resulting from the issuance of registered shares under the conditional capital	756,049
December 31, 2014	**567,377,514**
Reserve from capital contribution	567,377,514
Additional paid-in capital resulting from the issuance of registered shares under the conditional capital	188,413
Profit on sale of treasury shares	136,673
Release of reserve for treasury shares	1,104,621
December 31, 2015	**568,807,221**
Reserve from capital contribution	568,807,221

The company intends to set off losses of CHF 552,501,546 against reserves, which consists of capital contributions by the shareholders. The losses to be 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 2015. 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 568,807,221 reported per December 31, 2015, 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. Under these circumstances, Article 725.1 of the Swiss Code of Obligations with regard to capital losses and over-indebtedness applies. However, this does not result in a potential going concern issue, since losses of CHF 552,501,546 have not been set-off against capital contributions of CHF 568,807,221 for the above mentioned tax reasons. Should the losses actually be set-off against the capital contributions then this would resolve the situation under Article 725.1. Given this situation the Board of Directors has concluded that no other measures need to be taken to address this issue.

Note 8

SIGNIFICANT SHAREHOLDERS

As per December 31, 2015 the following shareholders held over 3% of the voting stock:

- Himalaya (Cayman Islands) TMT Fund holds 2,020,587 shares (15.26%) (2014: 2,020,587 shares, 15.26%)
- Patrick Schildknecht, Martin Eberhard, Stephan Rietiker, Patrik Ringler, Roland Leutwiler, Oscar Weber, Adolf Köpfli, Peter Weber, Hans-Ulrich Greutert, Thomas Rühle and Dominik Aronsky are acting as an organised group holding directly and indirectly 3,092,170 shares (23.0%) of the voting rights in LifeWatch AG as disclosed on December 18, 2015 (2014: 3,960,585 shares, 29.68%)
- LB (Swiss) Investment AG holds 1,342,345 shares (9.981%) (2014: n/a)
- Dominik Aronsky, who is also a member of the organised group above, holds 420,727 shares (3.18%) (2014: 420,727 shares, 3.18%).

Note 9

ADDITIONAL INFORMATION REQUESTED BY THE SWISS CODE OF OBLIGATIONS

Participations

As of December 31, 2015 and December 31, 2014 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):

Board of Directors: 8)	Number of Shares 2015	Number of Shares 2014
Schildknecht Patrick 2)	478,000	469,000
Rühle Thomas 2)	123,000	95,000
Hubert Antoine 1)	9,178	116,800

	Number of Shares				Share options
Management Board	31.12.2015	31.12.2014	31.12.2015 Expiring 2016	31.12.2014 Expiring 2016	31.12.2014 Expiring 2018
Rietiker Stephan 3)	300,000	300,000			
Kravetz Stephanie 4)	0	0			
Turchi Mike 4)	0	0	9,300	9,300	
Stefan Vogt 5)	4,500	n/a			
Dominik Aronsky 6)	n/a	449,573			
Yair Tal 7)	n/a	0			10,000
Total Board & Management	**914,678**	**1,430,373**	**9,300**	**9,300**	**10,000**

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) Appointed 1. January 2015
6) Left on 30. March 2015
7) Left on January 31, 2015
8) Board members hold no options in the company

Significant events occurring after the balance sheet date

In March 2016, an arbitrator from the International Centre for Dispute Resolution issued a material adverse decision against the LifeWatch Services, Inc., relating to its dispute with a private health insurer over billing and payment practices. The arbitrator found LifeWatch Services, Inc. liable for damages for the years 2009–2010 in the approximate amount of $18.7 million plus 6% per annum simple pre-judgement interest from January 2013. This amount will be reduced by approximately $0.7 million in offsets which have been previously taken for a net amount of settlement for $18 million. LifeWatch Services, Inc. is taking steps to vigorously pursue all viable post-arbitration options. These include, but are not limited to, seeking to vacate the arbitration award.

LifeWatch AG signed an agreement with Credit Suisse for a USD 6 million credit line; this agreement became effective in February 2016. As a result of the above-mentioned adverse decision against LifeWatch Services, Inc. this credit line is currently suspended.

Employee Declaration

The number of full-time equivalents did not exceed 10 on an annual average basis.

Pension liabilities

On 31 December 2015, the company had no outstanding liability to the pension scheme.

Contingent assets and liabilities

LifeWatch AG is not involved in any material claims, legal disputes, regulatory and tax audits, investigations or other legal matters.

Collateral for third-party liabilities

	2015	2014
Guarantee to Bank Leumi USA, NA of up to USD 9 million as security for a credit line of up to USD 7 million	USD 4,000,000	0

The Bank Leumi credit line has been frozen at USD 3 million because of the adverse decision against LifeWatch Services, Inc. mentioned under significant events occurring after the balance sheet date. As a result, the guarantee is currently limited to USD 3 million.

Long-term interest-bearing liabilities (1–5 years)

CHF	2015	2014
LifeWatch Technologies, Ltd	41,201,474	39,159,835
LifeWatch Services, Inc.	9,654,648	3,575,570
LifeWatch Europe AG	343,716	380,503
Due to group companies	**51,199,838**	**43,115,908**
Total long-term interest-bearing liabilities (1–5 years)	**51,199,838**	**43,115,908**

Hidden Reserves

The release of hidden reserves during fiscal year 2015 amounts to CHF 19,474,918.

Retained earnings carried forward and motion of the Board

Retained earnings carried forward

CHF	2015	2014
Retained earnings at the beginning of the period	2,602,193	7,677,660
Appropriation of retained earnings resolved by general meeting		
Allocated to legal reserves	0	0
Distributed to shareholders	0	0
Loss for the year	–7,207,753	–5,075,467
Accumulated losses / Retained earnings available to the general meeting	–4,605,560	2,602,193

Motion of the Board of Directors on the allocation of retained earnings

CHF	2015 Motion of the Board of Directors	2014 Resolution of the general meeting
Retained earnings available to the general meeting	–4,605,560,	2,602,193
Allocated to legal reserves	0	0
Distributed to shareholders	0	0
Carried forward	–4,605,560	2,602,193

Report of the statutory auditor
to the General Meeting of
LifeWatch AG
Zug

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 126 to 137), for the year ended 31 December 2015.

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 2015 comply with Swiss law and the company's articles of incorporation.

Emphasis of Matter

We draw your attention to note 1 to these financial statements, which describes a material adverse decision against the US subsidiary of the Company issued in March 2016. This, along with other matters as described in note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of the company to continue as a going concern. Our opinion is not qualified with respect to this matter.

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.

Further, we draw attention to the fact that half of the share capital and the legal reserves is no longer covered (article 725 para. 1 CO).

PricewaterhouseCoopers AG

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

Zurich, 24 March 2016

Important Addresses

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